

Stock Market Update

Equity

The monthly Business Activity Expectations Index, calculated by the National Bank, has revealed a cautious stance among businesses in evaluating the outlook for their enterprises in the near term, following three consecutive months of positive expectations. In other words, we're witnessing a scenario where certain unwarranted hopes within the real sector for a swift economic recovery are being observed. Services companies continued to report the most guarded economic outlook among other sectors of the economy due to the blocked grain corridor, higher fuel prices and falling demand because of households' weak purchasing power. In contrast, construction companies have reported a positive economic outlook for three months in a row thanks to the rebounding construction of roads, bridges, tunnels and pipelines, and seasonal factors.

Ukrainian equities finished mixed over the week with the most disappointing performance in Ferrexpo (FXPO). The FXPO stock lost 11% to close at GBP 81.20 after the company reported poor financial results for 1H23 with a three-fold drop in both the top and the bottom line in the period.

In Warsaw trading, Kernel (KER) rose by 4.6% to PLN 14.17 while Agroton (AGT) shed by 2.2% to PLN 3.12.

On the Ukrainian Stock Exchange, Raiffeisen Bank (BAVL) fell 6.7% to 28 kopecks per share. On the upside, CentrEnergO (CEEN) grew by 4.6% to UAH 5.72 but this growth was only in the indicative quotes as no trading turnover was reported between the market players.

The hryvnia strengthened by 0.5% on the cash market to 37.35 UAH/USD while the official exchange rate remained pegged to 36.57 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Shifts Political Strategy Away from Counteroffensive Amid New Diplomatic Push

STOCKS IN THE NEWS

- > Ferrexpo's Net Profit Plunges 67% YoY to USD 27mn in 1H23

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	1657	-0.1%	5.8%
RTS	1015	-1.7%	4.6%
WIG20	2169	-0.9%	20.9%
MSCI EM	1018	-1.6%	6.4%
S&P 500	4478	-2.3%	16.6%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	22.0%	0.0 p.p.	-3.0 p.p.
UAH 1-year war bond	17.8%	-0.5 p.p.	+1.8 p.p.
Ukraine-2026	75.1%	3.4 p.p.	-6.6 p.p.
Ukraine-2034	33.2%	0.3 p.p.	-12.2 p.p.

CASH EXCHANGE RATES

	Last, UAH	1W ch	YTD
USD/UAH	37.35	-0.5%	-8.0%
EUR/UAH	41.50	-1.1%	-2.4%

Source: Eavex Capital

Zelenskiy Shifts Political Strategy Away from Counteroffensive Amid New Diplomatic Push

by Will Ritter
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NEWS

President Zelenskiy appears to be shifting Ukraine's strategy for maintaining Western support in the war against Russia away from the prior emphasis on recapturing Russian-occupied territory this summer, amid a diplomatic conference held this past weekend in Saudi Arabia which featured the participation of China, India, and Brazil. Ukraine's counteroffensive, which began in early June, has thus far not managed to yield substantial gains against dug-in Russian defenses along the main front in Zaporizhia province. The Saudi conference was not open to the media and did not conclude with a joint statement from the more than 40 participants, but there was agreement that another round of talks in the same format are likely to be held in the autumn. The US sent the Biden administration's top security official, Jake Sullivan, to the meeting, but largely stayed in the background to allow Ukraine and Saudi Arabia to headline the gathering, where Zelenskiy's chief of staff Andriy Yermak led the Ukrainian delegation. In military developments, the news flow of the past week came mostly far away from the front lines, with Ukraine striking a Russian oil tanker with a sea drone in the Kerch Strait, while Russia hit a Ukrainian grain terminal in the Danube River port of Izmail.

COMMENTARY

After around 6 months of the counteroffensive being the main prong in Zelenskiy's public strategy for keeping the West engaged, it is clear that Zelenskiy and Yermak have now changed tack, with the understanding that Russia's occupation of a large swathe of Ukrainian territory will likely continue into the upcoming winter. The Saudi conference can be viewed as a kick-off of a new diplomatic strategy, which aims to convince major non-Western countries, and first of all the BRICS, that a Ukrainian victory in the war in their interests. However, we are skeptical that China's attendance in Jeddah this weekend represents any real change in Beijing's position, as no new incentives for China to use its leverage over the Putin regime to force peace talks appear to have been offered. Meanwhile, the stagnant situation at the front has led to Zelenskiy refocusing Ukraine's efforts to "bring the war home to Russians", as he put it in public comments made last week, and recent news reports have stated that Ukraine is dramatically expanding its domestic drone production. Whether Western governments will sign on to this strategy is an open question, we think; with the US currently distracted by domestic political issues ahead of the 2024 presidential nominating race, it is difficult to gauge where the Biden administration stands, and what kind of "post-counteroffensive" policy Washington might pursue this autumn.

Ferrexpo's Net Profit Plunges 67% YoY to USD 27mn in 1H23

by Dmitry Churin
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FERREXPO (FXPO LN)

Price: GBp 81.20 Market Cap: USD 617mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2022	0.5	0.4	2.8	0.6	12.8%
2023E	0.5	0.6	7.7	3.5	0.0%

NEWS

Poltava-based, London-listed Ferrexpo, the global exporter of iron ore pellets, reported a 67% YoY plunge in its half-year 2023 net profit to USD 27mn (4.5 cents per share), compared to a net profit of USD 82mn in 1H22, according to financials published on Aug 2. The company's revenue fell by 64% YoY to USD 334mn and EBITDA dropped by 87% YoY to USD 64mn. Ferrexpo's average production cash pellet cost from in-house ore (C1 cost) decreased by 17% YoY to USD 71 per tonne as a result of cost-saving initiatives.

Ferrexpo had a net cash position of USD 131mn as of 30 Jun 2023. The company said its CapEx amounted to USD 58mn in 1H22 compared to USD 102mn in 1H22.

FERREXPO FINANCIAL RESULTS

USD mn	1H2022	1H2023	YoY
Revenue	936	334	-64%
EBITDA	486	64	-87%
<i>margin</i>	52%	19%	-33 p.p.
Net profit	82	27	-67%
<i>margin</i>	9%	8%	-1 p.p.

	31 Dec 2022	30 Jun 2023
Net debt to EBITDA	no net debt	no net debt

Source: Company Data

COMMENTARY

Ferrexpo's deteriorated financial results are very disappointing especially if we compare them to profits before the war. For instance, the company's net profit for 1H21 was at the astonishing level of USD 661mn on the revenue of USD 1.35bn for the period. Ferrexpo's iron ore pellets production dropped from roughly 5.5mn tonnes in 1H21 to 2.0mn tonnes in 1H23 due to the war and corresponding logistic constraints. Iron ore prices declined by 5% during the 1H23 period, with a mildly weakened 3Q outlook due to soft demand in Asia and an increase in Brazilian and Australian supply. Meanwhile, on a year-on-year comparison, the benchmark 65% Fe iron ore price decreased by 15% to USD 118 per tonne and the average high-grade premium fell by 45% to USD 14 per tonne.

With the unveiled 1H23 financial report, we are revising our forecast for Ferrexpo. The new projections envisage that on the top line the company will make about USD 750mn in 2023 and net profit will be USD 80mn. The implied forward-looking EV/EBITDA ratio is 3.6x and P/E is 7.7x.

The FXPO stock had a negative reaction to the released 1H figures. The stock lost 11% last week to close at GBp 81.20. Ferrexpo's 52 weeks trading range is GBp 80 - GBp 185. The stock's historical maximum was at GBp 480 back in 2021.

QUOTES AND MULTIPLES

	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales
			1W	YtD				2022	2023E	2022	2023E	2023E
UX Index	UX	1657	-0.1%	5.8%								
Iron Ore Mining												
Ferrexpo	FXPO	81.2	-10.9%	-48.3%	617	486	25.5%	2.8	7.7	0.6	3.5	0.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.0	14.3%	45.5%	49	8	5.0%	neg	9.5	neg	0.9	0.1
Specialized Machinery												
Turboatom	TATM	4.0	0.0%	48.1%	45	42	3.8%	>50x	13.8	4.4	2.8	1.3
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	12.5	0.0%	-19.9%	51	-27	21.6%	0.9	1.3	--	--	--
Power Utilities												
Centrenergo	CEEN	5.72	4.6%	42.8%	57	56	21.7%	neg	20.7	neg	5.2	0.1
Donbasenergo	DOEN	24.00	7.2%	82.5%	15	15	0.0%	neg	neg	neg	neg	0.1
Agro sector												
MHP	MHPC	3.62	0.6%	-3.5%	387	1570	33.7%	neg	2.8	4.1	3.8	0.6
Kernel (FY21, FY22, FY23E)	KER	14.17	4.6%	-19.2%	272	1320	61.8%	neg	0.6	6.0	1.8	0.4
Astarta	AST	33.35	0.8%	63.5%	202	354	37.0%	2.9	2.4	2.2	1.8	0.6
Agroton	AGT	3.12	-2.2%	-9.3%	17	-3	25.0%	neg	neg	--	--	--
Banks												
											Price/Book	Price/Assets
Raiffeisen Bank Aval	BAVL	0.280	-6.7%	-6.7%	461		1.8%	10.7	3.1	1.0	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	750	1439	765	140	57.1%	61.3%	18.7%	871	220	80	34.6%	17.6%	10.7%
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																
Centrenergy	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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