

Stock Market Update

Equity

Equities listed in Kyiv ended mostly lower last week, leading to the UX index's decline of 2.8% to 1752 points. The gauge is still up by 8.3% since the start of the 2021, outperforming the broad MSCI Emerging Market index, which is essentially flat (+0.2%) this year. On the other hand, developed market indexes remain strong, surging by firm double digits, as stocks tend to be preferred investments in a high inflation environment. In Ukraine, the National Bank decided to keep its key monetary policy rate unchanged at 8.5%, as the regulator sees an optimistic scenario that inflation in the country could slow to 9.6% YoY from 11.0% YoY registered for September. We doubt that consumer inflation will slow its pace by the year-end, as galloping energy prices should translate into price increases across all inflation basket components.

Quotes for CentrEnergO slumped by 13.8% last week to UAH 7.50 ahead of the company's 3Q financial results, which are expected to be disastrous; higher coal costs have not been reflected in the price for electricity that CentrEnergO had sold previously under forward contracts. UkrNafta (UNAF) decreased by 2.3% to UAH 252 per share while Raiffeisen Bank Aval (BAVL) was unchanged at 45.00 kopecks. Outside the UX basket, Krukiv Wagon gained 4.5% to UAH 23.00.

London-listed poultry giant MHP (MHPC) inched down by 0.2% to USD 8.08 after the company reported a 5% YoY decrease in poultry volume sales in 3Q21. JKK Oil&Gas (JKX) sold off by 13.4% to GBP 44.00 under the risk that the Ukrainian government might impose a price cap for natural gas produced by private companies to stabilize skyrocketing energy tariffs for households.

On the Warsaw Stock Exchange, Kernel (KER) shed 0.5% over the week to PLN 62.20 after the company released a mixed operational update for the Jul-Sept quarter.

On the currency market, the hryvnia was once again surprisingly firm, gaining 0.3% to 26.30 UAH/USD. The Ukrainian currency has strengthened by 7.0% so far this year as the record high grain harvest combined with the global rally in soft commodities have been improving the country's trade balance.

Highlights

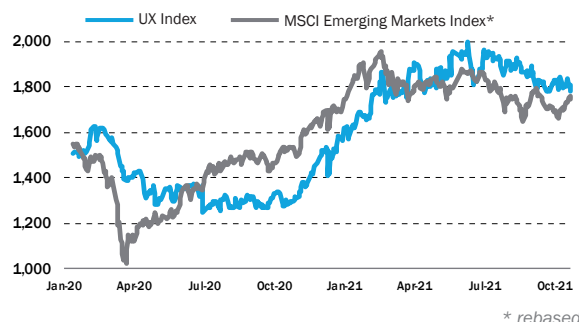
POLITICS AND ECONOMICS

- Ukraine Hits New COVID Peak as Gov't Downgrades 2021 GDP Growth

STOCKS IN THE NEWS

- Kernel's Oilseed Processing Down Sharply in Jul-Sept Quarter

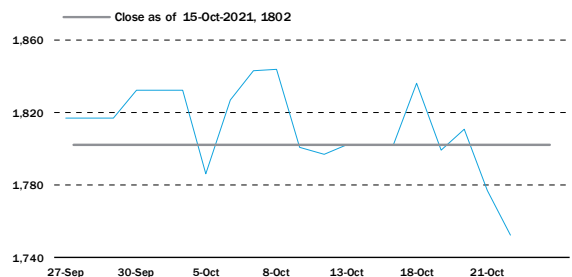
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1752	-2.8%	8.3%
RTS	1877	0.1%	35.3%
WIG20	2417	-2.1%	21.2%
MSCI EM	1293	0.8%	0.2%
S&P 500	4544	1.6%	21.0%

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	12.5%/11.7%	+0.2 p.p.	+0.9 p.p.
Ukraine-2025	5.5%	0.2 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	26.30	-0.3%	-7.0%
EUR/UAH	30.62	0.2%	-11.9%

Source: Eavex Capital

Ukraine Hits New COVID Peak as Gov't Downgrades 2021 GDP Growth

by Will Ritter
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NEWS

Ukrainian COVID-19 official statistics reached a new peak last week, surpassing the levels seen during the March/April wave, according to Health Ministry data. COVID new case numbers above 23,000 and fatalities above 500 were registered on Thursday and Friday, before dropping back somewhat on the weekend, which is a typical pattern due to the reporting process. Ten of the country's provinces, as well as the city of Kyiv, are back in lockdowns, with schools and restaurants shuttered. The government's reported vaccination numbers also increased markedly last week, with daily national counts well above 100,000 after they had languished in the 20-30,000 range for months, amid new coercive methods in provincial cities and villages, where vaccination rates are the lowest. In an acknowledgement of the seriousness of the situation, the National Bank slashed its full-year 2021 GDP growth forecast from 3.8% to 3.1% last week.

COMMENTARY

In our view, the current COVID wave is being made worse due to its coinciding with the traditional influenza outbreak season, and the government is likely no longer making a particular effort to distinguish between flu and COVID cases. We doubt that depriving the poorest Ukrainians of their jobs (the strategy currently being employed in smaller cities and rural areas) in order to force them to vaccinate, can be a sustainable strategy in political terms. Therefore, we see the government's actions as a quick temporary push to raise the national vaccination rate, currently below 20%, up to something closer to the averages in other Eastern European countries (40-60%); the experience of Western Europe has proven that COVID vaccination sharply reduces fatality rates from the disease, even if the effect on overall infection rates is less clear. As for the downgrade in GDP growth, it looks obvious that the 3.1% figure was cherry-picked in order not to alarm the holders of Ukraine's VRI derivative securities, who receive no payout on these instruments if the official GDP rise in a year is less than 3%.

Kernel's Oilseed Processing Down Sharply in Jul-Sept Quarter

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 62.20 Market Cap: USD 1290mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY21	0.7	0.4	2.5	2.3	2.7%
FY22E	0.5	0.4	3.1	2.5	2.7%

NEWS

Kernel Holding, Ukraine's largest grain and sunflower oil exporter, reported mixed operational results for the July-September quarter, with the company's grain exports growing by 5% YoY to 2.23mn tonnes in the period while sunflower oil sales dropped by 25% YoY to 220,700 tonnes, according to the update published on Oct 22. Kernel's sunflower seed processing decreased by 27% YoY to 482,300 tonnes. The company blamed a shortage of seeds for this notable decline in its key operational sector.

KERNEL OPERATIONAL UPDATE

Volume	1Q FY21	1Q FY22	Change
Grain exports, tonnes	2,125,650	2,226,755	+5%
Sunflower oil sales, tonnes	296,241	220,708	-25%
Oilseed crush, tonnes	662,613	482,266	-27%
Export terminals throughput, tonnes	1,868,593	2,206,913	+18%

Source: Companies' data

COMMENTARY

We view Kernel's operational results for the quarter as unimpressive. Although there were advance signals that the company's sunflower oil processing segment was facing lower profitability and lower volumes, we had assumed that the seed-crushing volume would not decrease by more than 15% YoY. On the grain segment side, we had projected higher export volumes, so the 5% YoY growth fell in the lower band of our estimates. Nevertheless, among encouraging information in the update, there was a statement that Kernel's crop yields in the farming segment are expected to increase for all three major crops: corn, sunflower, and wheat. The company operates a land bank of some 500,000 hectares. Its wheat yield this season rose by a hefty 26% YoY to 6.2 tonnes per ha, and the corn yield increased by 6.5% YoY to 8.5 tonnes/ha. Kernel is due to publish its financial results for the Jul-Sept quarter on Nov 26.

The Warsaw-traded KER stock showed only a minor reaction to the operational update release, edging down by 0.8% on Friday to PLN 62.20.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	62.2	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	51.7	--	--	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	8.30	12.0	45%	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	311	280	-10%	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	252	350	39%	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	41.0	--	--	U/R	
JKX Oil & Gas	JKX LN	44.0	62.0	41%	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 Slaviansk plant by 2022.
CenterEnerg	CEEN	7.50	--	--	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
			1W	YtD				2020	2021E	2020	2021E	2021E
UX Index	UX	1752	-2.8%	8.3%								
Iron Ore Mining												
Ferrexpo	FXPO	311	-2.3%	4.6%	2514	2510	24.0%	4.0	2.3	2.9	1.7	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	23.0	4.5%	27.8%	100	74	5.0%	11.8	19.2	5.6	7.4	0.4
Specialized Machinery												
Turboatom	TATM	8.5	30.8%	3.0%	137	134	3.8%	16.2	43.5	2.6	6.3	2.6
Motor Sich	MSICH	5390	0.0%	0.0%	426	404	24.0%	13.5	18.2	3.9	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	252	-2.3%	32.6%	520	507	3.0%	3.3	5.0	1.6	3.1	0.5
Enwell Energy (ex-Regal)	ENW	41.0	2.5%	93.4%	181	127	21.6%	60.3	20.1	4.9	4.2	2.0
JKX Oil	JKX	44.0	-13.4%	46.7%	104	212	50.4%	5.2	3.7	7.2	3.9	2.2
Power Utilities												
Centrenergy	CEEN	7.50	-13.8%	4.2%	105	103	21.7%	46.4	neg	6.1	neg	0.2
Donbasenergy	DOEN	14.00	0.0%	-30.0%	13	11	14.2%	11.7	neg	1.3	neg	0.0
Consumer												
MHP	MHPC	8.08	-0.2%	34.2%	854	2145	32.5%	neg	3.6	6.3	5.6	1.0
Kernel	KER	62.20	-0.5%	26.2%	1,261	2097	61.8%	2.5	3.1	2.3	2.5	0.4
Astarta	AST	51.70	-0.8%	97.3%	329	504	37.0%	39.8	31.3	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	8.30	4.0%	89.5%	46	21	25.0%	3.9	3.5	0.6	0.7	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.450	0.0%	9.8%	1,052		1.8%	7.0	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																
Centrenergo	CEEN	589	764	607	-69	17	-12	-11.7%	2.2%	-1.9%	-77	2	-31	-13.1%	0.3%	-5.1%
Donbasenergo	DOEN	249	256	258	8	9	-1	3.1%	3.3%	-0.6%	-3	1	-8	-1.1%	0.4%	-3.0%
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	4107	5647	5082	443	929	836	10.8%	16.5%	16.5%	118	513	410	2.9%	9.1%	8.1%
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	102.7	103.8	12.0%	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	102.7	103.6	12.3%	11.3%	S/A	12 Oct 2022	14,993
UA4000201255	104.8	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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