

Stock Market Update

Equity

Kyiv-listed stocks kicked off the new year with a mixed performance. Geopolitics continue to be in investors' focus, as Russia is insisting that NATO must never grant membership to Ukraine ahead of security talks with the United States this week. US Deputy Secretary of State Wendy Sherman is set to meet Russian Deputy Foreign Minister Sergey Ryabkov in Geneva today (Jan 10). Monday's talks will be followed by a meeting in Brussels on Wednesday of the NATO-Russia council, representing the first such meeting since 2019. There will also be a meeting of the Organization for Security and Cooperation in Europe chaired by Poland in Vienna.

Back on the stock market, the UX index inched down by 0.2% to 1735 points last week. The top liquid issue, UkrNafta (UNAF), added 2.2% to UAH 276 after the company said that it had initiated a process of paying the delayed dividend from 2018 profit. The dividend was approved at an impressive UAH 35.60 per share, with the ex-rights date set on 11 Jun 2021. Nevertheless, it is still unclear when the dividend will be actually paid to shareholders, as the company cited technical difficulties with paying this dividend through the Ukrainian depository system.

In London, iron ore miner Ferrexpo (FXPO) gained 4.2% last week to close at GBp 312 following upward momentum in the iron ore price, which has risen from USD 112 to USD 126 per tonne for 62% Fe benchmark contracts. Iron ore prices rose as demand in China propelled spot prices of the metal to a 2-month high.

Ukrainian leading grain exporter Kernel (KER) was little-changed, edging up 0.3% to PLN 58.90 after the company announced that it will pay a USD 0.44 dividend (PLN 1.76) per share to shareholders in the register as of Feb 8. The actual dividend distribution will be made on Feb 15. This implies a modest dividend yield of 3.0%. Other Ukrainian agro stocks were mostly lower, with MHP (MHPC) decreasing by 0.9% to USD 6.72 and Astarta (AST) slipping by 1.2% to PLN 41.90 per share.

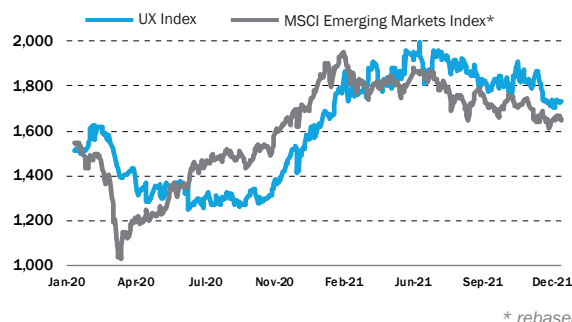
The hryvnia opened the year on a soft note, declining by 0.7% to 27.50 UAH/USD last week amid the ongoing geopolitical concerns. However, the National Bank encouraged the market with a report that the country's foreign currency reserves stood at a solid level of USD 30.9bn as of Jan 1.

Highlights

POLITICS AND ECONOMICS

- > Poroshenko Facing Arrest if He Returns to Ukraine Next Week
- > Ukrainian Gov't Over-Delivers FY21 Budget Revenue by 3%

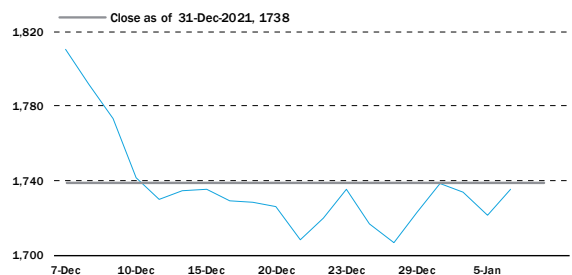
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1735	-0.2%	-0.2%
RTS	1545	-3.2%	-3.2%
WIG20	2311	1.9%	1.9%
MSCI EM	1226	-0.5%	-0.5%
S&P 500	4677	-1.9%	-1.9%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	9.0%	0.0 p.p.	0.0 p.p.
UAH 1-year bond	12.7%/11.7%	0.0 p.p.	0.0 p.p.
Ukraine-2025	9.4%	0.5 p.p.	0.5 p.p.
Ukraine-2028	9.5%	0.3 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.50	0.7%	0.7%
EUR/UAH	31.15	0.6%	0.6%

Source: Eavex Capital

Poroshenko Facing Arrest if He Returns to Ukraine Next Week

by Will Ritter
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NEWS

A Kyiv district court last week froze unspecified assets of former President Petro Poroshenko, including real estate and corporate holdings, the General Prosecutor's Office (PGO) announced on Thursday (Jan 6). The PGO, headed by President Zelenskiy's appointee Irina Venediktova, is charging Poroshenko with treason for allegedly facilitating the government's purchase of some USD 50mn worth of coal from mines located in the separatist-occupied territories of Donetsk and Lugansk provinces during the winter of 2014-15. Also charged in the scheme is the Energy Minister at the time, Volodymir Demchyshin. Poroshenko is currently outside of Ukraine (as of the end of December he was in Warsaw), but has promised to return on Jan 17. Poroshenko, who leads the European Solidarity opposition faction in Parliament, wrote on social media last week that will be coming back "not to defend myself against Zelenskiy, but to defend Ukraine from incompetent leadership." Zelenskiy has not commented publicly on the case.

COMMENTARY

Zelenskiy's chances to win a second term as President are approaching a critical juncture, in our view; we think that 2022 will be the decisive year in determining Zelenskiy's political future, as a number of his anti-establishment allies during his successful 2019 run have already called on him to keep his promise made at the time, and serve only a single 5-year term. In this vein, Zelenskiy appears intent on consolidating his power by his weakening potential rivals. We believe that it is not an accident that the PGO is pursuing Poroshenko at the current moment, as the Western media is preoccupied with the Russian military build-up around Ukraine and the high-level talks set to take place this month between the US and Russia on the big picture for European security. Indeed, thus far Zelenskiy seems to have gotten a free ride from the West for what appears to be politically-motivated harassment of an opponent, although the criticism could increase if Poroshenko is actually arrested and imprisoned. Importantly, we believe that Zelenskiy will be unable to survive politically if the Western diplomatic and business community turn wholesale against him, and he therefore cannot afford to be seen as openly indulging in a vendetta against Poroshenko. As for the actual case against Poroshenko regarding the coal purchases, we doubt that it could have the kind of resonance needed to discredit the former President even if he is implicated in the scheme. In late 2014, Ukraine was facing a security situation vis-a-vis Russia that was considerably more dangerous than even the current standoff; there were several existential crises, one of which was a critical energy shortage heading into the winter, and the supply of Donbass coal was surely badly needed for the state. In order for the case to have resonance, it would have to be proven that Poroshenko was involved in the coal scheme from a business standpoint and personally profiting from it, we believe.

Ukrainian Gov't Over-Delivers FY21 Budget Revenue by 3%

by Dmitry Churin
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NEWS

The Ukrainian government exceeded the planned national budget revenue by some UAH 30bn (2.8%), collecting UAH 1.084tn (USD 39.7bn) in 2021, according to preliminary data provided by the State Treasury Service. The largest proceeds for the national budget came from the State Customs Service. Customs payments amounted to UAH 409bn (USD 15bn), including UAH 380bn received in the form of value-added tax and UAH 26.6bn in form of import duties.

The revenues of the State Tax Service amounted to UAH 614bn (USD 22.5bn) with the breakdown presented below:

- personal income tax and military fees: UAH 138bn (USD 5.0bn);
- corporate profit tax: UAH 148bn (USD 5.4bn);
- fees for the use of mineral resources: UAH 54bn (USD 2.0bn);
- excise tax on goods produced in Ukraine: UAH 69bn (USD 2.5bn);
- value-added tax: UAH 156bn (USD 5.7bn).

The State Treasury Service also reported that the expenditures of the national budget amounted to UAH 1.259tn (USD 46.1bn) in 2021, which was 1.5% less than planned for the year. However, the financing of social expenditures, defense expenditures, debt service expenditures, and transfers to local budgets was carried out in full, following the budget plan based on payment orders.

Separately, the Finance Ministry said that the country's borrowing plan underperformed by 14% in 2021, with a total UAH 603bn (USD 22.1bn) in debt raised during 2021. The external debt raised was USD 7.1bn, including USD 3.4bn in loans from the IMF.

Ukraine's public debt repayments in 2021 were at UAH 441bn (USD 16.2bn), and debt servicing payments amounted to UAH 150bn (USD 5.5bn).

COMMENTARY

The preliminary data indicates that Ukraine's national budget for 2021 was executed with a deficit of UAH 168bn (USD 6.2bn) compared to the planned deficit of UAH 221 (USD 8.1bn) for the year. In relative terms, we estimate the budget deficit at 3.2% of GDP, which can be viewed as a moderate deficit in the current macroeconomic environment. The government spent a total amount (equivalent) of USD 21.7bn for debt redemption/servicing, while the proceeds from new borrowing was USD 22.1bn in 2021. On the one hand, the Finance Ministry managed to effectively refinance the debt redemptions, but this result was largely achieved primarily due to resumed cooperation with the IMF as well as a separate receipt from the IMF of USD 2.7bn in form of a general SDR allocation. Moreover, we should note that 2021 was favorable for emerging market countries in terms of foreign debt attraction at quite low interest rates. Conversely, this year is likely to see higher interest rates across the board, meaning new debt for Ukraine will be more expensive. The expected external debt payment total for Ukraine is USD 4.6bn in 2022, with the largest repayments of USD 810mn and USD 1.9bn due in March and September respectively. Although the debt schedule for Ukraine this year looks more difficult than in 2021, we think that the domestic debt redemptions will be refinanced, while for the external debt repayment, Ukraine holds foreign currency reserves of USD 30.9bn to start the year.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	58.9	83.0	41%	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	6.7	11.5	71%	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	41.9	--	--	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	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	276	350	27%	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	33.3	--	--	U/R	
JKX Oil & Gas	JKX LN	41.5	42.0	1%	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	29.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slaviansk plant by 2022.
CenterEnerg	CEEN	7.40	--	--	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	0.430	0.42	-2%	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	1735	-0.2%	-0.2%								
Iron Ore Mining												
Ferrexpo	FXPO	312	4.2%	4.2%	2496	2492	24.0%	3.9	2.3	2.9	1.7	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.0	0.0%	0.0%	79	53	5.0%	9.3	15.2	4.0	5.3	0.3
Specialized Machinery												
Turboatom	TATM	3.5	19.2%	19.2%	53	50	3.8%	6.3	17.0	1.0	2.4	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	407	385	24.0%	12.9	17.4	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	276	2.2%	2.2%	544	513	3.0%	3.4	2.9	1.6	1.8	0.4
Enwell Energy (ex-Regal)	ENW	33.3	-4.9%	-4.9%	145	91	21.6%	48.4	16.1	3.5	3.0	1.5
JKX Oil	JKX	41.5	1.8%	1.8%	97	205	50.4%	4.9	3.5	6.9	3.8	2.2
Power Utilities												
Centrenergy	CEEN	7.40	17.5%	17.5%	99	70	21.7%	43.8	neg	4.2	neg	0.1
Donbasenergy	DOEN	29.00	0.0%	0.0%	25	24	14.2%	23.1	neg	2.8	neg	0.1
Consumer												
MHP	MHPC	6.72	-0.9%	-0.9%	710	2001	32.5%	neg	2.4	5.9	3.2	0.9
Kernel	KER	58.90	0.3%	0.3%	1,173	2009	61.8%	2.3	2.9	2.2	2.4	0.4
Astarta	AST	41.90	-1.2%	-1.2%	262	437	37.0%	31.7	24.9	3.6	3.2	0.8
Avangardco	AVGR	0.02	0%	0.0%	1	333	22.5%	neg	neg	18	20	3.0
Agroton	AGT	6.80	0.0%	0.0%	37	12	25.0%	3.1	2.9	0.4	0.4	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.430	-6.5%	-6.5%	962		1.8%	6.4	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																
Centrenergy	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	101.9	102.2	11.4%	10.5%	S/A	11 May 2022	12,917
UA4000218325	99.8	100.3	12.0%	11.0%	S/A	20 Jul 2022	13,415
UA4000199210	101.0	101.6	12.7%	11.7%	S/A	12 Oct 2022	14,993
UA4000201255	103.5	105.1	13.5%	12.3%	S/A	24 May 2023	6,470
UA4000207880	93.3	95.2	13.8%	12.8%	S/A	22 May 2024	18,105
UA4000204150	105.4	108.3	14.1%	13.0%	S/A	26 Feb 2025	41,080
UA4000207518	83.7	88.7	14.7%	13.2%	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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