

Stock Market Update

Equity

Most of the Ukrainian equities were lower over the week, with a notable drop of 14% to UAH 5.30 per share recorded for CentrErgo (CEEN). It is worth noting that several targeted orders for CentrErgo shares, totaling UAH 1.4mn, were executed precisely at the price of UAH 5.30. Meanwhile, Raiffeisen Bank (BAVL) shares remained unchanged at 30 kopecks.

In the agricultural sector, the following dynamics were observed during the week: Kernel (KER) lost 6.7% closing at PLN 15.10, Astarta (AST) decreased by 4.0% to PLN 30.85, while MHP (MHPC) saw a modest increase of 0.5% to reach USD 3.77.

Despite a slowdown in May's inflation to 15.3% on an annual basis, the National Bank of Ukraine decided to maintain the key policy rate at 25% last Thursday. It seems that the central bank aims to maintain predictability and thus refrains from making changes to the monetary policy amid the persistently challenging economic situation in the country. Four more NBU policy board meetings are scheduled by the end of the year, with the next one taking place on July 27. In our view, a rate cut is unlikely to occur before September.

Foreign stock indices experienced noticeable growth during the week following the Federal Reserve's decision to keep the key rate unchanged at 5.25%. The pause in the cycle of interest rate hikes in the US may indicate progress in curbing inflation. The S&P 500 broad market index rose by 2.8% to 4,409 points. Year-to-date growth has already reached nearly 15%. From a technical analysis standpoint, a significant resistance level for the S&P 500 is expected at 4,550 points, increasing the likelihood of a return to the downtrend that began in early 2022 when the index reached its all-time high of 4,796 points.

Highlights

POLITICS AND ECONOMICS

- > Biden Rules Out "Easy" Ukraine Path to NATO Membership

STOCKS IN THE NEWS

- > Kernel Reports Net Profit of USD 69mn for Jan-Mar Quarter (EPS of PLN 3.91)

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	1721	-2.0%	9.9%
RTS	1047	1.5%	7.9%
WIG20	2108	2.8%	17.5%
MSCI EM	1030	2.8%	7.6%
S&P 500	4409	2.6%	14.8%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	0.0 p.p.
UAH 1-year war bond	18.4%	0.0 p.p.	+2.4 p.p.
Ukraine-2026	96.3%	-8.2 p.p.	14.6 p.p.
Ukraine-2034	48.3%	-1.7 p.p.	2.9 p.p.

CASH EXCHANGE RATES

	Last, UAH	1W ch	YTD
USD/UAH	37.33	0.8%	-8.1%
EUR/UAH	40.82	0.9%	-4.0%

Source: Eavex Capital

Biden Rules Out “Easy” Ukraine Path to NATO Membership

by Will Ritter
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NEWS

US President Biden said on Saturday (Jun 17) that Ukraine will need to “meet the same standards [as other countries]” in order to join the NATO military alliance, and that the US administration would not “make it easy” for Ukraine to join. Biden’s comments appeared to be a reversal of earlier reports that the US administration was open to exempting Ukraine from a key step of the NATO application process - the so-called “membership action plan” (MAP). The proposal on allowing Ukraine to skip the MAP was floated by NATO leader Jens Stoltenberg in his talks with Biden in Washington last week, the US outlet Politico reported. The maneuvering around Ukraine’s NATO status has been active ahead of next month’s alliance summit in Lithuania, at which Ukraine will be at the top of the agenda. President Zelenskiy has already demanded that Kyiv be offered a clear path to NATO membership at the summit, while Poland’s parliament passed a resolution calling for Ukraine to be admitted to the alliance immediately. Separately, in Ukraine’s counteroffensive to retake Russian-occupied territory which began 2 weeks ago, military sources said Ukrainian forces had captured the village of Pyatikhatky in western Zaporizhia province (not to be confused with the larger town of the same name in neighboring Dnipropetrovsk province). However, military analysts reported that the counteroffensive is progressing better for Ukraine in the eastern part of Zaporizhia (along the border with Donetsk province) than in the push southward toward the Azov coastline. Meanwhile, Ukraine said on Sunday (Jun 18) that it had destroyed a Russian ammunition depot in the southeastern part of occupied Kherson province near the border with Crimea, with video footage appearing to confirm the event.

COMMENTARY

In our view, Ukraine and its Western partners are now engaged in a complex dance of negotiations over what Ukraine would be willing to give up in order to receive binding NATO security guarantees. The obvious question is, if NATO were to guarantee Ukraine’s borders against Russian aggression, what recognized borders would those be, if Russia were still in control of any part of Ukrainian territory at the instance when Ukraine becomes a NATO member? Biden’s comment appears to be a sign that this thorny issue will not be directly addressed at the Lithuania summit, but rather put off until a later date. Meanwhile, in terms of the counteroffensive, Western military analysts have stated that expectations for fast success should be tamped down, and that the full force of Ukraine’s combat power has not yet been deployed. We think that Ukraine has several months to show that it can effectively recapture territory. However, we still believe that a greater destabilizing risk than a lack of Ukrainian success in the counteroffensive would be the Putin regime’s possible attempt to renew its own offensive activity aimed at occupying additional Ukrainian territory, particularly in the northwestern part of Donetsk province or the eastern part of Kharkiv province.

Kernel Reports Net Profit of USD 69mn for Jan-Mar Quarter (EPS of PLN 3.91)

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 15.07 Market Cap: USD 286mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22	0.2	0.2	neg	5.1	0.0%
FY23E	0.1	0.3	0.6	1.6	0.0%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and grain exporter, reported a net profit of USD 69mn for the 3Q23 Jan-Mar quarter (the company's financial year runs from July to June), compared to a net loss of USD 103mn in the corresponding period a year ago. According to the company's consolidated financial statement published on June 15, net revenue dropped by 51% YoY to USD 825mn in the period and EBITDA was USD 155mn. For the 9 months ending in March, Kernel had revenue of USD 2.72bn (-45% YoY), EBITDA of USD 600mn (+11% YoY), and net profit of USD 437mn (+37% YoY).

On the balance sheet side, Kernel's net debt decreased from USD 1.05bn to USD 833mn during the quarter that ended 31 March 2023, implying an adjusted Net Debt/EBITDA ratio of 1.2x.

KERNEL FINANCIAL RESULTS

USD mn	3Q FY22	3Q FY23	YoY	9M 2022	9M 2023	YoY
Net revenue	1,699	825	-51%	4,915	2,715	-45%
EBITDA	-32	155	-/+	539	600	+11%
EBITDA margin	-1.9%	18.8%	+20.7 p.p.	11.0%	22.1%	+11.1 p.p.
Net Income	-103	69	-/+	320	437	+37%
Net margin	-6.1%	8.4%	+14.4 p.p.	6.5%	16.1%	+9.6 p.p.

Source: Company data,

COMMENTARY

Kernel's net profit per share for the Jan-Mar quarter was PLN 3.91 while for the 9M FY23 the EPS reached PLN 23.03. This means that Kernel's stock is currently traded below 1.0x P/E. The KER stock fell by 6.7% to PLN 15.07 last week after the Polish regulator signalled it would clear Kernel's delisting from the Warsaw Stock Exchange. Minority shareholders opposed to the move have been left powerless because Ukrainian businessman Andriy Verevskiy controls Kernel through Namsen, a Luxembourg-registered investment company. This means he only requires the approval of the company's directors, rather than 90% of shareholders as demanded by Polish law. After Namsen announced plans to delist, many fund managers divested their Kernel shares, since their regulations do not allow them to own stock in non-public companies. Namsen had already acquired 80% of Kernel's voting shares.

On the cash flow side, the company's operating profit before working capital changes grew by a solid 46% YoY to USD 634mn in 9M FY23. Kernel's net cash generated by operating activities was USD 583mn in 9M FY23 compared to a negative cash flow of USD -367mn in 9M FY22.

As of 31 March 2023, Kernel has started negotiations with all the banks on the principal repayments' postponement for another period of 12 months due to the challenging operating environment in Ukraine caused by the war with Russia. The company expects to finalize such negotiations by 30 June 2023. Kernel keeps servicing interest payments on the entire portfolio of its outstanding corporate debt, as well as keeps paying coupons due under the bonds issued.

Indicative quotes for Kernel's Eurobonds with maturity in 2027 stand at 56.8 cents on the dollar (24% YTM).

QUOTES AND MULTIPLES

	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales 2023E
			1W	YtD				2022	2023E	2022	2023E	
UX Index	UX	1721	-2.0%	9.9%								
Iron Ore Mining												
Ferrexpo	FXPO	87	-10.2%	-44.4%	670	564	25.5%	3.0	3.9	0.7	0.9	0.5
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.0	0.0%	27.3%	43	2	5.0%	neg	8.3	neg	0.2	0.0
Specialized Machinery												
Turboatom	TATM	3.4	0.0%	27.0%	39	36	3.8%	>50x	11.8	3.7	2.4	1.1
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	13.9	10.5%	-10.9%	57	-21	21.6%	1.0	1.4	--	--	--
Power Utilities												
Centrenergo	CEEN	5.30	-14.2%	32.3%	52	52	21.7%	neg	19.2	neg	4.8	0.1
Donbasenergo	DOEN	12.00	-45.5%	-8.7%	8	8	0.0%	neg	neg	neg	neg	0.1
Agro sector												
MHP	MHPC	3.77	0.5%	0.5%	404	1587	33.7%	neg	2.9	4.1	3.9	0.6
Kernel (FY21, FY22, FY23E)	KER	15.07	-6.7%	-14.1%	286	1334	61.8%	neg	0.6	6.1	1.9	0.4
Astarta	AST	30.85	-4.0%	51.2%	185	337	37.0%	2.7	2.2	2.1	1.7	0.5
Agroton	AGT	3.46	-0.3%	0.6%	18	-1	25.0%	neg	neg	--	--	--
Banks												
Raiffeisen Bank Aval	BAVL	0.300	0.0%	0.0%	494		1.8%	11.5	3.3	1.1	0.8	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		
		2021	2022	2023E	2021	2022	2023E	2021	2022	2023E	2021	2022	2023E	2021	2022	2023E
Iron Ore Mining																
Ferrexpo	FXPO	2518	1248	1100	1,439	765	650	57.1%	61.3%	59.1%	871	220	170	34.6%	17.6%	15.5%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	94	78	85	-5	-1	10	-5.7%	-1.8%	11.8%	-8	-5	5	-9.0%	-6.8%	6.1%
Specialized Machinery																
Turboatom	TATM	55	28	33	22	10	15	40.7%	34.4%	45.8%	0	-2	3	0.5%	-5.6%	10.0%
Motor Sich	MSICH	338	200	109	90	40	37	26.5%	19.8%	33.5%	23	-7	6	6.9%	-3.6%	5.5%
Oil & Gas																
Ukrnafta	UNAF	1320	844	875	168	83	171	12.7%	9.8%	19.5%	91	22	112	6.9%	2.6%	12.8%
Regal Petroleum	RPT	121	131	120	78	86	82	64.4%	65.7%	68.3%	51	55	40	42.1%	41.9%	33.3%
Electric Utilities																
Centrenergo	CEEN	460	323	200	-33	-171	11	-7.1%	-53.0%	5.5%	-38	-224	3	-8.2%	-69.3%	1.4%
Donbasenergo	DOEN	128	142	101	-13	-4	4	-10.5%	-2.6%	4.3%	-16	-15	-5	-12.9%	-10.7%	-5.4%
Agro sector																
MHP	MHPC	2372	2642	2774	648	384	410	27.3%	14.5%	14.8%	393	-231	140	16.6%	-8.7%	5.0%
Kernel (FY21, FY22, FY23E)	KER	5595	5332	3600	806	220	720	14.4%	4.1%	20.0%	513	-41	480	9.2%	-0.8%	13.3%
Astarta	AST	590	538	628	242	163	199	41.0%	30.3%	31.7%	147	69	85	24.9%	12.8%	13.5%
Agroton	AGT	41	20	4	8	-6	-7	19.8%	neg	neg	4	-40	-10	8.7%	neg	neg
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	4829	4238	4375	571	466	614	348	314	405	179	43	148	31.3%	9.2%	24.1%

Source: Eavex Research

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