

Stock Market Update

Equity

The index of expectations of business activity, which the National Bank calculates every month, showed that in February businesses significantly softened negative assessments of their economic activity. Business activity is gradually recovering in all sectors, except for construction, but the restraining factors are low consumer demand and an increase in the cost of manufactured goods.

At the moment, for the economy of Ukraine, there is an extremely important issue regarding the continuation of the “grain initiative”, within the framework of which Ukraine exports food through the “green corridors” in the Black Sea. The current agreement expires on March 18. Representatives of Turkey, which acts as a mediator for agreements with Russia, have already announced efforts to continue the grain agreement. For its part, Ukraine is seeking to expand the grain export agreement to include steel supplies to support the economy. In 2022, Ukraine exported more than 22mn tonnes of grain. For the past few months, Russia has been artificially slowing down the implementation of the agreement by systematically delaying the inspection of ships passing through the Bosphorus. Ukraine called on the international community, in particular the UN and Turkey, to stop Russia’s attempts to block the operation of the “grain corridor”.

Among the shares of Ukrainian agricultural companies listed on the Warsaw Stock Exchange, the biggest increase last week was in Astarta (AST), which rose by 6.6% to PLN 25.00. Since the beginning of this year, Astarta shares have risen in price by 22%. Kernel (KER) decreased by 0.5% to PLN 19.9 for the week even though the published financial results of the company for October-December turned out to be better than expected.

On the Ukrainian Exchange, the indicative quotes for CentrEnerg (CEEN) increased by 7.5% to UAH 2.58. The company announced the holding of an extraordinary meeting of shareholders with the sole issue of appointing the international company BDO to audit the financial statements for 2022.

Highlights

STOCKS IN THE NEWS

- > Kernel Reports Net Profit of USD 368mn for the Jul-Dec Period
Implying Solid EPS of PLN 21.0

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	1395	-1.5%	-10.9%
RTS	945	3.4%	-2.6%
WIG20	1842	1.9%	2.7%
MSCI EM	988	0.6%	3.2%
S&P 500	4045	1.9%	5.3%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	0.0 p.p.
UAH 1-year war bond	18.5%	0.0 p.p.	+2.5 p.p.
Ukraine-2026	97.2%	1.1 p.p.	15.5 p.p.
Ukraine-2034	52.7%	0.7 p.p.	7.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	38.95	-1.6%	-4.1%
EUR/UAH	41.15	-1.3%	-3.2%

Source: Eavex Capital

Kernel Reports Net Profit of USD 368mn for the Jul-Dec Period Implying Solid EPS of PLN 21.0

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KERNEL (KER PW)

Price: PLN 19.86 Market Cap: USD 347mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22	0.2	0.3	neg	8.3	0.0%
FY23E	0.2	0.6	2.9	5.0	0.0%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and grain exporter, reported a 13% YoY decline in net profit to USD 368mn for the Jul-Dec quarter (the company's 1H23 financial year). According to the company's consolidated financial statement published on Mar 3, net revenue fell by 41% YoY to USD 1.89bn in the period and EBITDA dropped by 22% YoY to USD 446mn. For the 3 months ending in December, Kernel had revenue of USD 1.24bn (-34% YoY), EBITDA of USD 277mn (-5% YoY), and net profit of USD 207mn (-3% YoY).

On the balance sheet side, Kernel's net debt amounted to USD 1.05bn as of 31 December 2022, implying a trailing 12-month Net Debt/EBITDA ratio of 11.0x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 4.8x.

KERNEL FINANCIAL RESULTS

USD mn	2Q FY22	2Q FY23	YoY	1H FY22	1H FY23	YoY
Net revenue	1,877	1,235	-34%	3,217	1,890	-41%
EBITDA	292	277	-5%	570	446	-22%
EBITDA margin	15.6%	22.4%	+6.8 p.p.	17.7%	23.6%	+4.9 p.p.
Net Income	213	207	-3%	424	368	-13%
Net margin	11.3%	16.7%	+5.4 p.p.	13.2%	19.5%	+6.3 p.p.

Source: Company data,

COMMENTARY

Kernel delivered a pretty much better than expected profitability for the Oct-Dec quarter (2Q23 FY) as the company managed to increase its EBITDA margin from 15.6% to 22.2% despite a significant 34% YoY decrease in sales in the period. As a result, the company's reported net profit of USD 368mn for the Jul-Dec period implies earnings per share of USD 4.75 (PLN 21.0). Taking into account, that Kernel stock is currently traded at PLN 19.86, this means that the P/E multiple is less than 1.0x, indicating a very low valuation for the stock. Nevertheless, the war risk in Ukraine remains the biggest concern for Kernel's future. Also, there is uncertainty regarding the prolongation of the Grain Initiative that allows Ukrainian agro traders to ship grain through the Black Sea ports without a risk to be shelled by Russian missiles. The existing grain deal expires on March 18. The UN and Turkey are in active talks with Moscow to prolong the safe corridor for Ukrainian agro products.

The lion share of Kernel's profit came from farming operations. Currently, we are unable to understand how bad for the company would be disinvestment of 134,000 ha of the land bank. As was reported, Kernel signed a deal to sell part of its land bank to the company's majority shareholder Andriy Verevsky in April 2022. The deal is expected to be completed this month.

Kernel's Eurobonds with maturity in 2027 are quoted at 30 cents on the dollar implying a 45% yield to maturity.

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	1395	-1.5%	-10.9%								
Iron Ore Mining												
Ferrexpo	FXPO	148	-0.1%	-6.1%	1034	863	24.0%	1.2	neg	0.6	2.5	0.5
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.2	0.0%	29.2%	41	4	5.0%	neg	neg	--	--	--
Specialized Machinery												
Turboatom	TATM	3.0	0.0%	11.1%	32	29	3.8%	>50x	neg	1.3	3.0	1.0
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	19.6	7.7%	25.7%	75	-3	21.6%	1.5	1.4	--	--	--
Power Utilities												
Centrenergo	CEEN	2.58	7.5%	-35.6%	24	18	21.7%	neg	neg	neg	neg	0.1
Donbasenergo	DOEN	1.92	1.1%	-85.4%	1	1	14.2%	neg	neg	neg	neg	0.1
Consumer												
MHP	MHPC	3.55	2.6%	-5.3%	393	1681	32.5%	neg	neg	2.6	5.8	0.9
Kernel (FY21, FY22, FY23E)	KER	19.87	-0.5%	13.3%	347	1835	61.8%	neg	2.9	8.3	5.0	0.6
Astarta	AST	25.00	6.6%	22.5%	141	334	37.0%	1.0	3.9	1.4	2.7	0.8
Agroton	AGT	3.25	3.2%	-5.5%	16	-4	25.0%	4.5	neg	--	--	--
Banks												
											Price/Book	Price/Assets
Raiffeisen Bank Aval	BAVL	0.270	0.0%	-10.0%	419		1.8%	2.3	8.1	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	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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