

## Stock Market Update

### Equity

Kyiv-listed equities remained in a sideways trend last week. The UX index edged down by 0.2% to 1846 points. UkrNafta (UNAF) added 1.6% to UAH 255 while Raiffeisen Bank Aval (BAVL) fell 2.9% to 43.70 kopecks. CentrEnergy (CEEN) remained unchanged at UAH 9.50 per share. Although quotes for heavy machinery producer TurboAtom (TATM) were flat at UAH 8.10, there is a great concern that the company intends to dilute minority shareholder stakes by issuing additional shares which will be used to acquire another state-owned machinery producer, ElectroTyazhMash. Currently there is no detail regarding the planned additional share issue of TurboAtom. The special shareholders meeting on this issue is set for Sept 28.

On the London Stock Exchange, natural gas producers with major assets in Ukraine were on the rise, with Enwell Energy (former Regal) climbing 0.9% to GBp 29.60 and JKC Oil&Gas (JKX) advancing by 5.8% to GBp 31.00. Iron ore miner Ferrexpo (FXPO) was essentially unchanged over the week at GBp 390. Meanwhile, agro giant MHP (MHPC) gained 6.8%, returning to the USD 6 level.

Warsaw-listed Kernel (KER) edged down by 0.7% to PLN 57.00 and Agroton (AGT) dropped by 2.7% to PLN 7.96.

On the currency front, the hryvnia was volatile, touching 27.05 UAH/USD over the week before closing at 26.90 UAH/USD on Friday (Sept 3). Taking into account that Ukraine has to import a large volume of natural gas ahead of the winter season, we think that the hryvnia will be under seasonal pressure in the coming weeks. We also believe that the dollar is set to strengthen against other major world currencies. The USDX index, which measures the dollar against the basket of other currencies, bottomed at 92 points on Friday, opening the way to a rebound by at least 1.5% in the short term.

## Highlights

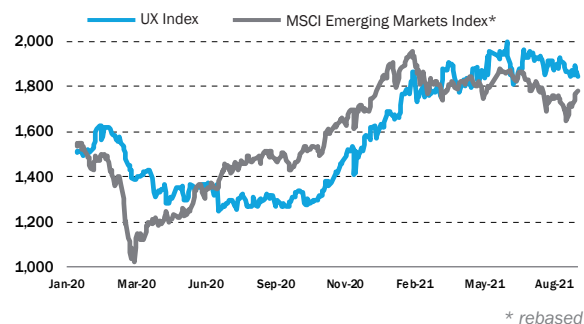
### POLITICS AND ECONOMICS

- Zelenskyy Avoids Controversy in Visits to White House, Silicon Valley

### STOCKS IN THE NEWS

- TurboAtom Merger Presents Risk of Minority Shareholder Dilution

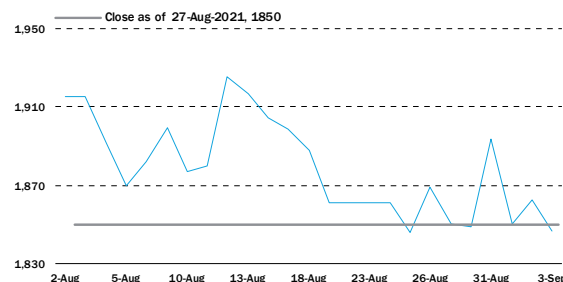
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
UX	1846	-0.2%	14.2%
RTS	1734	4.2%	25.0%
WIG20	2381	2.5%	19.4%
MSCI EM	1316	3.5%	1.9%
S&P 500	4535	0.6%	20.7%

### 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	12.0%/11.0%	0.0 p.p.	+0.4 p.p.
Ukraine-2025	4.9%	-0.3 p.p.	0.0 p.p.
Ukraine-2028	6.1%	-0.2 p.p.	-0.2 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.90	-0.1%	-4.8%
EUR/UAH	31.97	0.9%	-8.0%

Source: Eavex Capital

## Zelenskiy Avoids Controversy in Visits to White House, Silicon Valley

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

President Zelenskiy met at the White House for two hours with President Biden in Washington on Wednesday (Sept 1), and then flew to the San Francisco area where he met the following day with Apple CEO Tim Cook and delivered a speech at Stanford University. Biden and Zelenskiy did not face the press together after their meeting, although a detailed joint statement on goals for the US-Ukraine relationship was released, and Zelenskiy spoke to reporters by himself. He said that Biden had responded to his request for a NATO membership plan with “support, but no timeframes... I feel that [Biden] personally supports Ukraine in granting NATO membership, but it is difficult for me to say what the path will be,” the US government-funded RFE/RL news site reported. After the meeting, the White House announced a new grant of USD 60mn for the purchase of military hardware to be added to some USD 400mn due to be distributed to Ukraine by the end of 2021.

### COMMENTARY

Zelenskiy's visit to the White House turned out to be a relatively low-profile event compared to his previous US visit in September 2019, which was an absolute media circus due to the controversy involving his discussions with then-President Donald Trump. This time, the media was heavily preoccupied with the US military withdrawal from Afghanistan as well as with major flooding in the south of the country, which allowed Biden and Zelenskiy to conduct their diplomacy without particularly heavy scrutiny. The lack of a joint press conference also denied Zelenskiy the opportunity to air his complaints to a wide US audience about Biden's refusal to sanction Germany over the Nord Stream 2 energy pipeline. We think that Biden managed to convince Zelenskiy that opposition to Ukraine joining NATO is not coming from the US administration, but from Western European members of the alliance, and the joint statement was clearly designed to provide assurances on the key issues for Zelenskiy: military assistance and energy security. We believe that the visit was largely a success from the public point of view, as there were no controversial incidents that could have damaged the relationship. Also, Zelenskiy did not give the appearance of trying to involve himself in US domestic politics by going over Biden's head and appealing to members of Congress on the Nord Stream issue. The next in-person meeting between Biden and Zelenskiy could well be in Kyiv, as Biden expressed interest in making the trip, although a specific date was not mentioned. No US President has visited Ukraine since George Bush in 2008.

## TurboAtom Merger Presents Risk of Minority Shareholder Dilution

by Dmitry Churin  
d.churin@eavex.com.ua

### TURBOATOM (TATM UK)

Price: UAH 8.10 Market Cap: USD 127mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.6	1.2	15.1	2.4	5.0%
2021E	0.6	2.4	40.6	5.9	1.8%

## NEWS

TurboAtom, a majority state-owned manufacturer of equipment for thermal, hydro and nuclear power plants, will merge with 100%-state-owned heavy machinery producer ElectroTyazhMash, according to the agenda for TurboAtom's special shareholders meeting set for Sept 28. The agenda for the meeting does not offer any details regarding the planned additional share issue by TurboAtom for the purpose of the ElectroTyazhMash acquisition. Ukraine's State Property Fund owns a 75.2% stake in TurboAtom, while the largest minority shareholder owns 15.3% in the company.

## COMMENTARY

Earlier this year, when the idea of the TurboAtom-ElectroTyazhMash merger was unveiled, it was publicly presented as a bailout of the loss-making and heavily indebted ElectroTyazhMash. The latest available financial report indicates that ElectroTyazhMash's liabilities exceeded the company's assets (assets were at UAH 1.3bn while liabilities totaled UAH 1.6bn). Therefore, we had assumed that TurboAtom would rescue ElectroTyazhMash without paying anything for the company's stock, as de-facto, ElectroTyazhMash is bankrupt. However, in reality, the State Property Fund (the 100% owner of ElectroTyazhMash) managed to restructure the company with the intent to convert ElectroTyazhMash shares into TurboAtom shares. This transaction could lead to a dramatic dilution of minority shareholders' stakes in TurboAtom. Currently we see three main scenarios of how the shares' conversion will be implemented, only one of which would be neutral for TurboAtom's minority shareholders; the other two scenarios will be heavily negative ones.

The first scenario, which is the neutral one, is that TurboAtom will acquire ElectroTyazhMash shares at a low valuation, issuing additional shares in the amount of less than 10% of the outstanding shares. TurboAtom has 422mn outstanding ordinary shares at a nominal value of 25 kopecks. The TATM stock price on the market is UAH 8.10 per share giving the company a capitalization of USD 127mn. In this case, dilution for TATM's minority shareholders will be minimal.

The second scenario is that TurboAtom will convert ElectroTyazhMash shares at a valuation of UAH 1.3bn (USD 50mn); this valuation was indicated by the State Property Fund after ElectroTyazhMash was restructured late last month. This scenario also implies that the new TATM shares will be issued at UAH 1.95 per share, as was indicated by TATM's buy-back valuation last month. In this case, the TATM stock's current free-float of 24.8% will be diluted to 9.7%. Roughly speaking, TATM's minority shareholders would lose from 50% to 70% of their stake's current value, as the merger will hardly add value to TurboAtom, even if ElectroTyazhMash does represent a certain vertical integration synergy.

The third, most dangerous scenario for minority shareholders is that ElectroTyazhMash shares would be converted into TATM shares at their nominal price. This means that TurboAtom will issue 5.2bn new shares, leading to a free-float dilution from 24.8% to just 1.8%. The State Property Fund would then be able to perform a squeeze-out at a low valuation, effectively kicking minority shareholders out of TurboAtom and confiscating almost the entire value of their holdings.

**EAVEX RECOMMENDATIONS**

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	57.0	65.0	14%	BUY	<p>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.</p> <p>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.</p>
MHP	MHPC LI	6.0	11.5	92%	BUY	<p>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.</p>
Astarta	AST PW	49.8	--	--	U/R	<p>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.</p>
Agroton	AGT PW	7.96	12.0	51%	BUY	<p>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.</p> <p>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.</p>
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	390	280	-28%	SELL	<p>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.</p>
<b>Specialized Machinery</b>						
Motor Sich	MSICH	5390	--	--	U/R	<p>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.</p> <p>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.</p>
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	255	350	37%	BUY	<p>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.</p>
Enwell Energy (ex-Regal)	ENW LN	29.6	--	--	U/R	
JKX Oil & Gas	JKX LN	31.0	36.0	16%	BUY	<p>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.</p>
<b>Power Utilities</b>						
DonbasEnergo	DOEN	14.5	--	--	U/R	<p>The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.</p>
CenterEnergo	CEEN	9.50	15.00	58%	BUY	<p>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.</p>
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.437	0.33	-24%	SELL	<p>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.</p> <p>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.</p>

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 2021E
			1W	YtD				2020	2021E	2020	2021E	
UX Index	UX	1846	-0.2%	14.2%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	390	0.9%	31.3%	3184	3180	24.0%	5.0	2.9	3.7	2.2	1.4
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	18.6	0.0%	3.1%	79	53	5.0%	9.3	15.1	4.0	5.3	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	8.1	0.0%	-1.8%	127	124	3.8%	15.1	40.6	2.4	5.9	2.4
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	255	1.6%	34.2%	514	501	3.0%	3.2	5.0	1.6	3.1	0.5
Enwell Energy (ex-Regal)	ENW	29.6	0.9%	39.6%	132	77	21.6%	43.9	14.6	3.0	2.6	1.2
JKX Oil	JKX	31.0	5.8%	3.3%	74	182	50.4%	3.7	10.5	6.1	5.4	2.1
<b>Power Utilities</b>												
Centrenergo	CEEN	9.50	0.0%	31.9%	130	128	21.7%	57.5	33	7.6	8.0	0.2
Donbasenergo	DOEN	14.50	-3.3%	-27.5%	13	12	14.2%	11.8	4.6	1.4	1.4	0.0
<b>Consumer</b>												
MHP	MHPC	6.00	6.8%	-0.3%	634	1949	32.5%	neg	5.8	5.7	7.2	0.9
Kernel	KER	57.00	-0.7%	15.6%	1,195	2212	61.8%	10.1	3.2	5.0	3.1	0.5
Astarta	AST	49.80	-5.1%	90.1%	328	502	37.0%	39.7	31.2	4.1	3.7	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	7.96	-2.7%	81.7%	45	20	25.0%	3.9	3.5	0.6	0.7	0.3
<b>Banks</b>												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.437	-2.9%	6.6%	999		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
Iron Ore Mining																
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%
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	52	49	52	21	45.0%	49.1%	40.7%	12	8	3	11.1%	8.0%	6.0%
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	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%
Electric Utilities																
Centrenerg	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%
Consumer																
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%
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
<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

## Eavex Capital

7 Klovsky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: [research@eavex.com.ua](mailto:research@eavex.com.ua)  
Web-page: [www.eavex.com.ua](http://www.eavex.com.ua)

Yuriy Yakovenko  
**Chairman of the Board**  
[yuriy.yakovenko@eavex.com.ua](mailto:yuriy.yakovenko@eavex.com.ua)

### SALES & TRADING

Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
[p.korovitsky@eavex.com.ua](mailto:p.korovitsky@eavex.com.ua)

Alexander Klymchuk  
**Equity and Fixed Income**  
[a.klymchuk@eavex.com.ua](mailto:a.klymchuk@eavex.com.ua)

Eugene Klymchuk  
**Fixed Income Sales and Trading**  
[e.klymchuk@eavex.com.ua](mailto:e.klymchuk@eavex.com.ua)

### RESEARCH

Dmitry Churin  
**Head of Research**  
[d.churin@eavex.com.ua](mailto:d.churin@eavex.com.ua)

Will Ritter  
**Research editor**  
[w.ritter@eavex.com.ua](mailto:w.ritter@eavex.com.ua)

Investing in emerging markets' securities may entail certain risks. There may be limited information available on such securities. Securities of emerging markets' companies may be less liquid and their prices more volatile than securities of comparable developed markets' companies. In addition, exchange rate movements may have an adverse effect on the value of an investment.

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.

Copyright 2021 Eavex Capital. All rights reserved.

Securities and Stock Market State Commission licence, issued 06.10.2015