

Stock Market Update

Equity

Kyiv-listed stocks were mostly lower over the week as another missile attack on Ukrainian energy infrastructure increased the risks of prolonged blackouts across the country. The state-run electricity operator UkrEnergo has been shutting down power for several hours daily to maintain the country's energy system afloat. The barrage of attacks came exactly in time when leaders of the Group of 20 nations met in Bali for a summit dominated by the topic of Moscow's war on Kyiv. They also followed what have been days of euphoria in Ukraine after one of its biggest military successes in the nearly nine-month Russian invasion – the retaking of the southern city of Kherson.

On the Ukrainian Exchange, shares of Raiffeisen Bank (BAVL) were down by 4.3% to 20 kopecks despite the bank continuing to report impressive financial results. Raiffeisen Bank had a net profit of UAH 2.4bn in 9M22, implying an earnings per share of 3.9 kopecks. Currently, we estimate the BAVL's P/E at 5.9x and P/B at 0.6x.

The second-tier, Krukiv Wagon (KVBZ) fell 11% to UAH 10.00 ignoring the UX index committee's decision to include the KVBZ stock into the UX index basket from Dec 16.

In Warsaw trading, Kernel (KER) rose by 1.2% to PLN 18.60 and Astarta (AST) surged by 7.8% to PLN 22.00 after the Black Sea Grain Initiative was prolonged allowing more agro exports from Ukraine.

Iron ore miner Ferrexpo (FXPO) declined by 3.6% to GBp 143 while Enwell Energy (former Regal) advanced by 9.3% to GBp 26.5.

MHP (MHPC) rebounded by 9.5% to USD 3.45 after the company reported better than expected financial results for 3Q22. MHP managed to increase its revenue by 10% YoY in the period overcoming the very challenging logistic problems with exports.

The hryvnia gained 0.9% on the OTC cash market to 40.25 UAH/USD.

Highlights

STOCKS IN THE NEWS

- > The National Bank Pushing MHP to Restructure Eurobonds
- > Kernel Reports that its Debt-to-EBITDA Ratio Worsen to 6.8x

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	1379	1.5%	-20.7%
RTS	1147	-0.9%	-28.1%
WIG20	1707	1.0%	-24.7%
MSCI EM	941	5.8%	-23.6%
S&P 500	3965	-0.7%	-16.8%

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	76.3%	-10.1 p.p.	67.4 p.p.
Ukraine-2034	41.6%	-7.3 p.p.	32.4 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	40.25	-0.9%	47.3%
EUR/UAH	40.75	-0.5%	31.6%

Source: Eavex Capital

The National Bank Pushing MHP to Restructure Eurobonds

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 3.45 Market Cap: USD 382mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2022E	0.3	0.9	neg	5.8	0.0%
2023E	0.3	0.9	neg	7.3	0.0%

NEWS

London-listed, central-Ukraine-based MHP (MHPC) conducted a conference call presenting the company's 3Q22 financial results on Nov 16. The company's representatives hinted that the National Bank is pushing MHP to restructure its Eurobonds in the same manner that the government negotiated a debt servicing freeze until 2024. However, no detail on the matter was disclosed.

MHP reported that its EBITDA dropped by 35% YoY to USD 121mn in 3Q22 despite revenues rising by 10% YoY to USD 727mn. The company had a net loss of USD 181mn in 3Q22 compared to a net profit of USD 145mn in 3Q21. Year-to-date through September, the company posted revenue of USD 1.87bn (+14% YoY), EBITDA of USD 275mn (-47% YoY), and a net loss of USD 269mn, compared to a net profit of USD 377mn a year earlier.

On the balance sheet side, MHP's total debt was USD 1.5bn as of 30 Sept 2022. The Net Debt/EBITDA ratio was 2.9x as of 30 Sept 2022, up significantly from 1.9x at the start of the year.

MHP FINANCIALS

USD mn	3Q2021	3Q2022	chg.	9M2021	9M2022	chg.
Net revenue	658	727	+10%	1,647	1,876	+14%
EBITDA	186	121	-35%	519	275	-47%
margin	28.3%	16.6%	-11.6 p.p.	31.5%	14.7%	-16.9 p.p.
Net Income	145	-181	+/-	377	-269	+/-
net margin	22.0%	-24.9%	-46.9 p.p.	22.9%	-14.3%	-37.2 p.p.

Source: Company data.

COMMENTARY

MHP said that the company would pay the deferred coupons on its Eurobonds in December and February. Meanwhile, the company has no confidence whether there will be the ability to use cash accumulated in Ukraine for debt servicing as the National Bank imposed strict capital controls.

Back to the financial report, MHP's revenue growth of 10% YoY in 3Q22 was primarily driven by a 38% YoY increase in export sales to USD 470mn in the period (65% of the total revenue). Therefore, the company managed to overcome export difficulties amid extremely challenging logistics in Ukraine. On the other hand, the disruptions in electricity supply, started in October after Russia attacked the country's energy infrastructure, present more challenges for MHP's operations.

The company's reported net loss of USD 269mn for 9M22 was attributed to USD 367mn non-cash foreign exchange loss, meaning that MHP's business continued to generate solid cash flow from operations.

The MHPC stock has a current listing of USD 3.45 per share, climbing from the 52-week low of USD 2.78 seen last month. Currently, Eavex Capital has no recommendation for the MHPC stock given the deep uncertainty caused by the Russian invasion of Ukraine.

Kernel Reports that its Debt-to-EBITDA Ratio Worsen to 6.8x

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 18.60 Market Cap: USD 335mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22	0.2	0.3	neg	8.3	0.0%
FY23	0.2	0.6	2.8	4.9	0.0%

NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel said that its net debt-to-EBITDA ratio worsened to 6.8x in FY22 (the company's financial year runs from July to June) from a level of just 1.0x in FY21. The company's EBITDA plunged almost four times to USD 220mn in FY22 from USD 806mn in FY21. Meanwhile, Kernel's revenue declined only by 5% YoY to USD 5.33bn in FY22. The company unveiled a net loss of USD 41mn for FY22 compared to a record-high net profit of USD 513mn seen a year ago.

KERNEL FINANCIAL RESULTS

USD mn	2021FY	2022FY	YoY
Net revenue	5,595	5,332	-5%
EBITDA	806	220	-73%
EBITDA margin	14.4%	4.1%	-10.3 p.p.
Net Income	513	-41	+/-
Net margin	9.2%	-0.8%	-9.9 p.p.

Source: Company data.

COMMENTARY

Kernel had a net debt of USD 1.49bn as of end-June but taking into account the company's commodity inventories, the adjusted net debt could be calculated at USD 596mn implying an adjusted net debt-to-EBITDA ratio at manageable 2.7x. Nevertheless, the worsened debt-to-EBITDA metric became a reason for concern regarding Kernel's overall debt situation. Although Kernel generated a cash flow from operations before the working capital change of USD 677mn in FY22, the company's net cash from operations was negative at USD -305mn reflecting a need to allocate USD 794mn for a working capital increase due to much slower inventories turnover after grain and sunflower oil export was disrupted by Russian invasion of Ukraine. The main thing that Kernel got since June was the Black Sea Grain Initiative allowing the company to export soft commodities from the Odesa seaport. Kernel accounts for about 18% of Ukrainian grain exports. We do not have precise information on how profitable for Kernel was export resumption. Kernel reported that it had exported 709,800 tonnes of grain in the Jul-Sept quarter (-68% YoY).

Kernel's stock reached a multi-year low of PLN 16.55 in October. The KER closing price on Friday (Nov 18) was PLN 18.60.

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				2021	2022E	2021	2022E	
UX Index	UX	1379	1.5%	-20.7%								
Iron Ore Mining												
Ferrexpo	FXPO	143	-3.6%	-52.3%	1001	830	24.0%	1.1	neg	0.6	2.4	0.5
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	10.0	-11.1%	-47.4%	28	-3	5.0%	5.5	neg	--	--	--
Specialized Machinery												
Turboatom	TATM	2.4	4.3%	-17.5%	25	22	3.8%	8.0	neg	1.1	2.3	0.8
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	26.5	9.3%	-24.3%	101	24	21.6%	2.0	1.8	0.3	0.3	0.2
Power Utilities												
Centrenergo	CEEN	4.50	0.0%	-28.6%	41	12	21.7%	neg	neg	neg	neg	0.1
Donbasenergo	DOEN	13.25	17.6%	-54.3%	8	7	14.2%	neg	neg	neg	neg	0.1
Consumer												
MHP	MHPC	3.45	9.5%	-49.1%	382	1670	32.5%	neg	neg	2.6	5.8	0.9
Kernel (FY21, FY22, FY23E)	KER	18.60	1.2%	-68.3%	335	1823	61.8%	neg	2.8	8.3	4.9	0.6
Astarta	AST	22.05	7.8%	-48.0%	121	314	37.0%	0.8	3.3	1.3	2.5	0.8
Agroton	AGT	3.89	9.6%	-42.8%	19	-1	25.0%	5.3	neg	--	--	--
Banks												
											Price/Book	Price/Assets
Raiffeisen Bank Aval	BAVL	0.200	-4.3%	-56.5%	306		1.8%	1.7	5.9	0.5	0.6	0.07

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 (FY21, FY22, FY23E)	KER	5595	5332	3200	806	220	370	14.4%	4.1%	11.6%	513	-41	120	9.2%	-0.8%	3.8%
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	510	271	348	314	151	179	52	33.2%	31.3%	10.2%

Source: Eavex Research

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