

Stock Market Update

Equity

The UX index edged up by 0.6% to 1942 points last week amid mixed trading in major Kyiv-listed equities. Electricity producer CentrErgo (CEEN) declined by 1.0% to UAH 9.60 following reports about manipulations on the electricity market which artificially lowered the price on the day-ahead section in early July. UkrNafta (UNAF) rose 3.1%, climbing back to UAH 300 per share. However, a controversial situation remains regarding UkrNafta's FY20 profit distribution. The legislation prescribes UkrNafta as a majority state-owned enterprise to pay out 90% of last year's net profit of UAH 4.3bn to shareholders before Jul 1. As we understand, UkrNafta has paid the profit distribution only to Ukraine's national budget, while the mechanism and terms of payment to other shareholders are unclear. Legally, UkrNafta has to pay UAH 70.85 per share to all shareholders which were in the register as of May 1. We expect UkrNafta to be sued for failing to distribute FY20 net profit to all shareholders. We will continue to monitor this unprecedented situation.

In London trading, Ferrexpo (FXPO) ticked up by 1.3% to GBp 437 after the company reported positive operational results for 2Q21.

On the Warsaw stock exchange, there was a broad correction in Ukrainian agro stocks. Astarta (AST) fell 5.9% to PLN 48.00, Kernel (KER) slipped by 1.5% to PLN 54.20, and Agroton (AGT) dropped by 3.7% to PLN 7.90.

In currency trading, the hryvnia gave up 0.3% to close at 27.33 UAH/USD. The National Bank said that the country's foreign exchange reserves were at USD 28.4bn at the the beginning of July, covering 4.3-months of the country's future imports, which indicates sufficiency of the reserves' level.

Highlights

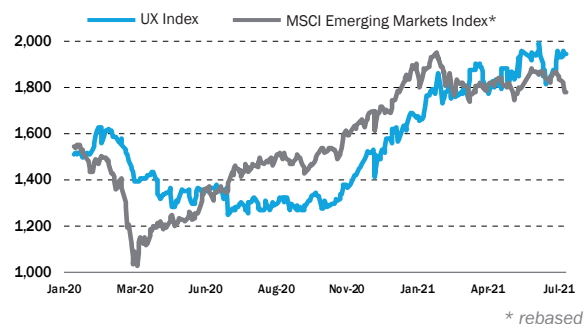
POLITICS AND ECONOMICS

- > Zelenskiy Meets with Merkel, New CDU Leader Laschet in Berlin
- > Ukraine's 12M Inflation at 9.5% After Prices Rise 0.2% MoM in June

STOCKS IN THE NEWS

- > Ferrexpo Raises Iron Ore Output by 4% YoY in Strong 2Q Performance

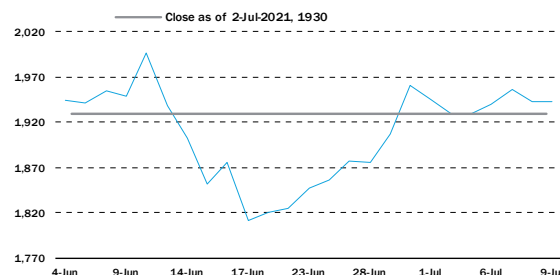
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1942	0.6%	20.1%
RTS	1635	-1.4%	17.9%
WIG20	2251	0.0%	12.9%
MSCI EM	1318	-2.7%	2.1%
S&P 500	4369	0.4%	16.3%

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	11.7%/11.0%	0.0 p.p.	+0.1 p.p.
Ukraine-2025	5.3%	-0.1 p.p.	0.4 p.p.
Ukraine-2028	6.6%	0.0 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.33	-0.3%	-3.3%
EUR/UAH	32.42	-0.1%	-6.7%

Source: Eavex Capital

Zelenskiy Meets with Merkel, New CDU Leader Laschet in Berlin

by Will Ritter
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NEWS

President Zelenskiy is set to hold what will likely be his last official meeting with outgoing German Chancellor Angela Merkel in Berlin today (Jul 12). On Sunday (Jul 11), Zelenskiy met in person with Merkel's successor as head of the Christian Democratic Union, Armin Laschet. Germany's federal election is due in September, with the CDU competing against the Socialist and Green parties to retain the chancellorship. In an official statement following the Laschet meeting, the presidential website wrote that Zelenskiy criticized the nearly-completed Nord Stream 2 gas pipeline between Germany and Russia, calling it a threat to European energy security. He also called for a continuation of the Merkel government's support for Ukraine against Russian aggression and non-recognition of the Russian annexation of Crimea.

COMMENTARY

With the Greens and their top-line candidate Anna-Lena Baerbock sliding in the polls recently, Ukraine's last chance to stop the commissioning of Nord Stream 2 is slipping away, as the pro-business CDU strongly favors the project. Zelenskiy's prominent meeting with Laschet appears to be an acknowledgement that the latter is likely to succeed Merkel as the head of the German government after the election. We assume that Zelenskiy's meeting with Merkel tonight will focus on ways for Ukraine to receive specific guarantees on continuing partial use of the Ukrainian gas pipeline, a commitment which Merkel has made in the past. In general, the Ukrainian media has almost entirely ignored Zelenskiy's trip to Berlin, indicating that the expectations for the meetings are rather low and that the best that can be hoped for in the post-Merkel era is a continuation of the status quo in Ukraine-Germany relations. Indeed, we think that a leftist government in Berlin could actually lead to softened support for Kyiv on the most important security-related issues, and that a CDU victory probably represents the safest, or at any rate the most predictable, outcome.

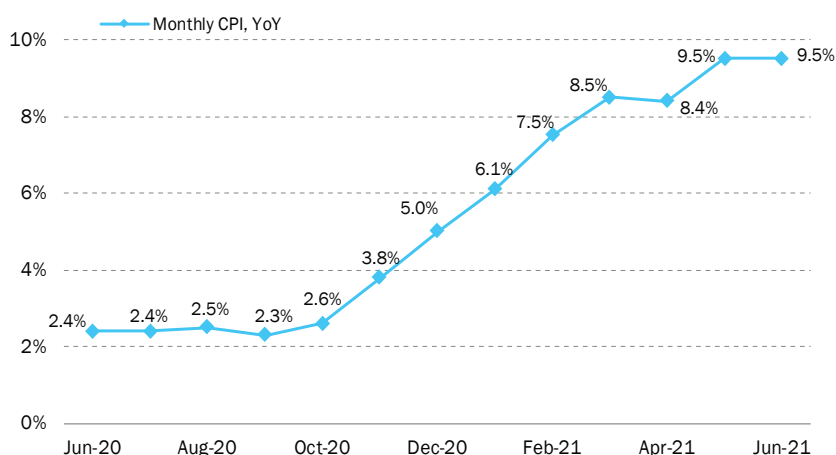
**Ukraine's 12M Inflation at 9.5%
After Prices Rise 0.2% MoM in June**

by Dmitry Churin
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NEWS

Ukraine's State Statistics Committee (UkrStat) reported 12-month rolling inflation of 9.5% for June. Although the inflation index rose by 0.2% on a monthly basis, the 12-month "headline" consumer inflation was flat at 9.5% YoY compared to May. In the individual inflation basket categories, bread prices grew by 0.6% in June compared to May and meat prices increased by 0.4% MoM. On the year-on-year basis, the bread price hike was 13.9% YoY and the meat price growth was 10.4% YoY on the back of the global tendency of food price inflation.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

In the summer season the food price index traditionally declines due to lower prices for fruits and vegetables, and UkrStat registered a slight 0.2% MoM food price decrease in June. Higher costs for energy and healthcare services continue pulled the consumer inflation index to its moderate 0.2% rise for the month. Previous expectations that consumer inflation could subside in the second half of the year now look too optimistic, taking into account rallying energy and agricultural commodities prices.

We think that the current inflationary environment will prompt the National Bank to increase its key refinancing rate by 50 bps from 7.5% to 8.0% at the next monetary policy board meeting scheduled on Jul 22, and the regulator's move will probably push up the yield on domestic bonds. The Finance Ministry is offering approximately 11.0% for the 1-year sovereign UAH-denominated treasuries, and we forecast that the yield will increase by 70-100 bps to approach 12% in the near term.

Ferrexpo Raises Iron Ore Output by 4% YoY in Strong 2Q Performance

by Dmitry Churin
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FERREXPO (FXPO LN)					
Price: GBP 437 Market Cap: USD 3,568mn					
	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	1.9	2.1	5.6	4.1	12.0%
2021E	1.8	2.2	6.8	4.9	9.2%

NEWS

Poltava-based, London-listed iron ore miner Ferrexpo reported that it increased its total commercial production by 6% YoY to 2.93mn tonnes in 2Q21. The output of top-value-added 65 percent Fe pellets rose by 4.0% YoY in the period to 2.76mn tonnes. For 1H21, Ferrexpo's commercial output, which comprises iron ore pellets and concentrate, grew by 2.0% YoY to 5.71mn tonnes. Separately, the company said that Ukraine's quarantine restrictions had a minimal influence on operations and logistics during the quarter ended in June.

FERREXPO PRODUCTION FIGURES				
000' tonnes	2Q21	Change YoY	1H21	Change YoY
Total Pellets&Concentrate Production	2,934	+6%	5,712	+2%
Pellet production	2,849	+5%	5,563	-0.6%
- 65% Fe Premium pellets	2,764	+4%	5,428	+2%

Source: Companies' data

COMMENTARY

Ferrexpo's excellent production results for 2Q21 are in line with expectations given the hot global iron ore market. The company has also entered the business of 67 percent Fe pellets, a type of direct reduction pellet that represents the pathway to low-carbon steel production. With iron ore prices at record levels as the benchmark 62 percent Fe grade trades near USD 215 per tonne, we forecast that Ferrexpo will post impressive financial results for 1H21. The company is set to report its interim P&L on Aug 4.

Although the iron ore market is currently robust, there are wide expectations that the price will slowly pull back from the peak above USD 200 per tonne for 62 percent Fe fines. The iron ore market should see increasing supply from higher Brazilian exports in 2022 and 2023 and then, in the longer term, from mine development in Africa.

The Ferrexpo stock is now trading at GBP 437 after retreating from its all-time high of GBP 506 per share touched in May. Eavex Capital has a SELL rating on the FXPO stock with a target price of GBP 280, implying a downside of 36%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	54.2	65.0	20%	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	5.6	11.5	105%	BUY	Although MHP's business has not 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	48.0	--	--	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	7.90	12.0	52%	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	437	280	-36%	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	300	350	17%	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	25.8	--	--	U/R	
JKX Oil & Gas	JKX LN	29.8	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	21.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.60	15.00	56%	BUY	Persisting uncertainty about whether CentrEnerg can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. Currently CentrEnerg 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	0.450	0.33	-27%	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	1942	0.6%	20.1%								
Iron Ore Mining												
Ferrexpo	FXPO	437	1.3%	47.1%	3568	3564	24.0%	5.6	6.8	4.1	4.9	2.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.0	-6.9%	5.6%	80	53	5.0%	9.3	15.3	4.0	5.4	0.3
Specialized Machinery												
Turboatom	TATM	7.7	0.0%	-6.7%	119	116	3.8%	14.2	8.3	2.2	2.8	1.2
Motor Sich	MSICH	5390	0.0%	0.0%	410	387	24.0%	13.0	17.6	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	300	3.1%	57.9%	595	587	3.0%	3.8	5.8	1.8	3.7	0.6
Enwell Energy (ex-Regal)	ENW	25.8	3.2%	21.5%	115	60	21.6%	38.2	12.7	2.3	2.0	1.0
JKX Oil	JKX	29.8	19.0%	-0.8%	71	179	50.4%	3.6	10.1	6.0	5.3	2.1
Power Utilities												
Centrenergy	CEEN	9.60	-1.0%	33.3%	130	118	21.7%	57.2	14	7.1	5.0	0.1
Donbasenergo	DOEN	21.00	0.0%	5.0%	18	17	14.2%	16.8	6.5	2.0	2.1	0.1
Consumer												
MHP	MHPC	5.60	-3.4%	-7.0%	592	1907	32.5%	neg	9.9	5.6	7.1	0.9
Kernel	KER	54.20	-1.5%	9.9%	1,125	2142	61.8%	9.5	3.0	4.8	3.0	0.5
Astarta	AST	48.00	-5.9%	83.2%	313	487	37.0%	37.8	29.8	4.0	3.6	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	7.90	-3.7%	80.4%	45	20	25.0%	3.8	3.5	0.6	0.6	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.450	1.1%	9.8%	1,013		1.8%	6.7	8.0	2.2	2.3	0.26

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																
Centrenergy	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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