

Stock Market Update

Equity

There was bad news for UkrNafta's minority shareholders this morning as the state ordered the unconditional transfer of private stakes in the company to the state account, which will be managed by the Defense Ministry. Currently, there is no official information on how minority shareholders of 50% + 1 share of state-owned UkrNafta would be compensated for their loss of ownership in the company. On the Ukrainian Exchange, the last price for UkrNafta was UAH 230 per share valuing the company at USD 308mn.

In other Kyiv-listed equities, CentrErgo (CEEN) remained unchanged at UAH 4.5 while Raiffeisen Bank (BAVL) dropped by 5% over the week to 20.9 kopecks amid fears that the bank's loan portfolio quality will deteriorate due to electricity disruptions in Ukraine after energy infrastructure was partly destroyed by Russian missile attacks.

In Warsaw trading, Kernel (KER) surged by 9.2% to PLN 18.00 buoyed by the resumption of the Black Sea Grain Initiative. Sugar maker Astarta (AST) edged up by 1% to PLN 19.76 while Agroton (AGT) shed by 1.1% to PLN 3.49 per share.

London-listed Ferrexpo (FXPO) rose by 9.8% GBP 113. On the downside, poultry producer MHP (MHPC) fell 9.3% last week to USD 2.91.

On the currency front, the hryvnia edged down by 1.0% on the OTC cash market to trade at 40.40 UAH/USD. News that the government improved its forecast for the national currency exchange rate from 50 to 45.8 UAH/USD for the end-2023 had a neutral influence.

Highlights

POLITICS AND ECONOMICS

- › Republican Wins Unlikely to Reduce US Support for Ukraine - Biden Admin

STOCKS IN THE NEWS

- › UkrNafta and Motor Sich Becoming 100% State-Owned

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	1377	-5.4%	-20.8%
RTS	1094	-1.6%	-31.4%
WIG20	1601	4.6%	-29.4%
MSCI EM	885	4.7%	-28.2%
S&P 500	3770	-3.4%	-20.9%

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	97.3%	4.3 p.p.	88.4 p.p.
Ukraine-2034	59.1%	3.4 p.p.	49.9 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	40.40	1.0%	47.9%
EUR/UAH	39.50	0.8%	27.6%

Source: Eavex Capital

Republican Wins Unlikely to Reduce US Support for Ukraine - Biden Admin

by Will Ritter
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NEWS

Top US national security official Jake Sullivan said that US military & financial support for Ukraine will remain “unflinching and unwavering”, during an official visit to Kyiv on Friday (Nov 4). Sullivan was responding to questions about whether the expected victory of the opposition Republican party in this week’s US congressional elections will result in a decrease in US defense assistance to Ukraine. Similarly, a US State Department representative said that US support for Kyiv in the fight against the Russian invasion will continue “for as long as it takes”. Republicans appear certain to win control of the House of Representatives, with Kevin McCarthy set to take over as Speaker, although the race for the Senate is too close to call. Meanwhile, a widely-circulated Washington Post report published on Sunday (Nov 6) said that the Biden administration is urging President Zelenskyy’s government to soften its line on refusing negotiations with the Kremlin and signal a willingness to talk. The Post’s article said the US is concerned that Zelenskyy’s public hard line against any negotiations with the Putin regime is damaging Ukraine’s support internationally in Europe and Latin America, and that Kyiv needs to “maintain the moral high ground”. In military news, the situation in Kherson remains unclear, with a number of unconfirmed reports last week that Russian forces are in the process of abandoning Kherson city on the west side of the Dnipro and retreating to defend the large area of Kherson province which they hold east and south of the river. In Donetsk province, there are reports today (Nov 7) of heavy fighting around the long-besieged towns of Bakhmut and Avdiivka, as the Kremlin appears desperate for some kind of victory to offset the impending loss of Kherson.

COMMENTARY

In our view, Republican leader McCarthy’s widely-reported comment last month about “not giving a blank check” to Ukraine was blown out of proportion and exaggerated by the media as a sign of supposed Republican hostility to Ukraine. Taken in context, the comment was moderately-worded and in no way implied a refusal of the incoming Republican House leadership to back the Ukrainian defense effort. What is true, however, is that there is a minority anti-Ukraine faction within the Republican party which currently consists of around 60 representatives, and could grow to 70-80 after the election, we estimate (the House chamber has 435 total seats). This faction will be unable to block Ukraine assistance, but it could increase the volume of the domestic debate about US involvement in the war. The bigger issue, in our opinion, is that there is currently a mismatch between the Biden administration’s public rhetoric about “supporting Ukraine for as long as it takes” and its policies behind closed doors, which appear to be calibrating the military aid so that Ukraine is not able to recapture occupied territories at a fast pace. Although November’s temperatures in Ukraine have been above average thus far, the eventual onset of winter by early December looks likely to freeze the lines of contact more or less as we currently see them along the 1000-km front for several months.

UkrNafta and Motor Sich Becoming 100% State-Owned

by Dmitry Churin
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NEWS

Ukrainian authorities decided to accumulate 100% ownership in strategic oil and gas producer UkrNafta (UNAF) and aircraft engine producer Motor Sich (MSICH), according to a batch of regulatory orders issued on Nov 5-6.

The National Security and Exchange Commission ordered to transfer of shares of private investors of UkrNafta and Motor Sich to the state account, which will be managed by the Defense Ministry.

COMMENTARY

The string of decisions to take over 100% state control over UkrNafta and Motor Sich was attributed to a need to improve the logistics of the Ukrainian army amid the war. The authorities used martial law and the law that allows using private property amid the emergency situation in the country as the reason behind the de-facto nationalization of UkrNafta and Motor Sich.

According to legislation, the state has to compensate private shareholders for transferring their stakes in the above-mentioned companies into the state account. However, there is no certain mechanism of how the compensation should be determined and in what time frames it should be paid. Therefore, we predict many lawsuits against the state regarding damages to private shareholders of UkrNafta and Motor Sich as a result of unconditional shares transferring to the state. On the other hand, we do not expect any court ruling in this matter could be made as long as martial law is in place in Ukraine.

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	1377	-5.4%	-20.8%								
Iron Ore Mining												
Ferrexpo	FXPO	113	9.8%	-62.4%	756	585	24.0%	0.9	neg	0.4	1.7	0.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	11.3	0.0%	-40.8%	32	-11	5.0%	6.1	neg	-1.1	8.1	-0.1
Specialized Machinery												
Turboatom	TATM	2.3	0.0%	-21.0%	24	21	3.8%	7.7	neg	1.0	2.2	0.8
Motor Sich	MSICH	5390	0.0%	0.0%	277	262	24.0%	11.9	neg	2.9	6.6	1.3
Oil & Gas												
UkrNafta	UNAF	230	0.3%	-14.9%	308	287	3.0%	3.4	14.1	1.7	5.1	0.3
Enwell Energy (ex-Regal)	ENW	23.4	-16.3%	-33.3%	85	8	21.6%	1.7	1.6	0.1	0.1	0.1
Power Utilities												
Centrenergo	CEEN	4.50	0.0%	-28.6%	41	11	21.7%	-1.3	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	2.91	-9.3%	-57.1%	307	1595	32.5%	neg	neg	2.5	5.5	0.8
Kernel	KER	18.00	9.2%	-69.3%	305	2020	61.8%	1.7	2.5	3.0	5.5	0.9
Astarta	AST	19.76	1.0%	-53.4%	105	298	37.0%	0.7	2.9	1.2	2.4	0.7
Agroton	AGT	3.49	-1.1%	-48.7%	16	-4	25.0%	4.6	neg	n/a	n/a	n/a
Banks												
										Price/Book	Price/Assets	
Raiffeisen Bank Aval	BAVL	0.209	-5.0%	-54.6%	318		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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