

## Stock Market Update

### Equity

The Ukrainian stock market saw little action last week, with quotes for the blue chips UkrNafta (UNAF) and Raiffeisen Bank Aval (BAVL) remaining flat at UAH 300 and 45 kopecks respectively. In the second division, Krukiv Wagon (KVBZ) advanced by 6.8% to UAH 20.30 while TurboAtom (TATM) slid 7.8% to UAH 7.10. The heavyweight UX index component CentrEnergO (CEEN) declined by 1.0% to UAH 9.50. As a result, the UX index edged down by 0.6% to 1930 points.

Among statistical data, there was a report that Ukraine's natural gas extraction decreased by 4.0% YoY to 9.75bn cubic meters (cu-m) in 1H21. UkrNafta's natural gas output dropped by 7.3% YoY to 542mn cu-m in the period.

On the London Stock Exchange, MHP (MHPC) shed 0.4% to USD 5.58 per share ahead of the company's operational report due on Jul 21. Ferrexpo (FXPO) edged up by 1.5% to GBp 443 despite the negative news that Ukraine's State Bureau of Investigations has put Constantine Zhevago, the controlling shareholder of Ferrexpo, on an international wanted list. The bureau said that Zhevago, the owner of Finance & Credit Bank, is wanted on suspicion of embezzlement and money laundering in connection with the disappearance of USD 113mn from the now-defunct lender.

In Warsaw trading, Ukrainian agro stocks were on a local downward move, with top liquid issue Kernel (KER) decreasing by 4.4% to PLN 51.80. Sugar maker Astarta (AST) also dropped by 3.3% to PLN 46.40.

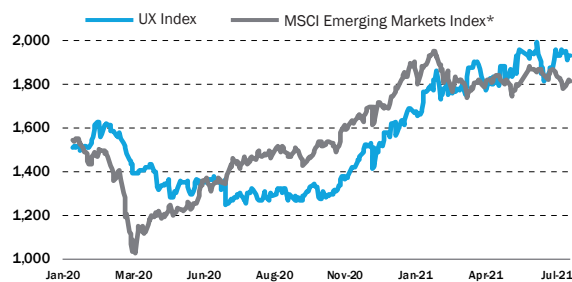
On the interbank market, the hryvnia gained 0.3% to close at 27.24 UAH/USD as exporters were selling hard currencies to pay taxes for 2Q.

## Highlights

### POLITICS AND ECONOMICS

- > Avakov Pushed Out of Cabinet After Record-Setting 7-Year Term
- > Ukraine Moves Closer to Resuming USD 5bn IMF Deal

## STOCK MARKET PERFORMANCE

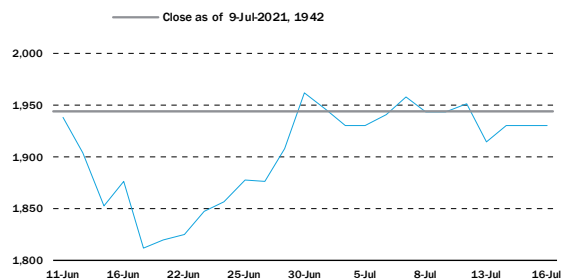


\* rebased

## MARKET INDEXES

	Last	1W ch	YTD
UX	1930	-0.6%	19.3%
RTS	1603	-2.0%	15.6%
WIG20	2258	0.3%	13.2%
MSCI EM	1340	1.7%	3.8%
S&P 500	4327	-1.0%	15.2%

## 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	11.8%/11.3%	+0.2 p.p.	+0.3 p.p.
Ukraine-2025	5.3%	0.0 p.p.	0.4 p.p.
Ukraine-2028	6.5%	-0.1 p.p.	0.2 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.24	-0.3%	-3.6%
EUR/UAH	32.14	-0.9%	-7.5%

Source: Eavex Capital

## Avakov Pushed Out of Cabinet After Record-Setting 7-Year Term

by Will Ritter  
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### NEWS

Ukraine's longtime Interior Minister Arsen Avakov resigned on Tuesday (Jul 13), ending his run of more than 7 years in the office, making him the longest-continuously-serving Cabinet minister in Ukraine's history and the second-longest-serving top-level official after Leonid Kuchma, who served 10 years as President. The ruling Servant of the People faction quickly nominated the head of Parliament's Law Enforcement Committee, Dennis Monastirsky, as Avakov's replacement, and his nomination was confirmed by Parliament on Friday (Jul 16). Avakov had survived 5 different government shake-ups (most recently in March 2020) since first being appointed to head the Interior Ministry immediately after the EuroMaidan revolution in February 2014.

### COMMENTARY

Avakov has been Ukraine's ultimate "cilovik", or power minister, since 2014. He was able to stay in his post despite being hated by several influential constituencies, including civil society activists who faulted the minister for failing to solve the 5-year-old murder of journalist Pavel Sheremet, and many nationalists who deplored his refusal to speak Ukrainian (Avakov is from Kharkiv in Eastern Ukraine). His run is perhaps even more remarkable considering that he is a member of the old-guard elite, having amassed considerable wealth while holding the (appointed) post of Kharkiv provincial governor back during the Yuschenko administration. Avakov, who built up an independent power base in 2014-15 due to his control over "volunteer" paramilitary battalions that fought in the Donbass conflict, ultimately got the better of his rival Petro Poroshenko, who as President was unable to remove him due to his dependence on Avakov's People's Front political faction; Avakov then sandbagged Poroshenko's 2019 re-election effort using his control of the police and the National Guard, in what Ukrainian analysts billed as a deal made with Poroshenko's enemies Igor Kolomoyskiy and Yulia Tymoshenko. After taking office in May 2019, President Zelenskiy said that the unpopular Avakov would remain at InMin for only 6 months, a promise which he failed to keep, and even widespread protests against Avakov in June 2020 were not enough to bring him down. However, two years into the Zelenskiy administration, new heavyweight power players have sprung up, most notably presidential administration chief Andriy Yermak and Security Service head Ivan Bakanov. Also, Zelenskiy's nominal control of nearly twice the number of MPs in Parliament as Poroshenko had, gave Zelenskiy a much stronger hand in dealing with Avakov. Domestic media had reported that a rising source of tension between Avakov and the presidential administration was the former's refusal to back the use of sanctions and asset freezes as a way of taking on Ukraine's oligarchs. The fact that Zelenskiy was able to convince Servant of the People to nominate Monastirsky, 41, to take over at InMin is a positive sign for Zelenskiy, as constitutionally it is the parliamentary faction rather than the President which has the authority to name the Interior Minister, and there have been some questions about how much influence Zelenskiy actually has over the MPs. We suppose that we have not heard the last of Avakov, who is only 57 and will bring a certain level of name recognition and respect to any political force which he joins, despite having been generally unpopular during his time in the government.

## Ukraine Moves Closer to Resuming USD 5bn IMF Deal

by Dmitry Churin  
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### NEWS

Ukraine's Parliament passed the key bill for judicial reform in the country last week. Two crucial pieces of legislation that received final approval on Jul 13 were related to a transparent re-establishment of the High Qualification Commission of Judges and an integrity assessment of the current and future members of the High Council of Justice - two key judicial governance bodies in Ukraine. International experts will have a temporary but decisive role in line with the recommendations of the Venice Commission.

### COMMENTARY

The IMF welcomed the adopted legislation, pointing out that a role for international experts when selecting members of the High Council of Justice and the High Qualification Commission of Judges is a positive signal. Ukraine needs to resume the USD 5.0bn cooperation program with the IMF, which has been stalled for a year due to Kyiv's failure to meet various reform commitments. Official IMF Spokesman Jerry Rice noted that the recent visit of a Ukrainian delegation led by Finance Minister Serhiy Marchenko to Washington was very constructive. We now believe that Kyiv will be able to unlock a new loan tranche from the IMF by the year-end, securing the hard currency inflow to cover the expected current account deficit, which we estimate at 2.3% of GDP for this year. Ukraine's overall balance of payment deficit was at USD 446mn in Jan-May, according to the latest data from the National Bank. Other issues that the IMF considers as preconditions for the loan are the effectiveness of banking system supervision and the strength of anti-corruption bodies. Ukraine is also in position to receive macro-financial assistance from the EU in the amount of EUR 600mn and a loan from the World Bank for USD 350mn after the IMF program gets back on track. The government has to repay USD 3.9bn of foreign debt in the August-December period, the lion's share of which is due in September when USD 3.0bn has to be sent to creditors amid the semi-annual block coupon payment to sovereign Eurobond holders. The National Bank had USD 28.4bn in foreign currency reserves as of the start of July, meaning the country is safe in terms of solvency. Ukraine's total state and guaranteed debt amounted an equivalent of USD 91.5bn, which corresponds to the debt-to-GDP ratio of roughly 60%. The country's total debt payments for 2022 - including both domestic and external - are estimated at near USD 15bn, underlining the need to find refinancing sources.

Meanwhile, the IMF's decision to perform a new general SDR allocation equivalent to USD 650bn to all member countries, will eventually lead to a USD 2.7bn unconditional payment to Ukraine.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	51.8	65.0	25%	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	106%	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	46.4	--	--	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	8.10	12.0	48%	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.
<b>Iron Ore</b>						
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.
<b>Specialized Machinery</b>						
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.
<b>Oil &amp; Gas</b>						
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	25.7	--	--	U/R	
JKX Oil & Gas	JKX LN	27.0	36.0	33%	BUY	JKX increased production by 7% QoQ to 4,101 boepd in 2Q21. The company had net USD 36mn of cash and cash equivalents, and oil and gas inventory of approximately USD 4.4mn in value, held at 30 June 2021.
<b>Power Utilities</b>						
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	9.50	15.00	58%	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.
<b>Banks</b>						
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	1930	-0.6%	19.3%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	443	1.5%	49.3%	3591	3587	24.0%	5.7	6.9	4.2	4.9	2.2
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	20.3	6.8%	12.8%	85	59	5.0%	10.0	16.4	4.5	5.9	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	7.1	-7.8%	-13.9%	110	107	3.8%	13.1	7.7	2.1	2.6	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	411	389	24.0%	13.0	17.6	3.8	4.3	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	300	0.0%	57.9%	597	589	3.0%	3.8	5.8	1.8	3.7	0.6
Enwell Energy (ex-Regal)	ENW	25.7	-0.2%	21.2%	113	59	21.6%	37.8	12.6	2.3	2.0	1.0
JKX Oil	JKX	27.0	-9.2%	-10.0%	64	172	50.4%	3.2	9.1	5.8	5.1	2.0
<b>Power Utilities</b>												
Centrenergy	CEEN	9.50	-1.0%	31.9%	129	117	21.7%	56.8	14	7.0	4.9	0.1
Donbasenergo	DOEN	21.00	0.0%	5.0%	18	17	14.2%	16.9	6.5	2.0	2.1	0.1
<b>Consumer</b>												
MHP	MHPC	5.58	-0.4%	-7.3%	590	1905	32.5%	neg	9.8	5.6	7.1	0.9
Kernel	KER	51.80	-4.4%	5.1%	1,064	2081	61.8%	9.0	2.9	4.7	2.9	0.5
Astarta	AST	46.40	-3.3%	77.1%	299	474	37.0%	36.2	28.5	3.9	3.5	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.10	2.5%	84.9%	45	20	25.0%	3.9	3.5	0.6	0.7	0.3
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.450	0.0%	9.8%	1,016		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
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1507	1700	1615	586	859	730	38.9%	50.5%	45.2%	403	635	521	26.7%	37.4%	32.3%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
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%
<b>Consumer</b>																
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%
<b>Banks</b>																
		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
<b>UAH denominated Bonds</b>									
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
UA4000218325			11.8%	11.3%	n/a	n/a	S/A	20 Jul 2022	13,415
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
UA4000207518			13.5%	12.5%	n/a	n/a	S/A	20 May 2027	7,018
<b>USD denominated Bonds</b>									
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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