

**Stock Market Update**

**Equity**

Ukraine-related news flow in Western media last week was flooded by the White House statement warning that a Russian invasion into Ukraine could happen at any time, and could begin with bombing from the air. Russia characterized such allegations as “provocative speculation”. However, most staff have been ordered to leave the US Embassy in Kyiv, and Canada is also moving its embassy staff to Lviv. Meanwhile, Kyiv does not feel like a city in crisis, as most Ukrainians believe that the neighboring country has no plans to invade.

Quotes for Kyiv-listed equities finished mixed. UkrNafta (UNAF) was the worst performing blue chip, falling 4.3% to UAH 269 ahead of the company’s third shareholder meeting in three months with the agenda to try to split UkrNafta’s assets. Two previous meetings had no quorum to decide on the issue. Raiffeisen Bank (BAVL) shed 2.2% to 44 kopecks after the National Bank reported financial results of Ukrainian banks for 2021. Raiffeisen earned UAH 4.86bn (USD 178mn at the average UAH/USD exchange rate for the year), implying EPS of 7.90 kopecks, which is very near our EPS forecast of 8.00 kopecks. On the upside, CentrEnergy (CEEN) rose 1.4% to UAH 7.15.

Rising iron ore prices, which moved from USD 130 to USD 150 per share over the last two weeks, boosted quotes for London-listed Ferrexpo (FXPO) by 10.2% to GBP 284. Meanwhile, Enwell Energy (former Regal) declined by 2.3% to GBP 25.50. Poultry producer MHP (MHPC) was rather inactive, edging down by 0.9% to USD 6.48 per share.

On the Warsaw Stock Exchange, Ukrainian agro stocks were on the rise with Kernel (KER) gaining 2.0% to PLN 55.10 and the small-cap Agroton (AGT) advancing by 11.3% to PLN 6.90.

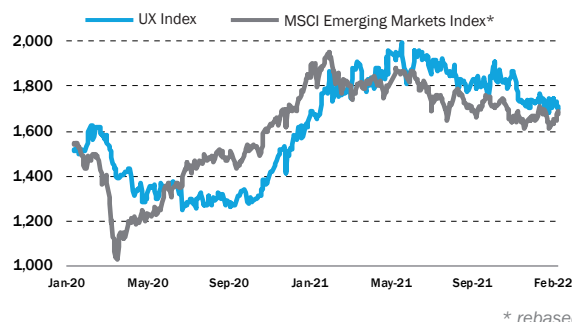
The hryvnia inched up by 0.2% against the dollar to close at 28.06 UAH/USD, as the National Bank admitted that it had spent a hefty USD 1.51bn from its foreign reserves to support the hryvnia on the interbank market in January. The NBU’s forex reserves decreased from USD 30.9bn to USD 29.3bn last month.

**Highlights**

**POLITICS AND ECONOMICS**

- > Ukraine Tensions Spike Amid Deadlock over Minsk Peace Agreement
- > Ukraine Headline Inflation Stays at 10.0% on Rising Commodity, Energy Prices

**STOCK MARKET PERFORMANCE**

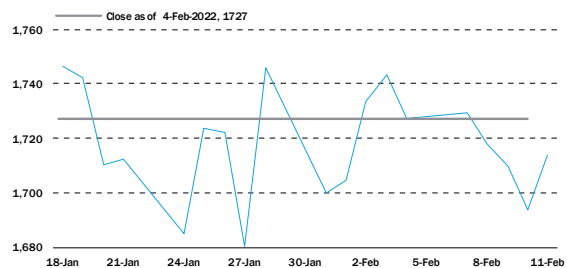


\* rebased

**MARKET INDEXES**

	Last	1W ch	YTD
UX	1713	-0.8%	-1.5%
RTS	1470	2.4%	-7.9%
WIG20	2203	1.3%	-2.8%
MSCI EM	1240	1.6%	0.6%
S&P 500	4417	-1.8%	-7.3%

**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	13.9%/11.8%	-0.2 p.p.	+0.6 p.p.
Ukraine-2026	10.6%	-0.4 p.p.	1.7 p.p.
Ukraine-2032	9.9%	-0.1 p.p.	0.7 p.p.

**CURRENCY**

	Last, UAH	1W chg.	YTD
USD/UAH	28.06	-0.2%	2.7%
EUR/UAH	31.95	-0.5%	3.2%

Source: Eavex Capital

## Ukraine Tensions Spike Amid Deadlock over Minsk Peace Agreement

by Will Ritter  
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### NEWS

Tensions regarding the Russian military buildup around Ukraine rose sharply on Thursday (Feb 10) after a meeting in Berlin of the so-called “Normandy 4” format to discuss ways to resolve the Donbass conflict in Eastern Ukraine. The format consists of Ukraine and Russia plus Germany and France. Russia used the meeting to demand that Ukraine implement the 2015 Minsk peace agreement, the crucial tenet of which is for the currently occupied Donbass territories to receive special autonomous status within Ukraine. For the last 6 years, Kyiv has refused to take the steps outlined in the Minsk deal unless Russia first withdraws its military forces from the territories. Despite being pressed by Germany and France to offer some compromise, the Ukrainian delegation led by presidential administration chief Andrey Yermak refused, and the meeting ended with no results after 9 hours of talks. On Friday morning (Feb 11), major Western media outlets began reporting US assessments that a large-scale Russian attack against Ukraine could occur within days, and the US and several other Western countries pulled their diplomatic staff out of Kyiv, in some cases moving them to the far west of the country. On Saturday (Feb 12), US President Biden spoke by telephone with Russian President Putin to emphasize the costs to Russia of a new attack on Ukraine, and Biden then spoke with Zelenskiy on Sunday (Feb 13) to reiterate US support for Kyiv. In recent days, the governments of France, Britain and Germany have also made strong statements backing Ukraine, and new German Chancellor Olaf Scholz is due in Kyiv today (Feb 14) to meet with Zelenskiy.

### COMMENTARY

Over the past week, the fundamental strategy which the Putin regime is using against Ukraine has become abundantly clear: The Kremlin wants to coerce Zelenskiy into implementing the Minsk agreements because Putin believes that forcing Zelenskiy’s “capitulation” on the Donbass will quickly lead to Zelenskiy’s removal from power by armed Ukrainian nationalist militants who vehemently oppose the Minsk accords. On the other hand, if Zelenskiy continues to refuse the Minsk deal, the implicit threat is that there will be a massive Russian military assault against part or all of Ukraine by the encircling armies. However, we note that the latter situation would represent an unprovoked act of war by Russia in plain view of the entire world, making Western unity on extremely heavy economic & personal sanctions against the Putin regime immediately achievable. We therefore believe that the likelihood of such a massive invasion is being overstated - perhaps deliberately - by the US administration, which has also been covering the possibility that the Kremlin could stage its own “false flag” operation to try to justify an attack. All of this implies that Putin’s preferred option is internal destabilization of Ukraine via radical elements, rather than invasion. We must note, however, that the panic being promoted by some US news organizations and NGOs is counter-productive for Ukrainian stability and is already having serious negative economic consequences.

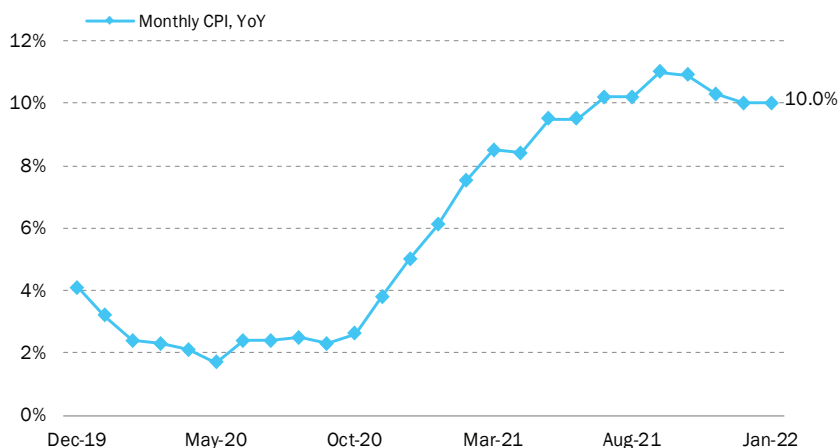
**Ukraine Headline Inflation Stays at 10.0% on Rising Commodity, Energy Prices**

by Dmitry Churin  
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**NEWS**

Rolling 12-month consumer inflation in Ukraine in January was unchanged from December at 10.0%, according to State Statistics Committee data published last week. January’s CPI increase on a month-on-month basis was a notable 1.3% in the period, coming on the back of a 2.4% rise in food prices. In other CPI basket components, prices for footwear and clothes dropped by 5.7% MoM while utility service prices grew by 0.7% MoM.

**UKRAINE'S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

We had anticipated that inflation would be higher in January, as energy and food prices have been rising globally. US inflation hit its highest level in 40 years in January as prices rose 7.5% from a year earlier. In our opinion, the Ukrainian inflation data for January was somewhat distorted by the introduction of a new structure of the consumer basket for the CPI calculation. Meanwhile, the National Bank is still saying that inflation could slow to 7.7% YoY by the year-end. We do not have much faith in this optimistic scenario, as the producer price inflation in Ukraine was at an elevated level of 69.1% YoY in January, meaning that sooner or later the high PPI will translate into higher final consumer prices. The National Bank has been tightening its monetary policy since early 2021, when the regulator raised the key rate from its bottom at 6.0% to 6.5%. Last month the key rate was increased from 9.0% to 10.0%. The next monetary policy Board meeting will be on Mar 3. We forecast that the key rate will be put on hold at 10.0%. On the other hand, it is still possible to foresee two further 50-bps interest rate increases by the end of 2022 to a level of 11.0%.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	55.1	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	6.5	11.5	77%	BUY	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.
Astarta	AST PW	34.4	--	--	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	6.90	12.0	74%	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	284	--	--	U/R	London-listed Ferrexpo started to recover after country-related risks were seen to have declined somewhat.
<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	269	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	25.5	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnerg	DOEN	27.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	7.15	--	--	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 2022.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.440	0.42	-5%	HOLD	Raiffeisen Bank advanced by 5.9% to 45 kopecks as the bank's earnings results should be available any day, with expectations that EPS for FY21 could come at as much as 8 kopecks per share.  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 and 3.31 kopecks dividend per share from FY20 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	1713	-0.8%	-1.5%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	284	10.2%	-5.1%	2267	2263	24.0%	3.6	2.1	2.6	1.6	1.0
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	20.5	2.5%	7.9%	84	57	5.0%	9.8	16.0	4.4	5.8	0.3
<b>Specialized Machinery</b>												
Turboatom	TATM	3.8	-9.3%	30.6%	57	54	3.8%	6.8	18.2	1.1	2.6	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	399	377	24.0%	12.7	17.1	3.7	4.2	1.1
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	269	-4.3%	-0.4%	520	488	3.0%	3.3	2.8	1.5	1.7	0.4
Enwell Energy (ex-Regal)	ENW	25.5	-2.3%	-27.1%	111	57	21.6%	36.9	12.3	2.2	1.9	0.9
<b>Power Utilities</b>												
Centrenergo	CEEN	7.15	1.4%	13.5%	94	64	21.7%	41.5	neg	3.8	neg	0.1
Donbasenergo	DOEN	27.00	0.0%	-6.9%	23	22	14.2%	21.1	neg	2.5	neg	0.1
<b>Consumer</b>												
MHP	MHPC	6.48	-0.9%	-4.4%	685	1976	32.5%	neg	2.4	5.8	3.2	0.9
Kernel	KER	55.10	2.0%	-6.1%	1,089	1925	61.8%	2.1	2.7	2.1	2.3	0.4
Astarta	AST	34.40	1.2%	-18.9%	213	388	37.0%	25.8	20.3	3.2	2.9	0.8
Agroton	AGT	6.90	11.3%	1.5%	37	12	25.0%	3.2	2.9	0.4	0.4	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.440	-2.2%	-4.3%	964		1.8%	6.4	5.4	2.1	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
<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>																
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%
<b>Consumer</b>																
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%
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	4216	550	456	516	280	271	260	185	151	178	33.6%	33.2%	34.5%

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>							
UA4000218325	99.2	100.1	13.5%	11.3%	S/A	20 Jul 2022	13,415
UA4000199210	100.5	102.2	14.5%	11.8%	S/A	12 Oct 2022	14,993
UA4000201255	100.7	104.3	16.0%	12.7%	S/A	24 May 2023	6,470
UA4000207880	87.5	95.4	17.5%	12.7%	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	86.2	18.0%	14.0%	S/A	20 May 2027	7,018
<b>USD denominated Bonds</b>							
UA4000215909	99.2	100.6	4.7%	3.3%	S/A	2 Feb 2023	USD 330mn

Source: TR Data, Eavex Research

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