

Stock Market Update

Equity

Ukrainian stocks listed in Kyiv were on the rise last week, supported by positive macroeconomic statistics showing that the country's industrial production remained on the recovery path in May, rising 5.4% YoY. The key manufacturing sector had an output increase of 6.3% YoY during the month. In individual stocks, national flagship oil company UkrNafta (UNAF) gained 9.4% to UAH 280 per share, reflecting expectations for a solid improvement in the company's financial results amid rallying global crude prices, which topped USD 75/bbl last week. CentrErgo (CEEN) advanced by 4.4% to UAH 9.50 and second-tier name Krukiv Wagon (KVBZ) rose 5.3% to UAH 18.00.

Warsaw-listed Ukrainian grain grower and exporter Kernel (KER) climbed by 1.1% to PLN 57.40. The KER stock received a secondary listing on the Ukrainian Exchange last week, starting to trade at bid/ask of UAH 422/445. Currently we do not expect the KER stock to receive much liquidity on the domestic equity market, but we note that it provides an excellent long-term play for Ukrainian local investment funds which lack a mandate to invest abroad. Astarta (AST) and Agroton (AGT) slipped by 1.5% and 5.4% respectively, with the latter closing at PLN 8.04.

In London trading, Ferrexpo (FXPO) rebounded by 6.5% to GBp 443 after a steep correction seen earlier this month from the stratospheric GBp 500 level. Enwell Energy (former Regal) advanced by 11.7% to GBp 24.80.

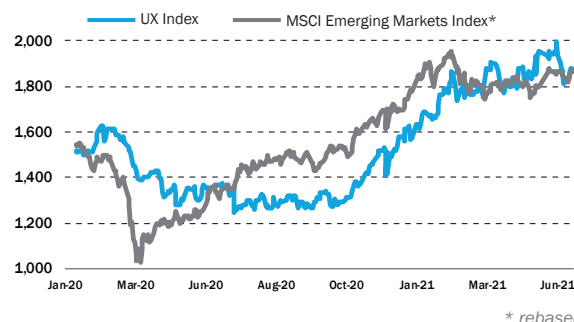
On the currency front, the hryvnia edged down by 0.2% to 27.35 UAH/USD as the dollar continued to rise on a global scale. Last week's highest point was 27.56 UAH/USD and the lowest was at 27.32 UAH/USD. The National Bank intervened on the interbank market to prevent heavier fluctuations in the rate.

Highlights

POLITICS AND ECONOMICS

- Ukraine's Industrial Output Rises 5.4% YoY in May, Confirming Expectations

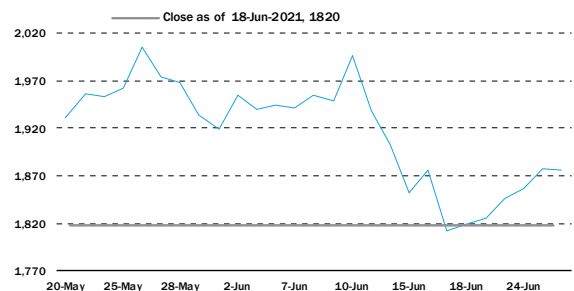
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1877	3.1%	16.1%
RTS	1670	1.4%	20.4%
WIG20	2285	2.9%	14.6%
MSCI EM	1361	0.0%	5.4%
S&P 500	4290	3.0%	14.2%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	7.5%	0.0 p.p.	+1.5 p.p.
UAH 1-year bond	11.5%/11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2025	5.4%	0.2 p.p.	0.5 p.p.
Ukraine-2028	6.7%	0.1 p.p.	0.4 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.35	0.2%	-3.3%
EUR/UAH	32.74	-0.1%	-5.8%

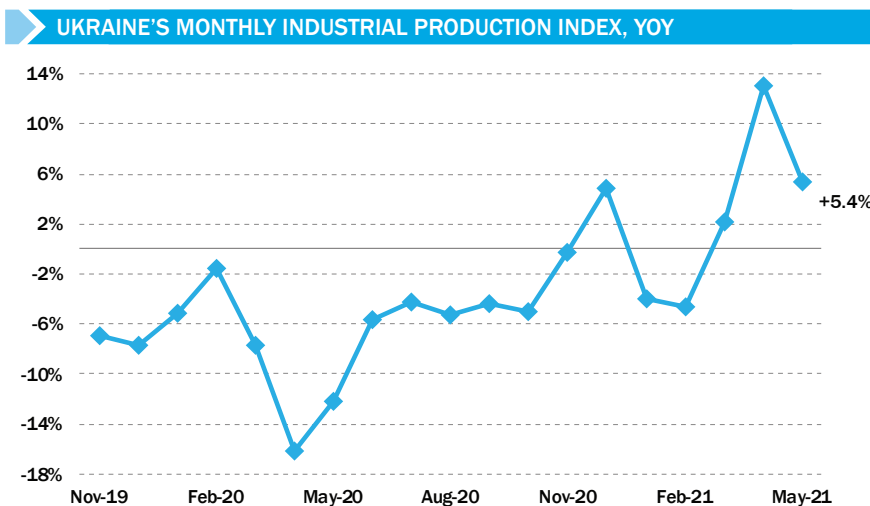
Source: Eavex Capital

Ukraine's Industrial Output Rises 5.4% YoY in May, Confirming Expectations

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NEWS

Ukraine's overall industrial output measured by UkrStat rose by 5.4% YoY in May, rebounding further from the slump seen in May 2020 when the industrial production index contracted by 12.2% YoY. Compared to April, industrial output in the country decreased by 3.4%, mostly due to the traditional holiday period in early May. The Ukrainian industrial production index has grown by 2.2% YoY so far this year, according to the State Statistics Committee data.



Source: State Statistics Committee

COMMENTARY

The industrial data for May was largely in line with expectations. Although we would be glad to see an even firmer industrial output increase amid the favorable market conditions for Ukrainian steel, the utility sector constrained the overall IP index performance. The seasonal pattern and an increase in energy prices resulted in a 2.5% YoY decline in the utility sector supply in May. In the month-on-month comparison, the electricity and natural gas supply volumes dropped by 11.2% in May compared to April. It was also interesting to note that Ukraine's food production decreased by 13.3% YoY in May, which might be an indication of a lower demand for food, as many Ukrainians resumed their travels to Europe to seek jobs; data from the National Bank regarding a rise in the inflow of remittances to Ukraine supports this assumption. The remittance inflow to Ukraine was estimated at USD 11.6bn in 2020, which in relative terms was equivalent to a very substantial 7.5% of GDP. The remittances amounted to USD 3.8bn in 4M21, helping the national currency, hryvnia, to gain 3.3% since the start of the year.

In other macroeconomic statistics, retail sales volume soared by 22% YoY in May, as the statistic again benefited from the COVID quarantine comparison base. The retail sales index is up by 14.3% YoY in 5M21.

Meanwhile, the agro sector's output as measured by UkrStat decreased by 4.5% YoY in the January-May period.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	57.4	65.0	13%	BUY	The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. We maintain our BUY recommendation for Kernel with a target price of PLN 65.00 per share based on the group's expanded business operations, which have yet to be reflected in the share price. For the 6 months ending in December, Kernel had revenue of USD 2.27bn (+20% YoY), EBITDA of USD 559mn (+2.6x YoY), and net profit of USD 332mn (+2.3x YoY). On the balance sheet side, Kernel's net debt amounted to USD 1.25bn as of 31 December 2020, implying a Net Debt/EBITDA ratio of 1.6x.
MHP	MHPC LI	6.0	11.5	90%	BUY	Although MHP's business has not suffered much from the COVID-19 crisis, the MHPC stock has tumbled by near 30% in 2020 as investors fear that the company's quite large debt burden could become unsustainable at some point. MHP's total debt was USD 1.46bn as of 31 Dec 2020. The Net Debt/EBITDA ratio was 3.7x as of 1 Jan 2021, up from 3.0x as of 1 Jan 2020. We now forecast that MHP will be able to increase its net revenue by 7% YoY to USD 2.05bn this year and to earn a net profit of USD 60mn as poultry prices bounce back.
Astarta	AST PW	51.4	--	--	U/R	The AST stock surged after the company managed to improve its debt to EBITDA ratio. Net Debt reduced to EUR 175mn corresponding to Net debt/EBITDA (LTM) of 1.6x at the end of 9M20. Back in 2019 Astarta's Net debt/EBITDA topped an unsustainable level of 5.6x.
Agroton	AGT PW	8.04	12.0	49%	BUY	Agroton unveiled a strategy to increase its land bank securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region. Agroton reported that its net profit was USD 11.7mn (PLN 2.06 per share) in 2020. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 25mn. The company continues to invest in growth, spending USD 3.8mn on CapEx in FY20.
Iron Ore						
Ferrexpo	FXPO LN	443	280	-37%	SELL	High iron ore prices are due for a correction as Chinese demand for the steelmaking ingredient is expected to ease, though aggressive speculation through iron ore derivative trading could thwart that outcome. The benchmark 62% Fe iron ore prices surged by 70% YoY to a level of USD 160 per tonne in 2020. We currently forecast that Ferrexpo's net profit will decline by 18% YoY in FY21 to USD 520mn.
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	There was little clarity on the situation regarding Motor Sich's (MSICH) nationalization. No mechanism of compensation for existing shareholders was announced after the Kyiv District Court arrested 100% of the shares of Motor Sich and appointed a special state agency to manage the company. The shares of Motor Sich remained frozen due to an ongoing investigation conducted the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
Oil & Gas						
UkrNafta	UNAF	280	350	25%	BUY	UkrNafta surged above UAH 200 per share after the company reported that it repaid its accrued tax debt of UAH 28.9bn. The company got the money for the tax repayment from its parent NaftoGaz as advance payment for future natural gas deliveries as well as payment for previously supplied gas. On the other hand, the company is still in uncertainty whether the government will decide to divide UkrNafta's natural gas business and its crude extraction business.
Enwell Energy (ex-Regal)	ENW LN	24.8	--	--	U/R	
JKX Oil & Gas	JKX LN	25.0	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	20.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergo	CEEN	9.50	15.00	58%	BUY	Persisting uncertainty about whether CentrEnergo can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. Currently CentrEnergo is in a process to be integrated with the state coal mines to get cheaper fuel for its power stations. The integration is set to be completed in 2H21.
Banks						
Raiffeisen Bank Aval	BAVL	0.431	0.33	-23%	SELL	Raiffeisen Bank Aval (BAVL) announced that it will distribute 50% of its FY20 net profit as a dividend, far lower than what was expected. Although this still implies a solid 3.31 kopeck dividend per share, the bank disappointed minority investors; we had projected a 5.96 kopeck dividend. The bank set the ex-rights date for dividend on Jun 8. Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, decreased its net profit by 14% YoY to UAH 4.1bn in FY20, which implied earnings per share of 6.63 kopecks. Raiffeisen Aval has been the most dividend-rich stock in the Ukrainian equity universe since 2016. The stock's dividend yield in 2017 was 20% and in 2018 it was around 22%. The bank paid 6.95 kopecks in dividend per share from FY19 net profit.

Source: Eavex Research

QUOTES AND MULTIPLES

Name	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales
			1W	YtD				2020	2021E	2020	2021E	2021E
UX Index	UX	1877	3.1%	16.1%								
Iron Ore Mining												
Ferrexpo	FXPO	443	6.5%	49.2%	3598	3594	24.0%	5.7	6.9	4.2	4.9	2.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	18.0	5.3%	0.0%	75	49	5.0%	8.8	14.4	3.7	4.9	0.3
Specialized Machinery												
Turboatom	TATM	6.8	0.0%	-18.2%	104	101	3.8%	12.4	7.3	2.0	2.4	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	409	387	24.0%	13.0	17.5	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	280	9.4%	47.4%	555	547	3.0%	3.5	5.4	1.7	3.4	0.5
Enwell Energy (ex-Regal)	ENW	24.8	11.7%	17.0%	110	56	21.6%	36.6	12.2	2.1	1.9	0.9
JKX Oil	JKX	25.0	-2.0%	-16.7%	59	168	50.4%	3.0	8.5	5.6	4.9	2.0
Power Utilities												
Centrenergy	CEEN	9.50	4.4%	31.9%	128	117	21.7%	56.5	14	7.0	4.9	0.1
Donbasenergo	DOEN	19.95	-0.3%	-0.3%	17	16	14.2%	16.0	6.2	1.9	2.0	0.1
Consumer												
MHP	MHPC	6.04	-1.6%	0.3%	638	1953	32.5%	neg	10.6	5.7	7.2	1.0
Kernel	KER	57.40	1.1%	16.4%	1,226	2243	61.8%	10.4	3.3	5.1	3.1	0.5
Astarta	AST	51.40	-1.5%	96.2%	345	519	37.0%	41.7	32.8	4.3	3.8	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.04	-5.4%	83.6%	47	22	25.0%	4.0	3.6	0.7	0.7	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.431	1.4%	5.1%	969		1.8%	6.4	7.7	2.1	2.2	0.25

Source: UX. PFTS. LSE. WSE. Eavex Research
* companies listed abroad are in traded currency

MAIN FINANCIAL FORECASTS, USD mn

Name	Ticker	Net Sales			EBITDA			EBITDA margin			Net Profit			Net Profit margin		
		2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E
Iron Ore Mining																
Ferrexpo	FXPO	1507	1700	1615	586	859	730	38.9%	50.5%	45.2%	403	635	521	26.7%	37.4%	32.3%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
Specialized Machinery																
Turboatom	TATM	110	105	94	49	52	41	45.0%	49.1%	44.1%	12	8	14	11.1%	8.0%	15.2%
Motor Sich	MSICH	358	353	338	19	102	90	5.2%	29.1%	26.5%	-14	32	23	-3.8%	8.9%	6.9%
Oil & Gas																
Ukrnafta	UNAF	1098	1319	1007	-115	320	161	-10.5%	24.3%	16.0%	-158	158	102	-14.4%	12.0%	10.2%
Regal Petroleum	RPT	50	55	62	22	26	30	44.0%	47.3%	48.4%	10	3	9	20.0%	5.5%	14.5%
JKX Oil	JKX	102	70	85	42	30	34	41.6%	42.6%	40.0%	22	20	7	21.8%	28.6%	8.2%
Electric Utilities																
Centrenergo	CEEN	589	764	819	-69	17	24	-11.7%	2.2%	2.9%	-77	2	9	-13.1%	0.3%	1.1%
Donbasenergo	DOEN	249	256	247	8	9	8	3.1%	3.3%	3.2%	-3	1	3	-1.1%	0.4%	1.1%
Consumer																
MHP	MHPC	2056	1911	2045	376	340	270	18.3%	17.8%	13.2%	215	-133	60	10.5%	-7.0%	2.9%
Kernel (FY19, FY20, FY21E)	KER	3960	4107	4518	346	443	720	8.7%	10.8%	15.9%	189	118	370	4.8%	2.9%	8.2%
Astarta	AST	497	484	517	86	122	136	17.4%	25.1%	26.3%	2	8	11	0.4%	1.7%	2.0%
Avangardco	AVGR	135	120	110	17	19	17	12.6%	15.8%	15.5%	2	-5	-10	1.5%	-4.2%	-9.1%
Agroton	AGT	54	68	74	2	33	31	4.1%	48.2%	41.3%	5	12	13	9.5%	17.4%	17.4%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3495	3795	3925	550	456	438	280	271	249	185	151	126	33.6%	33.2%	28.9%

Source: Eavex Research

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds									
UA4000195176			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.5%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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