

Stock Market Update

Equity

Global stock market indices experienced a noticeable decline over the past week. In particular, the S&P 500 dropped by 2.1% to 4,369 points, while the MSCI composite index for emerging markets lost 2.4%. The negative trend was driven by investors perceiving risks of another interest rate hike in the US and concerns about a global economic slowdown amid weak data from China. The decision regarding the key interest rate in the US will be announced on September 20th. Currently, the rate stands at 5.5%, and it is projected to remain unchanged after the next Federal Reserve monetary policy meeting. The yield on 10-year US bonds is at 4.25%, while for 2-year US bonds, it's 4.94%. A higher yield on short-term bonds compared to long-term ones serves as an indicator of a potential recession in the US.

At the Ukrainian Exchange, trading in shares was almost non-existent due to the lack of noticeable demand or supply for shares in the index basket. As a result, quotes for Raiffeisen Bank (BAVL) securities remain at 26 kopecks, and for CentrEnerg (CEEN) shares at UAH 4.8.

In Warsaw, Kernel (KER) stocks dropped by 3.2% to PLN 13.74 (down 22% since the beginning of the year). In its operational report, Kernel highlighted that it continues the process of delisting its shares from the exchange but has not yet received a final decision from the Polish financial regulator. Agrotom (AGT) shares decreased by 2.1% to PLN 2.82 (down 18% since the beginning of the year). Astarta (AST) stock prices went down by 5.4% to PLN 30.90 (up 52% since the beginning of the year).

The exchange rate of the dollar in the cash market increased by 1.5% over the week to 37.95 UAH/USD, likely due to speculative demand for currency ahead of the fall season.

Highlights

STOCKS IN THE NEWS

- > Kernel Reports 45% Increase in Winter Wheat Yield

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	1570	-0.7%	0.3%
RTS	1047	4.6%	7.9%
WIG20	2014	-4.3%	12.2%
MSCI EM	974	-2.4%	1.8%
S&P 500	4369	-2.1%	13.8%

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%	0.0 p.p.	+1.8 p.p.
Ukraine-2026	70.2%	-4.2 p.p.	-11.5 p.p.
Ukraine-2034	31.6%	-0.9 p.p.	-13.8 p.p.

CASH EXCHANGE RATES

	Last, UAH	1W ch	YTD
USD/UAH	37.95	1.5%	-6.5%
EUR/UAH	41.75	0.7%	-1.8%

Source: Eavex Capital

Kernel Reports 45% Increase in Winter Wheat Yield

by Dmitry Churin
d.churin@eavex.com.ua

KERNEL (KER PW)					
Price: PLN 13.74 Market Cap: USD 259mn					
	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2022FY	0.2	0.2	neg	5.0	0.0%
2023FY	0.1	0.3	0.5	1.5	0.0%

NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel wraps up the harvest of early grain crops, spanning 70,000 hectares. The company's press office said that this year, the yield of winter wheat, contingent on the region of cluster deployment, ranged from 5.8 to 7.3 tonnes per hectare. The weighted average yield stands nearly 45% higher than last year's metric.

Additionally, Kernel pointed out palpable adverse repercussions stemming from Russian missile attacks this month. On August 6th, a missile strike targeted one of the company's largest elevators located in the Khmelnytskyi region. The attack led to the destruction of 21,000 tonnes of grain storage capacity and equipment damage. On August 16th, drone attacks on the Reni port impaired Kernel's assets at that port. Initial estimates for the cost of restoring the damaged equipment clock in at no less than USD 20mn, with a recovery timeline of about a year. Furthermore, these attacks resulted in the destruction of USD 12mn worth of soft commodities. No insurance payouts are envisaged for the consequences of military actions.

In a move to expand alternative export avenues, Kernel acquired a terminal for shipping sunflower oil at the Reni port for USD 25mn. Closure of this deal is anticipated by the end of this year.

Following the cessation of the Black Sea Grain Initiative, Kernel's export opportunities are constrained, thus an escalation in logistics costs will adversely impact the company's profitability.

As of the start of August, Kernel's financial debt totaled USD 1.45bn, with the company holding approximately USD 1.15bn in accounts and an additional USD 327mn of commodity inventories, including nearly 1.3mn tonnes of grain.

COMMENTARY

Interpreting the figures from this latest report, we can point out that Kernel has managed to amass significant cash liquidity, which should help the company in financing the restoration of damaged assets and maintaining adequate working capital. However, the current avenues for additional credit financing for Kernel are limited. A potential concern for the company could be the delay in VAT reimbursement, as well as the possible devaluation of the hryvnia.

A rather unexpected piece of information in Kernel's announcement was the mention of the company initiating a process to secure additional capital from shareholders, amounting to no less than USD 60mn. In our perspective, if this process involves increasing Kernel's authorized capital, it could be perceived as an attempt to dilute the holdings of minority shareholders who might opt out of participating in the additional share issuance. Therefore, at present, we observe openly unfriendly actions by Kernel towards minority shareholders. Firstly, the largest shareholder of the company acquired a portion of Kernel's land bank during the most critical period of 2022, followed by the delisting of Kernel's shares from the exchange and making a buyout offer for other shareholders' shares at a rather modest valuation of PLN 18.5 per share. Now, there is a high likelihood of further dilution of the stakes of minority shareholders who have stayed with Kernel despite the prospects of delisting these shares.

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	1570	-0.7%	0.3%								
Iron Ore Mining												
Ferrexpo	FXPO	79.5	-6.5%	-49.4%	604	473	25.5%	2.7	7.5	0.6	3.4	0.6
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.1	0.6%	46.4%	49	8	5.0%	neg	9.4	neg	0.8	0.1
Specialized Machinery												
Turboatom	TATM	3.9	-2.5%	44.4%	43	41	3.8%	>50x	13.2	4.2	2.7	1.2
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	4.80	5.0%	19.8%	47	47	21.7%	neg	17.1	neg	4.3	0.1
Donbasenergo	DOEN	24.00	0.0%	82.5%	15	15	0.0%	neg	neg	neg	neg	0.1
Agro sector												
MHP	MHPC	3.71	-0.5%	-1.1%	397	1580	33.7%	neg	2.8	4.1	3.9	0.6
Kernel (FY21, FY22, FY23E)	KER	13.74	-3.2%	-21.7%	259	1307	61.8%	neg	0.5	5.9	1.8	0.4
Astarta	AST	30.90	-5.4%	51.5%	184	336	37.0%	2.7	2.2	2.1	1.7	0.5
Agroton	AGT	2.82	-2.1%	-18.0%	15	-5	25.0%	neg	neg	--	--	--
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.260	0.0%	-13.3%	421		1.8%	9.8	2.9	0.9	0.7	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		
		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																
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

Eavex Capital

7 Klovisky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454

E-mail: research@eavex.com.ua

Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board

SALES & TRADING

Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

RESEARCH

Dmitry Churin
Head of Research
d.churin@eavex.com.ua

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