

Stock Market Update

Equity

Russian attacks on Ukrainian civilian infrastructure have brought more blackouts and water shortages. Almost a third of Ukraine's power stations and other energy-generating facilities have reportedly been destroyed in a wave of air strikes over the last two weeks. Eight months into the war, Moscow finds itself on its back foot, struggling to hold onto territory in its ground war and turning to missile strikes to bring the war to areas beyond the front line.

Ukrainian locally-listed stocks were mixed last week. CentrErgo (CEEN) surprisingly gained by 16% to close at UAH 5.10 per share. UkrNafta (UNAF) edged up by 1% to UAH 200 while the second-tier Krukiv Wagon (KVBZ) plunged by 20% to UAH 11.30.

Agro names remained under pressure due to reports that Russia is deliberately blocking the full implementation of the Grain Deal. As a result, Ukrainian ports have been operating only at 25-30% of their capacity since mid-October. Warsaw-listed Kernel (KER) fell by 11% last week to PLN 16.80. Astarta (AST) and Agroton (AGT) dropped by 14% and 10% respectively.

In London trading, Ferrexpo (FXPO) climbed by 3.7% to GBP 118 while MHP (MHPC) decreased by 8.4% to USD 3.40.

The hryvnia appreciated by 0.7% against the dollar to trade at 40.50 UAH/USD on the OTC cash market.

Highlights

POLITICS AND ECONOMICS

- › Russian Occupation of Kherson in Disarray as Kremlin Plays Card of Civilian Infrastructure Strikes

STOCKS IN THE NEWS

- › The High Court Rules in Favor of UkrNafta in Case that UkrNafta Might Have 30% Dividend Payout Instead of 90% Dividend Payout from 2018 Profit

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	1406	-0.1%	-19.1%
RTS	1050	6.0%	-34.2%
WIG20	1411	1.0%	-37.8%
MSCI EM	865	0.2%	-29.8%
S&P 500	3752	4.7%	-21.3%

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	89.1%	-0.9 p.p.	80.2 p.p.
Ukraine-2034	53.2%	-1.2 p.p.	44.0 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	40.50	-0.7%	48.2%
EUR/UAH	39.00	0.3%	26.0%

Source: Eavex Capital

Russian Occupation of Kherson in Disarray as Kremlin Plays Card of Civilian Infrastructure Strikes

by Will Ritter
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NEWS

Russian occupying forces cut off mobile communications in the occupied southern Ukrainian city of Kherson last week and demanded that all civilians leave the city ahead of what is expected to be a final push to liberate it by the Ukrainian army. The Russian hold on Kherson, which is located on the west bank of the Dnipro, has become increasingly tenuous in recent weeks as Ukraine repeatedly cut the Russian army's supply lines across the river. There were reports that some filling stations in the city are now refusing to accept Russian rubles and are demanding hryvnias as payment for fuel. On the eastern front, Ukraine reported new successes on Sunday (Oct 23) in pushing back Russian Wagner mercenary forces from the city of Bakhmut by some 2km. The city of 70,000 has been under attack since midsummer. In the north, there were concerns that an observed buildup of Russian forces in Belarus could presage a new invasion of Central Ukraine in the direction of Zhytomir as a means of cutting off the supply of Western weapons deliveries; however, military analysts stated that the Russian contingent does not appear sufficiently equipped for such an operation. On Saturday morning (Oct 22), there was another round of Russian missile & drone strikes on energy infrastructure facilities far from the front lines in Central & Western Ukraine that caused power blackouts in wide areas of the country, including the capital.

COMMENTARY

As we stated previously, we believe that Ukraine's recapture of Kherson is a question of when, not if, as the Russian army clearly overextended itself. However, with October winding down, it looks increasingly unlikely that Ukraine will manage to make any other major territorial gains before the onset of winter, perhaps freezing the conflict in place for the next 4 to 5 months. In our view, such an outlook is a preferable option for Ukraine rather than a major escalation in the near term that would offer little chance of military success. Russia, of course, is suffering from its own military difficulties and inability to take territory, and the impending loss of Kherson could have negative domestic political ramifications for the Putin regime. Putin's de-facto admission that the only cards he has left to play are strikes against Ukraine's civilian infrastructure and nuclear threats indicate the relative current weakness of the Russian position, we think. On the other hand, continued Russian occupation of Ukrainian cities such as Melitopol, Berdyansk, and Severodonetsk through the winter will present political challenges for the Zelenskiy government in Kyiv as well, as it seeks modern air defense systems from the West to reduce the impact on the civilian population of the Russian air attacks.

The High Court Rules in Favor of UkrNafta in Case that UkrNafta Might Have 30% Dividend Payout Instead of 90% Dividend Payout from 2018 Profit

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 200 Market Cap: USD 268mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2021E	0.6	0.2	2.9	1.5	n/a
2022E	0.8	0.3	12.2	4.4	n/a

NEWS

The High Court of Ukraine recently ruled that UkrNafta was legitimately able to payout 30% in dividends from 2018 net profit instead of the 90% dividend payout asked by the government. UkrNafta, as the company that is 50%+1 share state-owned through the 100% state-owned NaftoGaz, is obligated by the law to pay at least 30% profit in dividends. However, the actual size of the dividend payout for UkrNafta is determined by the government every year. Back in 2019, the government asked UkrNafta to payout 90% of FY18 profit in dividends (this would imply UAH 107). Instead, UkrNafta decided to approve a 30% dividend payout from FY18 profit, meaning UAH 35.62 dividend per share. The ex-right date for the dividend was set on Jun 11, 2021. The approved dividend was supposed to be paid to shareholders by Nov 17, 2021.

COMMENTARY

UkrNafta is well known for its conflicts with the government or with NaftoGaz. In that particular dividend dispute, UkrNafta managed to persuade the High Court that the government made a certain mistake in documents when ordering UkrNafta to payout 90% of FY18 profit. Although the higher payout rate would be a benefit for all UkrNafta's shareholders, it would have been difficult for the company to generate enough cash to make that payment. Moreover, UkrNafta missed its deadline for paying FY18 dividends to minority shareholders. Currently, we see that there are several lawsuits against UkrNafta for the delayed FY18 dividend payment. The court of the first instance supported the claim against UkrNafta but the company tries to appeal that decision playing for time not to pay even approved dividends to minority shareholders. Unfortunately, we assume, that UkrNafta will continue a rogue practice of avoiding paying dividends to minority shareholders.

QUOTES AND MULTIPLES

	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales 2022E
			1W	YtD				2021E	2022E	2021E	2022E	
UX Index	UX	1406	-0.1%	-19.1%								
Iron Ore Mining												
Ferrexpo	FXPO	118	3.7%	-60.5%	786	615	24.0%	0.9	neg	0.4	1.8	0.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	11.3	-19.6%	-40.8%	32	-11	5.0%	6.1	neg	-1.2	8.1	-0.1
Specialized Machinery												
Turboatom	TATM	2.3	9.5%	-21.0%	24	21	3.8%	7.7	neg	1.0	2.2	0.8
Motor Sich	MSICH	5390	0.0%	0.0%	277	261	24.0%	11.8	neg	2.9	6.6	1.3
Oil & Gas												
UkrNafta	UNAF	200	1.0%	-25.9%	268	246	3.0%	2.9	12.2	1.5	4.4	0.3
Enwell Energy (ex-Regal)	ENW	25.1	0.6%	-28.3%	91	14	21.6%	1.8	1.7	0.2	0.2	0.1
Power Utilities												
Centrenergo	CEEN	5.10	15.9%	-19.0%	47	17	21.7%	-1.5	neg	neg	neg	0.1
Donbasenergo	DOEN	12.25	0.0%	-57.8%	7	6	14.2%	-0.9	neg	neg	neg	0.1
Consumer												
MHP	MHPC	3.40	-8.4%	-49.9%	359	1647	32.5%	neg	neg	2.5	5.7	0.9
Kernel	KER	16.80	-11.1%	-71.4%	271	1986	61.8%	1.5	2.3	2.9	5.4	0.9
Astarta	AST	19.50	-13.7%	-54.0%	99	292	37.0%	0.7	2.7	1.2	2.3	0.7
Agroton	AGT	3.80	-10.8%	-44.1%	17	-3	25.0%	4.7	neg	n/a	n/a	n/a
Banks												
										Price/Book	Price/Assets	
Raiffeisen Bank Aval	BAVL	0.210	-2.3%	-54.3%	319		1.8%	1.8	neg	0.6	0.8	0.08

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		
		2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E
Iron Ore Mining																
Ferrexpo	FXPO	1700	2518	1650	859	1,439	350	50.5%	57.1%	21.2%	635	871	-110	37.4%	34.6%	-6.7%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	223	192	78	13	10	-1	5.9%	5.2%	-1.8%	9	5	-5	3.8%	2.7%	-6.8%
Specialized Machinery																
Turboatom	TATM	105	52	28	52	21	10	49.1%	40.7%	34.4%	8	3	-2	8.0%	6.0%	-5.6%
Motor Sich	MSICH	353	338	200	102	90	40	29.1%	26.5%	19.8%	32	23	-7	8.9%	6.9%	-3.6%
Oil & Gas																
Ukrnafta	UNAF	1319	1320	844	320	168	56	24.3%	12.7%	6.7%	158	91	22	12.0%	6.9%	2.6%
Regal Petroleum	RPT	47	121	131	22	78	86	47.4%	64.4%	65.7%	3	51	55	6.7%	42.1%	41.9%
Electric Utilities																
Centrenergo	CEEN	764	517	388	17	-12	-16	2.2%	-2.3%	-4.2%	2	-31	-38	0.3%	-6.0%	-9.7%
Donbasenergo	DOEN	256	260	144	9	-1	-4	3.3%	-0.6%	-2.6%	1	-8	-15	0.4%	-3.0%	-10.7%
Consumer																
MHP	MHPC	1911	2372	1898	340	648	290	17.8%	27.3%	15.3%	-133	393	-300	-7.0%	16.6%	-15.8%
Kernel (FY19, FY20, FY21)	KER	5647	5365	2300	929	678	370	16.5%	12.6%	16.1%	513	180	120	9.1%	3.4%	5.2%
Astarta	AST	490	590	404	134	242	125	27.3%	41.0%	31.0%	10	147	36	2.1%	24.9%	9.0%
Agroton	AGT	68	41	20	33	8	-6	48.2%	19.8%	-30.0%	12	4	-40	17.4%	8.7%	neg
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3795	4829	4238	456	571	390	271	348	314	151	179	-68	33.2%	31.3%	-17.5%

Source: Eavex Research

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