

Stock Market Update

Equity

Ukrainian agro stocks listed in Warsaw had a solid rebound last week after talks aimed at resuming Ukrainian grain exports blocked by Russia in the Black Sea have produced a deal. Ukraine has been able to send some of its grain by road and rail, and a new naval route is opening up through the Danube estuary. But only 2.5mn tonnes were exported last month, much less than the eight million-tonne average before the war, and millions more are waiting in the Ukrainian port of Odesa. Russian invasion of Ukraine has sent prices soaring for grains, cooking oils, fuel, and fertilizer. Ukraine and Russia are major global wheat suppliers, and Russia is also a large fertilizer exporter, while Ukraine is a significant producer of corn and sunflower oil.

Quotes for sunflower oil and grain exporter Kernel (KER) surged by 26% to PLN 24.10 and sugar maker Astarta (AST) gained as much as 30% last week to close at PLN 23.40. Eastern-Ukraine-based Agroton (AGT) showed a less impressive recovery advancing by 9% to PLN 3.63 per share.

In London trading, MHP (MHPC) grew by 2.7% to USD 3.80 while Ferrexpo (FXPO) fell further losing 3.3% to end at GBP 116. Ferrexpo's business is suffering from the inability to export iron ore from Ukraine by sea. Moreover, the benchmark price for iron ore on the global market is on the decline falling to a level of USD 100 per tonne.

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

On the currency front, the hryvnia remained weak shedding 1.6% over the week to 37.10 UAH/USD on the OTC cash market. The official exchange rate remained frozen at 29.25 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Fitch Downgrades NaftoGaz from CCC to C over Request to Defer Eurobond Payments

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

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	1161	1.5%	-27.2%
WIG20	1620	-6.9%	-28.5%
MSCI EM	962	-3.7%	-21.9%
S&P 500	3863	-0.9%	-19.0%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	+16.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	87.0%	21.0 p.p.	78.1 p.p.
Ukraine-2032	58.0%	15.5 p.p.	48.8 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	37.10	1.6%	35.8%
EUR/UAH	37.30	0.4%	20.5%

Source: Eavex Capital

Fitch Downgrades NaftoGaz from CCC to C over Request to Defer Eurobond Payments

by Dmitry Churin
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NEWS

Fitch Ratings, an international credit rating agency, has downgraded the state-owned NaftoGaz's Long-Term Issuer Default Rating (IDR) to 'C' from 'CCC' following its consent solicitation to defer its debt servicing of its Eurobonds, including that due on July 19, 2022.

Fitch said that the Russian invasion of Ukraine had negatively affected NaftoGaz's performance. The company's liquidity position is very weak and, among other factors, is affected by the need to buy additional volumes of natural gas for the winter season in the market. Deferring interest and coupon payments should enable NaftoGaz to buy more gas to better prepare for the winter season. NaftoGaz has been instructed by the government to purchase and import natural gas in the amount of up to 5.6 bn cubic meters, which at current prices would cost approximately USD 8 bn, which significantly exceeds NaftoGaz's current cash balance.

NaftoGaz is asking to defer principal and coupon payments for its USD 335mn bond originally due on 19 July 2022 until July 2024.

NaftoGaz ended 2021 with a net profit of UAH 12.0bn (USD 440bn) compared to a net loss of UAH 19.0bn (USD 720mn) in 2020. The company's revenue stood at UAH 217bn (USD 7.9bn) last year.

The company's total debt stood at UAH 62bn (USD 2.3bn) at the start of the year and total assets were at UAH 511bn (USD 18.7bn).

COMMENTARY

We think, that NaftoGaz's possible default puts additional pressure on Ukrainian international supporters to speed up plans to extend emergency budgetary support for Ukraine which appears to be rapidly running out of money to cover expenditures. NaftoGaz is one of the country's largest and most important state-owned companies, contributing USD 1.5bn to Ukraine's national budget from January to May. Despite promises of hundreds of billions of dollars in international aid, Ukraine has received about USD 11bn in cash to support government expenditure since the start of the war. As a result, it has had to dip into its international reserves to fund spending, but reserves are shrinking month by month, declining to USD 22.8bn in July from USD 29.1bn in January.

Amidst the worsening conflict in Ukraine, Ukrainian activists have called for the country's unsustainable debts to be written off – including those owed to multilateral institutions such as the IMF and World Bank. However, it is more likely that the country will try to restructure only its commercial foreign debt, which mostly includes Eurobonds. Indicative quotes for Ukraine's 10-year Eurobonds have already plunged to as low as 15 cents on the dollar reflecting the above-mentioned fears of hard restructuring.

Ukraine's state and state-guaranteed debt totaled an equivalent of USD 101bn, according to the latest available data dated Jun 1, 2022. The country's Eurobonds have a combined value of USD 22.7bn while a total state foreign debt stood at USD 51.2bn, including debt to the IMF in the amount of USD 9.6bn.

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	116	-3.3%	-61.1%	815	698	24.0%	1.3	0.9	0.8	0.5	0.3
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	-1.3%	-36.4%	85	31	21.6%	28.3	9.4	1.2	1.0	0.5
Power Utilities												
Centrenerg	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	3.80	2.7%	-44.0%	421	1631	32.5%	neg	1.1	4.8	2.5	0.7
Kernel	KER	24.08	26.1%	-59.0%	416	2131	61.8%	0.8	2.3	2.3	3.1	0.4
Astarta	AST	23.40	30.7%	-44.8%	123	298	37.0%	14.9	11.8	2.5	2.2	0.6
Agroton	AGT	3.63	9.0%	-46.6%	17	-8	25.0%	1.4	1.3	-0.3	-0.3	-0.1
Banks												
										Price/Book		Price/Assets
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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