

## Stock Market Update

### Equity

Kyiv-listed stocks were under pressure last week due to fears of possible Russian aggressive actions against Ukraine. Russia's foreign minister and his US counterpart held what they called "frank" talks to try to reduce the chance of a wider conflict in Ukraine. Official Moscow repeated denials that a huge Russian force assembled near Ukraine's borders would be used to invade Ukraine. The US and its allies have repeatedly threatened new economic sanctions if the Russian military takes action.

The Ukrainian Exchange index dropped by 1.9% to 1712 points. The major losses were in the new UX index component MHP (MHPC), which fell 8.5% to USD 6.00 per share in London trading. Meanwhile, CentrErgo (CEEN) showed some resistance to the sell-off, rebounding by 3.0% to UAH 6.90. Heavyweight UkrNafta (UNAF) declined by 7.2% to UAH 270 after the company announced another shareholders meeting on Feb 17 to try to decide on the company's asset split between the main shareholders. So far there is no information about whether state-owned NaftoGaz will show up at the meeting, as the plan has many unresolved issues.

London-listed Ferrexpo (FXPO) and Enwell Energy (former Regal) also were sharply lower due to Ukraine-related country's risks. The FXPO stock went down by 11% to GBP 247 and the ENW stock tumbled by 16% to GBP 30.30.

On the Warsaw Stock Exchange, Kernel (KER) got support from the company's share buyback offer, which was announced with a price range from PLN 50 to PLN 60. The KER stock decreased by 3.9% last week to PLN 54.90. Sugar maker Astarta (AST) plunged by 15% to PLN 34.20 and Agrotan (AGT) tanked by 8.4% to PLN 6.14.

On the interbank currency market, the hryvnia was highly volatile reaching 28.40 UAH/USD before settling at 28.23 UAH/USD on Friday, a drop of 0.8% for the week. Information about how much the NBU spent on interventions to defend the hryvnia was not immediately available.

## Highlights

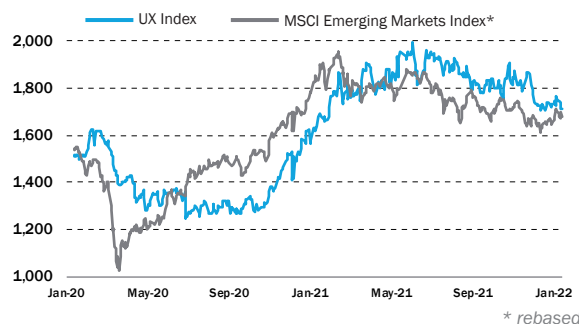
### POLITICS AND ECONOMICS

- > US at Odds with Zelenskiy as Blinken Rejects Pre-Emptive Sanctions Against Moscow

### STOCKS IN THE NEWS

- > Kernel Reports 45% YoY Growth in Grain Export Volumes to 3.5mn tonnes in Oct-Dec Quarter

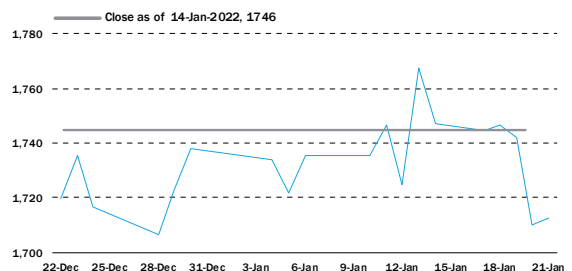
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
UX	1712	-1.9%	-1.5%
RTS	1401	-4.2%	-12.2%
WIG20	2273	-4.3%	0.3%
MSCI EM	1244	-1.0%	1.0%
S&P 500	4397	-5.7%	-7.7%

## UX 1M PERFORMANCE



## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	+1.0 p.p.	+1.0 p.p.
UAH 1-year bond	14.2%/12.0%	+0.5 p.p.	+0.8 p.p.
Ukraine-2025	11.8%	0.7 p.p.	2.9 p.p.
Ukraine-2028	10.0%	-0.9 p.p.	0.8 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.23	0.8%	3.3%
EUR/UAH	32.04	0.0%	3.5%

Source: Eavex Capital

## US at Odds with Zelenskiy as Blinken Rejects Pre-Emptive Sanctions Against Moscow

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### NEWS

Top US diplomat Tony Blinken rejected the idea of placing pre-emptive economic sanctions on the Russia economy, in a prominent US media appearance on Sunday (Jan 23), stating that such a move would undermine the deterrent effect of the sanctions threat in preventing a Russian attack on Ukraine. Blinken's remarks appeared to be a riposte to President Zelenskiy, who had stated the exact opposite in an interview with the Washington Post the previous day. Zelenskiy said that pre-emptive sanctions against Moscow are needed now, and that the possibility of lifting such sanctions could work as a carrot to entice Russia to de-escalate the current high tensions. Zelenskiy's position is shared by much of the US Republican party, while most Democrats have gotten in line with the Biden administration's view as reflected by Blinken's comments.

### COMMENTARY

In our view, the Biden administration's position on keeping the sanctions as an ace in the hole against Russian aggression is the correct one, while the claims of Zelenskiy and his Republican allies look illogical. The Putin regime could perceive that a pre-emptive round of sanctions might remain until, for example, Russia returns Crimea to Ukraine, or de-facto indefinitely, thus rendering them useless as a deterrent against new military action. We think the Republican position is much more about opposing Biden in the context of US domestic politics than it is about real concern for Ukraine. Democratic senator Christopher Murphy, a close Biden ally, went so far as to say on Thursday (Jan 20) that Zelenskiy appears to care more about feuding with US officials on social media than he cares about protecting his country, which represents the sharpest public US criticism of Zelenskiy to date. A separate issue here is that Zelenskiy's apparent belief that he can "wag the dog" of US foreign policy with provocative public statements (behavior which bears the fingerprints of presidential administration head Andrey Yermak) implies a lack of strategic competence and a naivete about how US policy is actually formed; we saw a similarly short-sighted outlook from Zelenskiy in regard to his obsession with the Nord Stream 2 sanctions and his eagerness to enter into an alliance of convenience with Republicans to disrupt the Biden administration's approach to maintaining US relations with Germany.

## Kernel Reports 45% YoY Growth in Grain Export Volumes to 3.5mn tonnes in Oct-Dec Quarter

by Dmitry Churin  
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### KERNEL (KER PW)

Price: PLN 54.90 Market Cap: USD 1,125mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY21	0.6	0.3	2.2	2.1	3.2%
FY22E	0.5	0.4	2.7	2.3	3.2%

### NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, reported that its grain export volumes grew by 45% YoY to 3.48mn tonnes in the Oct-Dec quarter while its sunflower oil sales declined by 6% YoY to some 400,000 tonnes in the period (2Q22 in the company's July-to-June reporting calendar), according to an operational update published on Jan 21. In other key business segments, Kernel also demonstrated mixed operational results. Seed-crushing volume decreased by 2% YoY to 985,000 tonnes in the Oct-Dec quarter while export terminal throughput rose 25% YoY to 2.98mn tonnes in the period. The half-year operational results were the following: oil sales decreased by 14% YoY to 619,000 tonnes in July-December 2021 while grain export volume rose by 26% YoY to 5.19mn tonnes.

### KERNEL OPERATIONAL UPDATE

Volume	2Q FY21	2Q FY22	Change	1H FY21	1H FY22	Change
Grain exports, tonnes	2,395,343	3,483,124	+45%	4,520,993	5,709,879	+26%
Vegetable oil sales, tonnes	425,341	398,745	-6%	721,582	619,453	-14%
Oilseed crush, tonnes	1,001,292	985,472	-2%	1,663,905	1,467,738	-12%
Export terminals throughput, tonnes	2,382,860	2,984,992	25%	4,251,453	5,191,905	+22%

Source: Companies' data

### COMMENTARY

Kernel beat our expectations, delivering impressive 45% YoY growth in grain exports in the Oct-Dec quarter. Taking into account that Ukraine's overall grain harvest increased by 28% to 84mn tonnes, Kernel managed to outperform the market with grain exports. Nevertheless, it was disappointing to see that the company continued to struggle to increase its sunflower oil processing despite the strong sunflower seeds harvest in the country in 2021. The company blamed farmers' unwillingness to sell sunflower seeds as the main reason behind the lower processing volumes. Back to the grain segment, Kernel's Oct-Dec exports of 3.5mn tonnes was the best in the company's history. The external grain supply amounted to 59% of the export volumes and the balance came from Kernel's own farming segment. Kernel's market share in grain exports from Ukraine reached 17.5% in the Oct-Dec quarter.

In a separate event, Kernel's management announced a tender to buy back up to 4.6% of its shares. This buyback could indicate the company's effort to take advantage of the current geopolitical tensions that are holding down its share price. The buyback tender will be conducted this week in the form of an auction, with the stated price range from PLN 50-60 per share.

Eavex Capital reiterates our BUY rating for the KER stock with a target price of PLN 83.00, implying an upside of 51% from the current stock price at PLN 54.90. The KER stock has lost 6.5% thus far in the opening month of 2022 due to geopolitical risks.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	54.9	83.0	51%	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	6.0	11.5	92%	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	34.2	--	--	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	6.14	12.0	95%	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	247	280	13%	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.
<b>Specialized Machinery</b>						
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.
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	270	350	30%	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	30.3	--	--	U/R	
<b>Power Utilities</b>						
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	6.90	--	--	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.
<b>Banks</b>						
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	1712	-1.9%	-1.5%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	247	-10.8%	-17.4%	1973	1969	24.0%	3.1	1.8	2.3	1.4	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	19.0	0.0%	0.0%	77	51	5.0%	9.0	14.8	3.9	5.1	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	4.0	15.3%	37.5%	60	57	3.8%	7.1	19.1	1.1	2.7	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	397	374	24.0%	12.6	17.0	3.7	4.2	1.1
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	270	-7.2%	0.0%	519	487	3.0%	3.3	2.8	1.5	1.7	0.4
Enwell Energy (ex-Regal)	ENW	30.3	-16.4%	-13.6%	131	77	21.6%	43.8	14.6	3.0	2.6	1.2
<b>Power Utilities</b>												
Centrenergo	CEEN	6.90	3.0%	9.5%	90	61	21.7%	39.8	neg	3.6	neg	0.1
Donbasenergo	DOEN	29.00	0.0%	0.0%	24	23	14.2%	22.5	neg	2.7	neg	0.1
<b>Consumer</b>												
MHP	MHPC	6.00	-8.5%	-11.5%	634	1925	32.5%	neg	2.2	5.7	3.1	0.9
Kernel	KER	54.90	-3.9%	-6.5%	1,094	1930	61.8%	2.1	2.7	2.1	2.3	0.4
Astarta	AST	34.20	-15.1%	-19.3%	214	389	37.0%	25.9	20.4	3.2	2.9	0.8
Avangardco	AVGR	0.02	0%	0.0%	1	333	22.5%	neg	neg	18	20	3.0
Agroton	AGT	6.14	-8.4%	-9.7%	33	8	25.0%	2.8	2.6	0.3	0.3	0.1
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.440	-2.0%	-4.3%	958		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
<b>Iron Ore Mining</b>																
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%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
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%
<b>Consumer</b>																
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%
<b>Banks</b>																
		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
<b>UAH denominated Bonds</b>							
UA4000204002	101.3	102.0	12.5%	10.8%	S/A	11 May 2022	12,917
UA4000218325	99.1	100.0	13.2%	11.5%	S/A	20 Jul 2022	13,415
UA4000199210	100.1	102.3	14.2%	11.5%	S/A	12 Oct 2022	14,993
UA4000201255	100.7	105.1	16.0%	12.3%	S/A	24 May 2023	6,470
UA4000207880	93.0	95.2	14.0%	12.8%	S/A	22 May 2024	18,105
UA4000204150	96.8	106.9	18.0%	13.5%	S/A	26 Feb 2025	41,080
UA4000207518	74.7	86.1	18.0%	14.0%	S/A	20 May 2027	7,018
<b>USD denominated Bonds</b>							
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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