

Stock Market Update

Equity

Quotes for equities on the Ukrainian Exchange finished lower last week, with the UX index declining by 2.2% to 1802 points. The shaky situation on the energy market triggered fears regarding the ability of Ukraine's real sector to bear the extremely high natural gas prices expected this winter season. The Zelenskiy administration is reportedly considering administrative intervention in the energy market to push private natural gas producers to sell their gas at a discount. UkrNafta (UNAF), one of the largest oil&gas extractors in the country, reacted negatively to this rumor, slipping by 2.6% to UAH 258. The majority-state owned CentrEnerg (CEEN) dropped by 5.4% last week to UAH 8.70 and Raiffeisen Bank Aval (BAVL) was flat at 45.00 kopecks per share.

On the London Stock Exchange, JX (Oil&Gas) added 4.7% to GBp 50.80 after the company published its operational update for 3Q21 indicating its strong net cash position and plans to drill two new gas wells in Ukraine. Enwell Energy (former Regal) remained at GBp 40.00. Ferrexpo (FXPO) climbed by 2.6% to GBp 318 and MHP (MHPC) advanced by 6.9% to USD 8.10 per share.

In Warsaw trading, Kernel (KER) corrected by 2.0% to PLN 62.50 and Agroton (AGT) shed 3.9% to PLN 7.98.

The hryvnia was little-changed over the short business week in the country, as markets were closed on Oct 14-15 (Thu-Fri) for the Defenders' Day holiday. The hryvnia inched down by 1 kopeck to 26.39 UAH/USD.

On the macroeconomic front, the IMF downgraded Ukraine's GDP growth forecast for 2021 from 4.0% to 3.5%, but bumped up expectations for the growth in 2022 to 3.6% from 3.4%. We think that the IMF forecast for 2022 could be viewed as the base case scenario, leaving the large room for the more optimistic scenario with GDP growth of 5% YoY in 2022 in case the manufacturing sector is able to deliver a more solid recovery next year compared to what we have been witnessing so far this year.

Highlights

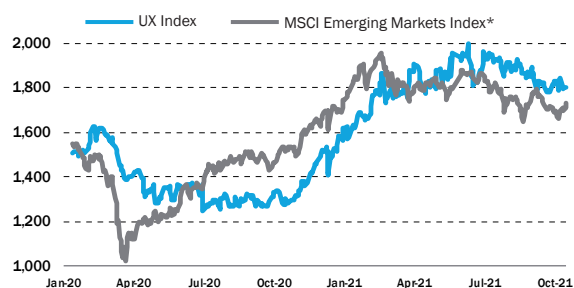
POLITICS AND ECONOMICS

- > COVID 4th Wave in Full Swing in Ukraine as New Restrictions Loom

STOCKS IN THE NEWS

- > JX Reports Gas Pricing of USD 430/Cu-M in Ukraine for 3Q21

STOCK MARKET PERFORMANCE

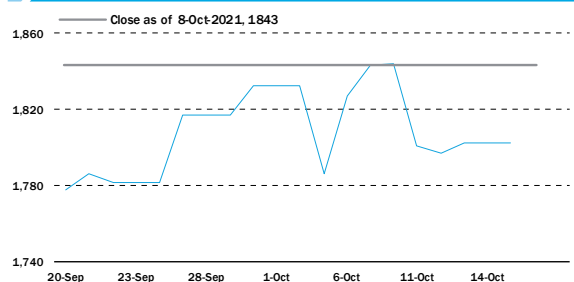


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1802	-2.2%	11.4%
RTS	1875	0.8%	35.2%
WIG20	2468	2.4%	23.8%
MSCI EM	1283	2.1%	-0.6%
S&P 500	4471	1.8%	19.0%

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	12.2%/11.3%	0.0 p.p.	+0.6 p.p.
Ukraine-2025	5.3%	-0.2 p.p.	0.4 p.p.
Ukraine-2028	6.5%	-0.3 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.39	0.0%	-6.7%
EUR/UAH	30.56	0.2%	-12.0%

Source: Eavex Capital

COVID 4th Wave in Full Swing in Ukraine as New Restrictions Loom

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NEWS

Ukraine had 2,140 deaths that were blamed on the COVID-19 virus during the past week (Oct 11-17), domestic media reported. rivaling the highest point of the pandemic in the country, which was registered in April of this year. Nationwide, reported new COVID cases averaged about 15,000 per day last week, also slightly below the April peak. In the western city of Lviv, new quarantine restrictions were announced that closed schools until at least Nov 1 and limited mass gatherings to those with proof of vaccination or negative tests. The worst situation, however, is currently in Ukraine's southeast, where Donetsk, Dnipro, Zaporizhia, Odessa, and Kherson provinces have all been declared "COVID red zones", resulting in the forced closure of restaurants and many public businesses.

COMMENTARY

Ukraine's reported overall mortality from COVID is currently near 1,400 per 1 million population, which puts it in notably better condition than most European countries in terms of this metric. However, given Ukraine's low vaccination rate compared to the EU, this gap is beginning to close, as COVID fatalities in Western European nations are now becoming increasingly rare. The Health Ministry reports that some 14.4mn vaccine doses have been administered in Ukraine, which (assuming 2 doses are needed for "full vaccination") corresponds to a national vaccination rate of only about 16%, compared to 50-70% in EU countries. Given that around half of Ukrainians stated that they are unwilling to take a vaccine in a recent survey, we believe that the vaccination rate is unlikely to rise quickly, despite some mandates which have been put in place by the Zelenskiy administration for schoolteachers and healthcare workers. The cheap availability of fake vaccine certificates is also a barrier to a higher real vaccination rate, and there are rumors that health authorities have been including regular influenza cases in the COVID case count amid the start of the normal autumn flu season, thus pushing up the official numbers. We believe that due to the widespread distrust of the vaccines (and government in general) in Ukraine and the unpopularity of mandates, the Zelenskiy administration's hands are tied, and Ukraine will simply have to ride out the current COVID wave using various national and local quarantine restrictions. This is unfortunately quite an unnerving proposition, given that it is unclear how high the current infection peak might rise as Ukraine heads into the most risky part of the year in terms of transmissible diseases.

JKX Reports Gas Pricing of USD 430/Cu-M in Ukraine for 3Q21

by Dmitry Churin
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JKX OIL&GAS (JKX LN)

Price: GBp 50.80 Market Cap: USD 120mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.7	1.0	6.0	2.3	0%
2021E	0.6	0.7	4.3	1.3	0%

NEWS

London-listed JKX Oil&Gas said that its average natural gas achieved pricing in 3Q21 surged by 72% QoQ in Ukraine to USD 431 per 1,000 cubic meters, according to an operational update that the company released on Oct 13. Year-to-date through September, JKX's average gas selling price in Ukraine jumped by 2.5x YoY to USD 305 per 1,000 cubic meters. Meanwhile, the company's subsidiary in Russia (where domestic price controls are in place) raised the average natural gas selling price by only 6% YoY in 9M21 to just USD 56 per 1,000 cubic meters. JKX had a daily average natural gas and condensate extraction of some 4,100 boepd (-17% YoY) in Ukraine in 9M21 and output of some 4,900 boepd (-9% YoY) in Russia in 9M21.

JKX PRODUCTION UPDATE

	9M2020	9M2021	change YoY
Total Production (boepd)	10,378	9,026	-13%
Ukraine (boepd)	5,016	4,150	-17%
average gas price, USD per 1,000 cu-m	123	305	+148%
Russia (boepd)	5,362	4,876	-9%
average gas price, USD per 1,000 cu-m	53	56	+6%

Source: Company data

COMMENTARY

JKX has been enjoying the skyrocketing price for natural gas this year, which should definitely translate into solid profits for the period despite lower production volumes. The company's net profit jumped by 6.5x YoY to USD 9.9mn in 1H21. We forecast that JKX will earn USD 28mn in net profit in full-year 2021, implying that the JKX stock's forward P/E now stands at 4.3x.

Separately, JKX announced its intention to sell its Russian operating subsidiary YuzhGasEnergie LLC, in order to fully focus on developing projects in Ukraine, where gas extraction is more profitable. We believe that this intention to get rid of the Russian asset is justified, as this subsidiary brings a much lower return on investments.

Although JKX's fundamentals look excellent right now due to the high natural gas price, there are certain political risks on the table in Ukraine, as the Zelenskiy administration is reportedly considering measures to regulate natgas prices to head off anger over high household heating prices this winter season.

Eavex Capital assigns a HOLD recommendation to the JKX stock with a target price of GBp 62 per share, implying an upside of 22%. The JKX stock has gained 70% this year amid natgas spot prices that have risen by as much as 300% in some markets.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	62.5	83.0	33%	BUY	Kernel Holding, Ukraine's largest sunflower oil producer and grain trader, doubled its EBITDA for full-year 2021 (the company's financial year runs from July to June) to USD 929mn, implying the EBITDA margin of 16.5% compared to 10.8% a year ago. Kernel's revenue rose 37% YoY to USD 5.65bn and net profit surged by 4.3x YoY to a record high of USD 513mn in the full year. The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. We have a BUY recommendation for Kernel with a target price of PLN 83.00 per share based on the group's expanded business operations, which have yet to be reflected in the share price.
MHP	MHPC LI	8.1	11.5	42%	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 12% YoY to USD 2.14bn this year and to earn a net profit of USD 240mn as poultry prices bounce back.
Astarta	AST PW	52.1	--	--	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	7.98	12.0	50%	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.
Iron Ore						
Ferrexpo	FXPO LN	318	280	-12%	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.
Specialized Machinery						
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.
Oil & Gas						
UkrNafta	UNAF	258	350	36%	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	40.0	--	--	U/R	
JKX Oil & Gas	JKX LN	50.8	62.0	22%	HOLD	Although JKX's fundamentals look excellent right now due to the high natural gas price, there are certain political risks on the table in Ukraine, as the Zelenskiy administration is reportedly considering measures to regulate natgas prices to head off anger over high household heating prices this winter season.
Power Utilities						
DonbasEnerg	DOEN	14.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	8.70	--	--	U/R	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.
Banks						
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 2021E
			1W	YtD				2020	2021E	2020	2021E	
UX Index	UX	1802	-2.2%	11.4%								
Iron Ore Mining												
Ferrexpo	FXPO	318	2.6%	7.1%	2574	2570	24.0%	4.1	2.3	3.0	1.8	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	22.0	0.0%	22.2%	96	69	5.0%	11.2	18.3	5.3	7.0	0.4
Specialized Machinery												
Turboatom	TATM	6.5	0.0%	-21.2%	104	101	3.8%	12.4	33.2	2.0	4.8	1.9
Motor Sich	MSICH	5390	0.0%	0.0%	424	402	24.0%	13.5	18.2	3.9	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	258	-2.6%	35.8%	530	517	3.0%	3.3	5.1	1.6	3.2	0.5
Enwell Energy (ex-Regal)	ENW	40.0	0.0%	88.7%	176	122	21.6%	58.8	19.6	4.7	4.1	2.0
JKX Oil	JKX	50.8	4.7%	69.3%	120	228	50.4%	6.0	4.3	7.7	4.2	2.4
Power Utilities												
Centrenergo	CEEN	8.70	-5.4%	20.8%	122	119	21.7%	53.7	31	7.1	7.4	0.2
Donbasenergo	DOEN	14.00	0.0%	-30.0%	13	11	14.2%	11.6	4.5	1.3	1.4	0.0
Consumer												
MHP	MHPC	8.10	6.9%	34.6%	856	2147	32.5%	neg	3.6	6.3	5.6	1.0
Kernel	KER	62.50	-2.0%	26.8%	1,267	2103	61.8%	10.7	2.5	4.7	2.3	0.4
Astarta	AST	52.10	-3.5%	98.9%	331	506	37.0%	40.1	31.6	4.2	3.7	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	7.98	-3.9%	82.2%	44	19	25.0%	3.7	3.4	0.6	0.6	0.3
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.450	0.0%	9.8%	1,049		1.8%	6.9	8.3	2.3	2.4	0.27

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	95	42	30	54	41.6%	42.6%	56.8%	22	20	28	21.8%	28.6%	29.5%
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	385	18.3%	17.8%	18.0%	215	-133	240	10.5%	-7.0%	11.2%
Kernel (FY19, FY20, FY21)	KER	3960	4107	5647	346	443	929	8.7%	10.8%	16.5%	189	118	513	4.8%	2.9%	9.1%
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)	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds							
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	100.1	12.1%	11.2%	S/A	20 Jul 2022	13,415
UA4000199210	102.8	103.7	12.2%	11.3%	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	107.2	109.6	13.6%	12.7%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	89.5	13.8%	12.8%	S/A	20 May 2027	7,018
USD denominated Bonds							
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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