

Stock Market Update

Equity

Quotes for most Kyiv-listed Ukrainian stocks moved in a sideways trend last week, with the PFTS index finishing virtually unchanged at 535 points. Statistics that showed the country's GDP growth of 4.6% YoY in 2Q19 provided some optimism on the market, but low liquidity in the local stocks continues to be a major obstacle for new purchases from active traders. In terms of individual blue chips, Raiffeisen Bank Aval (BAVL) was the best performing name, gaining 2.4% to close at 30 kopecks on the nose. TurboAtom (TATM) was also on the rise, adding 2.2% to UAH 11.85 per share. Meanwhile CentrErgo (CEEN) lost 1.4%, ending at UAH 10.70.

UkrNafta (UNAF) was flat near UAH 160 after information that the company's majority shareholder (the state gas giant NaftoGaz) has given up on the idea of breaking up UkrNafta. Earlier NaftoGaz had proposed splitting up UkrNafta's assets to pay off the company's huge half-billion dollar tax debt. The idea was supposed to be performed in three stages: the classification of UkrNafta's assets into clusters – the gas cluster (natural gas extraction) and the oil cluster (production of crude oil and fuel sales); independent valuation of each cluster; and purchase of separate clusters by UkrNafta shareholders with repayment of tax debt to the budget.

In London trading, Ferrexpo (FXPO) corrected further, dropping by 5.4% to GBp 212. MHP (MHPC) managed to recover part of the preceding week's decline, rising 2.3% to USD 9.85 per share. Stocks of the independent hydrocarbon extraction companies JKC Oil & Gas (JKX) and Regal Petroleum (RPT) with major assets in Ukraine were both under pressure from falling energy prices. The RPT shares fell by 11% to GBp 30.30 and JKX dropped by 10% to GBp 30.80.

Warsaw-listed Ukrainian agro names were mixed, with Kernel (KER) edging up by 0.5% to PLN 48.95 while Agroton (AGT) slipped 1.7% to close at PLN 2.90 per share.

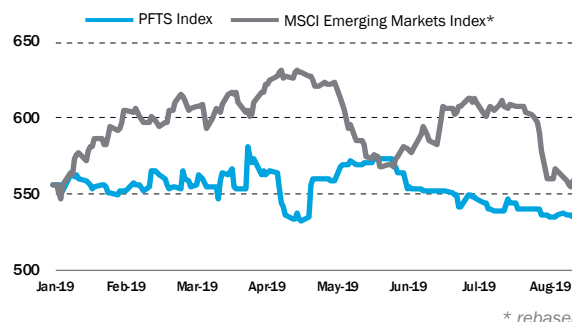
On the currency front, the hryvnia was less volatile than in previous weeks, trading in the narrow range of 25.15-25.26 UAH/USD. The currency pair ultimately ended the week almost unchanged at 25.17 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Deputy Minister Arrested for Half-Million-Dollar Bribe
- > Ukraine's GDP Growth Accelerates to 4.6% YoY in 2Q19
- > Ukraine's Headline Inflation Remains Above Target at 9.1%

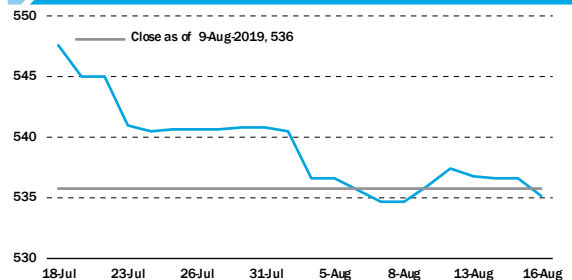
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	535	-0.1%	-4.3%
RTS	1237	-3.9%	15.7%
WIG20	2098	-1.0%	-8.8%
MSCI EM	970	-1.1%	0.5%
S&P 500	2889	-1.0%	15.2%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	0.0 p.p.	-1.0 p.p.
Ukraine-2024	7.2%	0.6 p.p.	-3.3 p.p.
Ukraine-2028	8.5%	1.0 p.p.	-2.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	25.17	0.0%	-9.1%
EUR	27.93	-0.6%	-11.9%

Deputy Minister Arrested for Half-Million-Dollar Bribe

by Will Ritter
w.ritter@eavex.com.ua

NEWS

Deputy Minister for the Occupied Territories Yuriy Hrymchak was arrested last week in a law enforcement sting operation in which the official allegedly was caught accepting a bribe of USD 480,000 from an unnamed entrepreneur in exchange for influencing judicial and state decisions. The arrest was announced on the social media site of the Ukrainian Security Service (SBU). Hrymchak has denied the charges through his lawyer.

COMMENTARY

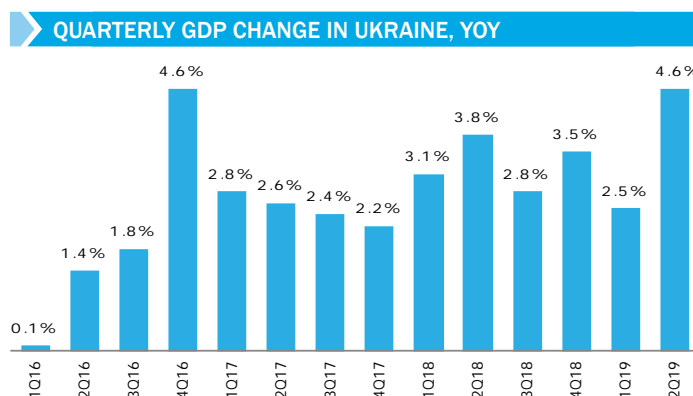
Although this operation to catch Hrymchak is being billed as a cooperative effort of the SBU, the General Prosecutor's Office, and the National Anti-Corruption Bureau (NABU), we primarily see the fingerprints of the SBU here, as it is only the SBU that has thus far come under the control of President Zelenskiy's administration. Zelenskiy seems to be trying to send a message to Poroshenko's allies and appointees that they are going to be pursued in cases of egregious bribe-taking during their tenure in power. Still, we doubt that Zelenskiy will be able to successfully mount a prosecution campaign against Poroshenko himself, as such a move would be poorly received by the Western diplomatic community, and Poroshenko retains a committed (if rather small) base of domestic political support. Hrymchak is a veteran of Ukrainian politics who has been an ally of Poroshenko and former President Yuschenko as well as of current (outgoing) General Prosecutor Yuriy Lutsenko. We definitely welcome the prosecution of this type of significant corruption among top government officials if it can be convincingly and transparently proven in court. However, we note that previous high-profile government corruption cases have gone nowhere despite highly publicized initial arrests; the situation with former tax collection chief Roman Nasirov immediately comes to mind.

Ukraine's GDP Growth Accelerates to 4.6% YoY in 2Q19

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

NEWS

The Ukrainian economy's growth accelerated to 4.6% YoY in 2Q19 from 2.5% YoY registered in 1Q19, according to the preliminary estimate from the State Statistics Committee released last week. The data also showed that the country's seasonally-adjusted GDP rose by 1.6% on a quarterly basis in the period.



Source: State Statistics Committee, Eavex Research

COMMENTARY

The new GDP data is definitely a surprise to the upside and could be partially credited to optimism among businesses about the economic policies of new President Zelenskiy (it became clear that Zelenskiy would defeat incumbent Petro Poroshenko in mid-April at the beginning of the quarter). Nonetheless, we emphasize that the positive trends of rising consumer spending and rising real wages in the country have been in place for a couple of years already. UkrStat reported that the average wage in Ukraine rose by 18% YoY in June in hryvnia terms, and consumer sentiments have improved this year amid almost 10% YtD appreciation in the national currency against the dollar. Growth in private consumption was also reflected in a 10.3% YoY increase in retail sales in 1H19. On the flip side, the real sector of economy did not show much improvement, with the overall industrial production index edging up by just 0.5% YoY in 1H19.

For now we are sticking with our base case scenario that Ukraine's GDP will rise by 3.0% in 2019, but we are raising our growth estimate for 2020 to 4.2%.

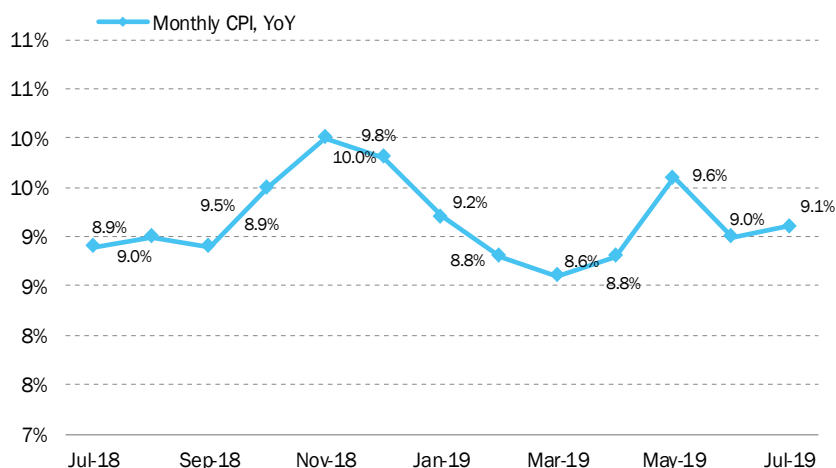
Ukraine's Headline Inflation Remains Above Target at 9.1%

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

NEWS

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month consumer inflation inched up to 9.1% YoY in July from 9.0% YoY in June, according to official data released earlier this month. UkrStat said that for the month of July alone, there was deflation of 0.6% MoM after deflation of 0.5% MoM in June and inflation of 0.7% MoM for May. For 7M19 (a slightly different measurement of full-year inflation than the 12-month rolling figure) the CPI index growth remained at 9.0% YoY.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The month-on-month deflation for July was an expected development, while the growth in the overall 12M consumer price index remains somewhat outside of the National Bank's target. The NBU lowered its key interest rate from 17.50% to 17.00% in July, saying it is ready to cut the rate further in case there are no threats to price stability. The next meeting of the NBU's monetary policy board is scheduled for Sept 5, and we expect the regulator to lower the rate by an additional 50 bps to 16.50% or possibly leave it unchanged. Prior to the inflation report, there had been a more dovish expectation that the rate could be cut by 100 bps to 16.00%. The NBU is still saying that it expects the 12M CPI inflation to decline to 6.3% by the year end, and also recently announced a goal to cut the key interest rate to 8% by 2022. The country's key interest rate was last at such a low level back in 2013 before the political turmoil of the EuroMaidan period.

In individual components of the consumer price basket, there was a seasonal drop in vegetables prices which led to a 0.7% MoM decline in the overall food price category. Another considerable factor for the deflation in July was lower energy prices. UkrStat reported that the natural gas price for households had fallen by 10.4% MoM and petroleum prices had decreased by 3.2% MoM in July.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	49.0	82.0	68%	BUY	With on-demand borrowing access, Kernel is well placed to further consolidate its position in the oilseed crushing industry. The company's sunflower oil sales grew by solid 40% YoY to 389,600 tonnes despite oilseeds processing increased by moderate 7.0% YoY in January-March 2019. Kernel's sunflower oil sales volume rose by 17.8% YoY to roughly 1.17mn tonnes for the 9 months ending Mar 31 (the company has a July-to-June reporting calendar). The company's grain trading volumes increased by 2.6x YoY to 7.97mn tonnes in the 9 months ending Mar 31 and export terminal throughput rose by 5.8% YoY to 4.71mn. The company aims to achieve EBITDA of USD 500mn by 2021.
MHP	MHPC LI	9.8	16.5	68%	BUY	MHP could start process of deleveraging which in turn would boost the company's MCap. Also the company has a declared strategy to expand its presence on the MENA and EU markets. MHP continued to increase its export sales. MHP also reported that its poultry exports rose 47% YoY to near 93,000 tonnes in 1Q19, accounting for 56% of total sales volume, up from a share of 47% a year before.
Astarta	AST PW	23.0	-	-	U/R	The company's net debt to EBITDA ratio surged from 1.1x at the end of FY17 to 5.2x as of end-2018. We assume that the elevated debt burden now represents a major risk for the company.
Agroton	AGT PW	2.90	12.0	314%	BUY	Agroton unveiled a strategy to increase its land bank from 122,000 ha to 200,000 ha by mid-2020 securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region.
AvangardCo	AVGR LI	0.3	0.3	20%	SELL	Avangardco's revenue fell by 33% YoY in FY17 despite an increase in egg sales volume by 23% YoY. We attribute this negative development to weak results in the value-added egg powder segment. Avangardco said that its egg product sales volume had plunged by 64% YoY to some 3300 tonnes, with the average pricing dropping by 23% YoY to USD 4.30/kg.
Iron Ore						
Ferrexpo	FXPO LN	212	250	18%	HOLD	Iron ore market has seen a major shift over the past two years as China's anti-pollution drive spurs demand for cleaner ore, exploding the spreads between top-quality material and lower-grade cargoes, which benefits Ferrexpo as top-quality pellets producer.
Specialized Machinery						
Motor Sich	MSICH	5390	6750	25%	BUY	Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project. 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	159	270	70%	BUY	UkrNafta's fundamental value should see an immediate jump after the company reaches a deal with the government on restructuring its huge UAH 12bn tax debt. We believe that with the state owning a 50% stake in UkrNafta, the resolution of the tax debt issue is only a matter of time.
Concern Galnaftogaz	GLNG	0.27	0.33	22%	BUY	Galnaftogaz is pursuing a plan to aggressively expand its filling station network.
Regal Petroleum	RPT LN	30.3	-	-	U/R	Natgas extractor Regal Petroleum (RPT) got hammered, plunging 30% to GBP 38.00 per share after news that the Ukrainian State Geological Service issued an order to suspend production on one of Regal's licenses. The company said that it is seeking to obtain further information on the basis for the order, and is taking measures to protect its rights.
JKX Oil & Gas	JKX LN	30.8	-	-	U/R	The company's balance sheet looks healthy after it successfully restructured its Eurobonds. An overall demand for natural gas in Ukraine remains strong.
Power Utilities						
DonbasEnerg	DOEN	23.7	-	-	U/R	DonbasEnerg set the ex-rights date for its UAH 1.32 dividend payout on May 28. The actual dividend payment will be made during 3 months starting in late June. The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	10.70	25.60	139%	BUY	The CEEN stock has been in a downward trend since October, falling from a level of UAH 18 to the current level of UAH 12 per share after yet another failed attempt to privatize the company in early December. 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. We forecast that CentrEnerg will earn UAH 725mn this year, representing EPS of UAH 1.96. The company has recently switched another one of its power units from expensive anthracite coal to cheaper steam coal, which should improve its electricity production profitability.
Banks						
Raiffeisen Bank Aval	BAVL	0.300	0.47	57%	BUY	Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, approved UAH 3.56bn in dividends from its full-year 2018 profit (5.79 kopecks per share). Raiffeisen Aval posted a net profit of UAH 5.09bn for FY18 (USD 187mn at the average UAH/USD rate for the period), which was 14% YoY higher compared FY17. We forecast that the bank will earn UAH 6.2bn in net profit in FY19, which would imply earnings per share of 10 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%.

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 2019E
			1W	YtD				2018	2019E	2018	2019E	
PFTS Index	UX	535	-0.1%	-4.3%								
Iron Ore Mining												
Ferrexpo	FXPO	212	-5.4%	8.9%	1,510	1,849	24.0%	4.5	3.6	3.7	2.9	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.5	0.0%	38.1%	66	34	5.0%	3.7	13.4	1.7	3.2	0.2
Specialized Machinery												
Turboatom	TATM	11.9	2.2%	-13.5%	199	190	3.8%	7.1	7.2	4.7	4.6	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	445	456	24.0%	9.7	8.4	4.8	4.6	1.2
Oil & Gas												
UkrNafta	UNAF	159	0.0%	18.2%	343	336	3.0%	1.4	0.6	1.0	0.4	0.1
Regal Petroleum	RPT	30.3	-11.1%	-51.9%	118	78	21.6%	2.8	11.8	1.4	3.5	1.6
JKX Oil	JKX	30.8	-9.9%	-22.0%	64	172	50.4%	4.2	3.5	5.6	5.1	1.5
Power Utilities												
Centrenergy	CEEN	10.70	-1.4%	-20.7%	157	137	21.7%	8.6	neg	3.6	56	0.2
Donbasenergy	DOEN	23.66	0.0%	-25.9%	22	29	14.2%	5.8	neg	1.3	1.5	0.1
Consumer												
MHP	MHPC	9.84	2.3%	-8.9%	1,040	2,561	34.1%	8.1	6.1	5.7	5.4	1.3
Kernel	KER	48.95	0.5%	-2.5%	992	1,615	61.8%	19.0	4.1	7.3	5.2	0.4
Astarta	AST	23.00	-1.3%	-2.1%	146	442	37.0%	neg	4.3	6.8	5.2	0.8
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	2.90	-1.7%	-27.5%	16	-1	25.0%	1.2	1.7	n/a	n/a	n/a
Banks												
Raiffeisen Bank Aval	BAVL	0.300	2.4%	-11.8%	733		1.8%	3.9	3.4	1.7	1.5	0.30

Source: 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		
		2017	2018	2019E	2017	2018	2019E	2017	2018	2019E	2017	2018	2019E	2017	2018	2019E
Iron Ore Mining																
Ferrexpo	FXPO	1,197	1,274	1,593	551	503	629	46.0%	39.5%	39.5%	394	335	419	32.9%	26.3%	26.3%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	141	200	220	14	20	11	9.9%	10.2%	4.9%	12	18	5	8.6%	9.0%	2.2%
Specialized Machinery																
Turboatom	TATM	87	94	94	37	40	41	42.6%	43.1%	43.6%	26	28	28	29.9%	29.9%	29.2%
Motor Sich	MSICH	436	450	387	156	96	100	35.8%	21.2%	25.8%	117	46	53	26.8%	10.2%	13.6%
Oil & Gas																
Ukrnafta	UNAF	1,011	1,328	2,534	67	350	894	6.6%	26.4%	35.3%	4	237	565	0.4%	17.8%	22.3%
Regal Petroleum	RPT	35	60	50	17	54	22	49.8%	90.0%	44.0%	2	42	10	na	70.0%	20.0%
JKX Oil	JKX	82	93	111	9	31	34	11.5%	33.2%	30.5%	-12	15	18	-14.6%	16.5%	16.5%
Electric Utilities																
Centrenergy	CEEN	412	533	570	104	38	2	25.2%	7.1%	0.4%	71	18	-18	17.3%	3.4%	-3.2%
Donbasenergo	DOEN	147	224	225	8	23	7	5.8%	10.2%	3.1%	2	4	-3	1.4%	1.7%	-1.2%
Consumer																
MHP	MHPC	1,289	1,556	1,945	459	450	475	35.6%	28.9%	24.4%	230	128	170	17.8%	8.2%	8.7%
Kernel	KER	2,169	2,403	3,965	319	223	310	14.7%	9.3%	7.8%	176	52	240	8.1%	2.2%	6.1%
Astarta	AST	514	424	551	134	65	86	26.1%	15.3%	15.5%	69	-24	34	13.5%	-5.7%	6.2%
Avangardco	AVGR	130	127	135	12	15	17	9.1%	11.8%	12.6%	-8	-5	2	-5.8%	-3.9%	1.5%
Agroton	AGT	52	57	63	11	14	13	20.3%	24.7%	20.6%	8	14	9	16.1%	23.7%	15.1%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2,455	2,491	2,415	404	420	485	234	239	253	169	187	218	41.8%	44.6%	44.8%

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									
UA4000195580			17.50%	16.00%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			17.60%	16.45%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.70%	16.35%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			6.25%	4.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

Eavex Capital

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

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
E-mail: office@eavex.com.ua
Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board
yuriy.yakovenko@eavex.com.ua

SALES & TRADING

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

Alexander Klymchuk
Equity and Fixed Income
a.klymchuk@eavex.com.ua

Eugene Klymchuk
Fixed Income Sales and Trading
e.klymchuk@eavex.com.ua

RESEARCH

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

Will Ritter
Research editor
w.ritter@eavex.com.ua

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