

Stock Market Update

Equity

Ukrainian economic activity continued to slow down amid the deficit of electricity as a result of Russian missile attacks on Ukrainian civil infrastructure. The war that Moscow started remained in the hot phase. The Kremlin wants Kyiv to acknowledge Russia's annexation of southern and eastern regions. Ukraine says every Russian soldier must leave its territory, including Crimea, which Russia annexed in 2014. Meanwhile, Ukrainian military commander warned that Russia may again attempt to seize Kyiv after invading from Belarus in the north, potentially around the late February anniversary of when the Kremlin first ordered his troops to invade.

On the Ukrainian Exchange, there was a rise of 1.7% for the UX index after Kernel (KER) and Krukiv Wagon (KVBZ) were included to the index basket from Dec 15. Raiffeisen Bank (BAVL) was the growth leader gaining by 15% to 26.5 kopecks per share. On the downside, CentrErgo (CEEN) dropped by 6.6% to UAH 3.80.

Ukrainian equities listed in Warsaw were broadly lower with Astarta (AST) declining by 1.2% to PLN 20.50 and Kernel (KER) falling by 1.4% to PLN 17.50.

In London trading, natural gas producer Enwell Energy (former Regal) plunged by 25% to GBP 16.30 after the company's majority owner Vadym Novinsky was included in the Ukrainian sanction list. There is a risk that Enwell might lose its licences. However, no precise information was unveiled by the company in its statement regarding the Novinsky situation.

On the currency front, the hryvnia was traded at 40.00 UAH/USD on the OTC cash market. Information that the country's foreign currency reserves grew to USD 28bn for the first time since February, when the Russian invasion began, was supportive for the hryvnia.

Highlights

STOCKS IN THE NEWS

- Kernel Reports 40% Drop in EBITDA to USD 168mn in Jul-Sept

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	1425	1.7%	-18.0%
RTS	1038	-5.6%	-35.0%
WIG20	1741	0.6%	-23.2%
MSCI EM	957	-1.2%	-22.3%
S&P 500	3852	-2.1%	-19.2%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	+16.0 p.p.
UAH 1-year war bond	16.0%	0.0 p.p.	+5.0 p.p.
Ukraine-2026	79.3%	0.3 p.p.	70.4 p.p.
Ukraine-2034	44.3%	0.3 p.p.	35.1 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	40.00	-0.5%	46.4%
EUR/UAH	42.10	0.8%	36.0%

Source: Eavex Capital

Kernel Reports 40% Drop in EBITDA to USD 168mn in Jul-Sept

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 17.50 Market Cap: USD 324mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY21	0.2	0.3	neg	8.2	0.0%
FY22E	0.2	0.6	2.7	4.9	0.0%

NEWS

Kernel, the largest Ukrainian grain exporter, reported a 40% YoY drop in EBITDA to USD 168mn in the Jul-Sept quarter, amid a 51% YoY to USD 655mn contraction in revenue in the period. The company's grain exports fell by 68% YoY to 710,000 tonnes in Jul-Sept. Sunflower oil sales decreased by 14% YoY to 460,000 tonnes in the reported period. Kernel posted a net profit of USD 162mn (-23% YoY) and said that its operating profit before working capital changes declined by a moderate 7% YoY to USD 181mn.

On the balance sheet side, Kernel's net debt amounted to USD 1.5bn as of end-September. The company estimated its net debt to EBITDA ratio at as high as 13.9x. Meanwhile, the adjusted net debt to EBITDA ratio that included into consideration the ready-for-sale commodities was at 7.4x.

KERNEL FINANCIAL RESULTS

USD mn	1Q22FY	1Q23FY	YoY
Net revenue	1340	655	-51%
EBITDA	281	168	-40%
EBITDA margin	21.0%	25.6%	+4.7 p.p.
Net Income	211	162	-23%
Net margin	15.7%	24.7%	+9.0 p.p.

Source: Company data.

COMMENTARY

The reported financial figures reflected both the logistic problem for agro exports from Ukraine and Kernel's reduced scale after the company divested part of its land bank in 1H22. In terms of the debt burden, Kernel indeed faced a significant deterioration in the debt to EBITDA metric. Nevertheless, the metric took into account an extremely hard period from late February to July when Kernel was unable to export agro products through Ukrainian Black Sea ports. We believe that Kernel's financials will improve compared to the figures reported for 1H22. Therefore, the debt to EBITDA ratio is expected to return to an appropriate level of 3.0x in June 2023, unless the country would stick with more harsh war-related circumstances.

Among the positive highlights from Kernel's report, there was the fact that the company had earnings per share of USD 2.09 (PLN 9.24) which means that the KER stock is currently trading at a very low P/E multiple. The KER was quoted at PLN 17.50 last week.

Kernel-27s Eurobonds have an indicative quote at 30 cents on the dollar, implying a yield to maturity of 44%.

QUOTES AND MULTIPLES

	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales
			1W	YtD				2021	2022E	2021	2022E	2022E
UX Index	UX	1425	1.7%	-18.0%								
Iron Ore Mining												
Ferrexpo	FXPO	160	1.0%	-46.7%	1136	965	24.0%	1.3	neg	0.7	2.8	0.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	10.0	0.0%	-47.4%	28	-3	5.0%	5.5	neg	--	--	--
Specialized Machinery												
Turboatom	TATM	2.5	14.2%	-14.1%	26	23	3.8%	8.4	neg	1.1	2.4	0.8
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	16.3	-24.5%	-53.4%	63	-14	21.6%	1.2	1.1	-0.2	-0.2	-0.1
Power Utilities												
Centrenergo	CEEN	3.80	-6.6%	-39.7%	35	5	21.7%	neg	neg	neg	neg	0.1
Donbasenergo	DOEN	13.00	-1.7%	-55.2%	8	7	14.2%	neg	neg	neg	neg	0.1
Consumer												
MHP	MHPC	3.40	3.0%	-49.9%	377	1665	32.5%	neg	neg	2.6	5.7	0.9
Kernel (FY21, FY22, FY23E)	KER	17.50	-1.6%	-70.2%	318	1806	61.8%	neg	2.6	8.2	4.9	0.6
Astarta	AST	20.50	-1.2%	-51.7%	114	307	37.0%	0.8	3.1	1.3	2.4	0.8
Agroton	AGT	3.44	-0.3%	-49.4%	17	-3	25.0%	4.7	neg	--	--	--
Banks												
Raiffeisen Bank Aval	BAVL	0.265	15.5%	-42.4%	405		1.8%	2.3	7.8	0.7	0.8	0.10

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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