

## Stock Market Update

### Equity

Quotes for major Kyiv-listed stocks rebounded last week, leading to the UX index's gain of 3.3% to 1840 points. Oil & gas producer UkrNafta (UNAF) advanced by 9.5% to UAH 263 per share after natural gas prices hit new records in Europe, touching all-time highs of USD 1200 per 1,000 cubic meters on the futures market, a stunning leap of around 5x for the year. Demand for gas has soared amid low inventories and competition for supplies from Asian buyers. China is seeking more liquefied natural gas (LNG) cargoes as its own winter season starts. Other Ukrainian based natural gas producers were also on the rise, with London-listed Enwell Energy (former Regal) adding 6.7% to GBp 38.80 and JXX Oil&Gas (JXX) jumping by 9.4% to GBp 49.00 per share. Meanwhile, the country's state gas pipeline operator UkrTransGaz said that there are sufficient gas stocks in its underground storage facilities to ensure a stable 2021-2022 heating season. As of Oct 1, Ukraine has accumulated 18.7bn cubic meters of gas (cu-m) in underground storage facilities. For comparison, at the beginning of the heating seasons from 2011 to 2019, the average injection level of gas storage facilities was 17.9bn cu-m, while the minimum level was at 14.5bn cu-m in 2016.

Among other Kyiv-listed equities, CentrEnergo (CEEN) edged up by 0.6% to UAH 9.30 while Raiffeisen Bank Aval (BAVL) slipped by 2.3% to 43.00 kopecks.

In Warsaw trading, Kernel (KER) inched down by 0.3% to PLN 60.00 ahead of the company's earnings report for full-year 2021 (which ended in June). Small-cap Agroton (AGT) fell 4.8% to PLN 7.50.

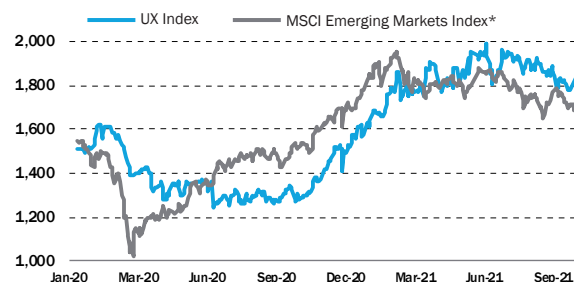
On the interbank currency market, the hryvnia surprisingly gained by 0.4% against the dollar to close at 26.63 UAH/USD. We assume that solid grain exports this season are helping the country to increase foreign currency inflows.

## Highlights

### POLITICS AND ECONOMICS

- > Razumkov Set to be Fired as Parliament Speaker This Week
- > MinFin Needs to Raise USD 20bn to Cover Budget Gap in 2022

### STOCK MARKET PERFORMANCE

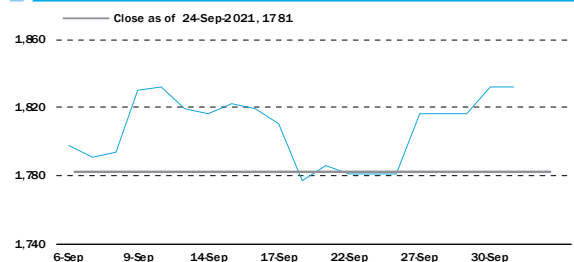


\* rebased

### MARKET INDEXES

	Last	1W ch	YTD
UX	1840	3.3%	13.8%
RTS	1762	0.9%	27.0%
WIG20	2328	1.3%	16.8%
MSCI EM	1253	-1.5%	-2.9%
S&P 500	4357	-2.2%	16.0%

### 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%	0.0 p.p.	+0.6 p.p.
Ukraine-2025	5.5%	0.5 p.p.	0.6 p.p.
Ukraine-2028	6.9%	0.4 p.p.	0.6 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.63	-0.4%	-5.8%
EUR/UAH	30.89	-1.3%	-11.1%

Source: Eavex Capital

## Razumkov Set to be Fired as Parliament Speaker This Week

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

### NEWS

Dmitry Razumkov, the Speaker of Ukraine's Verkhovna Rada (Parliament), will likely be removed from his post by the majority People's Servant party this week, domestic media have reported in recent days. The procedures to remove Razumkov are expected to be initiated today (Oct 4). The Speaker came under fire from the administration of President Zelenskiy in September for delaying the passage of Zelenskiy's so-called oligarch law, which restricts the political activity of individuals with high net worth above USD 80mn. Razumkov sent the draft law to be reviewed by the Venice Commission, where it is likely to receive criticism related to rights of political freedom. At a meeting of People's Servant MPs held at a resort in Western Ukraine this weekend, Zelenskiy said that Razumkov "is no longer a member of the team... [People's Servant] MPs have a million questions to him". The likely successor to Razumkov is reported to be current Deputy Speaker Ruslan Stefanchuk.

### COMMENTARY

It always looked quite strange that Razumkov, only 37, was able to rise to what is officially the second-highest government position in Ukraine with very little experience in politics or name recognition. Razumkov's main qualification was that he ran a consulting firm which advised Zelenskiy's candidacy in the 2019 election, after which Zelenskiy placed him at the head of the newly-created Servant of the People party. However, reports of Zelenskiy and Razumkov not being on the same page began to emerge as early as the autumn of 2020, and the situation with the oligarch law, a key piece of Zelenskiy's reform agenda, was apparently the final straw. In our view, Razumkov needed to either have his own political base or be extremely loyal to Zelenskiy in order to hold onto the Parliament speaker post, but since neither was the case, his time in the job was always likely to be relatively brief. We doubt that Razumkov could become a serious competitor to Zelenskiy in the next presidential election, although he may well end up cooperating with other factions in Parliament and thus take on the role of a rather tricky opposition figure, given his first-hand knowledge of the Zelenskiy political operation.

## MinFin Needs to Raise USD 20bn to Cover Budget Gap in 2022

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

### NEWS

Ukraine's Finance Ministry presented its plan last week for covering UAH 553bn (USD 21bn at the current exchange rate) in national budget financing for 2022 in addition to expected tax revenue. According to the presentation, the government has the following financial needs next year:

- domestic debt repayments of UAH 321bn (an equivalent of USD 12bn);
- external debt repayments of USD 2.7bn;
- a national budget general fund deficit of UAH 160bn (USD 6.0bn).

The Finance Ministry stated that it can raise UAH 420bn (USD 15.8bn) of domestic debt through government bond placements and USD 4.7bn on the international market. There is also a plan to attract USD 300mn through privatization in 2022.

### COMMENTARY

The unveiled figures imply that the Finance Ministry will need to place an average of UAH 8.1bn (USD 300mn) at the weekly domestic bond auctions in 2022. In September, the weekly auctions brought in an average of just UAH 3.6bn. In our opinion, the government will be forced to offer a higher yield for the UAH-denominated bonds to attract more proceeds from the placements. On the other hand, MinFin is counting on large demand for domestic treasuries from the big state-owned banks, which will use funds from the redemption of the outstanding treasuries for purchasing new issues. The yield for UAH-denominated bonds maturing in May 2027 was set at 13.04% at the auction held on Sept 28. For the 1-year bond, the offered yield was at 11.50%. We assume that the government will increase the offered yield for the 5-year UAH-denominated bond to 14.25% and for the 1-year bond to 12.3% in the coming months. Taking into account that Ukrainian banks have only a few financial instruments in which to invest their hryvnias, UAH-denominated bonds remain the primary instrument for their securities portfolios. Currently there is UAH 985mn (USD 37bn) of outstanding government bonds. Ukrainian banks are the largest holders of these bonds with a share of 51%. The National Bank holds UAH 312bn (32%) of the government bonds, while non-resident investors hold UAH 98bn (10%), and the balance of 7% is held by domestic corporations and private investors. At the current interest rates and amid exchange rate stability, Ukrainian government UAH-denominated bonds continue to offer a solid real interest rate in the environment of the negative real interest rates in developed markets.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	60.0	65.0	8%	HOLD	<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	7.2	11.5	59%	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	49.4	--	--	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	7.50	12.0	60%	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	310	280	-10%	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	263	350	33%	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	38.8	--	--	U/R	
JKX Oil & Gas	JKX LN	49.0	--	--	U/R	<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 Slavyansk plant by 2022.</p>
CenterEnergo	CEEN	9.30	--	--	U/R	<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	0.430	0.33	-23%	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
			1W	YtD				2020	2021E	2020	2021E	2021E
UX Index	UX	1840	3.3%	13.8%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	310	-2.3%	4.4%	2474	2470	24.0%	3.9	2.2	2.9	1.7	1.1
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	22.0	2.3%	22.2%	95	68	5.0%	11.1	18.1	5.2	6.9	0.4
<b>Specialized Machinery</b>												
Turboatom	TATM	6.5	10.2%	-21.2%	103	100	3.8%	12.3	32.9	1.9	4.7	1.9
Motor Sich	MSICH	5390	0.0%	0.0%	421	398	24.0%	13.3	18.0	3.9	4.4	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	263	9.5%	38.4%	536	522	3.0%	3.4	5.2	1.6	3.2	0.5
Enwell Energy (ex-Regal)	ENW	38.8	6.7%	82.8%	168	114	21.6%	56.1	18.7	4.4	3.8	1.8
JKX Oil	JKX	49.0	9.4%	63.3%	114	222	50.4%	5.7	16.3	7.5	6.5	2.6
<b>Power Utilities</b>												
Centrenergo	CEEN	9.30	0.6%	29.2%	129	126	21.7%	56.9	33	7.6	7.9	0.2
Donbasenergo	DOEN	15.00	15.4%	-25.0%	13	12	14.2%	12.3	4.8	1.4	1.5	0.0
<b>Consumer</b>												
MHP	MHPC	7.22	3.7%	19.9%	763	2054	32.5%	neg	3.2	6.0	5.3	1.0
Kernel	KER	60.00	-0.3%	21.7%	1,210	2227	61.8%	10.3	3.3	5.0	3.1	0.5
Astarta	AST	49.40	4.4%	88.5%	313	487	37.0%	37.9	29.8	4.0	3.6	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	7.50	-4.8%	71.2%	41	16	25.0%	3.5	3.2	0.5	0.5	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.430	-2.3%	4.9%	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	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>																
Centrenergy	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

## 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**

### **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)

### **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)

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