

Stock Market Update

Equity

The major market indexes shot higher last week with the S&P500 advancing by 2,7% while the MSCI Emerging Market index surged by 4,3%. A positive sentiment appeared after the Labor Department said that the CPI in the US was up 6.5% YoY in December, as prices rose at their slowest pace in six months. In the wake of the inflation update, market expectations for the Federal Reserve to deliver a 25 basis point (0.25%) interest rate hike at its February meeting jumped to 95% from yesterday's 77%. This would mark the lowest increase in the Fed's benchmark rate since March 2022. (The US central bank issued four consecutive 0.75% rate hikes, followed by a 0.5% increase at its last meeting in December.)

Meanwhile, in Ukraine consumer inflation came at 26.6% YoY in December as the hryvnia devaluated significantly amid the war and petroleum prices jumped by 69% YoY for Ukrainians in 2022. The National Bank is keeping its key interest rate at 25% and there is a high probability that the rate will remain at this high level unless the inflation pace slows below 18% YoY.

On the Ukrainian Exchange, quotes for Raiffeisen Bank (BAVL) and CentrErgo (CEEN) were flat last week at 31 kopecks and UAH 4.00 respectively.

London-listed Ferrexpo (FXPO) surged by 11% to GBp 173 spurred by an overall positive momentum on the global stock markets. In Warsaw trading, Astarta (AST) advanced by 2.3% to PLN 22.70, and Kernel (KER) edged up by 0.5% to PLN 18.58.

The hryvnia cash exchange rate remained at 40 UAH/USD. The country's foreign exchange reserves stood at USD 28.5bn at the beginning of the year covering 3.6 months of future imports, which is considered an appropriate relative measure of the FX reserves.

Highlights

POLITICS AND ECONOMICS

- > Ukraine Braces for Russian Spring Offensive as West Promises Tanks

STOCKS IN THE NEWS

- > Enwell Energy (former Regal) May Lose Licenses in Ukraine due to Sanctions Against Majority Owner

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

www.eavex.com.ua

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	1556	-1.1%	-0.6%
RTS	1010	7.1%	4.1%
WIG20	1923	3.6%	7.2%
MSCI EM	1030	4.3%	7.6%
S&P 500	3999	2.7%	4.2%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	0.0 p.p.
UAH 1-year war bond	16.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	78.3%	-3.6 p.p.	-3.4 p.p.
Ukraine-2034	46.1%	-0.9 p.p.	0.7 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	40.50	-0.7%	-0.2%
EUR/UAH	43.20	1.2%	1.6%

Source: Eavex Capital

Ukraine Braces for Russian Spring Offensive as West Promises Tanks

by Will Ritter
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NEWS

Ukraine's Western allies made new promises of tanks and armor last week ahead of a key US-chaired meeting on Friday (Jan 20) in Ramstein (Germany) of top defense officials at which new tranches of military hardware support for Ukraine are expected to be ironed out. The meeting comes as a relative winter lull in fighting, which began in mid-November, continues to see few substantial changes in the war's front lines. France, Germany, the US, and Britain have each promised their own versions of armored vehicles, although the German government remains reluctant to provide the "Leopard 2" tanks coveted by Ukraine amid polls that show the German electorate still favoring a cautious approach to the war. Military analysts reported that Russia is organizing a mobilization campaign to prepare for a new spring offensive that would likely target the western Donetsk province cities of Slavyansk and Kramatorsk, as well as the parts of Zaporizhia province still held by Ukraine, including Zaporizhia city. The hottest spot in the war last week continued to be near Bakhmut (Donetsk province), where a number of reports indicated that Russian forces had captured the small mining town of Soledar. The Washington Post reported on Sunday (Jan 15) that Ukraine might be considering moving some of its forces out of Bakhmut to reinforce other fronts. Meanwhile, the Russian military resumed its attacks against civilian targets in Ukraine on Friday (Jan 13), with a missile destroying an apartment building in the eastern city of Dnipro, killing 25 residents. There was controversy about whether the missile struck the building directly, or was first shot down by Ukraine's air defenses; a prominent military advisor to President Zelenskiy, Oleksiy Arestovich, publicly stated that it was a shoot-down, but Ukraine's air force subsequently denied the claim.

COMMENTARY

In our view, Western tanks should be useful to Ukraine in repelling new Russian ground offenses, but we doubt that deliveries in the reported numbers would allow Ukraine to make large-scale territorial gains. For that, Ukraine would likely need longer-range missiles, which still appear to be off the table in the West due to fears that they would be used to attack targets inside Russia proper. We believe that the recent shake-up of Russia's top military leadership, which saw longtime Chief of Staff Valeriy Gerasimov take over command of the war from Gen. Sergey Surovikin, is a sign of the increasing internal political pressure felt by Russian President Putin to show successful results; Putin had promised a quick and painless campaign to subdue Ukraine for which Russians would not need to make personal sacrifices. As it becomes more & more obvious to all that Putin miscalculated and that the costs to Russia of the war will continue to rise, the near-term stability of the regime cannot be taken for granted, we think. Even in a case where Ukraine is unable to retake much additional occupied territory in the next 6 months, simply defending the current front lines and preventing any new Russian gains could result in a major decline in Putin's support.

Enwell Energy (former Regal) May Lose Licenses in Ukraine due to Sanctions Against Majority Owner

by Dmitry Churin
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ENWELL ENERGY (ENW LN)

Price: GBp 16.0 Market Cap: USD 62mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2021	0.4		1.2		0%
2022E	0.3		1.1		0%

NEWS

Enwell Energy (former Regal Petroleum) might lose its hydrocarbon production licenses in Ukraine due to the sanctions imposed by the National Security and Defense Council against its majority shareholder Vadim Novinsky. The company said that it was reviewing the new legislation and consulting with its external legal and other advisors regarding the precise interpretation of the new law to allow the company to evaluate any necessary actions. Meanwhile, the company's business continues as usual.

The Law to enter into force on March 28, 2023 is a substantial package of new procedures and reforms designed to improve the regulatory process relating to the exploration and development of natural resources in Ukraine. However, the legislation includes provisions that if the ultimate beneficial owner of a mineral or hydrocarbon licence becomes the subject of sanctions in Ukraine, then the Ukrainian State Authorities may suspend or revoke that licence. In light of the imposition of the restrictive measures (sanctions) by the Ukrainian Authorities against Vadym Novynskyi, who holds a major indirect shareholding interest in Enwell Energy as announced on 9 December 2022, the company is investigating whether the company's hydrocarbon extraction licences may be adversely affected by these provisions in the new law.

COMMENTARY

Quotes for Enwell Energy on the London Stock Exchange fell from a level of GBp 26.00 to GBp 14.00 when the announcement of sanctions against the majority owned was made. The ENW stock recovered to GBp 16.00 last week after the company said it held USD 89mn in cash. Enwell Enwell Energy is debt free which means the company's current MCap of USD 62mn is less than cash holdings the company has.

In the operational update published on Jan 12, the company said its natural gas output dropped by 37% YoY to 2,956 boepd (a total of about 180mn cubic meters for 2022).

Taking into account that Enwell Energy has quite low production costs, we forecast that the company would post net profit of USD 55mn for FY22. This means that the ENW stock is currently valued at less than 2.0x P/E. Unfortunately, Enwell Energy besides the war risks in Ukraine also faced the risk of losing its production licenses.

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	1556	-1.1%	-0.6%								
Iron Ore Mining												
Ferrexpo	FXPO	174	3.1%	10.9%	1241	1070	24.0%	1.4	neg	0.7	3.1	0.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	11.4	3.6%	3.6%	32	-5	5.0%	neg	neg	--	--	--
Specialized Machinery												
Turboatom	TATM	2.9	3.6%	7.4%	30	27	3.8%		neg	1.2	2.8	1.0
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	16.0	10.0%	2.6%	62	-15	21.6%	1.2	1.1	--	--	--
Power Utilities												
Centrenergo	CEEN	4.01	0.2%	0.1%	37	30	21.7%	neg	neg	neg	neg	0.1
Donbasenergo	DOEN	11.92	0.0%	-9.4%	7	7	14.2%	neg	neg	neg	neg	0.1
Consumer												
MHP	MHPC	3.75	0.3%	0.0%	415	1703	32.5%	neg	neg	2.6	5.9	0.9
Kernel (FY21, FY22, FY23E)	KER	18.58	0.5%	5.9%	352	1840	61.8%	neg	2.9	8.4	5.0	0.6
Astarta	AST	22.70	2.3%	11.3%	131	324	37.0%	0.9	3.6	1.3	2.6	0.8
Agroton	AGT	3.62	0.0%	5.2%	18	-2	25.0%	5.1	neg	--	--	--
Banks												
Raiffeisen Bank Aval	BAVL	0.310	0.0%	3.3%	471		1.8%	2.6	9.1	0.8	0.9	0.11

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	2021	2022E	2020	2021	2022E	2020	2021	2022E	2020	2021	2022E	2020	2021	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	124	94	78	7	-5	-1	5.5%	-5.7%	-1.8%	3	-8	-5	2.2%	-9.0%	-6.8%
Specialized Machinery																
Turboatom	TATM	105	55	28	52	22	10	49.1%	40.7%	34.4%	8	0	-2	8.0%	0.5%	-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	460	388	17	-33	-16	2.2%	-7.1%	-4.2%	2	-36	-38	0.3%	-7.9%	-9.7%
Donbasenergo	DOEN	256	128	144	9	-13	-4	3.3%	-10.5%	-2.6%	1	-16	-15	0.4%	-12.9%	-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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