

Stock Market Update

Equity

Quotes for most Ukrainian stocks listed abroad were down over the week following a general drop on the market after the US Fed raised its key interest rate by 75 bps to 3.25%. The S&P500 index fell by 4.6% last week and the MSCI Emerging Market index declined by 2.3%.

The UX index components finished mixed in light trading volumes. Electricity generator CentrEnergO (CEEN) surprisingly rose by 6.4% to UAH 5.00 and UkrNafta (UNAF) was flat at UAH 229 per share. In contrast, Raiffeisen Bank (BAVL) slipped by 8.1% to 28.5 kopecks.

Warsaw-traded Ukrainian agro exporter Kernel (KER) lost 8.3% to close at PLN 17.40, which was even below the level seen in March amid the first shock from the Russian attack on Ukraine. Small-cap Agroton (AGT) plunged by 19% to PLN 3.86 failing to consolidate the gain achieved over the preceding week.

On the London Stock Exchange, iron ore miner Ferrexpo (FXPO) tanked by 10% to GBP 136 after the company said it got a court ruling from Ukraine that canceled a purchase of 40% of Poltava Mining back in 2002. Ferrexpo is exploring all options for protecting its interests, including the right to appeal this decision to the Supreme Court of Ukraine.

MHP (MHPC) decreased by 6.7% to USD 3.50 and Enwell Energy (former Regal) were lower by 4.1% to close at GBP 22.20.

On the OTC cash market, the hryvnia was weaker along with other world currencies which devalued against the dollar after the Fed raised the interest rate. The USDX index increased to 113 points, its highest level in the last 20 years. Although the official hryvnia exchange rate remained frozen at 36.57 UAH/USD, the cash rate moved to 42.80 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Little Movement on Front Lines as Russia Tries to Annex Occupied Territories
- > Ukraine's National Budget for 2023 Bases on Assumption of 4.6% GDP Growth and Inflation of 30%

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	1507	0.4%	-13.3%
RTS	1141	-10.5%	-28.5%
WIG20	1457	-3.0%	-35.7%
MSCI EM	922	-2.3%	-25.2%
S&P 500	3693	-4.6%	-22.5%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	+16.0 p.p.
UAH 1-year war bond	14.0%	0.0 p.p.	+3.0 p.p.
Ukraine-2026	75.2%	2.9 p.p.	66.3 p.p.
Ukraine-2034	43.8%	3.8 p.p.	34.6 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	42.80	1.7%	56.7%
EUR/UAH	41.20	0.1%	33.1%

Source: Eavex Capital

Little Movement on Front Lines as Russia Tries to Annex Occupied Territories

by Will Ritter
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NEWS

Ukraine's government reported few new territorial gains against Russian occupiers last week, indicating that the country is still working to consolidate the areas of Kharkiv province which it recaptured from Russia at the beginning of September. Although precise information from the front is scarce, there have been reports that Ukrainian forces are engaging the occupied town of Lyman at the northern tip of Donetsk province, while some 60km to the south, Russia is still attacking the Ukrainian-held town of Bakhmut. On the southern front, there were no reports of significant Ukrainian advances in Kherson province, but around 20,000 Russian troops remain in a precarious position, trapped on the west bank of the Dnipro near Kherson city with little access to supplies; the New York Times reported that Russian President Putin had overruled his military commanders' requests to withdraw the troops from Kherson in order to deny Ukraine another major victory. Meanwhile, Russia has been staging what it calls "referendums" across the occupied territories in recent days, apparently as a prelude to announcing that these areas have been annexed into Russia proper. All major Western countries have already stated that any such declaration by Russia will not be recognized. In separate diplomatic news, President Zelenskiy declared the Iranian ambassador persona non grata on Sunday (Sept 25) after drones which Iran had provided to Russia were used to attack the city of Odessa in recent days.

COMMENTARY

Although the current situation of Russia's invasion effort looks, frankly speaking, desperate, it is still not obvious that Ukraine will quickly be able to restore all the territories lost since the start of the invasion in February, let alone Crimea and the southeastern-most part of the Donbas region (occupied since 2014). This indicates that a resolution of the war is unfortunately still not in view. We think that the Putin regime is playing the annexation card as an attempt to intimidate Western countries by implying that Ukrainian attacks on "Russian territory" could be met with a nuclear response. However, this play looks likely to fail, as the US & EU have stated that they will continue to support Ukrainian efforts to retake territory, even if the Zelenskiy administration's requests for battle tanks and more advanced missile systems are being slow-walked in Washington and Berlin. Amid the weakening Russian position, it looks increasingly apparent that the defining goal of "Ukrainian victory" for Kyiv is the removal of Putin from power in the Kremlin; the major Western countries, and first of all the US, have yet to craft a coherent messaging & policy response to this expansion of Ukrainian war aims.

**Ukraine's National Budget for 2023
Bases on Assumption of 4.6% GDP
Growth and Inflation of 30%**

by Dmitry Churin
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NEWS

Ukraine's Finance Ministry presented a draft national budget for 2023 with an assumption that the country's economy will grow by 4.6% YoY next year after an expected GDP drop of 33.2% YoY in 2022. The nominal GDP is forecasted at USD 152bn in 2023 while back in 2021 actual Ukraine's nominal GDP topped USD 200bn. On the inflation side, the Finance Ministry sees that consumer prices will increase by 30% YoY in 2023 after an expected rise of 30.1% YoY in 2022.

The government forecasted an average exchange rate of 42.20 UAH/USD for 2023.

The main parameters of the draft budget are the following:

- forecasted GDP growth of 4.6% YoY;
- nominal GDP of UAH 6.4tn (USD 152bn);
- total budget income of UAH 1.28tn (USD 30bn);
- total budget expenses of UAH 2.57tn (USD 61bn);
- the budget deficit of USD 31bn (an equivalent of 20% of GDP);
- forecasted consumer inflation (full year) of 30%;

According to the draft budget, the largest expenditures in 2023 will be allocated to the following areas: security and defense USD 27bn (an equivalent of 17.8% of GDP); pensions USD 9.6bn; healthcare USD 4.2bn; education USD 3.7bn.

UKRAINE MACROECONOMIC FORECAST			
	2021	2022	2023E
Nominal GDP in USD	200	145	152
real GDP growth	+3.4%	-33.2%	+4.6%
Inflation	10.0%	30.1%	30.0%
UAH/USD average	27.3	32.3	42.2
UAH/USD year-end	27.3	36.6	50.0

Source: Ministry of Finance

COMMENTARY

The projected national budget deficit of USD 31bn is planned to be covered by borrowings from Ukraine's international partners including the IMF. Total proceeds from foreign borrowings are expected at USD 38bn in 2023. Therefore, Ukraine is crucially dependent on help from the US and Europe for withstanding the crisis caused by the Russian invasion.

On the debt front, the Ukrainian government reached an agreement with its foreign creditors to defer payments to 2024 effectively delaying expenditures by about USD 6bn. Ukraine's UAH-denominated domestic debt, which is mostly in form of outstanding government bonds, is planned to be serviced in full in 2023. The state debt repayment is forecasted at UAH 415bn (USD 9.8bn) next year.

The Finance Ministry said that Ukraine had already received financial support of USD 19bn from international allies this year, including USD 8.5bn in form of grants. Additional financial support of about USD 17bn could arrive by the end of the year. The IMF recently announced the approval of another USD 1.4bn of emergency financing for Ukraine under a Rapid Financing Instrument.

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	1507	0.4%	-13.3%								
Iron Ore Mining												
Ferrexpo	FXPO	136	-10.0%	-54.4%	875	704	24.0%	1.4	1.0	0.8	0.5	0.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	21.5	0.0%	13.2%	59	15	5.0%	6.9	11.2	1.2	1.5	0.1
Specialized Machinery												
Turboatom	TATM	4.3	0.0%	47.8%	43	40	3.8%	5.1	13.8	0.8	1.9	0.8
Motor Sich	MSICH	5390	0.0%	0.0%	266	244	24.0%	8.4	11.4	2.4	2.7	0.7
Oil & Gas												
UkrNafta	UNAF	229	0.0%	-15.2%	295	274	3.0%	1.9	3.2	0.9	1.6	0.2
Enwell Energy (ex-Regal)	ENW	22.2	-4.1%	-36.6%	78	23	21.6%	25.9	8.6	0.9	0.8	0.4
Power Utilities												
Centrenergo	CEEN	5.00	6.4%	-20.6%	44	14	21.7%	19.3	neg	0.8	neg	0.0
Donbasenergo	DOEN	10.00	-5.7%	-65.5%	6	4	14.2%	5.2	neg	0.5	neg	0.0
Consumer												
MHP	MHPC	3.50	-6.7%	-48.4%	370	1658	32.5%	neg	0.9	4.9	2.6	0.7
Kernel	KER	17.40	-8.3%	-70.4%	283	1998	61.8%	0.6	1.6	2.2	2.9	0.4
Astarta	AST	23.85	-0.6%	-43.8%	122	297	37.0%	14.7	11.6	2.4	2.2	0.6
Agroton	AGT	3.86	-19.4%	-43.2%	17	-3	25.0%	1.5	4.8	n/a	n/a	n/a
Banks												
										Price/Book	Price/Assets	
Raiffeisen Bank Aval	BAVL	0.285	-8.1%	-38.0%	416		1.8%	2.8	2.3	0.9	0.7	0.09

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	1320	-115	320	168	-10.5%	24.3%	12.7%	-158	158	91	-14.4%	12.0%	6.9%
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	517	-69	17	-12	-11.7%	2.2%	-2.3%	-77	2	-31	-13.1%	0.3%	-6.0%
Donbasenergo	DOEN	249	256	260	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	41	2	33	8	4.1%	48.2%	19.8%	5	12	4	9.5%	17.4%	8.7%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3495	3795	4829	550	456	571	280	271	348	185	151	179	33.6%	33.2%	31.3%

Source: Eavex Research

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