

Stock Market Update

Equity

Kyiv-listed equities were firmly higher last week, with the UX index gaining 4.9% to 1838 points. Earnings reports for 3Q have been better than expected so far. CentrErgo (CEEN) picked up 6.7% to UAH 8.00 after the company surprised to the upside with its positive bottom line for Jul-Sept despite very challenging conditions on the domestic electricity market. UkrNafta (UNAF) advanced by 13.1% to UAH 285 per share ahead of the earnings release as preliminary forecasts point to a strong profit due to the rallying crude price. Quotes for Raiffeisen Bank Aval (BAVL) remained flat at 45.00 kopecks for the third straight week.

Meanwhile, Ukraine finally received the second EUR 600mn installment in its program of COVID macro-financial assistance from the EU. The European Commission last year allocated an assistance package of EUR 3.0bn to ten candidate countries and members of the Eastern Partnership to help these countries overcome the economic consequences of the COVID-19 epidemic. Ukraine received EUR 1.2bn from this package.

In London trading, MHP (MHPC) dropped by 5.9% to USD 7.60 on some apparent profit-taking after the stock's recent climb from the USD 6 level. Natgas producer Enwell Energy (former Regal) jumped by 15.9% to GBP 47.50 per share.

On the Warsaw Stock Exchange, there was a sharp 16.6% rise in quotes for Agtoton (AGT) to PLN 9.68. We have not found a clear trigger for this growth, and we assume it was some speculative trades amid the overall high harvest figures for Ukrainian agro companies. Astarta (AST) picked up 4.6% last week to close at PLN 54.10 while Kernel (KER) corrected by 3.2% to PLN 60.20.

On the interbank currency market, the hryvnia inched up by 0.1% to 26.27 UAH/USD as the hard currency inflow from grain exports remained a positive factor for the country's trade balance. Ukraine has exported 17.8mn tonnes of grain since July, including 11.5mn tonnes of wheat.

Highlights

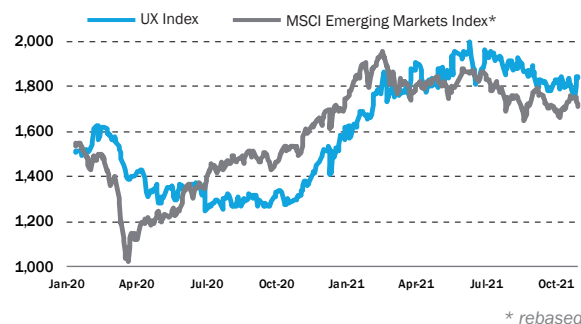
POLITICS AND ECONOMICS

- > Germany, France Criticize Ukraine's Drone Strike on Donbass Target
- > Ukraine's Industrial Output Down 0.7% YoY in September; Retail Growth Slows to 6% YoY

STOCKS IN THE NEWS

- > CentrErgo Stuns Market with UAH 436mn Profit for 3Q21

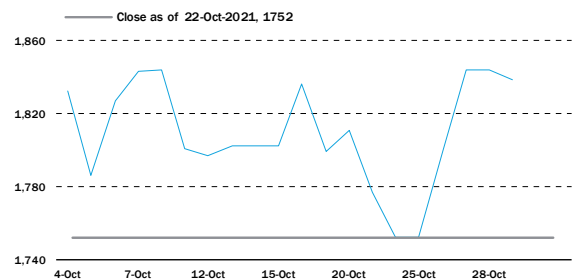
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1838	4.9%	13.7%
RTS	1844	-1.8%	32.9%
WIG20	2405	-0.5%	20.6%
MSCI EM	1265	-2.2%	-2.0%
S&P 500	4605	1.3%	22.6%

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%	-0.3 p.p.	+0.6 p.p.
Ukraine-2025	5.5%	0.0 p.p.	0.6 p.p.
Ukraine-2028	7.0%	0.1 p.p.	0.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.27	-0.1%	-7.1%
EUR/UAH	30.53	-0.3%	-12.1%

Source: Eavex Capital

Germany, France Criticize Ukraine's Drone Strike on Donbass Target

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

NEWS

The foreign ministries of Germany and France last week issued statements criticizing Ukraine's use of an unmanned Turkish-built drone aircraft to strike a target in separatist-held Donetsk province. The strike, which hit a separatist artillery position, was publicly announced by Ukraine's military on Wednesday (Oct 27) as having been directly ordered by President Zelenskyy. There was additional diplomatic fallout on Saturday (Oct 30) when Turkey's foreign minister demanded that Ukraine's media stop referring to the drone as "Turkish" in order for Turkey not to be associated with the attack. The US Embassy in Kyiv called on both sides in the conflict to observe the July 2020 cease-fire agreement, while noting that the separatists have also been using drones in violation of the deal. In related news, the Washington Post reported on Saturday (citing anonymous sources) that new Russian troop movements near the Ukrainian border have been observed, without specifying the dates or exact locations. The article quoted Foreign Minister Dmytro Kuleba as denying Kremlin charges that Kyiv has a plan to re-take the Donbass territories by force, and Zelenskyy also denied that the drone strike represented the start of an offensive operation, saying that it was purely defensive in nature, in comments posted on the presidential website.

COMMENTARY

The Donbass conflict has been largely out of the news for the last 6 months, and we suspect that Kyiv and Moscow both have their own reasons for wishing to bring the situation back to the attention of the major Western powers, thus resulting in the current escalation. Zelenskyy and his administration are likely eager to draw some media oxygen away from the spike in COVID-19 cases in the country and the unpopular forced vaccination measures which are evoking widespread anger against the government, with a large-scale demonstration planned for Nov 3 in Kyiv. For its part, the Kremlin is likely trying to deter the US from increasing its military presence in Ukraine following the visit of Defense Secretary Lloyd Austin two weeks ago amid increased chatter about possible NATO membership for Kyiv. The Donbass peace process has been off line for nearly two years, since the start of the COVID epidemic, and we think that a meeting in the so-called "Normandy format" with Germany and France will probably be held in the coming months in order for the sides to reset their negotiating positions. Still, we see no realistic alternative to the nearly 7-year-old Minsk protocols, which have essentially turned the Donbass into a frozen conflict zone.

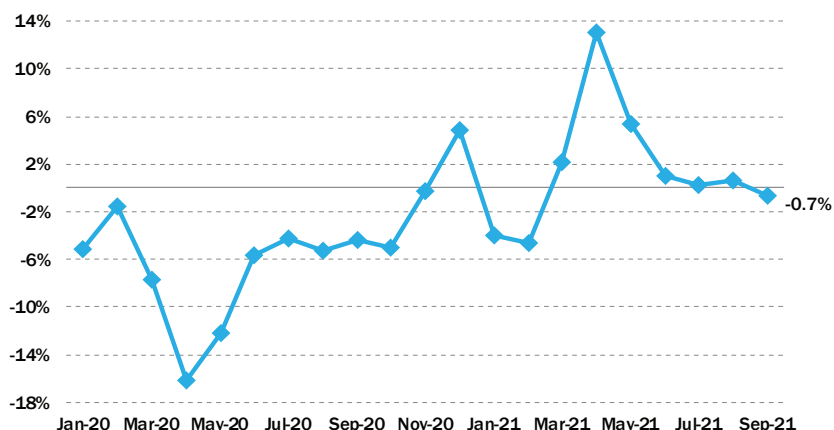
Ukraine's Industrial Output Down 0.7% YoY in September; Retail Growth Slows to 6% YoY

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

NEWS

Ukraine's industrial production index fell back into negative territory in September, declining by 0.7% YoY after a growth of 0.6% YoY registered in August, according to data published by UkrStat. Year-to-date (through 9M21), industrial production in Ukraine has recovered by 1.4% YoY. Extraction sector output rose by 1.0% YoY in September while the manufacturing and the utility sectors declined by 1.1% YoY and 2.4% YoY respectively.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

It was disappointing to see these weak industrial production figures for September after expectations of acceleration in business activity in the country after the traditional vacation season, but the stronger-than-expected 4th COVID wave in Ukraine was likely a factor, and this effect will only increase in the October statistics. Among the worst performing industries, there was a 12.3% YoY drop in coal extraction, which is concerning ahead of the heating season. Thermal generation companies are already facing a shortage of coal supplies on the domestic market. Chemical industry output also contracted by 9.6% YoY amid ballooning natural gas prices. Meanwhile, pharmaceutical production grew by 4.4% YoY in September, recovering some of the sudden output drop seen in August.

In other macroeconomic statistics, UkrStat reported that retail sales rose by 5.9% YoY in September, representing the slowest pace recorded since January. For 9M21, the retail sales index is up by a massive 12.2% YoY.

The agro sector output index increased by 1.9% YoY in 9M21, still largely failing to reflect the impressive grain harvest reported by the largest Ukrainian farmers. The harvesting campaign is still in full mode right now, having been completed on 12.2mn hectares in the country, which is 76% of the total planted area.

CentrEnergO Stuns Market with UAH 436mn Profit for 3Q21

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

CENTRENERGO (CEEN UK)

Price: UAH 8.00 Market Cap: USD 112mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.9	0.1	49.6	4.9	0.6%
2021E	1.1	0.2	neg	neg	0.0%

NEWS

CentrEnergO, Ukraine's largest thermal electricity generation company by installed capacity, earned UAH 436mn (USD 16mn) in net profit in 3Q21, which was 32% YoY higher than a year ago, according to the company's profit & loss statement released on Oct 26. On the top line, net revenue dropped by 45% YoY to UAH 3.14bn and EBITDA increased by 25% YoY to UAH 499mn in 3Q21. Through September, CentrEnergO's net loss for 9M21 was UAH 156mn, compared to a net loss of UAH 163mn in the Jan-Sept period a year earlier.

On the balance sheet side, the company remained debt free and its cash on hand was UAH 781mn as of 30 Sept 2021.

CENTRENERGO'S FINANCIAL RESULTS

UAH mn	3Q20	3Q21	YoY	9M20	9M21	YoY
Net revenue	5,681	3,136	-44.8%	14,929	8,909	-40.3%
EBITDA	399	499	+25.0%	39	37	-5.9%
EBITDA margin	7.0%	15.9%	+8.9%	0.3%	0.4%	+0.2 p.p.
Net Income	330	436	+32.0%	-163	-156	-/-
Net margin	5.8%	13.9%	+8.1 p.p.	-1.1%	-1.7%	-0.7 p.p.

Source: Company data,

COMMENTARY

It is a complete mystery to us how CentrEnergO managed to end 3Q21 in the black, as rising coal and natural gas prices were extremely damaging to the company's operations. Moreover, the P&L statement said that CentrEnergO was profitable in 3Q solely due to unspecified other operating income of UAH 512mn. We assume that this other operating income might be related to accounting tricks with the booking of receivables on the balance sheet in the reported period. Without further speculation, we see CentrEnergO's huge revenue drop of 45% YoY in 3Q21 as a clearly NEGATIVE sign for the company. We forecast that CentrEnergO will end FY21 with a net loss of UAH 850mn after its loss of UAH 156mn in 9M21. We are also concerned regarding the company's growing accounts payable, which increased from UAH 3.2bn at the start of the year to UAH 4.3bn in September. CentrEnergO has a negative working capital of UAH 1.3bn, as its current liabilities exceed current assets. In other words, while the company does not have any financial debt, its high accounts payable present a solvency risk. On the operational side, CentrEnergO faces a coal shortage and a consequent need to import expensive coal from overseas; it has bought 37,500 tonnes of coal from the US. Also, we see risks in the company's strategy of using forward contracts for supplying electricity. The company has already sold several forward contracts with electricity delivery due in 1Q22 at a fixed price of UAH 1.75 per kWh (less than USD 0.07/kWh). The shaky situation in CentrEnergO's business could also be aggravated by the recent resignation of CEO Yuriy Vlachenko, who occupied this position for only 6 months.

CentrEnergO's stock had a positive reaction to the earnings release, advancing by 6.7% to UAH 8.00.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	60.2	83.0	38%	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	7.6	11.5	51%	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	54.1	--	--	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	9.68	12.0	24%	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	312	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	285	350	23%	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	47.5	--	--	U/R	
JKX Oil & Gas	JKX LN	42.0	62.0	48%	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	15.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slaviansk plant by 2022.
CenterEnerg	CEEN	8.00	--	--	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	1838	4.9%	13.7%								
Iron Ore Mining												
Ferrexpo	FXPO	312	0.5%	5.1%	2525	2521	24.0%	4.0	2.3	2.9	1.7	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	23.0	0.0%	27.8%	100	74	5.0%	11.8	19.2	5.6	7.5	0.4
Specialized Machinery												
Turboatom	TATM	8.5	0.0%	3.0%	137	134	3.8%	16.3	43.6	2.6	6.3	2.6
Motor Sich	MSICH	5390	0.0%	0.0%	426	404	24.0%	13.5	18.3	3.9	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	285	13.1%	50.0%	588	575	3.0%	3.7	5.7	1.8	3.5	0.6
Enwell Energy (ex-Regal)	ENW	47.5	15.9%	124.1%	209	155	21.6%	69.8	23.3	6.0	5.2	2.5
JKX Oil	JKX	42.0	-4.5%	40.0%	99	207	50.4%	5.0	3.5	7.0	3.8	2.2
Power Utilities												
Centrenergy	CEEN	8.00	6.7%	11.1%	112	83	21.7%	49.6	neg	4.9	neg	0.2
Donbasenergy	DOEN	15.00	7.1%	-25.0%	14	12	14.2%	12.5	neg	1.4	neg	0.0
Consumer												
MHP	MHPC	7.60	-5.9%	26.2%	803	2094	32.5%	neg	3.3	6.2	5.4	1.0
Kernel	KER	60.20	-3.2%	22.1%	1,202	2038	61.8%	2.3	2.9	2.2	2.4	0.4
Astarta	AST	54.10	4.6%	106.5%	339	514	37.0%	41.0	32.3	4.2	3.8	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	9.68	16.6%	121.0%	53	28	25.0%	4.5	4.1	0.8	0.9	0.4
Banks												
Raiffeisen Bank Aval	BAVL	0.450	0.0%	9.8%	1,053		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	513	-69	17	-12	-11.7%	2.2%	-2.3%	-77	2	-31	-13.1%	0.3%	-6.0%
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

Eavex Capital

7 Klovsyky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454

Facsimile: +38 044 590 5464

E-mail: research@eavex.com.ua

Web-page: 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

Alexander Klymchuk

Equity and Fixed Income

a.klymchuk@eavex.com.ua

RESEARCH

Dmitry Churin

Head of Research

d.churin@eavex.com.ua

Will Ritter

Research editor

w.ritter@eavex.com.ua

Investing in emerging markets' securities may entail certain risks. There may be limited information available on such securities. Securities of emerging markets' companies may be less liquid and their prices more volatile than securities of comparable developed markets' companies. In addition, exchange rate movements may have an adverse effect on the value of an investment.

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.

Copyright 2021 Eavex Capital. All rights reserved.

Securities and Stock Market State Commission licence, issued 06.10.2015