

Stock Market Update

Equity

Kyiv-listed stocks were out of investors' favor last week as the US emphasized a need for diplomacy and de-escalation with Russia while issuing threats to Moscow about the high cost of any new military aggression. It appears that the Kremlin may be using its military presence on the Ukrainian border as a way of pressuring Kyiv into an unfavorable agreement on the resolution of the 7-year-old Donbass conflict in the east of the country.

The UX index dropped by 6.3% to 1742 points. Electricity producer CentrErgo (CEEN) was the worst performing index component, plunging by 15.7% to UAH 7.00 as a coal shortage threatens the country's entire energy sector. Raiffeisen Bank (BAVL) shed 2.3% to 42.00 kopecks, while UkrNafta (UNAF) was again highly volatile. The UNAF stock suffered a retreat of 9.7% to UAH 280 after the company announced an agenda for a special shareholders meeting called on Dec 23 to consider the sale of the company's most profitable assets to the group of minority shareholders affiliated with Privat Group.

On the London Stock Exchange, MHP (MHPC) gained 2.1% to USD 6.84 while Enwell Energy (former Regal) declined by 3.7% to GBp 35.20.

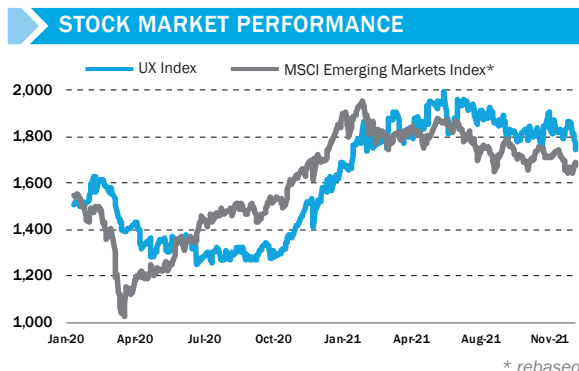
Warsaw-listed Kernel (KER) decreased by 1.5% to PLN 59.10, ignoring encouraging news that the company approved a 44 cents (PLN 1.80) dividend per share. The ex-rights date for the dividend has not been determined yet. Astarta (AST) lost 6.9% to close at PLN 42.00.

The hryvnia strengthened by a solid 1.5% to 26.92 UAH/USD after the National Bank increased its key interest rate by 50 bps to 9.0% and said that the country's foreign currency reserves reached USD 30.5bn at the start of the month.

Highlights

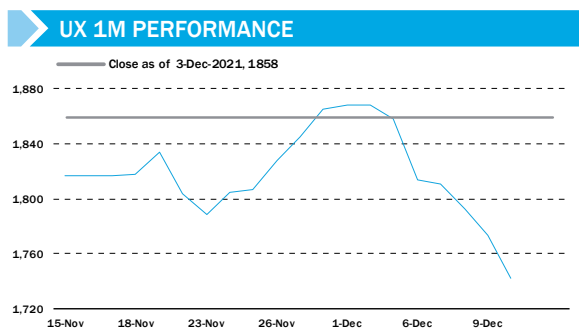
POLITICS AND ECONOMICS

- > Donbass Autonomy Back in Focus after Biden Talks with Putin, Zelenskiy
- > Portnov Hit with US Sanctions for Judicial Corruption
- > Ukraine Headline Inflation at 10.3% after November Data



MARKET INDEXES

	Last	1W ch	YTD
UX	1742	-6.3%	7.7%
RTS	1612	-3.4%	16.2%
WIG20	2213	1.6%	11.0%
MSCI EM	1238	1.1%	-4.1%
S&P 500	4711	3.8%	25.4%



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	9.0%	+0.5 p.p.	+3.0 p.p.
UAH 1-year bond	12.7%/11.7%	+0.1 p.p.	+1.0 p.p.
Ukraine-2025	8.0%	0.5 p.p.	3.1 p.p.
Ukraine-2028	8.3%	0.2 p.p.	2.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.92	-1.5%	-4.8%
EUR/UAH	30.38	-1.6%	-12.6%

Source: Eavex Capital

Donbass Autonomy Back in Focus after Biden Talks with Putin, Zelenskiy

by Will Ritter
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NEWS

The month-long crisis over the latest buildup of Russian military forces along Ukraine's border appeared to ease somewhat last week after direct video-link talks between US President Biden and Russian President Putin on Dec 7. At the meeting, Biden warned Putin about the very high economic costs which the US and European Union would impose in the case of a military attack against Ukraine, and these threats were repeated on Sunday (Dec 12) at a foreign ministers' meeting of the G7 countries in the United Kingdom. On Thursday (Dec 9), Biden spoke with President Zelenskiy by telephone for some 90 minutes to update him on the talks with Putin. After this conversation, reports appeared in the US media that Biden had asked Zelenskiy for some concessions on granting autonomy for the separatist-occupied areas of Donetsk and Lugansk provinces as a way of re-starting the long-stalled Donbass peace process, after Putin accused Kyiv of refusing to fulfill the 2015 Minsk peace agreement. However, through official spokesperson Jennifer Psaki, the White House then denied that Biden had asked Zelenskiy for any such concessions.

COMMENTARY

It looks clear to us that Putin wants to shift the focus of the US and EU's attention back to the Donbass, which has been largely forgotten by the Western media since the start of the COVID-19 global epidemic in early 2020. The Kremlin understands that the occupied Donbass is a losing issue for Kyiv no matter what direction the negotiation process moves in. Therefore, the best option for Kyiv is the status quo of the last 6-plus years, whereby the occupied territories remain both de-facto and de-jure outside of Ukraine. We assume that Putin believes forcing Zelenskiy's hand on granting autonomy to the occupied territories could lead to a sharp drop in the latter's popularity and to internal political destabilization in Ukraine. As we have stated previously, the Putin playbook to control Ukraine involves taking advantage of internal chaos fueled by Ukrainian militant nationalists, rather than direct military invasion. This Kremlin strategy of internal destabilization failed during the presidency of Petro Poroshenko, as Poroshenko proved adept at maintaining strong Western support while keeping the hard-line nationalists off-balance at home. The indications so far are that Zelenskiy also has a good chance to avoid falling into this trap, given that the Biden administration, and Biden personally, are closely engaged and working hard to maintain multi-faceted diplomatic pressure on Moscow.

Portnov Hit with US Sanctions for Judicial Corruption

by Will Ritter
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NEWS

Longtime Ukrainian political heavyweight Andrey Portnov was sanctioned by the US Treasury Department in a high-profile announcement last week. Any assets in the US identified as belonging to Portnov will be frozen, and US entities are barred from doing business with him or his agents. The Treasury Department release accused Portnov of building extensive connections to Ukraine's judicial and law enforcement through bribery, the US-funded outlet Radio Free Europe reported. "Widely known as a court fixer, Portnov was credibly accused of using his influence to buy access and decisions in Ukraine's courts and undermining reform efforts," the department wrote. "As of 2019, Portnov took steps to control the Ukrainian judiciary, influence associated legislation, sought to place loyal officials in senior judiciary positions, and purchase court decisions."

COMMENTARY

Portnov, 48, initially made his name in Ukrainian politics as a top ally of Yulia Tymoshenko and MP in her faction, before switching sides and joining the administration of Victor Yanukovich after the latter won the presidency in 2010. He held a seat on the High Council of Justice and was in charge of the Yanukovich administration's judicial reform initiative. After Yanukovich fled Ukraine in early 2014, Portnov also went into exile, living in Austria after successfully getting EU sanctions against himself rescinded in 2015. Shortly after Volodymyr Zelenskiy replaced Petro Poroshenko as Ukrainian President in mid-2019, it was reported in domestic media that Portnov had returned to Kyiv from Vienna and was heading a campaign of legal revenge against Poroshenko and other major figures from the EuroMaidan revolution. However, little has been heard from Portnov recently, and it is unclear whether he has any ties to the Zelenskiy administration or whether he might be under domestic investigation for the corruption charges alleged by the US. Cracking down on judicial corruption in Ukraine is stated as a top priority for both Washington and Brussels.

Ukraine Headline Inflation at 10.3% after November Data

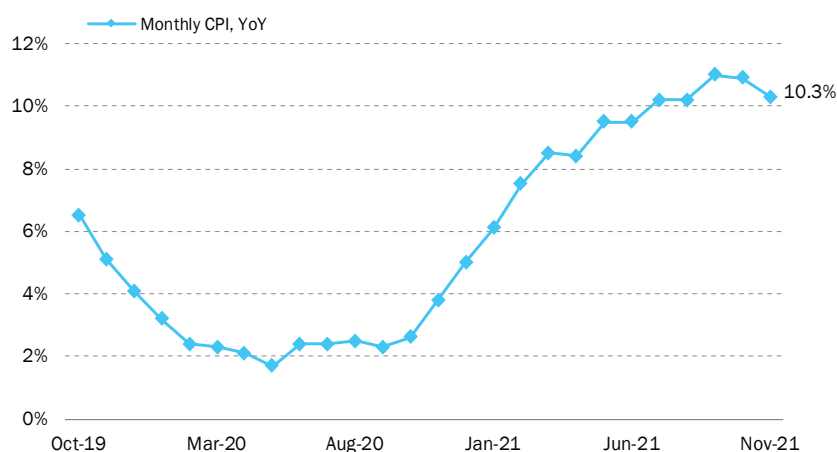
by Dmitry Churin
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NEWS

Consumer inflation in Ukraine rose by 0.8% MoM in November, bringing the rolling 12-month “headline” inflation to 10.3%, down from 10.9% YoY for October, according to State Statistics Committee data published on Dec 8. In the CPI basket components, the largest monthly price increase was observed for petroleum products, which rose 2.9% MoM amid rising energy prices across the globe. The food category had an aggregate price index increase of 1.2% MoM in November.

UkrStat separately provided the producer price index (PPI) performance. The aggregate PPI is up by 60% YoY as the energy category demonstrated a 2.5x YoY surge.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

Inflation was restrained by the government’s efforts to place a cap on electricity and natural gas heating tariffs for households, but we believe that administrative measures employed to combat inflation are effective only in the short run. Ukrainian international creditors, especially the IMF, have already expressed their complaints against such populist moves by the government. There is a high probability that artificially frozen heating tariffs for the population will be cancelled after the winter season is over, leading to a one-time hike in the tariffs and consequently in consumer inflation. Currently the overall inflation environment looks rather high, with the CPI index is expected to end the year up by 10.5% and with the consensus forecast for 2022 quite similar.

The National Bank responded to the double-digit inflation figure with the decision to increase its key interest rate from 8.5% to 9.0% on Dec 9. The regulator expressed its opinion that the inflation surge in the country has passed its peak, but inflation is declining slower than expected. The next meeting of the NBU monetary policy board is scheduled for Jan 22.

Meanwhile, we note that inflation in the developed economies is coming in at levels not seen in 30-40 years. The current 12-month US consumer inflation rate came at 6.8% in November, the highest figure since 1982.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	59.1	83.0	40%	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	6.8	11.5	68%	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	42.0	--	--	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	6.40	12.0	88%	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	297	280	-6%	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	35.2	--	--	U/R	
JKX Oil & Gas	JKX LN	38.5	42.0	9%	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	24.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slaviansk plant by 2022.
CenterEnerg	CEEN	7.00	--	--	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	0.420	0.42	0%	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	1742	-6.3%	7.7%								
Iron Ore Mining												
Ferrexpo	FXPO	297	3.6%	-0.1%	2313	2309	24.0%	3.6	2.1	2.7	1.6	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	-5.6%	72	46	5.0%	8.5	13.9	3.5	4.6	0.2
Specialized Machinery												
Turboatom	TATM	4.8	-12.7%	-41.8%	75	72	3.8%	9.0	24.0	1.4	3.4	1.4
Motor Sich	MSICH	5390	0.0%	0.0%	416	394	24.0%	13.2	17.8	3.8	4.4	1.2
Oil & Gas												
UkrNafta	UNAF	280	-9.7%	47.4%	564	532	3.0%	3.6	3.0	1.7	1.8	0.4
Enwell Energy (ex-Regal)	ENW	35.2	-3.7%	66.0%	149	95	21.6%	49.8	16.6	3.7	3.2	1.5
JKX Oil	JKX	38.5	0.0%	28.3%	87	196	50.4%	4.4	3.1	6.6	3.6	2.1
Power Utilities												
Centrenergy	CEEN	7.00	-15.7%	-2.8%	96	66	21.7%	42.3	neg	4.0	neg	0.1
Donbasenergy	DOEN	24.00	-0.7%	20.0%	21	20	14.2%	19.5	neg	2.3	neg	0.1
Consumer												
MHP	MHPC	6.84	2.1%	13.6%	723	2014	32.5%	neg	2.5	5.9	3.2	0.9
Kernel	KER	59.10	-1.5%	19.9%	1,154	1990	61.8%	2.2	2.8	2.1	2.4	0.4
Astarta	AST	42.00	-6.9%	60.3%	257	432	37.0%	31.2	24.5	3.6	3.2	0.8
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	6.40	-11.1%	46.1%	34	9	25.0%	2.9	2.6	0.3	0.3	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.420	-2.3%	2.4%	959		1.8%	6.3	5.5	2.1	2.0	0.24

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	101.0	101.7	12.7%	11.7%	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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