

## Stock Market Update

### Equity

Among Ukrainian equities last week, the most notable movement was in London-listed natural gas producers JKX Oil&Gas (JKX) and Enwell Energy (formerly Regal Petroleum). Both stocks have been rallying along with the spike in natural gas prices in Europe, which briefly touched an incredible peak of USD 980 per 1,000 cubic meters on the futures market before settling back to a still extremely high level near USD 800. Natural gas prices have more than doubled off their April lows, driven by a number of factors including extremely tight gas storage levels in Europe. The JKX stock gained 10.5% to GBP 40 on the nose and the ENW stock surged by 14.3% last week to GBP 36 per share. In other commodity related names, Ferrexpo (FXPO) slumped by 16% to GBP 321 as the iron ore benchmark price dropped further to USD 120 per tonne amid fears of a possible slowdown in demand in China.

Agro sector stocks were on the rise. MHP (MHPC) advanced by 6.4% to USD 7.02 after the company posted a record high net profit for 2Q21 which translated into earnings per share of USD 2.09. On the Warsaw Stock Exchange, Kernel (KER) grew by 9.0% to PLN 63.30 per share.

In Kyiv-listed stocks there was a decline in the major blue chips. As a result, the UX index shed 1.2% to 1811 points. UkrNafta (UNAF) dropped by 3.9% to UAH 245 and Raiffeisen Bank Aval (BAVL) corrected by 2.2% to 44.00 kopecks. TurboAtom (TATM) fell 7.5% to UAH 6.20 with a possible further drop to as low as UAH 1.95 per share, the level of valuation that was artificially indicated by the State Property Fund in August. Quotes for CentrEnergy (CEEN) remained unchanged at UAH 9.50.

## Highlights

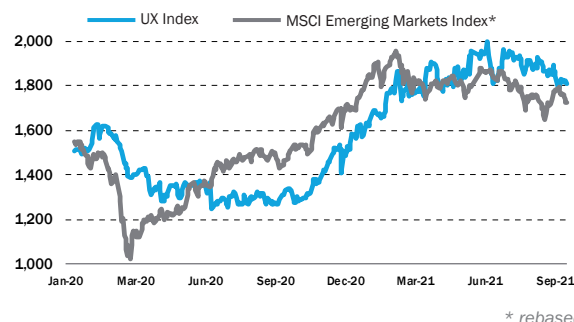
### POLITICS AND ECONOMICS

- > Ukraine's Draft 2022 Budget Has Deficit of 3.5% of GDP, Down From 5.1% in 2021

### STOCKS IN THE NEWS

- > MHP Impresses by Doubling Net Profit to USD 231mn in 2Q21

## STOCK MARKET PERFORMANCE

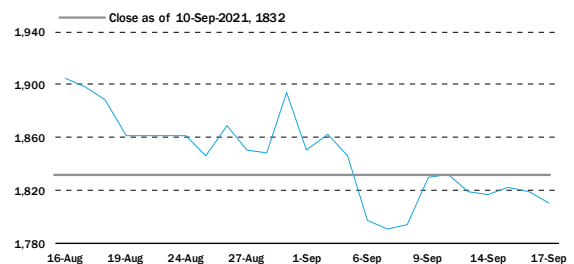


\* rebased

## MARKET INDEXES

	Last	1W ch	YTD
UX	1811	-1.2%	12.0%
RTS	1745	1.2%	25.8%
WIG20	2333	-1.3%	17.0%
MSCI EM	1277	-2.4%	-1.1%
S&P 500	4432	-0.6%	18.0%

## UX 1M PERFORMANCE



## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.5%	0.0 p.p.	+2.5 p.p.
UAH 1-year bond	12.0%/11.5%	+0.2 p.p.	+0.6 p.p.
Ukraine-2025	4.7%	-0.3 p.p.	-0.2 p.p.
Ukraine-2028	6.1%	-0.1 p.p.	-0.2 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.68	0.0%	-5.6%
EUR/UAH	31.37	-0.8%	-9.7%

Source: Eavex Capital

## Ukraine's Draft 2022 Budget Has Deficit of 3.5% of GDP, Down From 5.1% in 2021

by Dmitry Churin  
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### NEWS

Ukraine's Finance Ministry has prepared a draft national budget for 2022 with a deficit of 3.5% of GDP, compared to the deficit of 5.1% expected this year. The government forecasted an average exchange rate of 28.60 UAH/USD for 2022, according to a document submitted to Parliament last week. Parliament is scheduled to vote on it in the first reading on Oct 20. The bill must be approved by Dec 1.

In absolute figures, the budget deficit is targeted at UAH 188bn (USD 6.5bn). The Finance Ministry forecasts Ukraine's 2022 nominal GDP at UAH 5.37 trillion (USD 188bn).

The main parameters of the draft budget are the following:

- forecasted GDP growth of 3.8% YoY;
- nominal GDP of UAH 5.37tn (USD 188bn);
- total budget income of UAH 1.27tn (USD 44bn);
- total budget expenses of UAH 1.44tn (USD 50bn);
- forecasted consumer inflation (full year) of 6.2%;
- a public + guaranteed debt ceiling at 58% of GDP.

According to the draft budget, the largest expenditures in 2022 will be allocated to the following areas: security and defense USD 11bn; pensions USD 7.4bn; healthcare USD 7bn; education USD 6.9bn; road infrastructure USD 4.6bn. On the budget income side, value-added taxes (VAT) are expected to bring in a total of USD 21bn. In 2022, Ukraine also expects to receive more revenue from income taxes, which should bring in an equivalent of about USD 5bn.

### COMMENTARY

In our view, the proposed draft budget looks overly optimistic, as it is hard to believe that Ukraine can restrain inflation to 6.2% next year from the current level of 10.2% YoY registered in August. Although the projected GDP growth of 3.8% sounds adequate, it is difficult to point out what will be the real growth drivers, with the obvious exception of robust consumer sentiments that have been driving retail sales and imports; industrial production and exports have consistently lagged.

It is worth noting that Ukraine is experiencing a solid increase in the nominal GDP, which is expected to reach an equivalent of USD 175bn this year.

Unfortunately, a major factor of higher nominal GDP is inflation. However, the larger GDP figure provides more confidence in the country's ability to service its debt, which in relative terms amounts to 53% of GDP. This level of debt is widely considered as a manageable one. In absolute figures, Ukraine's state and guaranteed debt was at USD 93bn as of Jul 31. The UAH-denominated state debt represented 37% of the total debt at the reported date.

Ukraine has to pay a total of UAH 575bn (USD 20bn) for servicing and redemption of outstanding debt next year. The figure represents an 8.7% YoY decrease in hryvnia terms. The government plans placements of a total amount of UAH 420bn in new UAH-denominated bonds, along with a surprisingly modest target of USD 1.5bn in Eurobond issues in 2022. Expected proceeds from the IMF and other international donors are estimated at USD 2.9bn in 2022.

## MHP Impresses by Doubling Net Profit to USD 231mn in 2Q21

by Dmitry Churin  
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### MHP (MHPC LI)

Price: USD 7,02 Market Cap: USD 778mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.7	1.1	neg	6.1	4.0%
2021E	0.6	1.0	3.2	5.4	4.0%

## NEWS

Central-Ukraine-based, London-listed agro group MHP doubled its net profit year-on-year to USD 231mn in the second quarter, and also boosted its EBITDA by 2.2x YoY to USD 277mn, according interim financial statements released earlier this month. Revenue was up by 28% YoY to USD 542mn in 2Q21, as the company's average poultry price jumped by 31% YoY in the period. For the first half (1H21), MHP posted net revenue of USD 989mn (+14% YoY), EBITDA of USD 334mn (+55% YoY), and a net profit of USD 232mn, compared to a net loss of USD 62mn for 1H20. The company's export sales grew by 11% YoY to USD 502mn in 1H21, accounting for 57% of total revenue in the period compared to a share of 52% a year ago.

On the balance sheet side, MHP's total debt was USD 1.45bn as of 30 Jun 2021, with long-term debt representing 99% of the amount. This puts MHP's Net Debt-to-EBITDA ratio at 2.8x as of 30 Jun 2021, down from 3.7x as of 30 Jun 2020.

### MHP FINANCIALS

USD mn	2Q20	2Q21	chg.	1H20	1H21	chg.
Net revenue	425	542	+28%	867	989	+14%
EBITDA	126	277	+120%	216	334	+55%
margin	29.6%	51.1%	+21.5 p.p.	24.9%	33.8%	+8.9 p.p.
Net Income	112	231	+106%	-62	232	-/+
net margin	26.4%	42.6%	+16.3 p.p.	-7.2%	23.5%	+30.6 p.p.

Source: Company data.

## COMMENTARY

MHP's much better than expected net profit for 1H21 implied earnings per share of USD 2.09. Although part of the profit came from a non-cash foreign exchange gain of USD 51mn in the period, the company's EBITDA margin of 34% proved its ability to deliver an outstanding financial performance on the back of its vertical integration. We conclude that in the current environment of global food price inflation, MHP was well prepared to increase its profitability across its entire value chain, from harvesting crops to selling ready-to-cook poultry. MHP's sales volume increased by 2% YoY to 336,000 tonnes in 1H21. However, from the accounting point of view, MHP's major boost in profitability came from the grain growing segment, which contributed USD 161mn on the EBITDA level in 1H21 due to rallying soft commodity prices on the global market.

Indeed, this release is the best news from MHP in more than two years, as politics-related concerns about the company's ability to navigate the Zelenskiy presidency, as well as worries about the persistently high debt burden, have weighed on the MHPC share price. Taking the 1H21 report into consideration, we are revising our forecast for the company's full-year net profit from USD 110mn to USD 240mn (EPS of USD 2.17). We note that a possible devaluation of the hryvnia or a correction in grain prices represent risks for MHP's profitability in 2H21.

MHP's Net Debt/EBITDA ratio of 2.8x met the ceiling of 3.0x embedded in MHP's Eurobonds after a lengthy period during which the company was in violation of the non-binding covenant.

The London-listed MHPC stock reacted positively to the 2Q21 results, gaining 10% to USD 7.00, a level for the stock that has not been registered since early 2020. MHP-2029 Eurobonds are traded at 102.8 (5.8% YtM), which essentially places them on the Ukrainian sovereign yield curve.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	63.3	65.0	3%	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	7.0	11.5	64%	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	50.6	--	--	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	8.52	12.0	41%	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	321	280	-13%	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	245	350	43%	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	36.0	--	--	U/R	
JKX Oil & Gas	JKX LN	40.0	36.0	-10%	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>						
DonbasEnergo	DOEN	14.5	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergo	CEEN	9.50	--	--	U/R	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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.440	0.33	-25%	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	1811	-1.2%	12.0%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	321	-16.1%	8.1%	2621	2617	24.0%	4.1	2.4	3.0	1.8	1.1
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	19.0	0.0%	5.6%	82	55	5.0%	9.6	15.6	4.2	5.6	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	6.2	-7.5%	-24.8%	98	95	3.8%	11.7	31.3	1.8	4.5	1.8
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	245	-3.9%	28.9%	498	485	3.0%	3.1	4.8	1.5	3.0	0.5
Enwell Energy (ex-Regal)	ENW	36.0	14.3%	69.8%	160	106	21.6%	53.4	17.8	4.1	3.5	1.7
JKX Oil	JKX	40.0	10.5%	33.3%	95	204	50.4%	4.8	13.6	6.9	6.0	2.4
<b>Power Utilities</b>												
Centrenergy	CEEN	9.50	0.0%	31.9%	132	129	21.7%	58.0	33	7.7	8.0	0.2
Donbasenergo	DOEN	14.50	-3.3%	-27.5%	13	12	14.2%	11.9	4.6	1.4	1.5	0.0
<b>Consumer</b>												
MHP	MHPC	7.02	6.4%	16.6%	742	2033	32.5%	neg	3.1	6.0	5.3	0.9
Kernel	KER	63.30	9.0%	28.4%	1,290	2307	61.8%	10.9	3.5	5.2	3.2	0.5
Astarta	AST	50.60	1.2%	93.1%	324	498	37.0%	39.2	30.8	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	0.0%	94.5%	47	22	25.0%	4.0	3.7	0.7	0.7	0.3
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.440	-2.2%	7.3%	1,014		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	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	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%
<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	385	18.3%	17.8%	18.0%	215	-133	240	10.5%	-7.0%	11.2%
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)	Coupon Period	Maturity Date	Volume UAH mn
<b>UAH denominated Bonds</b>							
UA4000203236			10.7%	9.7%	S/A	05 Jan 2022	10,887
UA4000204002	103.5	103.8	11.5%	11.0%	S/A	11 May 2022	12,917
UA4000218325	99.6	99.9	12.0%	11.6%	S/A	20 Jul 2022	13,415
UA4000199210	103.2	103.6	12.0%	11.6%	S/A	12 Oct 2022	14,993
UA4000201255	105.0	105.9	13.0%	12.3%	S/A	24 May 2023	6,470
UA4000207880	93.3	94.8	13.5%	12.7%	S/A	22 May 2024	18,105
UA4000204150	106.9	108.9	13.7%	13.0%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	91.6	13.8%	12.2%	S/A	20 May 2027	7,018
<b>USD denominated Bonds</b>							
UA4000218333	99.9	100.4	3.8%	3.2%	S/A	14 Jul 2022	USD 336mn

Source: TR Data, Eavex Research

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