

Stock Market Update

Equity

Indicative quotes for thermal electricity producer CentrEnergO (CEEN) surged by 39% last week to UAH 3.59 but the trade volume was negligible, signaling that the risks of investing in CentrEnergO still outweighed potential upside. In other Ukrainian blue-chips, Raiffeisen Bank (BAVL) gained by 15% to 31 kopecks per share.

On the Warsaw Stock Exchange, grain exporter Kernel (KER) slipped by 6.6% to PLN 18.55 after information that the company's main shareholder proposed to delist Kernel and set the buy back price at just PLN 18.50. Other agro names also finished lower with MHP (MHPC) falling by 5.6% to USD 3.35 and Astarta (AST) declining by 1.2% to PLN 24.70.

The dollar exchange rate on the cash market decreased by another 1.2% to 38.48 UAH/USD. Since the beginning of the year, the hryvnia has strengthened by 5% on the OTC market.

The National Bank reported that Ukraine's foreign exchange reserves fell by 3.5% MoM to USD 28.9bn in February. The regulator conducted interventions on the sale of a currency on the interbank for the amount of approximately USD 2.5bn last month. Meanwhile, the government of Ukraine paid USD 354mn for the servicing and repayment of foreign currency domestic bonds in February, and another USD 154mn was repaid to the World Bank. In addition, Ukraine paid USD 306mn to the IMF. The government's foreign currency accounts at the National Bank received a total of USD 2.4bn last month, including approximately USD 2.1bn from the World Bank and USD 330mn from the placement of foreign currency domestic bonds.

Highlights

POLITICS AND ECONOMICS

- Reports of US-Ukraine Disagreement Over Bakhmut Defense; Kupyansk Under Pressure from Russian Shelling

STOCKS IN THE NEWS

- Kernel's Largest Shareholder Proposes Delisting from Warsaw Stock Exchange at Price of PLN 18.5 per Share

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	1458	4.5%	-6.9%
RTS	943	-0.2%	-2.8%
WIG20	1799	-2.3%	0.3%
MSCI EM	955	-3.3%	-0.2%
S&P 500	3862	-4.5%	0.6%

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	100.1%	2.9 p.p.	18.4 p.p.
Ukraine-2034	52.5%	-0.2 p.p.	7.1 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	38.48	-1.2%	-5.2%
EUR/UAH	40.80	-0.9%	-4.0%

Source: Eavex Capital

Reports of US-Ukraine Disagreement Over Bakhmut Defense; Kupyansk Under Pressure from Russian Shelling

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NEWS

The national US media outlet Politico reported on Sunday (Mar 12) that there have been disagreements between Washington and Kyiv over war strategy in the wake of US President Biden's visit to Ukraine in mid-February. The most notable flash-point is the US concern that Ukraine might be expending too much combat power in its defense of the small Donetsk province city of Bakhmut, which Western analysts have said lacks strategic significance. A second source of tension is a US intelligence report, leaked by the US media last week, which implied that the sabotage of the Russian-German Nord Stream 2 energy pipeline last September was likely undertaken by pro-Ukrainian elements, forcing President Zelenskiy to issue a denial on Friday (Mar 10) of any Ukrainian government involvement. Meanwhile, Ukrainian and Western media reported over the weekend that Ukrainian authorities have called for civilians to evacuate from the small city of Kupyansk in northeastern Kharkiv province amid a heavy campaign of Russian shelling in recent days. Kupyansk was occupied by Russian forces from March to September last year before being liberated in Ukraine's Kharkiv offensive in early autumn. However, Ukraine was not able to press further east, and the city remains within Russian artillery range. In Bakhmut, the latest reports indicate that Russian forces now occupy the eastern portion of the nearly completely-destroyed city, while Ukraine is still holding the western side.

COMMENTARY

We believe the US concern over the situation in Bakhmut is being fueled by a sense of urgency in Washington that Ukraine should begin its expected "spring offensive" as soon as possible, and with maximum combat power. It looks likely that this offensive will be focused on recapturing Russian-occupied territory in Zaporizhia province, and first of all the city of Melitopol, as this appears to be where Ukraine has the best chance of achieving a major success in the near term. However, the situation in Kupyansk indicates that the eastern part of the front is not fully secure, and that Ukrainian defensive efforts will need to be maintained in order to prevent any new Russian advances. Overall, the US media reports over the past month seem to indicate a shifting narrative in US coverage of the war, with the idea of militarily restoring Ukraine's 1991 borders (complete Ukrainian victory) being increasingly portrayed as an unrealistic goal. Sooner rather than later, we think, Zelenskiy will need to start making domestic political adjustments to keep in step with the evolving aims of Kyiv's most important military ally and financial backer. We also note that Zelenskiy is due to face re-election in only 14 months (May 2024), and while it is unlikely that he will be unseated during wartime, an important question is whether the election process will feature real political competition, or simply serve as a rubber-stamping exercise.

Kernel's Largest Shareholder Proposes Delisting from Warsaw Stock Exchange at Price of PLN 18.5 per Share

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 18.55 Market Cap: USD 326mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22	0.2	0.3	neg	8.2	0.0%
FY23E	0.2	0.6	1.2	3.6	0.0%

NEWS

Namsen Limited, as the largest shareholder of Kernel, proposes to the directors of Kernel to delist shares from the Warsaw Stock Exchange. Namsen Limited set the price for the offer at PLN 18.5 per share, according to the information published on Mar 6.

Earlier this year the Antimonopoly Committee of Ukraine allowed Namsen Ltd to increase its stake in Kernel Holding S.A. to over 50%. Currently, Namsen owns 41.3% of Kernel's voting shares. Namsen Limited, owned by Andriy Verevsky, Chairman of the Board of Directors of Kernel.

Namsen Ltd said that if it acquires at least 95% but less than 100% of Kernel's shares during the delisting tender offer, it may consider a mandatory squeeze out, in compliance with all applicable regulations, including, but not limited to the Luxembourg Law of 21 July 2012 on mandatory squeeze-out and sellout of securities.

According to Luxembourg law, the decision to delist the shares should be taken by the Board of Directors and must comply with the laws of the Grand Duchy of Luxembourg as the home member state of Kernel. Against this background, Polish requirements of appointing delisting resolution by EGM with 90% of the majority of votes are not applicable.

Before the Russian invasion of Ukraine, Kernel was the world leader in the production of sunflower oil. The company was the largest exporter of sunflower oil. Kernel has its own farming operations as well as a grain trading division.

COMMENTARY

Kernel shares are traded on the Warsaw Stock Exchange and on the Ukrainian Stock Exchange. Since February 2022, quotes for Kernel shares have fallen from the level of PLN 50 to the current mark of PLN 18.5. From our point of view, the main owner of the company is trying to use a low stock price in order to concentrate more of the company's shares. Definitely, not all minority shareholders are ready to sell Kernel shares for the proposed price of PLN 18.5. However, for some investors, there would be a need to sell as they can't own non-public companies in their portfolio. The low proposed price could be illustrated by the fact that Kernel earned USD 368mn in net profit in July-December while the company's market capitalization stands at just USD 326mn. In this context, we assume that Kernel's main shareholder wants to get rid of minority shareholders. So, there will be a completely another case if Kernel's main shareholder would just start to purchase the company's shares on the market instead of attempting to delist the stock.

Over the past 52 weeks, the KER stock fluctuated between PLN 16.55 and PLN 36.50, but back in 2017 they briefly touched PLN 80.00.

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	1458	4.5%	-6.9%								
Iron Ore Mining												
Ferrexpo	FXPO	135	-8.5%	-14.1%	954	783	24.0%	1.1	neg	0.5	2.2	0.5
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	13.5	-5.0%	22.7%	40	3	5.0%	neg	neg	--	--	--
Specialized Machinery												
Turboatom	TATM	2.8	-7.3%	3.0%	31	28	3.8%	>50x	neg	1.2	2.9	1.0
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	21.0	7.2%	34.7%	81	3	21.6%	1.6	1.5	--	--	--
Power Utilities												
Centrenergo	CEEN	3.59	39.1%	-10.4%	34	28	21.7%	neg	neg	neg	neg	0.1
Donbasenergo	DOEN	3.11	62.0%	-76.3%	2	2	14.2%	neg	neg	neg	neg	0.1
Consumer												
MHP	MHPC	3.35	-5.6%	-10.7%	371	1659	32.5%	neg	neg	2.6	5.7	0.9
Kernel (FY21, FY22, FY23E)	KER	18.55	-6.6%	5.8%	326	1814	61.8%	neg	1.2	8.2	3.6	0.6
Astarta	AST	24.70	-1.2%	21.1%	140	334	37.0%	1.0	3.9	1.4	2.7	0.8
Agroton	AGT	3.20	-1.5%	-7.0%	16	-4	25.0%	4.5	neg	--	--	--
Banks												
										Price/Book	Price/Assets	
Raiffeisen Bank Aval	BAVL	0.310	14.8%	3.3%	495		1.8%	2.8	12.1	0.9	1.1	0.12

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	510	14.4%	4.1%	15.9%	513	-41	270	9.2%	-0.8%	8.4%
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	464	271	348	314	151	179	41	33.2%	31.3%	8.8%

Source: Eavex Research

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