

Stock Market Update

Equity

The Ukrainian economy is going through extremely challenging conditions amid the Russian invasion. The National Bank said that preliminary estimates put the country's direct physical damage at USD 100bn, while for comparison Ukraine's overall GDP was barely USD 200bn in the pre-war 2021. The State Statistics Committee has suspended a publication of the monthly industrial output data as a de-facto part of the country stuck due to the Russian full-scale military aggression. Roughly a third of the Ukrainian enterprises were shut down due to the ongoing crisis. The country's banking system was also hurt badly as for March alone it had a net loss of UAH 10bn (USD 342mn) while in January-February banks had a combined net profit of UAH 9.9bn. The National Bank said that banks remained profitable on the operational level but had to dramatically increase their non-performing loan reserves.

Warsaw-listed Kernel (KER) dropped by 15% to PLN 26.2 after the company reported that it had sold part of its farmland bank to support liquidity. We refrain from the assessment of the value of the unveiled deal between Kernel and its largest shareholder Andrii Verevskyi regarding the asset divestment. However, we can assume that some kind of behind the scene agreement exists in this divestment deal. The interesting thing here is that a few years ago Kernel purchased certain agro companies directly from Mr. Verevskyi. In other Ukrainian agro companies, Agroton (AGT) fell 13% to PLN 4.60 while MHP (MHPC) gained by 5.2% to USD 4.47. On the Ukrainian stock market trading in stocks and bonds remained suspended as the country is under martial law.

The Finance Ministry raised UAH 13bn from the placement of the special bonds. The 3-month issue was offered at a 9.5% yield and the 14-month UAH-domestic bond had a yield of 11%. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

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/news/all/natsionalniy-bank-vidkriv-spetsrahnok-dlya-zboru-koshtiv-na-potrebi-armiyi

The National Bank also opened a fundraising account for Humanitarian Assistance to Ukrainians. Please see details under the link below:

www.bank.gov.ua/en/news/all/natsionalniy-bank-vidkriv-rahunok-dlya-gumanitarnoyi-dopomogi-ukrayintyam-postrajdalim-vid-rosiyskoyi-agresiyi

TREND



MARKET INDEXES

	Last	1W ch	YTD
UX	n/a	n/a	n/a
RTS	1082	16.6%	-32.2%
WIG20	1858	-5.8%	-18.0%
MSCI EM	1044	-2.9%	-15.3%
S&P 500	4132	-3.3%	-13.3%

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	48.2%	1.8 p.p.	39.3 p.p.
Ukraine-2032	31.2%	0.9 p.p.	22.0 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD/UAH	33.50	5.0%	22.6%
EUR/UAH	35.18	2.4%	13.6%

Source: Eavex Capital

Highlights

STOCKS IN THE NEWS

- > Kernel Divesting 134,000 ha of Farmland for USD 210mn to Prop Up Liquidity Amid the War

Kernel Divesting 134,000 ha of Farmland for USD 210mn to Prop Up Liquidity Amid the War

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 26.2 Market Cap: USD 484mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2022FY	0.2	0.4	1.2	2.4	4.2%
2023FY	0.2	0.5	4.0	4.9	4.2%

NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel decided to divest 134,000 ha of farmland with related farming infrastructure, machinery and working capital to de-risk the business and improve the mid-term liquidity amid the Russian invasion of Ukraine. The company highlighted the uncertainty regarding the timing and ability to resume the soft commodity exports via Ukrainian Black Sea ports and prospects that the future financial performance of the farming business would be reduced significantly. The initiated formal sale process gained no traction from local and international investors considering the present operational environment in Ukraine. As a result, Kernel's Chairman of the Board Andrii Verevskyi purchased the offered farmland for USD 210mn by himself. Mr. Verevskyi is Kernel's largest shareholder with a 39% stake. The transaction was approved by Kernel's Board of Directors with all directors including 3 independent non-executive directors voting in favor of the transaction after giving due consideration to the price offered and the impact of the transaction on the company. The Chairman of the Board abstained from the voting due to the declared conflict of interests. The completion of the transaction is conditional upon obtaining consent from some of Kernel's creditors and relevant regulatory requirements.

COMMENTARY

Kernel said that Andrii Verevskyi acted as the investor of last resort to support the company in the current circumstances. Kernel had a net debt of USD 1.55bn as of 31 Dec 2021 acknowledging that marketable inventories stood at USD 1.36bn on the same date. Taking into account Ukrainian seaports suspended operations, Kernel faced an extreme challenge in exporting grain and sunflower oil. The company admitted that its current export volumes dropped by 10x from what the company exported before the Russian invasion of Ukraine.

In terms of the price of the deal, it is unclear whether the valuation of the divested assets could be made properly amid the ongoing war. However, the company pointed to the argument that the buyer will pay a material premium as compared to Kernel's market capitalization of USD 575mn a day before the deal was unveiled. The market had a NEGATIVE reaction to the news and the KER stock dropped by 15% last week to PLN 26.16 implying MCap of USD 484mn. The company had a land bank of some 510,000 ha in Ukraine before the deal. We assume, that in the long-term divestment of the farmland would have a deteriorating effect on Kernel's overall value chain. However, the factor of war in Ukraine makes it impossible to assess the actual impact of the asset divestment on the company's current financial situation.

Quotes for Kernel-27s Eurobond were unchanged over the week at 53 cents on the dollar implying a yield of 22.4%.

QUOTES AND MULTIPLES

	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales 2021E
			1W	YtD				2020	2021E	2020	2021E	
UX Index	UX	n/a	n/a	n/a								
Iron Ore Mining												
Ferrexpo	FXPO	165	-5.2%	-44.8%	1226	1109	24.0%	1.9	1.4	1.3	0.8	0.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Specialized Machinery												
Turboatom	TATM	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Motor Sich	MSICH	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil & Gas												
UkrNafta	UNAF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Enwell Energy (ex-Regal)	ENW	23.3	-7.0%	-33.6%	94	40	21.6%	31.3	10.4	1.5	1.3	0.6
Power Utilities												
Centrenergo	CEEN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Donbasenergo	DOEN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer												
MHP	MHPC	4.47	5.2%	-34.1%	472	1635	32.5%	neg	1.6	4.8	2.6	0.7
Kernel	KER	26.16	-15.4%	-55.4%	471	2022	61.8%	0.9	1.1	2.2	2.4	0.4
Astarta	AST	23.70	-12.1%	-44.1%	134	309	37.0%	16.2	12.7	2.5	2.3	0.6
Agroton	AGT	4.60	-12.9%	-32.4%	23	-2	25.0%	1.9	1.7	-0.1	-0.1	0.0
Banks												
Raiffeisen Bank Aval	BAVL	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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		
		2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E
Iron Ore Mining																
Ferrexpo	FXPO	1507	1700	2518	586	859	1,439	38.9%	50.5%	57.1%	403	635	871	26.7%	37.4%	34.6%
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	52	49	52	21	45.0%	49.1%	40.7%	12	8	3	11.1%	8.0%	6.0%
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	1286	-115	320	291	-10.5%	24.3%	22.6%	-158	158	186	-14.4%	12.0%	14.4%
Regal Petroleum	RPT	50	55	62	22	26	30	44.0%	47.3%	48.4%	10	3	9	20.0%	5.5%	14.5%
Electric Utilities																
Centrenergo	CEEN	589	764	513	-69	17	-12	-11.7%	2.2%	-2.3%	-77	2	-31	-13.1%	0.3%	-6.0%
Donbasenergo	DOEN	249	256	258	8	9	-1	3.1%	3.3%	-0.6%	-3	1	-8	-1.1%	0.4%	-3.0%
Consumer																
MHP	MHPC	2056	1911	2236	376	340	620	18.3%	17.8%	27.7%	215	-133	290	10.5%	-7.0%	13.0%
Kernel (FY19, FY20, FY21)	KER	4107	5647	5082	443	929	836	10.8%	16.5%	16.5%	118	513	410	2.9%	9.1%	8.1%
Astarta	AST	497	484	517	86	122	136	17.4%	25.1%	26.3%	2	8	11	0.4%	1.7%	2.0%
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	4216	550	456	516	280	271	260	185	151	178	33.6%	33.2%	34.5%

Source: Eavex Research

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