

## Stock Market Update

### Equity

Kyiv-listed stocks saw mixed trading last week as the National Bank increased its key policy rate from 8.0% to 8.5%. Overall, the economic and political news flow was generally dry. The UX index declined by 0.8% to 1832 points after TurboAtom (TATM) plummeted by 17% to UAH 6.50, reacting to the risk of minority shareholder dilution as a result of TurboAtom's merger with ElectroTyazhMash. UkrNafta (UNAF) and CentrEnerg (CEEN) were flat at UAH 255 and UAH 9.50 per share respectively. On the upside, DonbasEnerg (DOEN) recovered by 3.4% to UAH 15.00 and Raiffeisen Bank Aval (BAVL) bounced back by 3.0% to 45.00 kopecks. In the second tier stocks, Krukiv Wagon (KVBZ) added 2.4% to UAH 19.00 despite the company's poor financial performance so far this year.

London-listed Ukrainian stocks were mostly higher for the week, with the largest gain in JKC Oil&Gas (JKX), which surged by 16.8% to GBP 36.20 per share. The stock is responding to the rally in natural gas prices in Europe which recently topped a historical high of USD 700 per 1,000 cubic meters. Enwell Energy (former Regal) rose by 6.4% to GBP 31.50. Poultry giant MHP (MHPC) gained 10% to USD 6.60 while iron ore miner Ferrexpo (FXPO) edged down by 1.9% to GBP 3.82.

In Warsaw trading, Ukrainian agro companies were broadly higher with Kernel (KER) adding 1.9% to PLN 58.10 and Agrotan (AGT) jumping by 7.0% to PLN 8.52.

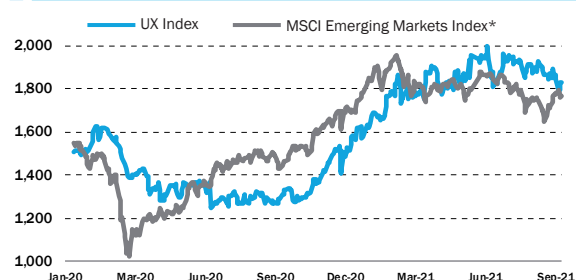
The hryvnia had a positive reaction to the NBU's rate increase, gaining 0.8% against the dollar last week to 26.68 UAH/USD. Nevertheless, we reiterate our forecast that the hryvnia will begin its seasonal devaluation pattern later this month.

## Highlights

### POLITICS AND ECONOMICS

- > CNN Reports on Failed Ukrainian Operation to Arrest Russian Mercenaries
- > Ukraine's Consumer Inflation Remains at 10.2% YoY After August Data

### STOCK MARKET PERFORMANCE

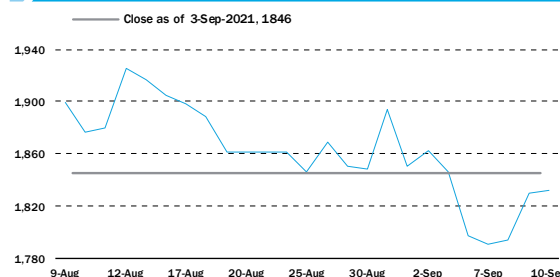


\* rebased

### MARKET INDEXES

	Last	1W ch	YTD
UX	1832	-0.8%	13.3%
RTS	1725	-0.5%	24.4%
WIG20	2364	-0.7%	18.6%
MSCI EM	1308	-0.6%	1.3%
S&P 500	4458	-1.7%	18.7%

### UX 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.5%	+0.5 p.p.	+2.5 p.p.
UAH 1-year bond	12.0%/11.0%	0.0 p.p.	+0.4 p.p.
Ukraine-2025	5.0%	0.1 p.p.	0.1 p.p.
Ukraine-2028	6.2%	0.1 p.p.	-0.1 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.68	-0.8%	-5.6%
EUR/UAH	31.61	-1.1%	-9.0%

Source: Eavex Capital

## CNN Reports on Failed Ukrainian Operation to Arrest Russian Mercenaries

by Will Ritter  
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### NEWS

US-based television news network CNN last Tuesday (Sept 7) reported details of a clandestine operation by Ukrainian intelligence services to kidnap Russian Donbass mercenary fighters in Belarus in July 2020 and fly them to Ukraine to face charges. CNN cited anonymous sources in Ukrainian military intelligence for the report, who said the Ukrainian side had set up a fake company offering highly-paid oil security jobs in Venezuela for Russians who could prove their war-fighting experience. Around 30 such Russians responded, the report said. However, the plan fell apart when, in news that was widely publicized at the time, Belarusian special forces arrested the Russians outside Minsk on charges of planning to disrupt Belarus's approaching presidential election. President Zelenskiy then demanded that Belarus President Lukashenko hand over the arrested Russians to Ukraine, but Lukashenko refused, and they were eventually returned to Russia. Following the CNN report last week, Russia's Federal Security Service issued a statement accusing Ukraine of conducting a state terrorist operation.

### COMMENTARY

The CNN report is embarrassing for the Zelenskiy administration first of all because the operation - which would surely have been approved by Zelenskiy himself - likely failed due to infiltration of Ukrainian intelligence by Russia, and second of all because three military intelligence officers apparently went to CNN with the story. Although the sources are anonymous, and a representative of Zelenskiy, Mikhaylo Podolyak, challenged the veracity of the report in comments made to US news site RFE/RL, the story sounds plausible to us, as the only real alternative is that CNN was tricked by fake Russian sources. However, we cannot say that the CNN report is really explosive news, as rumors of a Ukrainian special operation gone awry had surfaced last summer at the time of the highly publicized arrest of the mercenaries. Indeed, Zelenskiy may be fortunate that this operation was not successful, as the consequences of such a brazen move could have been quite unpredictable. What the story does reveal beyond any doubt is the cynicism of Lukashenko's public claim that the Russian mercenaries had been sent to Belarus to destabilize the country, when he surely knew the real story and was intervening on the Kremlin's behalf.

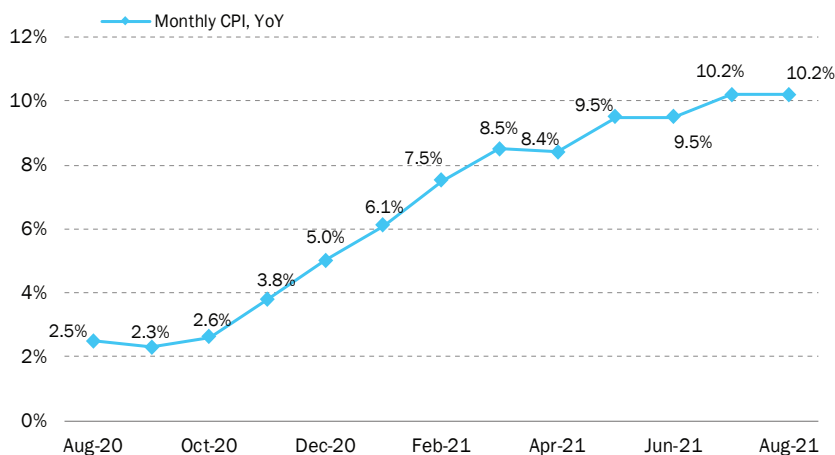
## Ukraine's Consumer Inflation Remains at 10.2% YoY After August Data

by Dmitry Churin  
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### NEWS

Ukraine's State Statistics Committee (UkrStat) said that 12-month "headline" consumer inflation remained at 10.2% for August after the same figure for July. On a monthly basis, the consumer price index edged down by 0.2% in August. UkrStat reported that food prices grew by 11.7% YoY in August, and that utility service prices jumped by 29% YoY as the natural gas price for households doubled amid skyrocketing gas prices in Europe, which reached a new historical high of USD 700 per 1,000 cubic meters. In other inflation basket categories, healthcare services went up in price by 5.5% YoY.

### UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

### COMMENTARY

As we had forecasted, the National Bank decided to increase its key policy rate from 8.0% to 8.5% last Thursday (Sept 9) in a response to accelerating inflation pressure. The key rate has risen from 6.0% to 8.5% since the start of this year. The tighter monetary policy is aimed at reining in inflation expectations and bringing price growth back toward the 5% target for 2022. Wages continue to rise at a fast pace in the country, with the rapid growth in household income supporting domestic demand. This is evidenced, among other things, by the sharp pickup in retail trade (+13% YoY in 7M21) and high demand for durable goods.

The next meeting of the NBU Board on monetary policy issues is scheduled for Oct 21. We forecast that the key rate will be put on hold at 8.5% in October. Meanwhile, we think that the Finance Ministry will be forced to increase its offered yield for 1-year UAH treasuries by 50 bps to 11.65% to raise more money on the domestic market. Separately, the National Bank admitted that it sees major risks to the economy in the potential declaration of much tighter quarantine measures in Ukraine and worldwide, and a longer and stronger-than-expected surge in global inflation.

**EAVEX RECOMMENDATIONS**

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	58.1	65.0	12%	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	6.6	11.5	74%	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	50.0	--	--	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	8.52	12.0	41%	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	382	280	-27%	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	31.5	--	--	U/R	
JKX Oil & Gas	JKX LN	36.2	36.0	-1%	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	15.0	--	--	U/R	<p>The company confirmed its strategic plan to modernize one of its power units at the Slaviansk 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	0.450	0.33	-27%	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	1832	-0.8%	13.3%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	382	-1.9%	28.8%	3122	3118	24.0%	4.9	2.8	3.6	2.2	1.4
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	19.0	2.4%	5.6%	82	55	5.0%	9.6	15.6	4.2	5.6	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	6.7	-17.3%	-18.8%	106	103	3.8%	12.6	33.8	2.0	4.9	2.0
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	255	0.0%	34.2%	518	505	3.0%	3.3	5.0	1.6	3.1	0.5
Enwell Energy (ex-Regal)	ENW	31.5	6.4%	48.6%	140	86	21.6%	46.7	15.6	3.3	2.9	1.4
JKX Oil	JKX	36.2	16.8%	20.7%	86	195	50.4%	4.3	12.3	6.6	5.7	2.3
<b>Power Utilities</b>												
Centrenergo	CEEN	9.50	0.0%	31.9%	132	129	21.7%	58.0	33	7.7	8.0	0.2
Donbasenergo	DOEN	15.00	3.4%	-25.0%	13	12	14.2%	12.3	4.8	1.4	1.5	0.0
<b>Consumer</b>												
MHP	MHPC	6.60	10.0%	9.6%	697	2012	32.5%	neg	6.3	5.9	7.5	0.9
Kernel	KER	58.10	1.9%	17.8%	1,202	2219	61.8%	10.2	3.2	5.0	3.1	0.5
Astarta	AST	50.00	0.4%	90.8%	325	499	37.0%	39.3	30.9	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	8.52	7.0%	94.5%	48	23	25.0%	4.1	3.7	0.7	0.8	0.3
<b>Banks</b>												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.450	3.0%	9.8%	1,037		1.8%	6.9	8.2	2.3	2.4	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	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

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