

**Stock Market Update**

**Equity**

There was limited action on the Ukrainian Exchange last week amid the Independence Day holiday period in the country. The UX index slipped by 0.6% to 1860 points in mixed trading in the major Kyiv-listed stocks. Quotes for Raiffeisen Bank Aval (BAVL) once again returned to 45 kopecks, rising by 4.4% over the week as traders are hoping that the BAVL stock will deliver a solid dividend yield of at least 7% in the next 12 months. So far this year the bank's net profit exceeds our forecast, reaching 3.79 kopecks per share in 1H21. TurboAtom (TATM), also a possible dividend stock, bounced back by 9.5% to UAH 8.10, but we remain skeptical about the company's return to a large dividend distribution, as it was barely profitable in 1H21. On the red side of the UX index, UkrNafta (UNAF) dropped by 5.3% to UAH 251 without an obvious driver. CentrEnergO (CEEN) decreased by 2.6% to UAH 9.50, remaining under pressure due to the current chaotic situation in the Ukrainian electricity sector. In second tier stocks, Krukiv Wagon (KVBZ) fell 7.3% to UAH 18.55 after the company unveiled a net loss of UAH 164mn for 1H21 compared to its net profit of UAH 51mn a year ago.

In London trading, Ferrexpo (FXPO) gained back 9.3% to GBp 387 after two weeks of double-digit declines. Natural gas producers with assets in Ukraine were on the rise, with Enwell (former Regal) adding 4.4% to GBp 29.40 and JKX Oil&Gas (JKX) advancing by 12.7% to GBp 29.30.

Warsaw-listed Astarta (AST) corrected by 3.5% to PLN 52.50 while Agroton (AGT) picked up 2.5% to close at PLN 8.18.

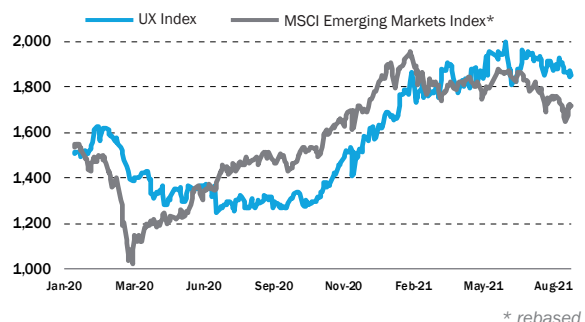
The hryvnia declined by 0.9% to 26.93 UAH/USD over the week. The National Bank intervened on the interbank market with the sale of the hard currency at 26.94 UAH/USD to prevent a further hryvnia decline heading into September, which historically has been a weak month for Ukraine's national currency.

**Highlights**

**POLITICS AND ECONOMICS**

- > Zelenskiy's White House Visit Pushed Back to Sept 1 at Biden's Request
- > Ukraine Industrial Output Shows Anemic Growth of 0.2% YoY in July

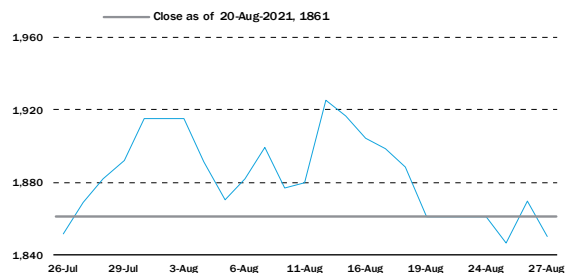
**STOCK MARKET PERFORMANCE**



**MARKET INDEXES**

	Last	1W ch	YTD
UX	1850	-0.6%	14.4%
RTS	1664	0.2%	20.0%
WIG20	2324	1.0%	16.5%
MSCI EM	1272	0.2%	-1.5%
S&P 500	4509	0.5%	20.0%

**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	11.9%/11.2%	-0.1 p.p.	+0.4 p.p.
Ukraine-2025	5.2%	-0.2 p.p.	0.3 p.p.
Ukraine-2028	6.3%	-0.2 p.p.	0.0 p.p.

**CURRENCY**

	Last, UAH	1W chg.	YTD
USD/UAH	26.93	0.9%	-4.7%
EUR/UAH	31.69	1.7%	-8.8%

Source: Eavex Capital

## Zelenskiy's White House Visit Pushed Back to Sept 1 at Biden's Request

by Will Ritter  
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### NEWS

The long-awaited first official trip of President Zelenskiy to the United States is set to occur this week, with Zelenskiy expected to spend up to 4 days in the US. His meeting with President Biden has been delayed at the request of the White House by one day until Wednesday (Sept 1) amid the US military withdrawal from Afghanistan, which is due to be completed on Aug 31. Zelenskiy's ability to meet with members of the US Congress will be limited, as the legislative bodies are currently out of session. The most important US-Ukraine document to be signed during the visit is a so-called "Framework Defense Agreement".

### COMMENTARY

In our view, the personal dynamic between Biden and Zelenskiy will be the key to the success of this visit. The Biden administration is clearly dissatisfied with Zelenskiy's performance on some of the major reform issues, while Zelenskiy is unhappy about Biden's refusal to block the Russian-German Nord Stream 2 energy pipeline and the lack of US support for advancing Ukraine's NATO membership prospects. However, given that these bones of contention are well known in advance, the two presidents could agree to disagree amid a constructive tone of discussion, as long as they are able to avoid an atmosphere of personal conflict. The 1-day delay of the visit should also help Zelenskiy to receive more coverage in the US media, as he will be competing less with the Afghanistan story. Despite the unlikelihood of Ukraine joining NATO, US diplomatic and military support outside the framework of the alliance is still the best deterrent that Kyiv has against Russian aggression, and for this, Zelenskiy needs to maintain good relations with both the White House and Congress without visibly trying to play one branch of the US government off against the other.

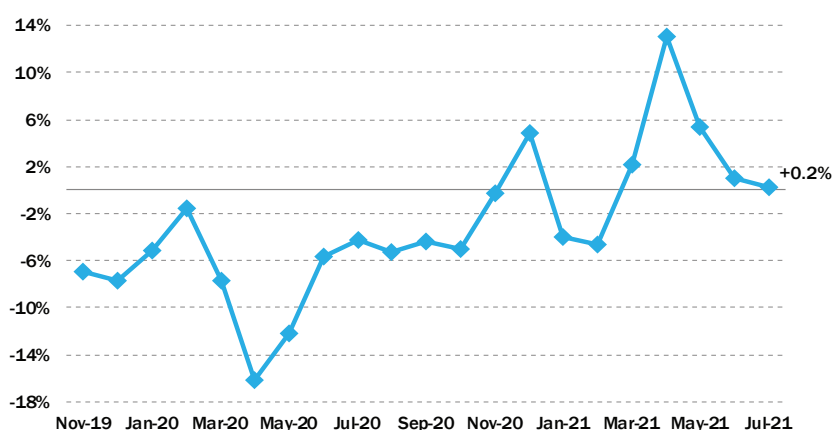
**Ukraine Industrial Output Shows Anemic Growth of 0.2% YoY in July**

by Dmitry Churin  
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**NEWS**

Ukraine's industrial production growth was just 0.2% YoY in July despite a low comparison base from July of last year when the IP index dropped by 4.2% YoY due to the COVID-19 related crisis, according to data from the State Statistics Committee released on Aug 25. In a broad sector breakdown, the extraction industry output increased by 4.0% YoY in July solely as a result of booming iron ore production that jumped by 13.3% YoY. The aggregate manufacturing sector declined by 1.8% YoY in July while the utility sector output rose by 2.2% YoY. For 7M21, industrial production in Ukraine recovered by 1.8% YoY, which is a notably slower pace of the recovery than initially anticipated.

**UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY**



Source: State Statistics Committee

**COMMENTARY**

In regards to the iron ore industry, Ukraine was able to catch the global wave of rallying iron ore prices, which peaked at USD 215 per tonne for the 62% Fe grade in July. Ukrainian large iron ore miners Metinvest and Ferrexpo enjoyed impressive profitability in their iron ore export operations, with the EBITDA margin in this segment reaching an astonishing 60% in 1H21. However, other extraction industries, namely oil&gas and coal extraction, demonstrated output declines of 2.1% YoY and 8.1% YoY in July respectively, despite a positive pricing environment. We think that both the oil&gas and coal industries in Ukraine do not have enough investments in exploration. Meanwhile, the coal deficit has already become a matter of energy security concern as Ukraine's thermal power plants have insufficient coal inventories ahead of the coming winter season. Broadly speaking, Ukraine has a vast nominal capacity to import natural gas or petroleum products, but only a limited capacity to import electricity. The country is forced to either import coal at a high price or to improve the efficiency of the value chain from coal extraction to electricity production inside the country.

In the manufacturing sector there were several industries demonstrating a fairly good output performance in July. In particular, the pharmaceutical sector delivered 13.7% YoY growth and the metallurgical sector rose by 8.4% YoY. On the downside, chemicals output fell 5.8% YoY and the food&beverages sector dropped by 19.2% YoY without a clear reason. In other macroeconomic statistics, UkrStat said that retail sales volume rose by 10.1% YoY in July, putting the year-to-date growth at 13.0% YoY (7M21). The agro sector was up by 2.5% YoY for 7M21, with further expectations of growth due to this season's much higher grain harvest compared to 2020.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
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	5.6	11.5	105%	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	52.5	--	--	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	8.18	12.0	47%	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	387	280	-28%	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	251	350	39%	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	29.4	--	--	U/R	
JKX Oil & Gas	JKX LN	29.3	36.0	23%	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	15.0	--	--	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	1850	-0.6%	14.4%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	387	9.3%	30.2%	3118	3114	24.0%	4.9	2.8	3.6	2.1	1.4
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	18.6	-7.3%	3.1%	79	53	5.0%	9.3	15.1	4.0	5.3	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	8.1	9.5%	-1.8%	127	124	3.8%	15.1	8.9	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	416	394	24.0%	13.2	17.8	3.8	4.4	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	251	-5.3%	32.1%	505	492	3.0%	3.2	4.9	1.5	3.0	0.5
Enwell Energy (ex-Regal)	ENW	29.4	4.4%	38.4%	129	75	21.6%	43.0	14.3	2.9	2.5	1.2
JKX Oil	JKX	29.3	12.7%	-2.3%	69	177	50.4%	3.5	9.8	6.0	5.2	2.1
<b>Power Utilities</b>												
Centrenergy	CEEN	9.50	-2.6%	31.9%	130	128	21.7%	57.4	33	7.6	7.9	0.2
Donbasenergo	DOEN	15.00	3.4%	-25.0%	13	12	14.2%	12.2	4.7	1.4	1.5	0.0
<b>Consumer</b>												
MHP	MHPC	5.62	0.7%	-6.6%	594	1909	32.5%	neg	5.4	5.6	7.1	0.9
Kernel	KER	57.40	0.2%	16.4%	1,173	2190	61.8%	9.9	3.2	4.9	3.0	0.5
Astarta	AST	52.50	-3.5%	100.4%	337	511	37.0%	40.7	32.1	4.2	3.8	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.18	2.5%	86.8%	45	21	25.0%	3.9	3.5	0.6	0.7	0.3
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.450	4.4%	9.8%	1,028		1.8%	6.8	8.1	2.3	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	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			11.9%	11.2%	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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