

Stock Market Update

Equity

Kyiv's main equity index finished higher last week despite escalating geopolitical tensions on a big jump by heavyweight UkrNafta, with the UX index rising by 3.6% to 1774 points. The UNAF stock advanced by 22% to UAH 330 per share after the company's asset-splitting process was once again delayed. UkrNafta held a general shareholders meeting on Feb 17 with no decision on the issue. We assume that UkrNafta's majority shareholder NaftoGaz has not reached a final agreement on the terms of how to divide UkrNafta.

On the downside, CentrEnergy (CEEN) declined by 2.1% to UAH 7.00. Outside the UX index, Krukiv Wagon (KVBZ) shot up by 20% to UAH 24.50 after the company provided an optimistic production guideline. Krukiv Wagon's freight railcar output grew by 6x YoY to 151 units in January.

In London trading, natural gas producer Enwell Energy (former Regal) gained 6.1% to GBp 27.10 while iron ore miner Ferrexpo (FXPO) dropped by 2.7% to GBp 277 and MHP (MHPC) declined by 2.8% to USD 6.30.

On the Warsaw Stock Exchange, Ukrainian agro stocks were mixed amid surprisingly light activity. Kernel (KER) and Astarta (AST) decreased by 1.5% and 1.0% respectively, with the former closing at PLN 54.30. The small-cap Agroton (AGT) gained 1.4% to PLN 7.00.

The hryvnia remained vulnerable to news flow regarding a possibility of Russian military aggression against Ukraine. The hryvnia devalued by 1.3% against the dollar over the week to 28.43 UAH/USD as the National Bank spent a massive USD 500mn from the foreign reserves to prevent a larger decline. A potential invasion of Ukraine by Russia would be felt across global markets, from wheat and energy prices to safe-haven assets and stock markets. Four major exporters - Ukraine, Russia, Kazakhstan and Romania - ship grain from ports in the Black Sea which could face disruptions from any military action or sanctions. Ukraine is projected to be the world's third largest exporter of corn in the 2021/22 season and the fourth largest exporter of wheat.

Highlights

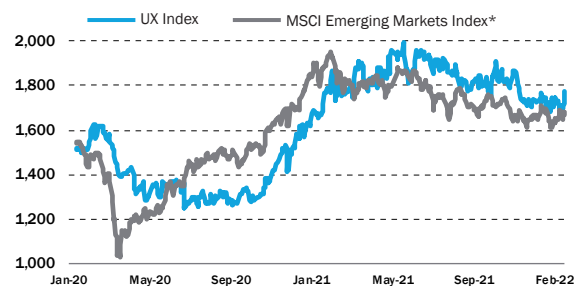
POLITICS AND ECONOMICS

- > Putin Moves to Recognize Occupied Donbass Republics

STOCKS IN THE NEWS

- > UkrNafta Meeting Ends Without Decision to Split Up the Company's Assets

STOCK MARKET PERFORMANCE

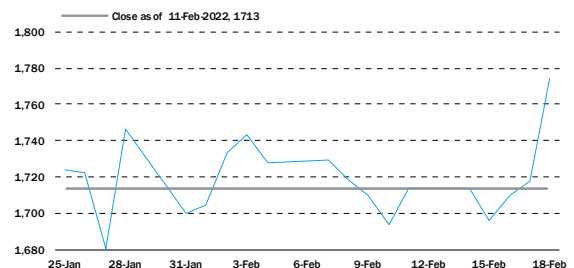


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1774	3.6%	2.1%
RTS	1353	-8.0%	-15.2%
WIG20	2154	-2.2%	-5.0%
MSCI EM	1232	-0.6%	0.0%
S&P 500	4349	-1.5%	-8.8%

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	14.9%/11.8%	+0.5 p.p.	+1.1 p.p.
Ukraine-2026	12.2%	1.6 p.p.	3.3 p.p.
Ukraine-2032	11.0%	1.1 p.p.	1.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.43	1.3%	4.1%
EUR/UAH	32.26	1.0%	4.2%

Source: Eavex Capital

Putin Moves to Recognize Occupied Donbass Republics

by Will Ritter
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NEWS

Russian President Putin convened a meeting of the country's National Security Council on Monday (Feb 21) to discuss officially recognizing the independence of the self-declared Donetsk and Lugansk People's Republics (DNR/LNR). The territories have been controlled by pro-Russian separatists since 2014. Various top Russian officials, including former president Dmitry Medvedev and Defense Minister Sergey Shoigu, argued in favor of the step at the meeting, which ended with Putin saying that a decision will be announced later today. On Thursday (Feb 17), DNR president Dennis Pushilin had ordered the evacuation of civilians from the republic's territory to Rostov province in Russia, claiming that the government of President Zelenskiy is planning an offensive military operation against the DNR. Zelenskiy and Foreign Minister Dmytro Kuleba repeatedly denied that any such operation is planned. Late on Sunday (Feb 20) there were reports that French President Macron had arranged a summit between Putin and US President Biden to discuss the crisis, but today the Kremlin declined to confirm that such a meeting has been scheduled.

COMMENTARY

This move by Russia, if it occurs, will effectively bring an end to the Minsk peace agreements signed in 2015 which stopped the full-scale war in Donetsk and Lugansk. These accords have never been fully implemented, as former President Poroshenko, and now Zelenskiy, have refused to grant the Donbass special autonomy without first obtaining the withdrawal of the Russian military. We see the move as Putin challenging Zelenskiy to deal with the domestic Ukrainian fallout of the irrevocable loss of the occupied territories and calls from nationalist hard-liners to restart war in the Donbass, which is clearly not in Ukraine's interest. We think that Putin is hoping to see Zelenskiy overthrown by militant radicals, so that the Kremlin could then deny responsibility for invading Ukraine and avoid some of the most punishing Western economic sanctions. In a worst-case scenario, these massive sanctions would certainly be triggered by a full-scale Russian attack and subsequent hostile occupation of Kyiv and Central Ukraine, which would result in tens of thousands of civilian deaths and a massive refugee flow into the EU. This chaotic scenario would likely have an immediately enormous negative effect on both Western markets and the Russian economy. For this reason, we think that Putin does not favor such a option, and instead wishes to use the Donbass to put Zelenskiy between a rock and a hard place by exposing him to the anger of the most radical elements in Ukraine. Whether Zelenskiy and the anti-war majority of Ukrainian society will be able to resist the pressure from these elements - and how much diplomatic urging Zelenskiy will get from the West to do so - remains to be seen.

UkrNafta Meeting Ends Without Decision to Split Up the Company's Assets

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 330 Market Cap: USD 629mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	1.8	0.5	4.0	1.9	n/a
2021E	1.2	0.5	3.4	2.1	n/a

NEWS

UkrNafta, Ukraine's national flagship oil producer, held a general shareholders meeting on Feb 17 that ended without a decision to split the company's assets between its largest shareholders. The proposed resolution on the asset split issue was not supported by neither NaftoGaz (UkrNafta's majority shareholder) nor by Privat group, which directly controls a 40.1% stake in UkrNafta. Meanwhile, the shareholders appointed a new supervisory board and voted for technical amendments to the charter documents. The shareholders meeting had a quorum of 97.8%. UkrNafta has non-voting shares which are not properly registered in the depositary system amounting to 1.17% of total shares. As we reported earlier, two previous UkrNafta shareholders meetings called on Nov 30 and Dec 23 did not take place, as the 2 largest shareholders were unwilling to participate.

COMMENTARY

UkrNafta's share price jumped by 20% as investors were relieved to see that the Ukrainian government was refusing - at least for now - to give away the company's most valuable assets to Privat as part of the split scheme. We assume that NaftoGaz and Privat have found themselves in a stalemate in negotiations over how to change UkrNafta's shareholder structure. On the one hand, NaftoGaz needs to get rid of Privat, which plays the role of a toxic shareholder. The US State Department sanctioned Privat beneficiary Igor Kolomoysky in 2021, as U.S. authorities pursue a civil case alleging he stole billions of dollars from a large Ukrainian bank he owned and laundered the funds into the US and other places. In his turn, Kolomoysky is using the court case regarding natural gas that NaftoGaz confiscated from UkrNafta without a contract as leverage to force NaftoGaz to split UkrNafta's assets on Privat's terms. There are no details on how the talks between NaftoGaz and Privat are going behind closed doors. One rumor is that Privat has been trying to obtain the most valuable oil fields from UkrNafta, as well as the company's petroleum filling station network, which consists of some 530 units. The disturbing part of this scheme is that Privat wants to take the most profitable assets from UkrNafta without actually paying for them. In a simple assumption, the deal could look like a trade of Privat's 40.1% stake in UkrNafta and a settlement of the natural gas court case with NaftoGaz in exchange for some 70% of UkrNafta's assets. Although the potential UkrNafta asset split would be harmful for UkrNafta's small shareholders, there is still a probable scenario that after NaftoGaz consolidates a dominant stake in UkrNafta, the company's valuation will exceed the current price of UAH 330 per share. However, at least for now, the delay in UkrNafta's asset split is positive for the company.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	54.3	83.0	53%	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	6.3	11.5	83%	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	34.1	--	--	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	7.00	12.0	71%	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. We forecast that Agroton will report a net profit of USD 12.9mn (PLN 2.38 per share) in 2021. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 15mn.
Iron Ore						
Ferrexpo	FXPO LN	277	--	--	U/R	London-listed Ferrexpo started to recover after country-related risks were seen to have declined somewhat.
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	330	420	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	27.1	--	--	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	7.00	--	--	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.
Banks						
Raiffeisen Bank Aval	BAVL	0.435	0.42	-3%	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	1774	3.6%	2.1%								
Iron Ore Mining												
Ferrexpo	FXPO	277	-2.7%	-7.6%	2206	2202	24.0%	3.5	2.0	2.6	1.5	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	24.5	19.5%	28.9%	99	72	5.0%	11.6	18.9	5.5	7.3	0.4
Specialized Machinery												
Turboatom	TATM	3.9	2.6%	34.0%	58	55	3.8%	6.9	18.5	1.1	2.6	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	394	372	24.0%	12.5	16.9	3.6	4.1	1.1
Oil & Gas												
UkrNafta	UNAF	330	22.7%	22.2%	629	599	3.0%	4.0	3.4	1.9	2.1	0.5
Enwell Energy (ex-Regal)	ENW	27.1	6.1%	-22.7%	118	63	21.6%	39.2	13.1	2.4	2.1	1.0
Power Utilities												
Centrenergo	CEEN	7.00	-2.1%	11.1%	91	61	21.7%	40.1	neg	3.7	neg	0.1
Donbasenergo	DOEN	28.00	3.7%	-3.4%	23	22	14.2%	21.6	neg	2.6	neg	0.1
Consumer												
MHP	MHPC	6.30	-2.8%	-7.1%	666	1957	32.5%	neg	2.3	5.8	3.2	0.9
Kernel	KER	54.30	-1.5%	-7.5%	1,074	1910	61.8%	2.1	2.6	2.1	2.3	0.4
Astarta	AST	34.05	-1.0%	-19.7%	211	386	37.0%	25.6	20.1	3.2	2.8	0.7
Agroton	AGT	7.00	1.4%	2.9%	38	13	25.0%	3.2	2.9	0.4	0.4	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.435	-1.1%	-5.4%	941		1.8%	6.2	5.3	2.1	1.8	0.22

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%
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	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
UAH denominated Bonds							
UA4000218325	99.0	100.2	14.1%	11.0%	S/A	20 Jul 2022	13,415
UA4000199210	100.5	102.2	14.5%	11.6%	S/A	12 Oct 2022	14,993
UA4000201255	101.5	104.7	15.2%	12.2%	S/A	24 May 2023	6,470
UA4000207880	90.0	94.5	16.0%	13.3%	S/A	22 May 2024	18,105
UA4000204150	100.0	105.0	16.5%	14.3%	S/A	26 Feb 2025	41,080
UA4000207518	77.5	84.9	17.0%	14.5%	S/A	20 May 2027	7,018
USD denominated Bonds							
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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