

**Stock Market Update**

**Equity**

Kyiv-listed equities declined across the board last week as the domestic stock market currently lacks a flow of fresh investments to maintain the 2021 rally. The UX index lost 2.9% to 1861 points. DonbasEnerg (DOEN) was the worst performing UX index component, plunging by 23% to UAH 14.50 after information that the company was forced to shut down its thermal power plant due to problems with coal inventories. The current chaotic situation in the Ukrainian electricity sector also put some pressure on the more liquid issue, CentrEnerg (CEEN), which corrected by 2.5% to UAH 9.75. Two other key blue chips, UkrNafta (UNAF) and Raiffeisen Bank Aval (BAVL), fell by 1.9% to UAH 265 and by 4.2% to 43.10 kopecks, respectively. The current trading week only consists of 3 days due to the Independence Day holiday on Aug 24.

In macroeconomic news, Ukrainian GDP grew by 5.4% YoY in 2Q21, coming in well below our expectation of the 7% YoY growth for the quarter. The Ukrainian VRIs (sovereign securities linked to the GDP performance) dropped by 2.1% to 113.8 cents on the dollar. Previously, the market players had anticipated that in case of robust economic recovery in Ukraine the payments under the VRIs would be significant for 2021. The VRIs pay no regular interest, but they offer payouts in years when Ukraine's GDP growth exceeds 3%.

London-listed Ferrexpo (FXPO) slumped by 12.6% to GBp 354 as iron ore benchmark prices dropped to USD 160 per tonne, well of their early July peak of USD 215 per tonne. Poultry producer MHP (MHPC) decreased by 1.8% to USD 5.58 while Warsaw-listed Kernel (KER) rose 3.6% to PLN 57.30.

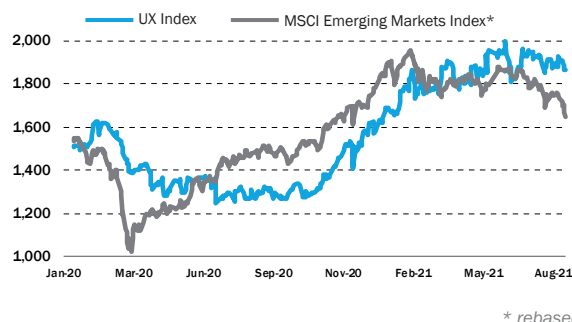
On the currency market, the hryvnia edged down by 0.2% to 26.69 UAH/USD. The National Bank continued its de-facto practice of limiting appreciation of the hryvnia to less than 1% per week, purchasing USD 118mn from the interbank market to prop up the dollar.

**Highlights**

**POLITICS AND ECONOMICS**

- > Departing Merkel Stresses Support for Ukraine in Final Kyiv Visit
- > Ukraine Shows Weak 2Q GDP Rebound of 5% YoY After 2020's 11% Drop

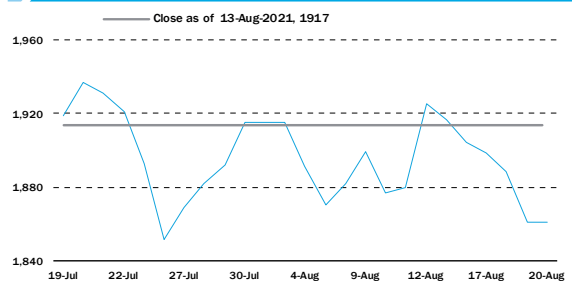
**STOCK MARKET PERFORMANCE**



**MARKET INDEXES**

	Last	1W ch	YTD
UX	1861	-2.9%	15.1%
RTS	1660	-0.4%	19.7%
WIG20	2301	0.4%	15.4%
MSCI EM	1270	-0.9%	-1.6%
S&P 500	4486	0.4%	19.4%

**UX 1M PERFORMANCE**



**FIXED INCOME**

	Last	1W ch	YTD
NBU Key Rate	8.0%	0.0 p.p.	+2.0 p.p.
UAH 1-year bond	12.2%/11.0%	+0.2 p.p.	+0.5 p.p.
Ukraine-2025	5.4%	0.0 p.p.	0.5 p.p.
Ukraine-2028	6.5%	0.0 p.p.	0.2 p.p.

**CURRENCY**

	Last, UAH	1W chg.	YTD
USD/UAH	26.69	0.2%	-5.6%
EUR/UAH	31.17	-0.6%	-10.3%

Source: Eavex Capital

## Departing Merkel Stresses Support for Ukraine in Final Kyiv Visit

by Will Ritter  
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### NEWS

Outgoing German Chancellor Angela Merkel paid a final visit to Ukraine on Sunday (Aug 22) ahead of the country's Independence Day, meeting with President Zelenskiy and stating that Germany will do all it can to help Ukraine to remain an energy transit country for Europe after the current agreement with Russia expires in 2024. Ukraine is set to lose much of its natural gas transit revenue after the commissioning of the Nord Stream 2 Baltic Sea pipeline, which Merkel and her Christian Democratic party (CDU) supported. Merkel said that natural gas "should never be used as a political weapon". At a joint press conference, Zelenskiy praised Merkel's diplomacy but called her position toward Russia "too soft", complaining about a lack of specifics in terms of what kind of transit deal Ukraine can expect to get after 2024. Merkel, who has led Germany for the last 16 years, is set to step down at the end of September following the country's national election. Merkel's CDU, led by Armin Laschet, has lost its prior polling lead over the Socialists, and the election is currently seen as too close to call.

### COMMENTARY

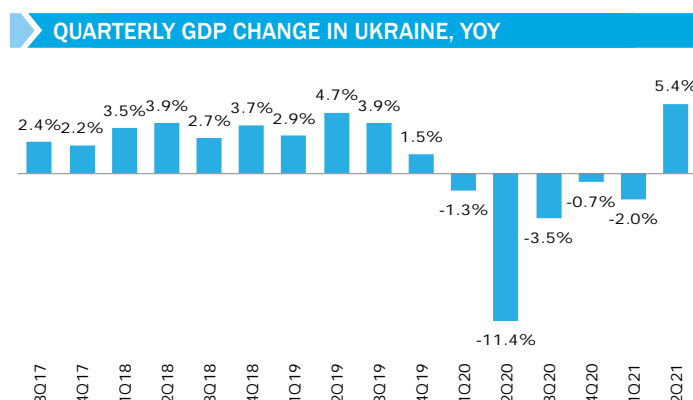
Angela Merkel has been a great friend to Ukraine since 2014, and the accession of a new leader to the top of German politics raises some legitimate concerns about the continuity of German backing for Kyiv, both in principle and in practice. However, in our view, the Nord Stream case is one of those situations where Ukraine "wins by losing", as it provides an opportunity for Kyiv to strengthen its alliances with the US and Germany, the two most important bulwark nations against Russian aggression. Reliable security support from Washington and Berlin is actually worth far more than the roughly USD 1.5bn which Ukraine earns annually from Russian gas transit. Conversely, of much greater benefit to the Kremlin than the Nord Stream 2 pipeline would be the spoiling of Ukraine's relations with the West due to an overly aggressive stance from the Zelenskiy administration toward its allies. Indeed, Zelenskiy has walked a fine line with his sometimes-confrontational attitude to the Biden administration on Nord Stream, and next week's talks with Biden at the White House will demonstrate Zelenskiy's diplomatic wisdom and skills like no other event in his presidency thus far. Although Zelenskiy and his top advisors may be tempted to throw a Hail Mary on Nord Stream next week with Biden currently on his political back foot due to the debacle in Afghanistan, we believe that this approach would be unwise and counter-productive to Ukrainian interests; we see Nord Stream 2 as done deal, regardless of whether Germany's next chancellor is a Christian Democrat or a Socialist.

**Ukraine Shows Weak 2Q GDP Rebound of 5% YoY After 2020's 11% Drop**

by Dmitry Churin  
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**NEWS**

The Ukrainian economy grew by 5.4% YoY in 2Q21 after the steep drop of 11.4% YoY seen in 2Q20, when very strict quarantine measures were imposed in the country during April and May, the State Statistics Committee reported last week. The quarter-on-quarter increase in GDP for 2Q21 was 0.8%. The National Bank, which also provides macroeconomic data, was more optimistic in its assessment of the economic recovery, estimating GDP growth at 7.5% YoY for 2Q21. The government built the national budget for 2021 on a forecast for a GDP rise of 4.6% and inflation of 7.3%. For full-year 2020 Ukrainian GDP fell by 4.0% YoY.



Source: State Statistics Committee, Eavex Research

**COMMENTARY**

The 5.4% GDP growth figure from UkrStat is unimpressive, especially taking into account that the National Bank's preliminary assessments and forecasts gave a notably higher guidance for the economic recovery. UkrStat has not published the GDP breakdown by components yet, but we suspect that the investments component and the net exports performed poorly in 1H21. The GDP growth for the first half is likely to come in at 1.7% YoY. Meanwhile, the private consumption component should be in good shape as retail sales in Ukraine jumped by 13.8% YoY in 1H21, fuelled by the global trend of easy borrowing. Nevertheless, in the broader economic sense, Ukraine was unable to spur a real sector recovery. For instance, industrial production grew by only 2.1% YoY in 1H21 after the drop of 7.6% YoY seen in 1H20. We continue to stick to our conservative forecast of 3.5% YoY GDP growth for the full-year. Although the recovery pace remains below expectations, Ukraine is getting a solid boost from rallying grain prices as agro exports account for 40% of the country's merchandise exports. Ukraine's grain harvest for this year could reach 76mn tonnes, up from the off-year total of 65mn tonnes seen in 2020. Wheat prices are expected to continue their bullish trend for the next 2-3 months on rising demand from Asia, the world's largest wheat-buying region. The current price stands at USD 270 per tonne FOB Black Sea ports, having surged by almost 30% since the start of the year. Agro export revenue helps to support the hryvnia, which gained some 6% against the dollar to 26.70 UAH/USD so far this year. Nevertheless, we expect the hryvnia to fall back to at least the 28 level by the end of the year, amid predictions of a broad rise by the dollar against other world currencies.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	57.3	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	5.6	11.5	106%	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	54.4	--	--	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	7.98	12.0	50%	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	354	280	-21%	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	265	350	32%	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	28.1	--	--	U/R	
JKX Oil & Gas	JKX LN	26.0	36.0	38%	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	14.5	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.75	15.00	54%	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	0.431	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	1861	-2.9%	15.1%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	354	-12.6%	19.1%	2835	2831	24.0%	4.5	2.6	3.3	2.0	1.2
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	20.0	0.0%	11.1%	86	60	5.0%	10.1	16.4	4.5	6.0	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	7.4	-11.9%	-10.3%	117	114	3.8%	13.9	8.2	2.2	2.8	1.2
Motor Sich	MSICH	5390	0.0%	0.0%	420	397	24.0%	13.3	18.0	3.9	4.4	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	265	-1.9%	39.5%	538	525	3.0%	3.4	5.2	1.6	3.2	0.5
Enwell Energy (ex-Regal)	ENW	28.1	0.7%	32.5%	123	69	21.6%	40.9	13.6	2.6	2.3	1.1
JKX Oil	JKX	26.0	-4.6%	-13.3%	61	169	50.4%	3.1	8.7	5.7	5.0	2.0
<b>Power Utilities</b>												
Centrenergy	CEEN	9.75	-2.5%	35.4%	135	132	21.7%	59.5	34	7.9	8.2	0.2
Donbasenergo	DOEN	14.50	-23.7%	-27.5%	13	12	14.2%	11.9	4.6	1.4	1.5	0.0
<b>Consumer</b>												
MHP	MHPC	5.58	-1.8%	-7.3%	590	1905	32.5%	neg	5.4	5.6	7.1	0.9
Kernel	KER	57.30	3.6%	16.2%	1,165	2182	61.8%	9.9	3.1	4.9	3.0	0.5
Astarta	AST	54.40	0.7%	107.6%	347	522	37.0%	42.0	33.0	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	7.98	-6.1%	82.2%	44	19	25.0%	3.8	3.4	0.6	0.6	0.3
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.431	-4.2%	5.1%	993		1.8%	6.6	7.9	2.2	2.3	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
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1507	1700	2300	586	859	1,450	38.9%	50.5%	63.0%	403	635	1,100	26.7%	37.4%	47.8%
<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	1018	-115	320	163	-10.5%	24.3%	16.0%	-158	158	104	-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	596	-69	17	16	-11.7%	2.2%	2.7%	-77	2	4	-13.1%	0.3%	0.7%
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	2140	376	340	270	18.3%	17.8%	12.6%	215	-133	110	10.5%	-7.0%	5.1%
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			12.2%	11.0%	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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