

Stock Market Update

Equity

The Ukrainian Exchange index rose by 0.6% last week to close at 1746 points. The performance in major Kyiv-listed stocks was volatile as high natural gas prices across Europe hurt manufacturing and agro sectors badly. Ukraine has been on a long journey to link its domestic gas prices to import prices, but the current elevated energy costs have prompted the government to provide subsidies to “vulnerable” industries to help them to overcome energy problems this winter. Ukraine started this year with 13.5bn cubic meters of gas in the underground storage; 2.5bn cubic meters of gas were pumped out in December.

In individual stocks, there was a 9.5% drop in CentrEnergO (CEEN) to UAH 6.70 as the coal shortage and its high costs threaten the company’s entire operation. CentrEnergO has imported part of coal for its thermal electricity plants all the way from the US. On the upside, UkrNafta (UNAF) gained 5.4% to UAH 291 as rising crude prices are positive for the company’s bottom line. Raiffeisen Bank (BAVL) added 4.4% to 44.9 kopecks as the bank’s earnings for FY21 are forecasted at 8.0 kopecks per share.

In London trading, Enwell Energy (former Regal) grew by 8.7% to GBP 36.20, boosted by another spike in the natural gas price to USD 1,030 per 1,000 cubic meters. On the downside, Ferrexpo (FXPO) fell 11% to GBP 277 and MHP (MHPC) declined by 2.4 to USD 6.56.

On the Warsaw Stock Exchange, Kernel (KER) and Astarta (AST) decreased by 3.1% and 3.8% respectively, with the former closing at PLN 57.10.

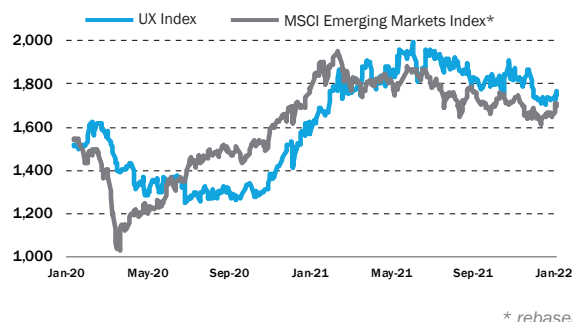
On the currency front, the hryvnia lost 1.9% amid the ongoing geopolitical tensions between Russia and the US, ending trading on Friday at 28.00 UAH/USD on the nose, which is the currency’s lowest level since April 2021. The hryvnia is likely to devalue further unless economic and geopolitical risks ease shortly; we see the NBU as defending the 29.50 level in the coming 2 months to keep the hryvnia clear of the 30 barrier.

Highlights

POLITICS AND ECONOMICS

- > Massive Selloff in Ukraine Bonds after US, Russian Positions Harden
- > Zelenskiy Loses Challenge to Biden in Senate Vote on Nord Stream
- > Ukraine Ends 2021 with Inflation of 10% Despite PPI Surge of 62%

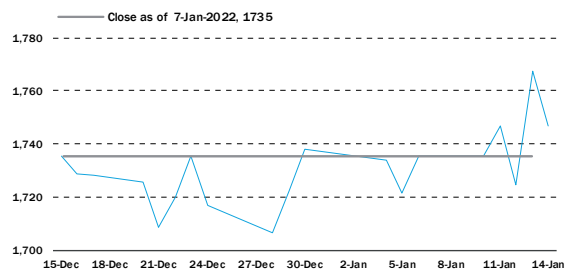
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1746	0.6%	0.4%
RTS	1463	-5.3%	-8.3%
WIG20	2375	2.8%	4.8%
MSCI EM	1257	2.5%	2.0%
S&P 500	4662	-0.3%	-2.2%

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	13.0%/12.0%	+0.3 p.p.	+0.3 p.p.
Ukraine-2025	11.1%	1.7 p.p.	2.2 p.p.
Ukraine-2028	10.9%	1.4 p.p.	1.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.01	1.9%	2.5%
EUR/UAH	32.05	2.9%	3.5%

Source: Eavex Capital

Massive Selloff in Ukraine Bonds after US, Russian Positions Harden

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

NEWS

Ukrainian sovereign bonds suffered stunning losses last week after talks in Geneva and Brussels involving the US, NATO and Russia failed to yield any progress in easing the standoff caused by Russian demands to end NATO expansion and withdraw forces from NATO countries in Eastern Europe. Sovereign yields shot up into the double digits amid drops in price that exceeded 10% in some issues, in a wave of selling that was reminiscent of the initial COVID-19 market panic in March 2020. The long-term benchmark Ukraine-32s ended the week down by 9.4% at 79.3 cents on the dollar, implying a yield of 10.9%, while shorter issues reached yields in the 12-14% range. Investors feared the increased likelihood of military action by Russia, which has built up its forces near the Ukrainian border on three sides. However, the Kremlin denied that it has an intention to launch an invasion. Meanwhile, the US Defense Department announced on Friday (Jan 14) that it had received intelligence that Russia is planning to conduct a “false flag” attack against its own forces in Moldova and/or the occupied Donbass, which it intends to blame on Ukraine in order to justify an invasion.

COMMENTARY

We suppose that the Kremlin is fully aware that Ukraine has no chance to join NATO, and therefore we see Russia as trying to disguise from the West what it actually wants to gain from its current power play. We continue to believe that Russia will not launch an unprovoked attack against Ukraine, as the costs of such a move in terms of the Western response will simply be too high for the Putin regime to bear. On the other hand, we also see the hard US & NATO stance of defending Ukraine’s right to join NATO, despite the alliance having no intention to invite Ukraine in, as a curious ideological position with little benefit and considerable risk. We cannot rule out that the Putin regime has begun acting recklessly and aggressively because it is under some kind of heavy internal pressure which is not visible from the outside. We continue to believe that the Kremlin’s real underlying strategy is the same as it has been for the last 8 years - to destabilize Ukraine internally by exploiting the country’s domestic political divisions, including by enabling the most hard-line nationalist elements in the political spectrum. Indeed, Western governments have been expressing their alarm over President Zelenskiy’s apparent vendetta against his predecessor Petro Poroshenko at a time when the country’s two most prominent pro-Western politicians should be putting up a front of unity. Poroshenko is due to return to Kyiv today (Jan 17) from Warsaw and is facing arrest on treason charges brought against him by the General Prosecutor’s Office.

Zelenskiy Loses Challenge to Biden in Senate Vote on Nord Stream

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

NEWS

The US Senate on Thursday (Jan 13) rejected a bill that would have placed new sanctions on the Nord Stream 2 energy pipeline from Russia to Germany, aimed at blocking the project from coming into service. The bill failed by a margin of 55-44 (it required 60 votes to pass) despite the personal lobbying of senators by President Zelenskiy and Ukrainian energy officials. The measure was strongly opposed by the Biden administration, which conducted its own campaign to keep Democratic Party senators in line. Senator Christopher Murphy, a close Biden ally, openly criticized Zelenskiy's attempted intervention in the vote, saying Zelenskiy "mis-reads US politics". The Biden administration contended that sanctions against a key European ally (Germany) would be damaging from a diplomatic standpoint, and also said that it needs to hold the threat of blocking Nord Stream 2 in reserve as leverage to prevent Russia from making aggressive military moves against Ukraine. The bill was sponsored by Republican senator Ted Cruz and was supported by the entire Republican Senate caucus, joined by 6 Democrats.

COMMENTARY

It looks quite absurd to us that Zelenskiy actively joined with US Republicans in trying to blow up the Biden administration's strategy for defending Ukraine from Russian attack. The comments from Sen. Murphy, though understated, indicate the clear annoyance of the US administration with what it likely sees as Zelenskiy's lack of strategic competence. In our view, Zelenskiy is clearly missing the forest for the trees here, as he appears to be motivated by the relatively paltry sum of USD 1.5bn per year in natgas transit fees which Ukraine stands to lose from Nord Stream 2, rather than by maintaining strong relations with the US administration at a time when Washington and Kyiv absolutely need to be on the same page. Despite Biden's current domestic political difficulties, he showed rather emphatically that he is still firmly in charge of US foreign policy by preventing Democratic defections and shutting down Cruz's bill. In the larger scheme of the current confrontation between the West and Russia, the squabbling over Nord Stream 2 is a mere sideshow.

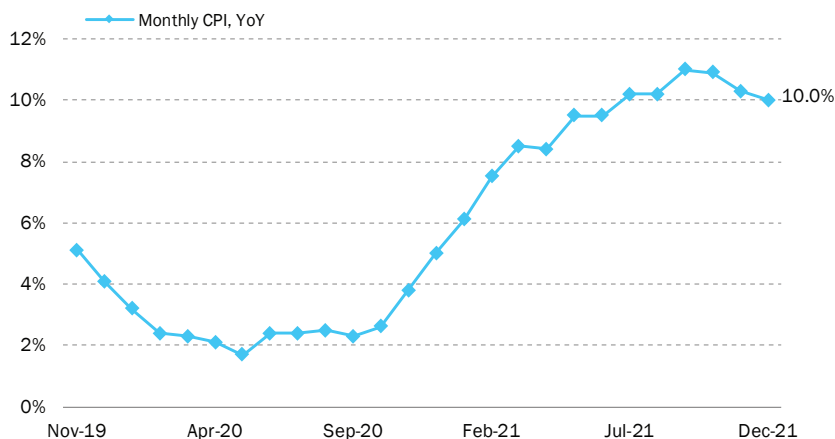
Ukraine Ends 2021 with Inflation of 10% Despite PPI Surge of 62%

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

NEWS

Ukraine's officially reported consumer price inflation has come in at 10.0% YoY for full-year 2021 following the December data published by the State Statistics Committee (UkrStat) last week. The rolling 12-month inflation figure accelerated from 6.1% in January to 10.9% in October with a moderate contraction in the November-December period due to the high comparison base. Major consumer price categories showed the following full-year performances: food +12.7%, clothing -3.5%, utility services +9.8%, healthcare +6.1%. The highest jump in subcategories was in sunflower oil, which jumped in price by 38.8% in 2021. For December alone, the CPI index moved up by 0.6% MoM. Meanwhile, in producer prices, there was a huge 62% YoY hike in 2021. In major producer price categories, extraction sector prices grew by 56%, aggregate manufacturing prices increased by 28%, and utility sector prices surged by 2.9x YoY over 2021.

UKRAINE'S ROLLING 12-MONTH CPI INFLATION



Source: State Statistics Committee

COMMENTARY

The actual FY21 consumer inflation came above the government's target of 7.3% YoY inflation, while falling exactly in line with our initial forecast of 10.5% YoY figure. The main factor behind the higher inflation last year was a substantial increase in food and energy prices worldwide. Our current projection for consumer inflation in 2022 is 9.5%, which should be considered as quite an optimistic scenario as huge producer price index growth last year is expected to translate into a corresponding increase in final consumer goods prices this year.

A separate big challenge for Ukraine in 2022 is natural gas imports. The country started the year with 13.5bn cubic meters (cu-m) of gas in the underground storages, while in December alone there was 2.5bn cu-m taken from the storages. Currently the gas price benchmark in Europe stands at USD 1,030 per 1,000 cu-m, which is three times higher than a year ago. Ukraine's energy-inefficient economy is struggling to bear this high natural gas price, forcing the government to subsidize households and certain industries.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	57.1	83.0	45%	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	6.6	11.5	75%	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	40.3	--	--	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	6.70	12.0	79%	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	277	280	1%	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	291	350	20%	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	36.2	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	29.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	6.70	--	--	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	0.449	0.42	-6%	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 2021E
			1W	YtD				2020	2021E	2020	2021E	
UX Index	UX	1746	0.6%	0.4%								
Iron Ore Mining												
Ferrexpo	FXPO	277	-11.1%	-7.3%	2219	2215	24.0%	3.5	2.0	2.6	1.5	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.0	0.0%	0.0%	78	51	5.0%	9.1	14.9	3.9	5.2	0.3
Specialized Machinery												
Turboatom	TATM	3.5	0.0%	19.2%	52	49	3.8%	6.2	16.7	1.0	2.3	0.9
Motor Sich	MSICH	5390	0.0%	0.0%	400	378	24.0%	12.7	17.1	3.7	4.2	1.1
Oil & Gas												
UkrNafta	UNAF	291	5.4%	7.7%	563	532	3.0%	3.6	3.0	1.7	1.8	0.4
Enwell Energy (ex-Regal)	ENW	36.2	8.7%	3.4%	158	104	21.6%	52.6	17.5	4.0	3.5	1.7
Power Utilities												
Centrenergo	CEEN	6.70	-9.5%	6.3%	88	59	21.7%	38.9	neg	3.5	neg	0.1
Donbasenergo	DOEN	29.00	0.0%	0.0%	24	23	14.2%	22.7	neg	2.7	neg	0.1
Consumer												
MHP	MHPC	6.56	-2.4%	-3.2%	693	1984	32.5%	neg	2.4	5.8	3.2	0.9
Kernel	KER	57.10	-3.1%	-2.7%	1,146	1982	61.8%	2.2	2.8	2.1	2.4	0.4
Astarta	AST	40.30	-3.8%	-5.0%	254	429	37.0%	30.7	24.2	3.5	3.2	0.8
Avangardco	AVGR	0.02	0%	0.0%	1	333	22.5%	neg	neg	18	20	3.0
Agroton	AGT	6.70	-1.5%	-1.5%	37	12	25.0%	3.1	2.8	0.4	0.4	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.449	4.4%	-2.4%	986		1.8%	6.5	5.7	2.2	2.0	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%
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	101.3	102.0	11.8%	10.8%	S/A	11 May 2022	12,917
UA4000218325	99.7	100.2	12.2%	11.2%	S/A	20 Jul 2022	13,415
UA4000199210	101.0	101.6	13.0%	12.0%	S/A	12 Oct 2022	14,993
UA4000201255	104.1	105.1	13.1%	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	102.4	103.4	15.4%	15.0%	S/A	26 Feb 2025	41,080
UA4000207518	81.6	82.6	15.5%	15.2%	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

Eavex Capital

7 Klovsky 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 2022 Eavex Capital. All rights reserved.

Securities and Stock Market State Commission licence, issued 06.10.2015