

Stock Market Update

Equity

Ukrainian equities listed abroad finished mostly higher last week, making only a moderate rebound from the steep losing strait. Meanwhile, on the Ukrainian stock market trading in stocks and bonds remained suspended as the country is under martial law.

In the war-related developments, Russia launched airstrikes on Kyiv for the first time in five weeks on Sunday, claiming it had targeted western-supplied tanks. Russia continues to try overrun Ukraine's embattled eastern industrial Donbas region before the arrival of any US weapons that might turn the tide.

On the London Stock Exchange, iron ore miner Ferrexpo (FXPO) gained by 6.3% to close at GBP 187 per share after the company announced a dividend of 13.2 cents per share. The interim dividend will be paid on Jun 28, 2022, to shareholders on the register on Jun 10. Taking into account the FXPO stock's current price the dividend yield will be 5.6%.

Among Ukrainian public agro companies, Kernel (KER) rose by 2.3% last week to PLN 27.12 while Agroton (AGT) fell 4.7% to PLN 4.49.

The Finance Ministry continued to cap the yield for the special UAH-denominated bonds at 11.5% for the 1.5-year issue. There is a high probability that the government will be forced to increase the offered yield to attract more investors to the country's debt.

The hryvnia strengthened by 2.8% to 35.30 UAH/USD on the OTC cash market after the National Bank surprisingly raised its key policy rate from 10% to 25% sending a clear signal for a higher yield for the hryvnia assets.

Highlights

POLITICS AND ECONOMICS

- > Ukraine Criticizes Macron for Taking Soft Line on Russia
- > National Bank Hikes Key Policy Rate from 10% to 25% to Support the Hryvnia and Fight Inflation

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/about/support-the-armed-forces

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

www.bank.gov.ua/en/about/humanitarian-aid-to-ukraine

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TREND



UNITED24 charitable donations will be transferred to the official accounts of the National Bank of Ukraine and allocated by assigned ministries to cover the most pressing needs:

www.u24.gov.ua

MARKET INDEXES

	Last	1W ch	YTD
UX	n/a	n/a	n/a
RTS	1199	5.7%	-24.9%
WIG20	1820	0.6%	-19.7%
MSCI EM	1061	1.7%	-13.9%
S&P 500	4106	-1.3%	-13.9%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	+15.0 p.p.	+16.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	42.7%	1.9 p.p.	33.8 p.p.
Ukraine-2032	26.4%	0.5 p.p.	17.2 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	35.30	-2.8%	29.2%
EUR/UAH	37.88	-2.5%	22.3%

Source: Eavex Capital

Ukraine Criticizes Macron for Taking Soft Line on Russia

by Will Ritter
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NEWS

Ukraine's disagreements with France flared up once again on Saturday (Jun 4) after French President Emmanuel Macron publicly stated that the West should not try to "humiliate" Russia in the process of negotiating an end to the ongoing war. Foreign Minister Dmytro Kuleba reacted to Macron's comments on social media by stating that "calls to avoid humiliation of Russia can only humiliate France... we all [should] focus on how to put Russia in its place". In other war-related news, Kyiv saw its first Russian missile strike since April on Sunday morning (Jun 5), as a railcar repair plant was hit near the Darnitsa train station on the east side of the city, and a grain export terminal in the southern city of Mykolayiv was attacked. Meanwhile, in the epicenter of the fighting in the Donbass region, Ukraine claimed to have clawed back some territory in the contested city of Severodonetsk in Lugansk province, and domestic media reported that President Zelenskiy paid a visit to soldiers in the neighboring city of Lysichansk, which is also seeing heavy fighting.

COMMENTARY

Over the past month, tensions between the Zelenskiy administration and the governments of France & Germany - the largest nations in the EU - have been notably on the rise, as Ukraine has accused the two countries of providing insufficient support in the fight against Russia. To a lesser degree, the same can be said about the Biden administration in the US, which has been reluctant to deliver all of the weapons systems requested by Zelenskiy despite having approved a massive USD 40bn package last month. In our view, the fundamental disagreement between the major Western countries and Zelenskiy is the latter's ongoing demand of a withdrawal of Russian forces back to the pre-2014 borders as a precondition for negotiating an end to the war with the Putin regime. Among the big Western countries, only the United Kingdom has explicitly backed this position, while France & Germany appear to oppose it, and the US administration has been non-committal, saying only that the conditions for a peace deal should be left up to Ukrainians. However, this discussion remains somewhat theoretical, as Russia currently occupies the entire southeast coast of Ukraine, and this territory would presumably need to be liberated first before any Ukrainian military action in Crimea and/or the eastern Donbass could be launched.

National Bank Hikes Key Policy Rate from 10% to 25% to Support the Hryvnia and Fight Inflation

by Dmitry Churin
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NEWS

The National Bank of Ukraine hiked its key policy rate from 10.0% to 25.0%, according to the regulator’s official statement released on Jun 2. It was the first interest rate increase this year. The National Bank commenting on its decision said that the hawkish monetary policy would help to raise the attractiveness of hryvnia assets, reduce the pressure on the foreign exchange market, and thus enhance the regulator’s capability to maintain the stability of the exchange rate and restrain inflation processes during the war.

NATIONAL BANK KEY POLICY RATE



Source: National Bank of Ukraine

COMMENTARY

We assume, that the National Bank returns to the playbook it used in the crisis of 2014-2015 when Russia annexed Crimea and part of Eastern Ukraine. In that period the key policy rate was increased in several steps from 9.5% at the start of 2014 to as much as 30% in 2015. Indeed, strong devaluation expectations for the Ukrainian currency right now present a threat to the country’s financial system as the population is trying to convert their savings into hard currency amid low deposit interest rates in the hryvnia. As a result, the National Bank has increased its interventions to sell foreign currency, from the monthly average of USD 2.0bn in March–April to USD 3.4bn in May. In addition, the difference between the cash market exchange rate and the official one widened in May, which worsened the negative effects on the economy from the existence of multiple exchange rates caused by restrictions on FX transactions and cross-border transfers. Although Ukraine’s international reserves are still sufficient thanks to funding from international partners, risks to macrofinancial stability have risen in the medium term. If yields on hryvnia assets do not rise sufficiently, international reserves will keep depleting rapidly and imbalances will build up in the economy.

The regulator has also decided to widen the interest corridor for monetary transactions with banks to provide additional room for reviving the interbank market. More specifically, from Jun 3, the interest rate on refinancing loans will equal the key policy rate plus 2 p.p. (27%), while the interest rate on deposit certificates will be the key policy rate minus 2 p.p. (23%).

The next National Bank’s monetary policy Board meeting will be held on Jul 21, 2022.

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	187	6.3%	-37.6%	1373	1256	24.0%	2.2	1.6	1.5	0.9	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	22.3	4.4%	-36.3%	89	35	21.6%	29.7	9.9	1.3	1.2	0.6
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	4.80	0.4%	-29.2%	532	1762	32.5%	neg	1.4	5.2	2.7	0.7
Kernel	KER	27.12	2.3%	-53.8%	522	2237	61.8%	1.0	2.9	2.4	3.3	0.4
Astarta	AST	26.45	0.6%	-37.6%	155	330	37.0%	18.8	14.8	2.7	2.4	0.6
Agroton	AGT	4.49	-4.7%	-34.0%	23	-2	25.0%	1.9	1.8	-0.1	-0.1	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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