

Stock Market Update

Equity

The UX index rose by 1.9% to 1917 points last week, with a major contribution to the gauge gain coming from TurboAtom. The TATM stock rebounded by 20% to UAH 8.40 after investors came to the conclusion that there will be no stock dilution after TurboAtom completes its merger with loss-making state-owned machinery producer ElectroTyazhMash. A formal decision on the merger will be voted on at a special shareholders meeting on Aug 27.

In other UX index stocks, UkrNafta (UNAF) and Raiffeisen Bank Aval (BAVL) were unchanged at UAH 270 and 45 kopecks respectively. Meanwhile, CentrEnergO (CEEN) advanced by 4.2% to close at UAH 10 on the nose. News that the government announced an intervention on the electricity market by promising a lower electricity tariff for households in the winter season appeared to have no impact on the CEEN stock. The Energy Ministry proposed to cut the electricity price for small households that consume less than 250 kWh per month from UAH 1.68 to UAH 1.44 per kWh. This implies that electricity for most of the Ukrainian population will cost just 5.4 US cents per 1 kWh. We view this intervention on the electricity market as clear populist attempt neutralize voter anger about rising energy prices, as natural gas price and petroleum prices have also risen significantly in recent months.

In London trading, Ferrexpo (FXPO) slid 6.9% to GBp 405 as fears of a further correction in iron ore price prevailed among traders. Earlier this month Ferrexpo reported a record high net profit of USD 661mn for 1H21, translating into EPS of GBp 81. This implies that the company's projected P/E for 2021 stands at just 3.0x. Poultry producer MHP (MHPC) rose by 2.2% to USD 5.68 amid overall positive momentum for Ukrainian agro stocks. Warsaw-listed Kernel (KER) picked up 2.8% to PLN 55.30 and low-liquidity AgrotOn (AGT) jumped by 10% to PLN 8.50 per share.

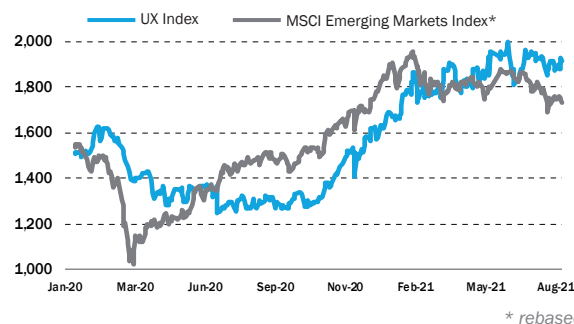
On the currency market, the hryvnia remained on the rise, gaining 0.7% to 26.65 UAH/USD. The National Bank intervened with dollar purchases to prevent stronger hryvnia appreciation. The NBU appears to be uncomfortable with a rise in the hryvnia of higher than about 1% in any given week.

Highlights

POLITICS AND ECONOMICS

- > Mayor of Zelenskiy's Home City Found Dead in Apparent Assassination
- > Ukraine Inflation Reaches Double Digits as July CPI Comes at 10.2% YoY

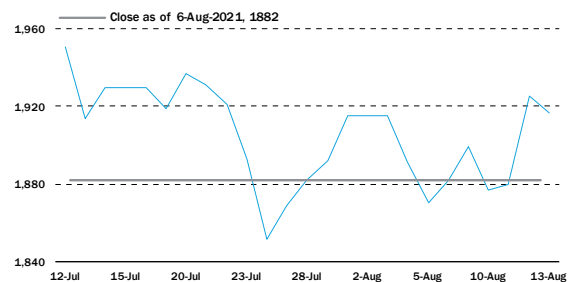
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1917	1.9%	18.6%
RTS	1667	2.1%	20.2%
WIG20	2292	0.7%	14.9%
MSCI EM	1281	-0.9%	-0.8%
S&P 500	4468	0.7%	19.0%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	0.0 p.p.	+2.0 p.p.
UAH 1-year bond	11.8%/11.3%	0.0 p.p.	+0.3 p.p.
Ukraine-2025	5.4%	0.0 p.p.	0.5 p.p.
Ukraine-2028	6.5%	0.0 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.65	-0.7%	-5.7%
EUR/UAH	31.37	-0.7%	-9.7%

Source: Eavex Capital

Mayor of Zelenskiy's Home City Found Dead in Apparent Assassination

by Will Ritter
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NEWS

Kriviy Rih city mayor Constantine Pavlov was found dead of a gunshot wound in his residence on Sunday (Aug 15), domestic media reported. Pavlov, 48, had been newly elected to the post last autumn as a representative of the pro-Russian Opposition/For Life party, easily defeating a candidate from President Zelenskiy's People's Servant party. The race was politically significant at the time as Kriviy Rih - one of Ukraine's 10 largest cities despite not being a provincial capital - is Zelenskiy's hometown, and it exposed Zelenskiy's inability to transfer his own personal popularity to candidates of his party. Police said that Pavlov was known to carry firearms and that they were investigating the variants of both murder and suicide in the case. Zelenskiy said he is "taking the investigation [into Pavlov's death] under his personal control". In unrelated but also negative news, members of the militant National Corpus organization injured 8 police officers on Saturday (Aug 14) when they attempted to attack the presidential administration building while protesting against the European-brokered peace agreements which have slowed fighting against pro-Russian separatists in the Donbass region since the full-scale war in 2015/2016.

COMMENTARY

The murder of public figures in Ukraine, and the failure of security organs to solve such cases, continues to be a major problem for Ukraine's international image. We find it unfortunate that after more than 2 years in office, Zelenskiy did not see fit to take the languishing 5-year-old investigation into the assassination of journalist Pavel Sheremet "under his personal control". Anyway, we doubt that such grandiose statements from the President will ultimately lead to better police work. Overall, despite declining approval and trust ratings, Zelenskiy currently benefits from a lack of serious political competition, as no new figures have emerged to challenge his leadership; legacy politicians such as former President Petro Poroshenko and Opposition/For Life leader Yuriy Boyko have, in our view, no chance to defeat him in a national election.

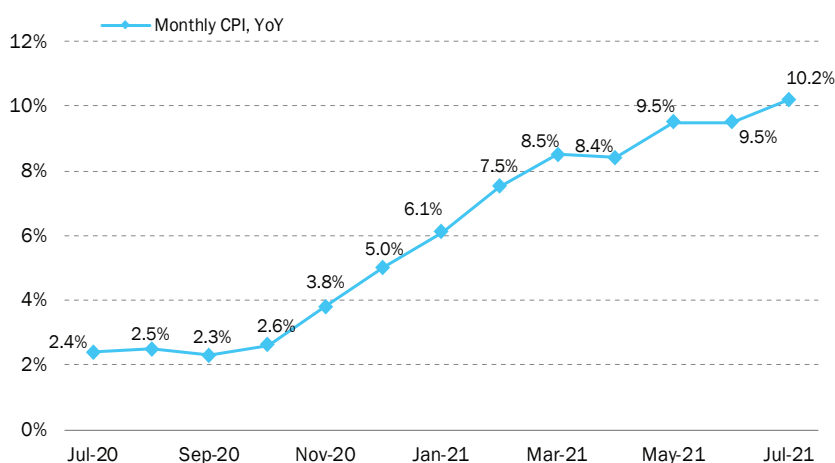
Ukraine Inflation Reaches Double Digits as July CPI Comes at 10.2% YoY

by Dmitry Churin
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NEWS

Ukraine’s State Statistics Committee (UkrStat) reported that 12-month “headline” consumer inflation was at 10.2% for July, up from 9.5% for June. The inflation index inched up by just 0.1% on a monthly basis, but the traditional deflation pattern for summer did not occur, leading to the higher 12-month rolling inflation figure of 10.2%. In the individual inflation basket categories, the most visible price increase was registered in natural gas, which surged by 2.6x YoY in July amid a Europe-wide shortage. The aggregate utility sector services for households became 35.5% more expensive on a yearly comparison.

UKRAINE’S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The rising 12-month inflation in Ukraine is being driven by the global factors of food and energy price growth. Unlike the crisis period for Ukraine in 2014-2016 when inflation was mostly spurred by the steep hryvnia devaluation, this time we observe double-digit inflation despite the fact that the hryvnia has strengthened by around 5% since the start of the year. The government and the National Bank are trying to show that they are seriously concerned about the inflation pace. The National Bank has raised its key interest rate to 8.0% in a move to ease inflation expectations, while the government made a populist promise to lower the electricity price for households. The Energy Ministry proposed to decrease the electricity tariff for small households that consume less than 250 kWh a month from UAH 1.68 to UAH 1.44 (5.4 US cents) per 1 kWh, starting in October. Although there is no real economic basis for lower electricity prices, the Ukrainian government has the power to adjust the market through its control over the 100% state-owned nuclear plant operator EnergoAtom.

Taking into account the latest inflation number, it looks very unlikely that the government’s targeted level of 7.3% inflation for full-year 2021 will be met.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	55.3	65.0	18%	BUY	The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. We maintain our BUY recommendation for Kernel with a target price of PLN 65.00 per share based on the group's expanded business operations, which have yet to be reflected in the share price. For the 6 months ending in December, Kernel had revenue of USD 2.27bn (+20% YoY), EBITDA of USD 559mn (+2.6x YoY), and net profit of USD 332mn (+2.3x YoY). On the balance sheet side, Kernel's net debt amounted to USD 1.25bn as of 31 December 2020, implying a Net Debt/EBITDA ratio of 1.6x.
MHP	MHPC LI	5.7	11.5	102%	BUY	Although MHP's business has not not suffered much from the COVID-19 crisis, the MHPC stock has tumbled by near 30% in 2020 as investors fear that the company's quite large debt burden could become unsustainable at some point. MHP's total debt was USD 1.46bn as of 31 Dec 2020. The Net Debt/EBITDA ratio was 3.7x as of 1 Jan 2021, up from 3.0x as of 1 Jan 2020. We now forecast that MHP will be able to increase its net revenue by 7% YoY to USD 2.05bn this year and to earn a net profit of USD 60mn as poultry prices bounce back.
Astarta	AST PW	54.0	--	--	U/R	The AST stock surged after the company managed to improve its debt to EBITDA ratio. Net Debt reduced to EUR 175mn corresponding to Net debt/EBITDA (LTM) of 1.6x at the end of 9M20. Back in 2019 Astarta's Net debt/EBITDA topped an unsustainable level of 5.6x.
Agroton	AGT PW	8.50	12.0	41%	BUY	Agroton unveiled a strategy to increase its land bank securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region. Agroton reported that its net profit was USD 11.7mn (PLN 2.06 per share) in 2020. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 25mn. The company continues to invest in growth, spending USD 3.8mn on CapEx in FY20.
Iron Ore						
Ferrexpo	FXPO LN	405	280	-31%	SELL	High iron ore prices are due for a correction as Chinese demand for the steelmaking ingredient is expected to ease, though aggressive speculation through iron ore derivative trading could thwart that outcome. The benchmark 62% Fe iron ore prices surged by 70% YoY to a level of USD 160 per tonne in 2020. We currently forecast that Ferrexpo's net profit will decline by 18% YoY in FY21 to USD 520mn.
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	There was little clarity on the situation regarding Motor Sich's (MSICH) nationalization. No mechanism of compensation for existing shareholders was announced after the Kyiv District Court arrested 100% of the shares of Motor Sich and appointed a special state agency to manage the company. The shares of Motor Sich remained frozen due to an ongoing investigation conducted the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
Oil & Gas						
UkrNafta	UNAF	270	350	30%	BUY	UkrNafta surged above UAH 200 per share after the company reported that it repaid its accrued tax debt of UAH 28.9bn. The company got the money for the tax repayment from its parent NaftoGaz as advance payment for future natural gas deliveries as well as payment for previously supplied gas. On the other hand, the company is still in uncertainty whether the government will decide to divide UkrNafta's natural gas business and its crude extraction business.
Enwell Energy (ex-Regal)	ENW LN	27.9	--	--	U/R	
JKX Oil & Gas	JKX LN	27.3	36.0	32%	BUY	JKX increased production by 7% QoQ to 4,101 boepd in 2Q21. The company had net USD 36mn of cash and cash equivalents, and oil and gas inventory of approximately USD 4.4mn in value, held at 30 June 2021.
Power Utilities						
DonbasEnerg	DOEN	19.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	10.00	15.00	50%	BUY	Persisting uncertainty about whether CentrEnerg can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. Currently CentrEnerg is in a process to be integrated with the state coal mines to get cheaper fuel for its power stations. The integration is set to be completed in 2H21.
Banks						
Raiffeisen Bank Aval	BAVL	0.450	0.33	-27%	SELL	Raiffeisen Bank Aval (BAVL) announced that it will distribute 50% of its FY20 net profit as a dividend, far lower than what was expected. Although this still implies a solid 3.31 kopeck dividend per share, the bank disappointed minority investors; we had projected a 5.96 kopeck dividend. The bank set the ex-rights date for dividend on Jun 8. Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, decreased its net profit by 14% YoY to UAH 4.1bn in FY20, which implied earnings per share of 6.63 kopecks. Raiffeisen Aval has been the most dividend-rich stock in the Ukrainian equity universe since 2016. The stock's dividend yield in 2017 was 20% and in 2018 it was around 22%. The bank paid 6.95 kopecks in dividend per share from FY19 net profit.

Source: Eavex Research

QUOTES AND MULTIPLES

Name	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales
			1W	YtD				2020	2021E	2020	2021E	2021E
UX Index	UX	1917	1.9%	18.6%								
Iron Ore Mining												
Ferrexpo	FXPO	405	-6.9%	36.3%	3276	3272	24.0%	5.2	3.0	3.8	2.3	1.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	20.0	0.0%	11.1%	86	60	5.0%	10.1	16.5	4.5	6.0	0.3
Specialized Machinery												
Turboatom	TATM	8.4	20.0%	1.8%	133	130	3.8%	15.8	9.3	2.5	3.1	1.4
Motor Sich	MSICH	5390	0.0%	0.0%	420	398	24.0%	13.3	18.0	3.9	4.4	1.2
Oil & Gas												
UkrNafta	UNAF	270	0.0%	42.1%	549	536	3.0%	3.5	5.3	1.7	3.3	0.5
Enwell Energy (ex-Regal)	ENW	27.9	1.1%	31.6%	123	69	21.6%	41.0	13.7	2.6	2.3	1.1
JKX Oil	JKX	27.3	-4.4%	-9.2%	64	173	50.4%	3.2	9.2	5.8	5.1	2.0
Power Utilities												
Centrenergy	CEEN	10.00	4.2%	38.9%	139	136	21.7%	61.0	35	8.1	8.5	0.2
Donbasenergo	DOEN	19.00	0.0%	-5.0%	17	16	14.2%	15.6	6.0	1.8	2.0	0.1
Consumer												
MHP	MHPC	5.68	2.2%	-5.6%	600	1915	32.5%	neg	5.5	5.6	7.1	0.9
Kernel	KER	55.30	2.8%	12.2%	1,139	2156	61.8%	9.6	3.1	4.9	3.0	0.5
Astarta	AST	54.00	6.5%	106.1%	349	524	37.0%	42.2	33.2	4.3	3.9	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.50	10.1%	94.1%	48	23	25.0%	4.1	3.7	0.7	0.7	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.450	0.0%	9.8%	1,038		1.8%	6.9	8.2	2.3	2.4	0.26

Source: UX. PFTS. LSE. WSE. Eavex Research
* companies listed abroad are in traded currency

MAIN FINANCIAL FORECASTS, USD mn

Name	Ticker	Net Sales			EBITDA			EBITDA margin			Net Profit			Net Profit margin		
		2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E
Iron Ore Mining																
Ferrexpo	FXPO	1507	1700	2300	586	859	1,450	38.9%	50.5%	63.0%	403	635	1,100	26.7%	37.4%	47.8%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
Specialized Machinery																
Turboatom	TATM	110	105	94	49	52	41	45.0%	49.1%	44.1%	12	8	14	11.1%	8.0%	15.2%
Motor Sich	MSICH	358	353	338	19	102	90	5.2%	29.1%	26.5%	-14	32	23	-3.8%	8.9%	6.9%
Oil & Gas																
Ukrnafta	UNAF	1098	1319	1018	-115	320	163	-10.5%	24.3%	16.0%	-158	158	104	-14.4%	12.0%	10.2%
Regal Petroleum	RPT	50	55	62	22	26	30	44.0%	47.3%	48.4%	10	3	9	20.0%	5.5%	14.5%
JKX Oil	JKX	102	70	85	42	30	34	41.6%	42.6%	40.0%	22	20	7	21.8%	28.6%	8.2%
Electric Utilities																
Centrenergy	CEEN	589	764	596	-69	17	16	-11.7%	2.2%	2.7%	-77	2	4	-13.1%	0.3%	0.7%
Donbasenergo	DOEN	249	256	247	8	9	8	3.1%	3.3%	3.2%	-3	1	3	-1.1%	0.4%	1.1%
Consumer																
MHP	MHPC	2056	1911	2140	376	340	270	18.3%	17.8%	12.6%	215	-133	110	10.5%	-7.0%	5.1%
Kernel (FY19, FY20, FY21E)	KER	3960	4107	4518	346	443	720	8.7%	10.8%	15.9%	189	118	370	4.8%	2.9%	8.2%
Astarta	AST	497	484	517	86	122	136	17.4%	25.1%	26.3%	2	8	11	0.4%	1.7%	2.0%
Avangardco	AVGR	135	120	110	17	19	17	12.6%	15.8%	15.5%	2	-5	-10	1.5%	-4.2%	-9.1%
Agroton	AGT	54	68	74	2	33	31	4.1%	48.2%	41.3%	5	12	13	9.5%	17.4%	17.4%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3495	3795	3925	550	456	438	280	271	249	185	151	126	33.6%	33.2%	28.9%

Source: Eavex Research

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds									
UA4000195176			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.5%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000218325			11.8%	11.3%	n/a	n/a	S/A	20 Jul 2022	13,415
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
UA4000207518			13.5%	12.5%	n/a	n/a	S/A	20 May 2027	7,018
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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