

Stock Market Update

Equity

Kyiv-listed stocks finished lower last week amid only sporadic trading activity amid pre-election jitters in the country ahead of the expected defeat of President Poroshenko at the hands of political newcomer Volodymir Zelenskiy. The PFTS index shed 0.6% to close at 533 points on Friday (Apr 19). UkrNafta (UNAF) was again the loss leader among the index components, falling by 9.5% to UAH 146 per share on renewed fears that the company's tax debt problem won't be resolved despite optimism on the subject earlier this month. UkrNafta had approved a large natural gas sale deal with the state giant NaftoGaz to raise money for the tax debt repayment but now it looks like the deal could be stuck in limbo. News that UkrNafta won a ruling forcing Russia to pay USD 44mn compensation for expropriation of the company's property in Crimea had a neutral impact on the stock.

CentrErgo (CEEN) declined by 2.4% to UAH 12.10 while DonbassErgo (DOEN) added 5.5% to UAH 27.70. Raiffeisen Bank Aval (BAVL) was unchanged at 35.60 kopecks.

On the London Stock Exchange, Ferrexpo (FXPO) corrected by 3.1% to GBp 286 after a strong growth earlier this month. Natural gas producers with assets in Ukraine were mixed, with JKX Oil&Gas (JKX) advancing by 8.1% to GBp 57.30 after the company reported a 13.2% YoY increase in production in 1Q19. Regal Petroleum (RPT) dropped by 7.0% to GBp 40 on the nose. Poultry major MHP (MHPC) gained 6.6% to close at USD 11.25 after the company released upbeat operational figures for 1Q19.

In Warsaw trading, Kernel (KER) was little-changed at PLN 53.80 despite the company's solid operational results for Jan-March quarter.

On the interbank currency market, the hryvnia edged down by 0.2% to 26.85 UAH/USD.

Highlights

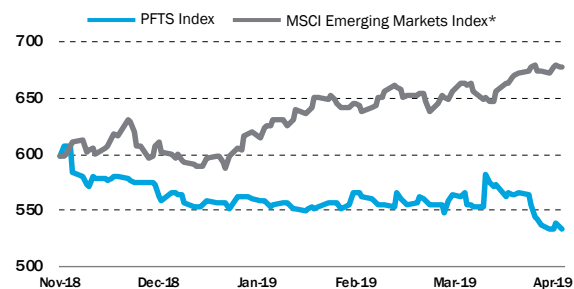
POLITICS AND ECONOMICS

- Focus Shifts to Parliament Election as Zelenskiy Thrashes Poroshenko

STOCKS IN THE NEWS

- Kernel Posts Impressive 18% YoY Oil Sales Growth in Jul-Mar 9M
- MHP's 1Q18 Poultry Sales Rise 21% YoY to 164,000 tonnes

STOCK MARKET PERFORMANCE

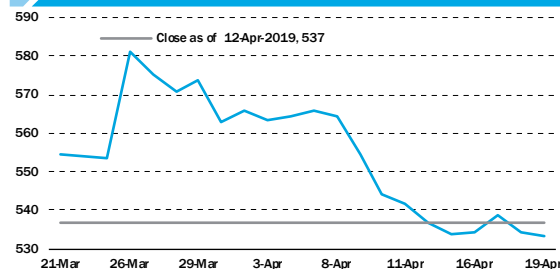


* rebased

MARKET INDEXES

	Last	1W ch	YTD
PFTS	533	-0.6%	-4.7%
RTS	1276	1.3%	19.4%
WIG20	2365	0.0%	2.8%
MSCI EM	1093	0.3%	13.1%
S&P 500	2905	-0.1%	15.9%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	18.0%	0.0 p.p.	0.0 p.p.
Ukraine-2024	8.4%	0.0 p.p.	-2.1 p.p.
Ukraine-2032	8.6%	0.0 p.p.	-1.6 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	26.85	0.2%	-3.0%
EUR	30.21	-0.6%	-4.7%

Focus Shifts to Parliament Election as Zelenskiy Thrashes Poroshenko

by Will Ritter
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NEWS

Eastern Ukrainian actor and entertainment mogul Volodymyr Zelenskiy soundly defeated incumbent President Petro Poroshenko in the runoff round of Ukraine's presidential election on Sunday (Apr 21). With almost all the vote counted, Zelenskiy won 73% of the national vote compared to 25% for Poroshenko and 2% spoiled/unmarked ballots. The result comes in line with pre-election polling and follows a last-minute televised debate at the national football stadium in Kyiv on Friday (Apr 19) where Zelenskiy performed better than expected and Poroshenko was unable to make up any ground. Zelenskiy won all of Ukraine's 25 electoral districts (24 provinces plus Kyiv City) with the sole exception of Lviv province in Western Ukraine, where Poroshenko took 62%. Meanwhile, Zelenskiy's tally was overwhelming - above 80% - in all of the country's Russophone southeastern provinces. Poroshenko is set to remain as President until early June, when Zelenskiy will be sworn in. In Ukraine, the President appoints only two of the more than 20 Cabinet posts, so the current government headed by Poroshenko ally Volodymyr Groysman has grounds to remain in place until the country's national parliamentary election due in late October.

COMMENTARY

After the glow from Zelenskiy's impressive victory wears off, we believe that he will immediately start to be pulled in two opposite directions: on one hand, toward a more conciliatory approach to Russia demanded by his base electorate in southeastern Ukraine, and on the other, toward a continuation of Poroshenko's nationalism and tough negotiating positions in regard to the Russian-occupied Crimea and Donbass territories. The latter stance is favored by millions of Central and Western Ukrainian voters who refused to support Poroshenko's re-election under any condition, and backed Zelenskiy only by default. Definitely, the huge margin of Zelenskiy's victory indicates a rejection of the ideological aspects of Poroshenko's presidency as top national priorities; Poroshenko's impressive achievements in stalemating Russian military aggression and obtaining independence of Ukraine's Orthodox Church from Moscow ultimately counted for little with the Central Ukrainian swing voters who historically have provided the margin of victory in the country's presidential elections. We expect Poroshenko and his BPP parliamentary faction to take a largely cooperative approach with Zelenskiy in the early months of the latter's presidency ahead of a mad scramble for power in the October parliamentary vote. Clearly it would favor Zelenskiy, who currently has no parliamentary representation, to move up the date of the election, but we view this maneuver as difficult for him to achieve. As we noted above, Zelenskiy's Servant of the People party will quickly have to decide where to position itself for the election, and we suspect the new president will first of all need to keep his base satisfied in the Russophone southeast. In terms of other parliamentary configurations, it will be important to watch the moves of the governing People's Front party and its de-facto leaders, Interior Minister Arseniy Avakov and former PM Arseniy Yatseniuk. The People's Front, which split away from Yulia Tymoshenko's Batkivschyna party in 2014, represents one of Ukraine's most powerful and longstanding political/business clans and it will not disappear, but will rather be re-branded; the key question is whether Avakov and Yatseniuk might re-join forces with leftist opposition leader Tymoshenko, who will be keen to have them on board as she mounts yet another effort to become Prime Minister. As for Poroshenko, despite his heavy defeat on Sunday, we think he has ample support to enter Parliament as a significant player if he chooses to continue his political career, since he has around 15% of the country's voters firmly committed to him. Yet we doubt that Poroshenko's BPP will end up being the main opposition to Zelenskiy once a new governing configuration has been set up in late 2019.

Kernel Posts Impressive 18% YoY Oil Sales Growth in Jul-Mar 9M

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 52.80 Market Cap: USD 1,128mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY18	1.0	0.7	21.7	7.9	1.8%
FY19E	0.8	0.5	5.4	5.6	1.8%

NEWS

Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and exporter, said it nearly doubled its grain trading volumes year-on-year, reaching 2.11mn tonnes of sales in January-March, according to an operational update published on Apr 18. The company's sunflower oil sales also jumped by 40% YoY to 389,600 tonnes despite a more modest rise in oilseeds processing of 7.0% YoY in the period. Kernel's sunflower oil sales volume is up 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 5.8% YoY to 4.71mn tonnes.

KERNEL OPERATIONAL UPDATE

Volume	3Q FY19	3Q FY18	Change	9M FY19	9M FY18	Change
Grain sales, tonnes	2,116,476	1,087,631	+94.6%	7,972,447	3,073,496	+2.6x
Sunflower oil sales in bulk, tonnes	389,602	278,381	+40.0%	1,173,928	996,399	+17.8%
Oilseed crush, tonnes	908,161	848,861	+7.0%	2,267,299	2,301,732	-1.5%
Export terminals throughput, tonnes	1,406,589	1,514,982	-7.2%	4,713,477	4,453,010	+5.8%

Source: Companies' data

COMMENTARY

Kernel demonstrated impressive operational results in the Jan-Mar quarter, as the company's scale of business has been growing in recent months thanks to the enormous 2018 grain harvest in Ukraine, which hit a record 70mn tonnes last year. In 2017, the nation had harvested a notably lower 61.3mn tonnes, according to the State Statistics Committee, which was down 4.7mn tonnes from the 2016 harvest. Conditions so far this year have been favorable, leading to early predictions that the 70mn tonne figure could be repeated. In regard to its infrastructure business, Kernel noted that it is on the way to deliver the best annual operating result ever: silo in-take volumes reached 4.2mn tonnes (+29% YoY) in the July-March 9M period and export terminal throughput volumes in Ukraine were 3.4mn tonnes (+15% YoY), with record monthly grain transshipment volumes reported in March 2019.

The company announced that it will release its 9M19 financial results (ended in March) on May 27.

Kernel's share price on the Warsaw Stock Exchange were little changed last week at PLN 53.80.

MHP's 1Q18 Poultry Sales Rise 21% YoY to 164,000 tonnes

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 11.25 Market Cap: USD 1,189mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.2	1.5	9.3	5.2	6.7%
2019E	0.9	1.3	4.8	4.8	6.7%

NEWS

London-listed MHP, Ukraine's largest poultry producer, increased its poultry sales volume by 21% YoY to 164,000 tonnes in 1Q19, according to the company's operational update published on Apr 18. MHP reported that achieved pricing for its poultry was virtually unchanged in UAH terms at UAH 38.63 per 1 kg in the period. MHP noted that its production facilities continued to operate at full capacity in the first quarter with additional two rearing sites commissioned in January at the Vinnitsa Poultry Complex. In the vegetable oil segment, MHP had mixed results, with sunflower oil sales volume surging by 110% YoY to 99,800 tonnes in 1Q19 after a drop of 42% YoY seen in 1Q18. Soybean oil sales volume declined by 17% YoY to 15,100 tonnes in 1Q19 after a jump of 2.1x YoY to 18,200 tonnes in 1Q18. In the grain segment, the company reported that it has 94,000 hectares planted under winter crops. MHP operates a land bank of 365,000 hectares in Ukraine. The spring planting campaign is ongoing with no significant change in the crop structure from 2018.

MHP OPERATIONAL UPDATE			
Poultry	1Q19	1Q18	Change
Sales volume, tonnes	164,004	135,307	+21%
Domestic	70,959	72,163	-2%
Exports	93,045	63,144	+47%
Price per 1 kg net VAT (UAH)	38.63	38.78	0%

Source: Companies' data

COMMENTARY

MHP's 1Q operational results put it on track to deliver its targeted increase in poultry output of an additional 100,000 tonnes or 15% YoY. The company's production grew by 13% YoY to 171,272 tonnes in 1Q19. Exports continued to play the main role in MHP's operational expansion, as poultry sales on the domestic market edged down by 2% YoY in 1Q19, while export sales jumped by 47% YoY, and accounted for 57% of the company's overall poultry sales in the quarter.

The sporadically-traded MHPC stock has moved in a range of USD 10.10-11.50 per share since the start of the year. We see that the stock now has a resistance level at USD 11.50 from the chart point of view. Eavex Capital has a BUY recommendation for MHP with a target price of USD 16.50.

MHP-2026 outstanding Eurobonds are quoted at 92.3/93.4 (8.6%/8.4%).

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	53.8	82.0	52%	BUY	With on-demand borrowing access, Kernel is well placed to further consolidate its position in the oilseed crushing industry. The company reported that its sunflower oil sales in bulk rose by 29.4% YoY to some 508,000 tonnes in July-December 2017. The company aims to achieve EBITDA of USD 500mn by 2021.
MHP	MHPC LI	11.3	16.5	47%	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 16% YoY to near 221,000 tonnes in 2017, accounting for 41% of total sales volume, up from a share of 36% a year before.
Astarta	AST PW	27.4	--	--	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	3.30	12.0	264%	BUY	Agroton unveiled a strategy to increase its land bank from 122,000 ha to 200,000 ha by mid-2019 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	286	250	-13%	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. Our base case scenario forecast for Motor Sich's net profit for FY18 is UAH 2.6bn, implying EPS of UAH 1.270.
Oil & Gas						
UkrNafta	UNAF	146	270	85%	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	40.0	--	--	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	57.3	--	--	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						
DonbasEnergO	DOEN	27.7	33.5	21%	SELL	We believe that the DOEN stock price will be supported until Apr 18, when the ex-rights date for participation in the company's shareholders meeting arrives. The agenda for the meeting contains an item for so called 'substantial deals' so shareholders who vote against this item would have an option to sell their shares to the company at estimated price of near UAH 33.50, which is the average DOEN price for the Dec 19 - Mar 19 3-month period. This period determines the buyback price in this case, according to Ukrainian legislation.
CenterEnergO	CEEN	12.10	25.60	112%	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 13 per share after yet another failed attempt to privatize the company in early December. Persisting uncertainty about whether CentrEnergO can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. We forecast that CentrEnergO 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	0.356	0.47	32%	BUY	Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, proposed its shareholders to approve UAH 3.56bn in dividends from its full-year 2018 profit (5.79 kopecks per share). The ex-rights date for the dividend was not announced. 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	533	-0.6%	-5.4%								
Iron Ore Mining												
Ferrexpo	FXPO	286	-3.1%	46.9%	2,199	2,602	24.0%	5.3	4.3	4.5	3.6	1.7
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	10.5	0.0%	0.0%	45	13	5.0%	11.1	9.1	1.5	1.3	0.1
Specialized Machinery												
Turboatom	TATM	10.5	0.0%	-23.4%	166	157	3.8%	5.9	6.0	3.9	3.8	1.7
Motor Sich	MSICH	5,390	0.0%	0.0%	418	394	24.0%	8.1	7.1	4.5	4.3	1.2
Oil & Gas												
UkrNafta	UNAF	146	-9.9%	8.6%	295	289	3.0%	1.2	0.5	0.9	0.3	0.1
Regal Petroleum	RPT	40.0	-7.0%	-36.5%	168	128	21.6%	4.0	16.8	2.4	5.8	2.6
JKX Oil	JKX	57.3	8.1%	45.1%	128	237	50.4%	8.4	7.0	7.7	7.0	2.1
Power Utilities												
Centrenergy	CEEN	12.10	-2.4%	-10.4%	167	149	21.7%	9.1	6.6	3.9	3.8	0.3
Donbasenergy	DOEN	27.70	5.5%	-13.2%	24	30	14.2%	6.4	9.6	1.3	1.6	0.1
Consumer												
MHP	MHPC	11.25	6.6%	4.2%	1,189	2,355	34.1%	9.3	4.8	5.2	4.8	1.3
Kernel	KER	53.80	0.0%	7.2%	1,128	1,750	61.8%	21.7	5.4	7.9	5.6	0.5
Astarta	AST	27.40	15.6%	16.6%	180	476	37.0%	-7.5	5.3	7.3	5.6	0.9
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	-3.2	8.0	23.2	20.4	2.6
Agroton	AGT	3.30	-2.4%	-97.1%	19	9	25.0%	1.9	2.7	0.6	0.7	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.356	0.0%	4.7%	817		1.8%	4.4	3.8	1.9	1.9	0.34

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	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
Iron Ore Mining																
Ferrexpo	FXPO	1,197	1,257	1,571	551	579	723	46.0%	46.0%	46.0%	394	414	517	32.9%	32.9%	32.9%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	141	81	89	14	9	10	9.9%	10.7%	11.4%	12	4	5	8.6%	5.0%	5.5%
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	388	333	156	88	92	35.8%	22.7%	27.7%	117	51	59	26.7%	13.3%	17.7%
Oil & Gas																
Ukrnafta	UNAF	1,011	1,326	2,531	65	333	866	6.5%	25.1%	34.2%	17	244	581	1.7%	18.4%	23.0%
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	551	589	104	42	38	25.2%	7.6%	6.5%	71	18	25	17.3%	3.3%	4.3%
Donbasenergo	DOEN	147	224	225	8	23	19	5.8%	10.2%	8.4%	2	4	3	1.4%	1.7%	1.1%
Consumer																
MHP	MHPC	1,289	1,556	1,789	459	450	490	35.6%	28.9%	27.4%	230	128	250	17.8%	8.2%	13.9%
Kernel	KER	2,169	2,403	3,364	319	223	310	14.7%	9.3%	9.2%	176	52	210	8.1%	2.2%	6.2%
Astarta	AST	514	445	578	134	160	165	26.1%	35.9%	28.5%	69	74	100	13.5%	16.7%	17.3%
Avangardco	AVGR	130	127	135	12	15	17	9.1%	11.8%	12.6%	-8	-5	2	-5.8%	-3.9%	1.5%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2,455	2,491	2,415	404	420	433	234	239	253	169	187	218	41.8%	44.6%	50.2%

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			19.75%	18.25%	n/a	n/a	S/A	04 Sept 2019	n/a
UA4000196620			19.75%	18.25%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			19.75%	18.00%	n/a	n/a	S/A	20 Jan 2021	n/a
VAT Bonds									
UA4000185151			19.75%	18.25%	n/a	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			19.75%	18.25%	n/a	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			19.75%	18.25%	n/a	9.50%	S/A	20 Aug 2019	955

Source: TR Data, Eavex Research

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