

## Stock Market Update

### Equity

Ferrexpo (FXPO) stock on the London Stock Exchange has approached its lowest point since 2016. The FXPO quotes have been on a steep descent since mid-January, plummeting from GBP 175 to the current value of GBP 76, marking a substantial decline of 57%. The company's MCap now stands at USD 576mn. The undervaluation of Ferrexpo is accentuated by the fact that during the pre-war year of 2021, the company garnered a net profit of USD 870mn. However, this year, the projected profit is a mere USD 80mn. Since its IPO in 2007, Ferrexpo's share prices have seen a low of GBP 13 in January 2016 and a high of GBP 480 in July 2021. Bearing in mind the complexities associated with iron ore export logistics from Ukraine, as well as certain corporate risks tied to Ferrexpo's major shareholder, who is currently under investigation in the Finance and Credit bank case, there could be a conclusion that FXPO stock upside is limited.

On the Ukrainian Exchange, quotes for the index basket stocks remain largely unchanged. The range for Raiffeisen Bank (BAVL) stands at 26 - 29 kopecks (bid/ask). As for CentrErgo (CEEN), the indicative range is UAH 4.00 - UAH 4.80. The company has announced plans to import coal from Poland at a volume of 80,000 tonnes per month to navigate the autumn-winter period of 2023/2024.

In the case of Kernel (KER) shares, there has been a 15% weekly drop to PLN 11.75 due to the company's announcement of an additional share issuance, potentially diluting the stake of minority shareholders who choose not to participate in this issuance.

In the cash foreign exchange market, the dollar rate has ascended by 1.2%, reaching a level of 38.40 UAH/USD. Meanwhile, the euro rate has risen by 0.4% to 41.90 UAH/USD.

## Highlights

### POLITICS AND ECONOMICS

- Ukraine Posts Gains in South; Tokmak Looms as Key Target of Counteroffensive

### STOCKS IN THE NEWS

- Raiffeisen Bank's Net Profit Jumps Five Fold to UAH 3.12bn in 1H23 (EPS of 5.07 kopecks)

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](http://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](http://www.bank.gov.ua/en/about/humanitarian-aid-to-ukraine)

[www.eavex.com.ua](http://www.eavex.com.ua)

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### 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](http://www.u24.gov.ua)

### MARKET INDEXES

	Last	1W ch	YTD
UX	1569	-0.1%	0.2%
RTS	1044	-0.3%	7.6%
WIG20	2000	-0.7%	11.5%
MSCI EM	971	-0.3%	1.5%
S&P 500	4405	0.8%	14.7%

### 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	69.7%	-0.5 p.p.	-12.0 p.p.
Ukraine-2034	32.4%	0.8 p.p.	-13.0 p.p.

### CASH EXCHANGE RATES

	Last, UAH	1W ch	YTD
USD/UAH	38.40	1.2%	-5.4%
EUR/UAH	41.90	0.4%	-1.4%

Source: Eavex Capital

## Ukraine Posts Gains in South; Tokmak Looms as Key Target of Counteroffensive

by Will Ritter  
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### NEWS

Ukrainian forces made substantial gains in their 3-month-old counteroffensive against Russian occupation forces in Zaporizhia province last week, with military analysts reporting that the first main Russian line of defense had been reached south of the newly-recaptured village of Robotyne. Multiple reports also stated that Russia has transferred one of its best combat brigades from Kreminna in occupied northeastern Ukraine to the southern front in response to the situation. Ukraine has now advanced some 18 km southward from the start of the counteroffensive at Orikhiv, and it remains about 25 km north of the key occupied town of Tokmak, which controls Russian supply routes to the cities of Melitopol and Berdyansk. The advances come just days after US officials anonymously criticized Ukrainian military strategy in an article published by the New York Times on Tuesday (Aug 22), saying that Ukraine has spread its forces too thinly around the front line instead of focusing on a single axis of attack. President Zelenskiy pushed back on the criticism in public comments, stating that military resources are needed to defend against the loss of any new territory, particularly in the northeast of the country where Russia's forces currently have the initiative.

### COMMENTARY

In our opinion, the US criticism of Ukraine's strategy was likely aimed at the continued expenditure of military resources around the area of Bakhmut in Donetsk province, which Russia captured in May after a 10-month battle. The Biden administration has repeatedly implied that Ukrainian operations around Bakhmut lack military significance and are being undertaken for political reasons. We presume that the most important targets of the counteroffensive from the US point of view are Melitopol and Berdyansk, since retaking those cities would quickly make Russia's occupation of all the territory to the west of Melitopol (in Zaporizhia and Kherson provinces, including the Zaporizhia nuclear power plant) untenable. In order to reach Melitopol, Ukraine will first need to recapture Tokmak; we estimate that about 2 months remain for this to be achieved before weather starts to become an obstacle. Meanwhile, Western governments already appear to be resigned to the assumption that the war, and the need to keep supporting Ukraine financially and militarily, will continue through the upcoming winter and into the spring of 2024. It is too early to predict, however, in what direction the West's political goals for the war might evolve over the next 6 to 8 months, and whether Ukraine's efforts at retaking territory would have a better chance of succeeding next year, we think.

## Raiffeisen Bank's Net Profit Jumps Five Fold to UAH 3.12bn in 1H23 (EPS of 5.07 kopecks)

by Dmitry Churin  
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### RAIFFEISEN BANK (BAVL UK)

Price: UAH 0.29 Market Cap: USD 460mn

	P/Assets	P/Book	P/E	Div. Yield
2022	0.11	1.0	10.7	0.0%
2023E	0.11	0.8	3.3	0.0%

### NEWS

Raiffeisen Bank (formerly Raiffeisen Aval), the Ukrainian subsidiary of Vienna-based Raiffeisen International, reported a net profit of UAH 3.12bn (USD 80mn) in 1H23, a five-fold jump from UAH 628mn the year ago. According to the bank's financials released last week, its gross interest income increased by 51% YoY in 1H23 and net interest income rose by 53% YoY to UAH 7.92bn.

On the balance sheet side, Raiffeisen Bank's loan portfolio decreased by 19% YTD to UAH 50.3bn, while its total assets grew by 3.5% YTD to UAH 172bn (USD 4.7bn) as the bank's securities portfolio expanded from UAH 25.4bn to UAH 34.2bn in 1H23. Raiffeisen Bank's securities portfolio mainly consists of the Ukrainian government debt and the US Treasuries.

### RAIFFEISEN BANK FINANCIALS

UAH mn	1H2022	1H2023	YoY chg.
Gross interest income	6,234	9,408	+50.9%
Net interest income	5,175	7,918	+53.0%
Net income	628	3,120	+396.4%
	31 Dec 2022	30 Jun 2023	
Loan portfolio	61,713	50,277	-18.5%
Equity	17,277	20,396	+18.1%
Total assets	166,362	172,194	+3.5%

Source: Company data.

### COMMENTARY

Raiffeisen Bank's unveiled net profit of 5.07 kopecks per share was below our preliminary assessment of 6.0 kopecks per share. The bank saw its profit decline on a quarterly basis as 1Q EPS was 3.35 kopecks compared to 2Q EPS of 1.72 kopecks. We project, that Raiffeisen Bank will end 2023 with a net profit of UAH 5.4bn (EPS of 8.78 kopecks). This indicates a forward-looking P/E of 3.3x.

The BAVL stock listed on the Ukrainian Exchange did not react to the 1H earnings release, trading at 29 kopecks per share (-3.3% YTD). The bank's current MCap is USD 460mn, implying a Price-to-Book valuation multiple of 0.8x. The free-float of Raiffeisen Bank is just 1.8%, leading to the stock's low liquidity and low investment attractiveness for large institutional investors.

Raiffeisen Bank's loan portfolio is dominated by corporate loans which account for 77% of the gross portfolio. The bank has formed loan loss reserves of UAH 10.8bn covering almost 18% of the outstanding loans.

A large chunk of Raiffaisen's current income comes from high interest paid on the National Bank's deposit certificates. Raiffeisen Bank had UAH 31.6bn in deposit certificates as of Jun 30. Taking into account that the key interest rate in Ukraine stands at 22%, these deposit certificates continue to offer an impressive overnight yield of 18%. The bank reported that 54% of its gross interest income in 1H23 came from securities portfolio and deposit certificates. So the actual lending business brought in only 46% of the gross interest income in the period making Raiffeisen Bank's business model quite resilient to the challenges in the real sector economy. Also, the bank has a strong commission income from clients which brought in a net of UAH 1.27bn to the P&L in 1H23.

**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	1569	-0.1%	0.2%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	76.5	-3.8%	-51.4%	576	445	25.5%	2.6	7.2	0.6	3.2	0.6
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	14.1	-12.4%	28.2%	42	1	5.0%	neg	8.0	neg	0.1	0.0
<b>Specialized Machinery</b>												
Turboatom	TATM	4.1	6.2%	53.3%	45	42	3.8%	>50x	13.7	4.4	2.8	1.3
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	12.5	0.0%	-19.9%	50	-27	21.6%	0.9	1.3	--	--	--
<b>Power Utilities</b>												
Centrenergo	CEEN	4.80	0.0%	19.8%	46	46	21.7%	neg	16.7	neg	4.2	0.1
Donbasenergo	DOEN	23.00	-4.2%	74.9%	14	14	0.0%	neg	neg	neg	neg	0.1
<b>Agro sector</b>												
MHP	MHPC	3.75	1.1%	0.0%	401	1584	33.7%	neg	2.9	4.1	3.9	0.6
Kernel (FY21, FY22, FY23E)	KER	11.75	-14.5%	-33.0%	220	1268	61.8%	neg	0.5	5.8	1.8	0.4
Astarta	AST	31.65	2.4%	55.1%	187	339	37.0%	2.7	2.2	2.1	1.7	0.5
Agroton	AGT	2.85	1.1%	-17.2%	15	-5	25.0%	neg	neg	--	--	--
<b>Banks</b>												
											<b>Price/Book</b>	<b>Price/Assets</b>
Raiffeisen Bank Aval	BAVL	0.290	11.5%	-3.3%	460		1.8%	10.7	3.3	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
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	2518	1248	750	1439	765	140	57.1%	61.3%	18.7%	871	220	80	34.6%	17.6%	10.7%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	94	78	85	-5	-1	10	-5.7%	-1.8%	11.8%	-8	-5	5	-9.0%	-6.8%	6.1%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
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%
<b>Agro sector</b>																
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
<b>Banks</b>																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	4829	4238	4124	571	466	578	348	314	381	179	43	139	31.3%	9.2%	24.1%

Source: Eavex Research

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