

Stock Market Update

Equity

The Ukrainian Exchange index rebounded by 2.0% to 1746 points last week, driven by UkrNafta (UNAF), which rose 7.0% to UAH 289, and by CentrErgo (CEEN), which gained 2.2% to UAH 7.05.

In macroeconomic statistics, UkrStat reported that Ukraine's retail sales increased by 10.7% YoY in full-year 2021, while in December the retail sales index was up by a more modest 5.1% YoY. In the broader context, we assume that the retail sales performance indicated that consumer sentiments somewhat worsened, as high inflation bites into households' real income. Ukraine's full-year 2021 GDP increase is expected at 3.0%, which would be notably behind initial expectations amid the forecasts of a fast economic recovery after COVID-hit 2020. Currently a sharp acceleration of economic growth in Ukraine looks unlikely unless the government finds a way to attract large foreign investors to the country's real sector.

In London trading, Ukrainian natural gas producer Enwell Energy (former Regal) dropped by 14% to GBP 26.00 after information that a Kyiv court restricted one of the company's recently acquired licenses. Enwell Energy had acquired that gas license on the secondary market for USD 8.6mn. In our view, there will be no threat to the company's ongoing operations, but there is a high risk to lose the license which was acquired for expansion purposes. Ferrexpo (FXPO) shed 0.9% to GBP 245 per share. The FXPO stock has lost 18% in January amid risks of possible Russian military aggression against Ukraine.

Warsaw-listed Kernel (KER) declined by 2.9% to PLN 53.30 and Astarta (AST) edged down by 0.4% to PLN 34.05. Astarta published a mixed operational update for 4Q21 with a moderate sugar sales volume increase of 6% YoY to 85,900 tonnes. Due to the 35% YoY jump in sugar prices in 4Q21, we assume that Astarta's financial results for the quarter will be quite solid.

The hryvnia remained under pressure losing 1.0% last week to close at 28.52 UAH/USD. The Ukrainian currency traded in a corridor from 28.52 UAH/USD to 28.92 UAH/USD on the interbank market over the period.

Highlights

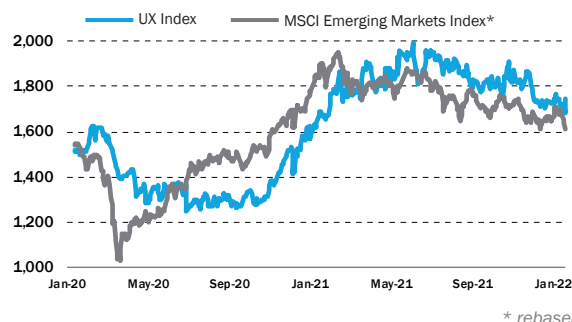
POLITICS AND ECONOMICS

- > US, Britain Ratchet up Sanctions Drumbeat as Zelenskiy Asks for New Financial Support

STOCKS IN THE NEWS

- > MHP Posts Marginal Full-Year Poultry Sales Volume Growth of 1% for 2021

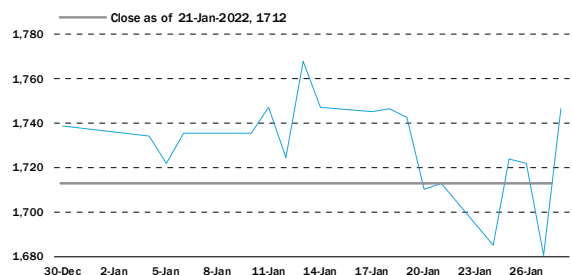
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1746	2.0%	0.4%
RTS	1447	3.3%	-9.3%
WIG20	2210	-2.8%	-2.5%
MSCI EM	1191	-4.3%	-3.3%
S&P 500	4431	0.8%	-7.0%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year bond	14.2%/12.0%	0.0 p.p.	+0.8 p.p.
Ukraine-2025	11.8%	0.0 p.p.	2.9 p.p.
Ukraine-2028	10.4%	0.4 p.p.	1.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.52	1.0%	4.4%
EUR/UAH	31.93	-0.3%	3.1%

Source: Eavex Capital

US, Britain Ratchet up Sanctions Drumbeat as Zelenskiy Asks for New Financial Support

by Will Ritter
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NEWS

The United States and Britain ratcheted up their sanctions threats against the Kremlin on Sunday (Jan 30), a day ahead of a UN Security Council meeting to discuss Ukraine. US Senator Robert Menendez, a close ally of the Biden administration, bluntly stated that a new invasion of Ukraine by Russia would result in “devastating sanctions”, while British Foreign Secretary Liz Truss said that “there will be nowhere to hide for Putin’s oligarchs”. US Deputy Secretary of State Victoria Nuland said that any US sanctions would be “very well aligned” with the main European countries, US-government-funded media outlet RFE/RL reported. Putin “will feel it acutely, as will the Russian people,” Nuland said. Meanwhile, in comments to international media on Friday (Jan 28) in Kyiv, President Zelenskiy complained again about the West’s lack of pre-emptive sanctions on Russia, and asked for a new round of USD 4-5bn in aid to offset the negative effects that the current security crisis is having on Ukraine’s economy.

COMMENTARY

In our view, the credible threat of coordinated heavy sanctions against the Russian elite being imposed by the US and the largest European countries (Germany, France, Britain) remains the strongest card which the West holds to deter Russian aggression against Ukraine. It is therefore positive for the overall situation that the media narrative is switching back toward these sanctions, and away from escalatory talk about NATO troop movements and the conflict between Kyiv and Washington over how to approach the Russian threat. Zelenskiy indeed has a valid point when he states that Western media claims of an “imminent” Russian invasion sow panic and cause real economic damage to Ukraine’s economy. The trouble with the word “imminent”, which has been repeatedly used by White House press liaison Jennifer Psaki and the US media, is that it is an English idiom with no direct translation into Ukrainian or Russian, and it is therefore being translated by Ukraine’s media as “inevitable”. Zelenskiy’s complaints about the language being used are therefore justified, in our view. Where Zelenskiy does not have a point, however, are in his illogical public demands for pre-emptive sanctions against Moscow that would spoil the sanctions’ deterrent effect and, in our view, make a large-scale war more likely.

MHP Posts Marginal Full-Year Poultry Sales Volume Growth of 1% for 2021

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 6.52 Market Cap: USD 722mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.7	1.1	neg	5.9	4.3%
2021E	0.5	0.9	2.5	3.2	4.3%

NEWS

London-listed, central-Ukraine-based MHP (MHPC) reported a marginal 1.0% YoY increase in its poultry sales volume to 704,000 tonnes in full-year 2021, according to the company's operational update issued on Jan 27. MHP said that its poultry exports rose 8% YoY to some 402,400 tonnes in full-year 2021, accounting for 57% of total sales volume, which was higher than a share of 53% a year before. In 4Q21 alone, MHP's sales volume rose by 3% YoY to 180,000 tonnes. The company said its production facilities operated at full capacity in the quarter. On the pricing side, MHP's average achieved sales price for poultry rose by 22% YoY in USD terms in 2021 to USD 1.63 per kg (ex-VAT).

MHP's sunflower oil segment demonstrated a 37% YoY decrease in sales to 207,200 tonnes in 2021, with all of the sales being exports.

MHP OPERATIONAL UPDATE

Poultry	4Q20	4Q21	Change	2020	2021	Change
Sales volume, tonnes	175,135	180,028	+3%	699,926	704,010	+1%
Domestic	79,551	70,767	-11%	324,285	288,831	-11%
Export	94,709	104,841	+11%	373,734	402,388	+8%
Price USD per 1 kg net VAT	1.36	1.72	+26%	1.34	1.63	+22%

Source: Companies' data

COMMENTARY

MHP's operational results came in line with expectations. However, in the grain segment the company managed to deliver a superior performance, harvesting 2.6mn tonnes from a land bank of 351,000 hectares, which was 52% more than in 2020. MHP's harvest was also better than the average in Ukraine, as the country's overall grain harvest increased by 28% YoY to 84mn tonnes in 2021. MHP was extremely successful last year in corn harvesting, doubling the harvest volume to 1.62mn tonnes from almost the same land area of 163,300 hectares under corn planting. The company's corn yield reached 10.0 tonnes per hectare in 2021, compared to an average of 8.0 tonnes/ha in Ukraine.

The company will release its full-year 2021 financial results on Mar 24. We forecast that the higher sales volume, and more importantly higher poultry prices, will boost the company's EBITDA by 82% YoY to USD 620mn in FY21. We also expect MHP's net profit to come in at USD 290mn, compared to FY20's net loss of USD 133mn. MHP's net profit per share according to this estimate would be at USD 2.62, implying a trailing P/E of 2.5x taking into account the current MHPC stock price at USD 6.52.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	53.3	83.0	56%	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	6.5	11.5	76%	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	34.1	--	--	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	5.60	12.0	114%	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	245	280	14%	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	289	350	21%	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	26.0	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	28.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	7.05	--	--	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	0.425	0.42	-1%	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	2.0%	0.4%								
Iron Ore Mining												
Ferrexpo	FXPO	245	-0.9%	-18.1%	1956	1952	24.0%	3.1	1.8	2.3	1.3	0.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	19.1	0.5%	0.5%	76	50	5.0%	8.9	14.6	3.8	5.0	0.3
Specialized Machinery												
Turboatom	TATM	4.5	12.5%	54.6%	66	63	3.8%	7.9	21.1	1.2	3.0	1.2
Motor Sich	MSICH	5390	0.0%	0.0%	390	368	24.0%	12.4	16.7	3.6	4.1	1.1
Oil & Gas												
UkrNafta	UNAF	289	7.0%	7.0%	546	515	3.0%	3.4	2.9	1.6	1.8	0.4
Enwell Energy (ex-Regal)	ENW	26.0	-14.0%	-25.7%	113	59	21.6%	37.7	12.6	2.3	2.0	0.9
Power Utilities												
Centrenergo	CEEN	7.05	2.2%	11.9%	91	61	21.7%	40.0	neg	3.6	neg	0.1
Donbasenergo	DOEN	28.00	-3.4%	-3.4%	23	22	14.2%	21.4	neg	2.6	neg	0.1
Consumer												
MHP	MHPC	6.52	8.7%	-3.8%	689	1980	32.5%	neg	2.4	5.8	3.2	0.9
Kernel	KER	53.30	-2.9%	-9.2%	1,033	1869	61.8%	2.0	2.5	2.0	2.2	0.4
Astarta	AST	34.05	-0.4%	-19.7%	207	382	37.0%	25.1	19.7	3.1	2.8	0.7
Avangardco	AVGR	0.02	0%	0.0%	1	333	22.5%	neg	neg	18	20	3.0
Agroton	AGT	5.60	-8.8%	-17.6%	30	5	25.0%	2.5	2.3	0.1	0.1	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.425	-3.4%	-7.6%	911		1.8%	6.0	5.2	2.0	1.9	0.23

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	2236	376	340	620	18.3%	17.8%	27.7%	215	-133	290	10.5%	-7.0%	13.0%
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	100.7	101.6	14.5%	11.2%	S/A	11 May 2022	12,917
UA4000218325	99.1	99.9	13.2%	11.8%	S/A	20 Jul 2022	13,415
UA4000199210	100.1	102.1	16.5%	12.0%	S/A	12 Oct 2022	14,993
UA4000201255	100.1	102.3	16.5%	14.5%	S/A	24 May 2023	6,470
UA4000207880	87.4	91.4	17.5%	15.0%	S/A	22 May 2024	18,105
UA4000204150	96.8	101.1	18.0%	16.0%	S/A	26 Feb 2025	41,080
UA4000207518	74.7	79.7	18.0%	16.1%	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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