

Stock Market Update

Equity

The National Bank has cut the benchmark interest rate from 22% to 20%. This decision was made on September 15th. The primary rationale for the rate cut was the slowing consumer inflation, which stood at 8.6% YoY in August. This suggests that given the current inflation rate, interest rates on hryvnia-denominated assets appear quite attractive. Specifically, the Ministry of Finance is offering a yield of 17.8% on the 1-year government bonds at primary auctions. Deposit rates in major Ukrainian banks for one year currently stand at 15%. The next meeting of the NBU's Monetary Policy Board will take place on October 26th, with another scheduled for December 14th. At this point, there are expectations that the benchmark interest rate will be further reduced to 18% by the end of the year.

On the Ukrainian Exchange, quotes for major stocks remain unchanged. CentrErgo (CEEN) shares have an indicative price of UAH 5.5. Raiffeisen Bank (BAVL) quotes are at 27 kopecks.

Among Ukrainian agricultural company stocks, the performance were mostly negative. MHP (MHPC) shares lost 3.6% and traded at USD 3.49. Kernel (KER) experienced a further decline of 15% to PLN 6.34.

On global stock market, the main event was the IPO of the British company ARM, a leading microprocessor developer. ARM Holdings' IPO on the NASDAQ exchange was the world's largest this year. Investors valued ARM at nearly USD 55bn. A total of 10% of ARM's shares were listed on the exchange. ARM's market capitalization surged 25% in the first two trading sessions, reflecting heightened investor interest in the microprocessor sector due to the development of artificial intelligence technologies, which consume significant computing power. ARM's high valuation underscores that the P/E multiple reached approximately 100x, with a price-to-revenue multiple of 20x. Overall, these high multiples indicate optimism among investors about the rapid growth in demand for microprocessors.

Highlights

POLITICS AND ECONOMICS

- Ukraine's National Budget for 2024 Includes USD 42bn Security & Defense Expenses (Equivalent of 22% of GDP)

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

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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

MARKET INDEXES

	Last	1W ch	YTD
UX	1791	3.2%	14.4%
RTS	1029	1.7%	6.0%
WIG20	1975	2.1%	10.1%
MSCI EM	985	1.1%	2.9%
S&P 500	4450	-0.2%	15.9%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	20.0%	-2.0 p.p.	-5.0 p.p.
UAH 1-year war bond	17.8%	0.0 p.p.	+1.8 p.p.
Ukraine-2026	71.0%	-2.5 p.p.	-10.7 p.p.
Ukraine-2034	30.3%	-3.2 p.p.	-15.1 p.p.

CASH EXCHANGE RATES

	Last, UAH	1W ch	YTD
USD/UAH	38.10	0.5%	-6.2%
EUR/UAH	41.10	0.2%	-3.3%

Source: Eavex Capital

Ukraine's National Budget for 2024 Includes USD 42bn Security & Defense Expenses (Equivalent of 22% of GDP)

by Dmitry Churin
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NEWS

According to the proposed State Budget of Ukraine for the year 2024, expenditures for the defense and security sector are allocated at UAH 1,693bn (USD 42bn), which in relative terms is an equivalent of 22% of the GDP. The budget includes a sevenfold increase in funding for the development of the defense-industrial complex, totaling UAH 56bn (USD 1.4bn), as well as UAH 48bn (USD 1.2bn) for drone procurement.

The main macroeconomic forecasts are the following:

- forecasted real GDP growth of 3.5% YoY;
- nominal GDP in equivalent USD 184bn;
- total budget income of UAH 1.56tn (USD 39bn);
- total budget expenses of UAH 3.11tn (USD 78bn);
- the budget deficit of USD 39bn (an equivalent of 20% of GDP);
- forecasted consumer inflation (full year) of 10.3%;

Debt repayment was estimated at UAH 607bn (USD 15bn), including UAH 422bn (USD 11bn) for domestic debt repayment. Additionally, the national budget earmarks UAH 272bn (USD 6.8bn) to cover the deficit of the Pension Fund.

UKRAINE MACROECONOMIC FORECAST			
	2022	2023E	2024E
Nominal GDP in USD	142	173	184
real GDP growth	-29.1%	+2.9%	+3.5%
Inflation	26.6%	13.2%	10.3%
Official UAH/USD average	36.6	36.6	40.0

Source: Ministry of Finance. National Bank. Eavex Capital

COMMENTARY

The essence of the 2024 budget proposal is encapsulated in the fact that projected defense expenditures exceed the revenue portion of the budget. Ukraine remains a hostage to a dreadful war initiated by the aggressor nation. In these challenging circumstances, Ukraine's economy lacks the capacity to generate sufficient income from the real sector to cover the expenditure side of the state budget. Consequently, Ukraine is in dire need of financial and military assistance from the civilized world to sustain its fight against the occupying nation.

By rough estimates, Ukraine will require USD 40bn in external financing in 2024. If all USD 40bn is obtained in the form of loans, Ukraine's total national debt will reach nearly USD 180bn, equivalent to the country's annual GDP. As per preliminary agreements, EUR 18bn will come from the EU, USD 12bn from the US, an additional USD 5.2bn from the IMF, and the rest will be sourced from other international partners of Ukraine.

Through the issuance of new domestic debt, the government plans to raise UAH 422bn (USD 11bn) to refinance existing government bonds, the repayment of which falls due in 2024.

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	1791	3.2%	14.4%								
Iron Ore Mining												
Ferrexpo	FXPO	83.8	7.9%	-46.7%	621	490	25.5%	2.8	7.8	0.6	3.5	0.7
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.1	0.0%	27.8%	42	2	5.0%	neg	8.1	neg	0.2	0.0
Specialized Machinery												
Turboatom	TATM	5.0	14.6%	85.9%	56	53	3.8%	>50x	17.0	5.5	3.5	1.6
Motor Sich	MSICH	--	--	--	--	--	--	--	--	--	--	--
Oil & Gas												
UkrNafta	UNAF	--	--	--	--	--	--	--	--	--	--	--
Enwell Energy (ex-Regal)	ENW	12.5	0.0%	-19.9%	50	-28	21.6%	0.9	1.2	--	--	--
Power Utilities												
Centrenergo	CEEN	5.55	0.0%	38.5%	54	54	21.7%	neg	19.7	neg	4.9	0.1
Donbasenergo	DOEN	40.00	59.1%	204.2%	25	25	0.0%	neg	neg	neg	neg	0.1
Agro sector												
MHP	MHPC	3.49	-3.6%	-6.9%	374	1557	33.7%	neg	2.7	4.1	3.8	0.6
Kernel (FY21, FY22, FY23E)	KER	6.34	-15.0%	-63.9%	427	1475	61.8%	neg	0.9	6.7	2.0	0.4
Astarta	AST	31.80	0.8%	55.9%	178	330	37.0%	2.6	2.1	2.0	1.7	0.5
Agroton	AGT	2.79	1.5%	-18.9%	14	-6	25.0%	neg	neg	--	--	--
Banks												
Raiffeisen Bank Aval	BAVL	0.272	-0.1%	-9.3%	439		1.8%	10.2	3.1	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	4211	571	466	591	348	314	389	179	43	142	31.3%	9.2%	24.1%

Source: Eavex Research

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