

Stock Market Update

Equity

Kyiv-listed equities finished mixed last week, driven by corporate factors. Market participants continued to focus on information regarding the planned split of UkrNafta's assets. Bad news was that the company set its buy-back price for shareholders who vote against the company's split at UAH 259.77 per share. However, the good news is that the planned split is likely to be rejected by the government. We expect that UkrNafta's shareholder meeting scheduled on Nov 30 will be unable to pass the vote on the company's asset split. The UNAF stock rose by 3.7% to UAH 280.

In other major domestic developments, the IMF approved a long-delayed USD 700mn loan disbursement to the country. This is the second tranche from a USD 5bn program agreed in the spring of 2020 to help Ukraine cope with the COVID pandemic. Multibillion-dollar financial support from the IMF, World Bank and other international financial institutions, as well as the US and EU, has been critical to shoring up Ukraine as the country had a budget deficit of 5.8% of GDP in 2020, has an expected budget deficit of 4.9% of GDP for this year, and 3.5% deficit projected for 2022. In absolute figures, the budget deficit for 2022 is some USD 6.5bn.

On the downside, CentrEnergo (CEEN) slipped by 2.4% to UAH 8.30 as the coal shortage in the country remained a risk for the thermal electricity industry. Raiffeisen Bank (BAVL) declined by 1.1% to 44.00 amid overall negative market momentum.

Ukrainian stocks listed abroad were caught in a sell-off following the turmoil on the global financial market due to fears over a new highly mutated variant of COVID-19. In London trading, MHP (MHPC) fell 3.9% to USD 7.30 and Ferrexpo (FXPO) slid 5.1% to USD 273 per share. Warsaw-listed Kernel (KER) lost 7.0% to PLN 54.70 despite the company's report of an enormous net profit of USD 211mn for the Jul-Sept quarter, implying an impressive EPS of PLN 10.9.

The hryvnia weakened by significant 2.1% to 27.14 UAH/USD, which was largely a result of the general trend of the dollar's gain against other world currencies amid the market turbulence.

Highlights

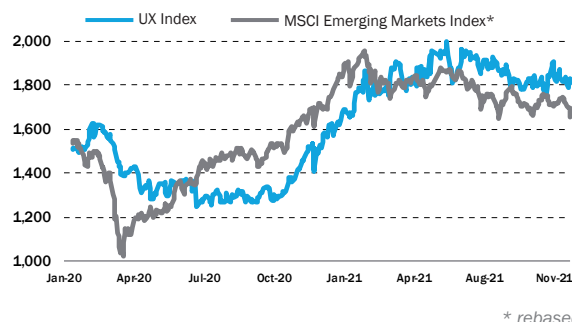
POLITICS AND ECONOMICS

- > Zelenskiy-Akhmetov Conflict Takes Center Stage in Ukrainian Politics
- > Ukraine Industrial Production Up 1.4% YoY in October on Energy Output Rise

STOCKS IN THE NEWS

- > Kernel Posts Enormous USD 211mn Profit for Jul-Sept Quarter

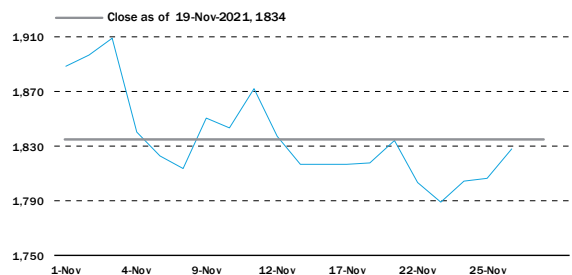
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1827	-0.4%	13.0%
RTS	1589	-7.8%	14.6%
WIG20	2143	-4.4%	7.5%
MSCI EM	1223	-3.6%	-5.3%
S&P 500	4593	-2.2%	22.3%

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%/11.6%	+0.2 p.p.	+0.9 p.p.
Ukraine-2025	7.7%	1.3 p.p.	2.8 p.p.
Ukraine-2028	8.7%	1.2 p.p.	2.4 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.14	2.1%	-4.0%
EUR/UAH	30.64	2.0%	-11.8%

Source: Eavex Capital

Zelenskiy-Akhmetov Conflict Takes Center Stage in Ukrainian Politics

by Will Ritter
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NEWS

President Zelenskiy accused industrialist Rinat Akhmetov of using the Ukrainian state for the benefit of his business empire at a press conference held on Friday (Nov 26). The statement to journalists comes after several weeks of criticism of Zelenskiy which has been broadcast on the Akhmetov-owned Ukrayina-24 television network. Separately, Akhmetov's vertically-integrated DTEK energy company has been complaining for months that the government is refusing to pay it for some USD 550mn of delivered electricity supplies. In related news that generated international headlines, Zelenskiy also said that the Security Service (SBU) had last week uncovered a coup plot to remove him as president involving a Russian intelligence operative and veterans of three Ukrainian security agencies. Zelenskiy stopped short of saying that Akhmetov was directly involved in the coup planning. For his part, Akhmetov called insinuations that he had a role in the plot "a lie", and said that he is doing all he can to defend freedom of the press and democracy in Ukraine. This news about a coup occurred against the already-tense background of the buildup of Russian military forces on Ukraine's border, and the factors combined to hammer Ukrainian sovereign bonds, pushing them lower by as much as 7% to their worst levels since the COVID-19 financial panic in March/April of 2020. The Eurobonds of DTEK also took a hard hit, dropping by some 6 points to about half their par value.

COMMENTARY

Zelenskiy has enjoyed widely favorable media coverage in Ukraine since becoming president, and he also comes from an entertainment industry background which has accustomed him to the adulation of fans, so the recent hammering that he has taken on television broadcasts is a bit of a new experience for him. Especially upsetting to Zelenskiy and his top enforcer, administration chief Andriy Yermak, has been the frequent featuring of recently-ousted Parliament Speaker Dmytro Razumkov on the Akhmetov channel in prime time, increasing Razumkov's ability present himself as Zelenskiy's top political rival. When he left the speaker's chair in September, Razumkov took some 20 MPs with him, thereby putting Zelenskiy's parliamentary majority at risk (his Servant of the People faction officially has 253 mandates, but prior defections now put the loyal number of MPs in the faction below the 226 majority threshold). In general, at exactly halfway through his presidential term, Zelenskiy is at a crossroads as he tries to consolidate his power and position himself for re-election, while his various opponents - including some prominent figures who supported him the first time around - have begun to actively mobilize against him. The coming 18 months will be the key period for determining Zelenskiy's ability to win a second term; if no credible opposition movement emerges in this time, the final year before the May 2024 election will probably be too late for a consensus replacement for Zelenskiy to appear on the political scene.

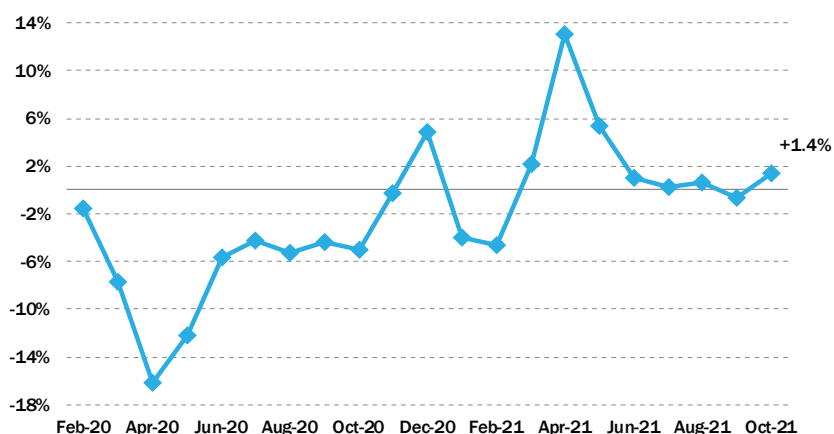
Ukraine Industrial Production Up 1.4% YoY in October on Energy Output Rise

by Dmitry Churin
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NEWS

Ukraine's industrial production index grew by 1.4% YoY in October, reversing a decline of 0.7% YoY seen in September, according to data published by UkrStat. Year-to-date (through 10M21), industrial production in Ukraine has recovered by 1.4% YoY, which is notably less than expected. In a sector breakdown, extraction output in the country edged up 0.6% YoY, the manufacturing output grew by 0.4% YoY, and energy production accelerated by 4.0% YoY, leading to aggregate utility sector growth of 7.6% YoY during the month.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The situation in Ukrainian industrial production remains far less upbeat than was expected earlier this year. The worst performance was in coal extraction, as a shortage of steam coal resulted in a need to import this fuel from overseas. The coal shortage threatens Ukrainian energy security, and there could be blackouts in some provinces in the winter season during peak electricity consumption. Currently Ukrainian thermal generation plants are struggling to increase their coal inventories. There is also a disappointing picture for the chemical industry. Ukrainian fertilizer producers were hurt badly amid surging natural gas prices, dragging down the chemical output index by 13.6% YoY in October.

In other macroeconomic data, the agriculture output index rose by 13% YoY in 10M21, reflecting a solid grain harvest in Ukraine. Retail sales in the country increased by 5.7% YoY in October, repeating September's notably slowing growth pace. Through 10M21, the retail sales index is up by 11.5% YoY.

Kernel Posts Enormous USD 211mn Profit for Jul-Sept Quarter

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 54.70 Market Cap: USD 1,077mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY21	0.6	0.3	2.1	2.1	3.3%
FY22E	0.5	0.4	2.6	2.3	3.3%

NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel said that its net profit increased by 3% YoY to USD 211mn in the Jul-Sept quarter (1Q22; the company's financial year runs from July to June), according to results published on Nov 25. On the top line, Kernel's revenue jumped by 43% to USD 1.34bn amid higher soft commodities prices in the reported period. The company's EBITDA rose by 9% YoY to USD 315mn while the EBITDA margin declined from 30.9% a year ago to 23.5% in the reported period.

On the balance sheet side, Kernel's net debt grew by 21% to USD 1.01bn from the previous reporting quarter, implying a Net Debt/EBITDA ratio of 1.1x as of 30 Sept 2021. Taking into account Kernel's marketable inventories, the company claims an "adjusted" Net Debt/EBITDA ratio of 0.5x at the end of reporting quarter. The company's total assets grew by 9% QoQ to USD 4.35bn.

KERNEL FINANCIAL RESULTS

USD mn	1Q21FY	1Q22FY	YoY
Net revenue	940	1,343	+43%
EBITDA	290	315	+9%
EBITDA margin	30.9%	23.5%	-7.4 p.p.
Net Income	204	211	+3%
Net margin	21.7%	15.7%	-6.0 p.p.

Source: Company data.

COMMENTARY

Although Kernel's net profit grew by only 3% YoY in the Jul-Sept quarter, the absolute figure should be viewed as outstanding result, as the comparison base was very high due to the record high net profit posted for Jul-Sept 2020. In terms of earnings per share, this financial year's 1Q delivered an EPS of PLN 10.9, translating at the current PLN/USD exchange rate.

Kernel said that its farming segment was the main contributor on the EBITDA level, bringing in USD 207mn (+29% YoY) in the Jul-Sept quarter. In the sunflower oil business, the company has a bright outlook for this season. Kernel targets to process 3.8mn tonnes of oilseeds in FY22 (+18% YoY), as a record 16.8mn tonnes harvest of sunflower seeds is expected in Ukraine. The so-called "crushing margin" should increase, assuming a sufficient supply of seeds after the record harvest. However, the procurement campaign this season is challenging, as farmers are under less immediate pressure to sell their oilseeds, given the extremely profitable season.

In a separate statement, Kernel highlighted Fitch's revision of its credit outlook to "Positive" from "Stable" in September.

Kernel's stock reached a multi-year high of PLN 64.10 at the end of October, but the KER closing price on Friday (Nov 26) was back down at PLN 54.70, as the stock suffered a notable correction due to country-risk-related fears about the Russian military factor, as well as the global stock market turmoil seen last week.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	54.7	83.0	52%	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	7.3	11.5	58%	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	41.7	--	--	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	6.80	12.0	76%	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	273	280	3%	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	280	350	25%	BUY	In case of continued high crude prices, we believe UkrNafta's profitability for 4Q will be at 40% on the EBITDA level, bringing net profit for the full year to UAH 5.2bn. This would imply earnings per share of UAH 95.90, and taking into account the company's current stock price, it gives a very attractive P/E multiple.
Enwell Energy (ex-Regal)	ENW LN	38.0	--	--	U/R	
JKX Oil & Gas	JKX LN	38.8	42.0	8%	HOLD	JKX Oil&Gas announced de-listing from the London Stock Exchange. The buyback price was determined at Gbp 42.00.
Power Utilities						
DonbasEnerg	DOEN	22.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slaviansk plant by 2022.
CenterEnerg	CEEN	8.30	--	--	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	0.440	0.42	-5%	HOLD	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	1827	-0.4%	13.0%								
Iron Ore Mining												
Ferrexpo	FXPO	273	-5.1%	-8.1%	2137	2133	24.0%	3.4	1.9	2.5	1.5	0.9
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.5	6.1%	-2.8%	74	48	5.0%	8.7	14.1	3.6	4.8	0.2
Specialized Machinery												
Turboatom	TATM	6.0	-6.3%	-27.9%	93	90	3.8%	11.0	29.5	1.7	4.2	1.7
Motor Sich	MSICH	5390	0.0%	0.0%	413	390	24.0%	13.1	17.7	3.8	4.4	1.2
Oil & Gas												
UkrNafta	UNAF	280	3.7%	47.4%	559	526	3.0%	3.5	3.0	1.6	1.8	0.4
Enwell Energy (ex-Regal)	ENW	38.0	-0.7%	79.2%	162	108	21.6%	54.0	18.0	4.1	3.6	1.7
JKX Oil	JKX	38.8	0.6%	29.2%	88	197	50.4%	4.4	3.2	6.6	3.6	2.1
Power Utilities												
Centrenergy	CEEN	8.30	-2.4%	15.3%	113	83	21.7%	49.8	neg	5.0	neg	0.2
Donbasenergy	DOEN	22.00	-4.3%	10.0%	19	18	14.2%	17.8	neg	2.1	neg	0.1
Consumer												
MHP	MHPC	7.30	-3.9%	21.3%	771	2062	32.5%	neg	2.7	6.1	3.3	1.0
Kernel	KER	54.70	-7.0%	11.0%	1,048	1884	61.8%	2.0	2.6	2.0	2.3	0.4
Astarta	AST	41.65	-8.7%	59.0%	250	425	37.0%	30.3	23.8	3.5	3.1	0.8
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	6.80	-11.9%	55.3%	35	10	25.0%	3.0	2.7	0.3	0.3	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.440	-1.1%	7.3%	997		1.8%	6.6	5.7	2.2	2.1	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
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	1286	-115	320	291	-10.5%	24.3%	22.6%	-158	158	186	-14.4%	12.0%	14.4%
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	620	18.3%	17.8%	29.0%	215	-133	290	10.5%	-7.0%	13.5%
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	484	280	271	249	185	151	174	33.6%	33.2%	35.9%

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							
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	101.3	102.4	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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