

Stock Market Update

Equity

London and Warsaw listed Ukrainian stocks had a mixed performance last week. Poultry maker MHP (MHPC) gained by 3.5% to USD 4.78 per share after the company reported pretty solid production volumes for April despite actual sales volumes plunging by 40% YoY. There is an assumption, that the company will be able to increase sales volumes immediately after logistics in Ukraine becomes better. With the war devastating much of the country, President Volodymyr Zelensky is set to speak to an emergency summit of European Union leaders in Brussels as they seek to break a deadlock on new Russian sanctions. A new, sixth round of European sanctions has been held up by Hungary, whose Prime Minister Viktor Orban has close relations with the Kremlin.

In Warsaw trading, Kernel (KER) dropped by 5.7% to PLN 26.50 and Agroton (AGT) fell 12.5% to PLN 4.71.

On the Ukrainian stock market trading in stocks and bonds remained suspended as the country is under martial law.

The Finance Ministry offered a broad range of domestic government debt papers at the primary auction held on May 24. The offering included a 1-year USD-denominated bond at 3.7% as well as a half-year EUR-denominated issue at 2.5%. The UAH-denominated 1.5-year bond was placed at an 11.5% yield. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

On the currency front, the hryvnia exchange rate on the OTC cash market strengthened by 4.5% to 36.30 UAH/USD as the National Bank continued to stick to the artificially frozen exchange rate of 29.25 UAH/USD as part of a policy to restrain inflation amid the war.

Highlights

STOCKS IN THE NEWS

- > Kernel Reports Net Loss of USD 103mn for Jan-Mar Quarter

The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-spetsrahnok-dlya-zboru-koshtiv-na-potrebi-armiyi

The National Bank also opened a fundraising account for Humanitarian Assistance to Ukrainians. Please see details under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-rahunok-dlya-humanitarnoyi-dopomogi-ukrayintsyam-postrajdalim-vid-rosiyskoyi-agresiyi

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TREND



MARKET INDEXES

	Last	1W ch	YTD
UX	n/a	n/a	n/a
RTS	1134	-8.5%	-28.9%
WIG20	1810	1.5%	-20.2%
MSCI EM	1043	0.8%	-15.3%
S&P 500	4158	6.6%	-12.8%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	40.8%	1.5 p.p.	31.9 p.p.
Ukraine-2032	25.9%	1.2 p.p.	16.7 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	36.30	-4.5%	32.9%
EUR/UAH	38.84	-3.2%	25.5%

Source: Eavex Capital

Kernel Reports Net Loss of USD 103mn for Jan-Mar Quarter

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KERNEL (KER PW)

Price: PLN 26.50 Market Cap: USD 510mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22E	0.2	0.4	2.8	3.0	4.0%
FY23E	0.2	0.9	4.2	5.6	4.0%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and grain exporter, reported a net loss of USD 103mn for the 3Q22 Jan-Mar quarter (the company's financial year runs from July to June), compared to a net profit of USD 16mn in the corresponding period a year ago. According to the company's consolidated financial statement published on May 27, net revenue declined by 2% YoY to USD 1.69bn in the period and EBITDA dropped by 63% YoY to USD 42mn. For the 9 months ending in March, Kernel had revenue of USD 4.92bn (+23% YoY), EBITDA of USD 650mn (+3% YoY), and net profit of USD 297mn (-14% YoY).

On the balance sheet side, Kernel's net debt stood at USD 1.72bn as of 31 March 2022, implying a Net Debt/EBITDA ratio of 1.9x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 0.6x.

KERNEL FINANCIAL RESULTS

USD mn	3Q FY21	3Q FY22	YoY	9M FY21	9M FY22	YoY
Net revenue	1,729	1,690	-2%	3,996	4,915	+23%
EBITDA	111	42	-63%	670	650	-3%
EBITDA margin	6.4%	2.5%	-3.9 p.p.	16.8%	13.2%	-3.6 p.p.
Net Income	16	-103	+/-	348	297	-14%
Net margin	0.9%	-6.1%	-7.0 p.p.	8.7%	6.1%	-2.6 p.p.

Source: Company data,

COMMENTARY

Kernel's poor performance in March, when the company was forced to suspend its soft-commodities exports due to the Russian invasion of Ukraine, led to a negative net result for the quarter. However, the company also had a typical seasonality pattern with the revaluation of biological assets resulting in a loss of USD 74mn in 3Q FY22, compared to the USD 58mn revaluation loss seen in 3Q FY21. The magnitude of the pattern this season was intensified by high prices this year. Separately, Kernel recognized a USD 61mn loss on impairment of assets due to the Russian invasion of Ukraine, including a USD 38mn impairment charge against goodwill related to oilseed processing plants and a USD 23mn write-off of sunflower meal inventories after the expiry date.

On the cash flow side, the company's operating profit before working capital changes was USD 137mn in 3Q FY22, which was 15% YoY less than a year ago.

The KER stock has lost 55% of its value since the start of the year as a result of the Russian invasion of Ukraine. The stock traded at PLN 26.50 on Friday (May 27) implying the company's MCap of USD 510mn. Taking into account that Kernel had a net profit of USD 297mn in 9M FY22, means that the company is now valued at less than 3.0x trailing P/E. On the other hand, the current country's risks are at extreme levels making any prediction regarding the company's future too uncertain.

Indicative quotes for Kernel's Eurobonds with maturity in 2027 stand at 53.0 cents on the dollar (23% YTM), which is below the sovereign yield curve offering an indicative yield of 38% YTM.

QUOTES AND MULTIPLES

	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	n/a	n/a	n/a								
Iron Ore Mining												
Ferrexpo	FXPO	176	2.8%	-41.2%	1292	1175	24.0%	2.0	1.5	1.4	0.8	0.5
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Specialized Machinery												
Turboatom	TATM	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Motor Sich	MSICH	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil & Gas												
UkrNafta	UNAF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Enwell Energy (ex-Regal)	ENW	21.4	6.8%	-39.0%	85	31	21.6%	28.5	9.5	1.2	1.0	0.5
Power Utilities												
Centrenergo	CEEN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Donbasenergo	DOEN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer												
MHP	MHPC	4.78	3.5%	-29.5%	529	1759	32.5%	neg	1.3	5.2	2.7	0.7
Kernel	KER	26.50	-5.7%	-54.9%	510	2061	61.8%	1.0	2.8	2.2	3.0	0.4
Astarta	AST	26.30	-0.6%	-38.0%	154	329	37.0%	18.7	14.7	2.7	2.4	0.6
Agroton	AGT	4.71	-12.5%	-30.7%	24	-1	25.0%	2.0	1.9	0.0	0.0	0.0
Banks												
Raiffeisen Bank Aval	BAVL	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: UX, PFTS, LSE, WSE, Eavex Research
* companies listed abroad are in traded currency

MAIN FINANCIAL FORECASTS, USD mn

		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	2518	586	859	1,439	38.9%	50.5%	57.1%	403	635	871	26.7%	37.4%	34.6%
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	2372	376	340	648	18.3%	17.8%	27.3%	215	-133	393	10.5%	-7.0%	16.6%
Kernel (FY19, FY20, FY21)	KER	4107	5647	5365	443	929	678	10.8%	16.5%	12.6%	118	513	180	2.9%	9.1%	3.4%
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

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