

## Stock Market Update

### Equity

Ukrainian equities reacted positively last week to fresh macroeconomic data showing a firm recovery in the country's industrial production data. The PFTS index added 5.0% to close at 560 points. An additional driver for stock price growth came from the National Bank's decision to lower its key refinancing rate from 18.00% to 17.50%, which is the first rate cut in two years.

In individual stocks, DonbasEnergo (DOEN) advanced by 7.2% to UAH 29.70 after the company approved a UAH 1.32 per share dividend from its FY18 net profit. The company also confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022. CentrEnergo (CEEN) gained 4.1% to UAH 12.60, following the general upward momentum on the market. Meanwhile, quotes for UkrNafta (UNAF) remained in a wide bid/ask range of UAH 140-167 per share after the government majority shareholder blocked a proposal to distribute a portion of the impressive FY18 net profit of UAH 119 per share (UAH 6.4bn) at a meeting on Apr 25. In second tier names, Krukiv Wagon (KVBZ) jumped by 14.3% to UAH 12.00 per share.

On the London Stock Exchange, Ferrexpo (FXPO) got hammered, slumping 25% to GBP 213 after the company disappointed with a 15% YoY decline in net profit to USD 335mn in FY18 and its Western auditor, Deloitte, quit the account. The company's revenue grew by only 6.4% to USD 1.27bn in the period despite rising iron ore prices. Poultry major MHP (MHPC) remained at USD 11.25 after the company reported a final acquisition price for Slovenia-based Perutnina Ptuj, at EUR 221mn for a 90.7% stake. MHP noted that it might increase its stake to 100% by the year-end. Perutnina Ptuj has production assets in four Balkan countries: Slovenia, Croatia, Serbia, and Bosnia; owns distribution companies in Austria, Macedonia, and Romania; and supply products to 15 countries in Europe. Perutnina Ptuj produced around 90,000 tonnes of poultry products in 2018.

In Warsaw trading, Kernel (KER) edged down by 0.7% to PLN 53.40 and Astarta (AST) corrected by 3.3% to PLN 26.50.

On the currency front, the hryvnia was on the rise, strengthening by 1.6% to 26.42 UAH/USD despite the National Bank stating that it intends to purchase foreign currency on the interbank market at a pace of USD 20mn per day.

## Highlights

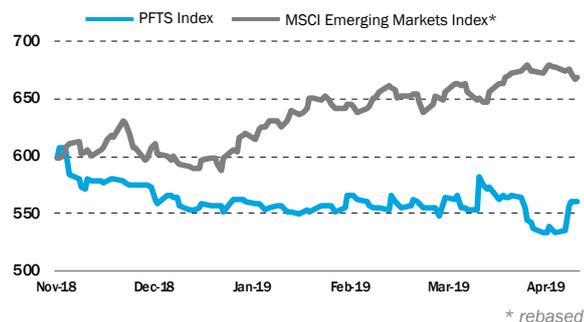
### POLITICS AND ECONOMICS

- > Trump Team Trying to Use Ukraine to Damage Biden, Democrats
- > Ukraine Industrial Output Shows Recovery, Rising 2.1% YoY in March

### STOCKS IN THE NEWS

- > UkrNafta Avoiding Decision on Dividend from FY18 Net Profit

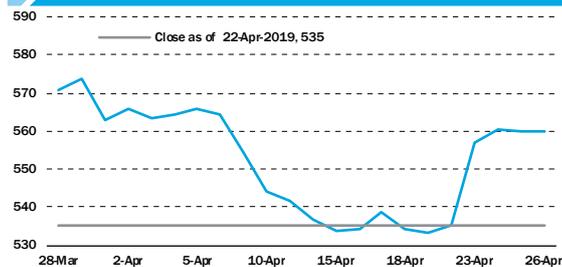
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	560	5.0%	0.1%
RTS	1243	-2.6%	16.3%
WIG20	2327	-1.6%	1.1%
MSCI EM	1078	-1.3%	11.6%
S&P 500	2923	0.6%	16.6%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	-0.5 p.p.	-0.5 p.p.
Ukraine-2024	9.1%	0.7 p.p.	-1.4 p.p.
Ukraine-2032	9.0%	0.4 p.p.	-1.1 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	26.42	-1.6%	-4.6%
EUR	29.57	-2.1%	-6.7%

## Trump Team Trying to Use Ukraine to Damage Biden, Democrats

by Will Ritter  
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### NEWS

US President Trump's personal lawyer, Rudolph Giuliani, has met with General Prosecutor Yuriy Lutsenko in New York on at least two occasions in 2019 after having made public calls for US law enforcement to investigate connections between Ukraine and Trump's presidential rival Joseph Biden, the New York Times reported on Wednesday (May 1). Biden was heavily involved in crafting Washington's Ukraine policy during the administration of President Obama, and his son Hunter Biden was a paid member of the board of natural gas extraction company Burisma Holdings. Burisma is owned by Nikolai Zlochevskiy, Ukraine's Environment Minister during the Yanukovich government; the company was investigated for corrupt activities after the EuroMaidan revolution in early 2014, and had USD 23mn of its assets frozen in the United Kingdom. The assets were ultimately released after Britain's Serious Fraud Office did not receive the needed cooperation from the Ukrainian General Prosecutor's office. This March, Lutsenko re-opened the investigation into Burisma after having closed it earlier in his tenure (Lutsenko succeeded Shokin at the PGO in mid-2016). Giuliani and other Republican media in the US have claimed that the elder Biden's demand to remove then-General Prosecutor Victor Shokin in early 2016 could have been intended to blunt the investigation into Burisma. Trump himself has also accused elements in the Ukrainian government of trying to influence the 2016 presidential election in favor of his opponent, Democrat Hillary Clinton. Poroshenko Bloc MP Serhiy Leschenko had initiated an international media campaign in August 2016 to publicize what he claimed were cash payments from former President Yanukovich's party to Trump campaign manager Paul Manafort.

### COMMENTARY

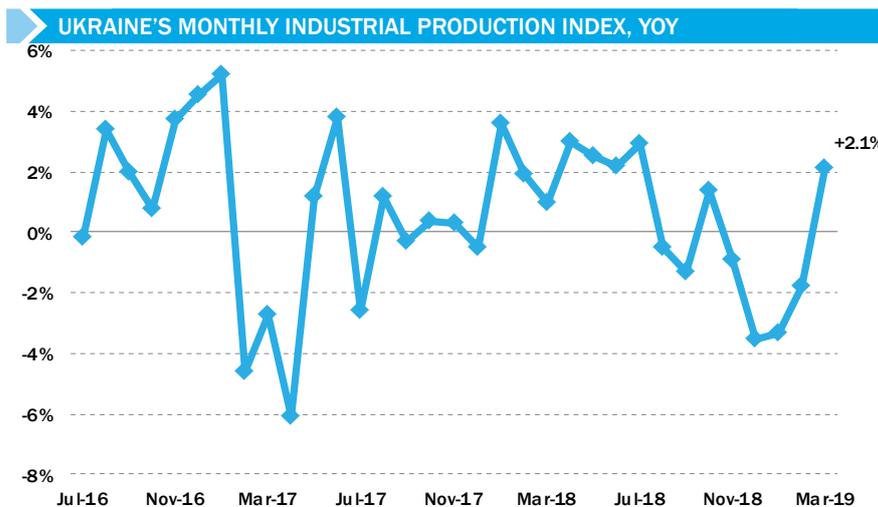
While we believe that the situation with Burisma and the un-freezing of its London assets is a disgrace to Ukrainian law enforcement, in our view, Trump and his team are simply digging around for any kind of story that could distract from the ongoing perception that Trump benefited from covert help from the Kremlin in winning the 2016 election. The idea (promoted by Giuliani) that Victor Shokin was some kind of heroic crusader against corruption, and that Biden was trying to force him out of office to benefit his son's business interests, looks ludicrous; in early 2016, Shokin was widely held in contempt in Kyiv, Washington and Brussels for ignoring corruption, not for pursuing it, and all of Ukrainian civil society was calling for his removal. Similarly, questions about why the Burisma investigation was closed down should be directed to Lutsenko himself, who was in charge at the PGO when this occurred. And if, as Trump alleges, Serhiy Leschenko and Ukrainian government officials from the National Anti-Corruption Bureau (NABU) were trying to damage his presidential campaign, Trump should probably be thanking them for their incompetence, rather than directing the Justice Department to investigate them. In the end, instead of damaging Trump himself, Leschenko's publicity relations stunt only damaged Manafort, who acted as a lightning rod for the Russia-related criticism; shortly after the story broke in August 2016, Manafort resigned from the Trump campaign, and the Russia issue did not resurface again in any major way until after Trump had won the election.

**Ukraine Industrial Output Shows Recovery, Rising 2.1% YoY in March**

by Dmitry Churin  
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**NEWS**

Ukraine's aggregate industrial output showed a firm sign of recovery after a four-month contraction streak, rising by 2.1% YoY in March, the State Statistics Committee (UkrStat) reported last week. The month-on-month change (unadjusted for the different number of days) was a growth of 12%. In the manufacturing sector, the aggregate production increase was 5.0% YoY and in the extraction sector growth it was 1.8% YoY, while in the utility sector there was a decline of 8.1% YoY. For 3M19, the UkrStat's industrial index is still down by 0.9% YoY.



Source: State Statistics Committee

**COMMENTARY**

We were pleased to see this performance improvement in the country's real sector, as the four-month industrial production contraction in November-February period was beginning to look like a disturbing trend. The manufacturing index growth in March was mainly driven by a solid 8.9% YoY increase in steel sector output, which is unlikely to be repeated in April. Nevertheless, UkrStat said that the durable goods production in March rose by 15.4% YoY and consumer goods output increased by 5.2% YoY, while energy output dropped by 4.7% YoY in the period; this, like the utility sector decline, is probably related to much warmer weather in Ukraine this March than was seen a year earlier.

In other macroeconomic statistics, UkrStat said that retail sales accelerated their growth, rising 8.9% YoY in March after gaining 7.2% in February. The construction sector's index increased by an impressive 28.9% YoY in March after 19.5% YoY growth for February, as the country continued a massive investment in new roads and infrastructure renovations. The index measuring off-season agricultural production grew by 3.4% YoY in 3M19.

## UkrNafta Avoiding Decision on Dividend from FY18 Net Profit

by Dmitry Churin  
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### UKRNAFTA (UNAF UK)

Price: UAH 155 Market Cap: USD 318mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.3	0.2	1.3	0.9	n/a
2019E	0.6	0.1	0.6	0.3	n/a

### NEWS

UkrNafta, Ukraine's largest oil producer, announced no decision on a dividend payout from the company's net profit of UAH 119mn per share for FY18 after there were insufficient votes in favor of a 50% payout at an Apr 25 shareholder meeting. An alternative proposal for shareholders to openly reject the dividend from FY18 profit also did not pass. Among other items discussed at the meeting was the company's financial report for 2018. UkrNafta increased net revenue by a robust 34% YoY to UAH 36.1bn (USD 1.33bn at the average UAH/USD exchange rate for the period) amid favorable global oil prices in the period. The company's EBITDA surged by 5.4x YoY to UAH 9.5bn and net profit skyrocketed from UAH 102mn in FY17 to UAH 6.4bn (USD 237mn) in FY18. In 4Q18 alone, UkrNafta earned UAH 1.7bn in net profit.

On the balance sheet side, UkrNafta had no outstanding loans, but acknowledged a tax debt of UAH 11.9bn (USD 430mn) and tax penalties which potentially could top UAH 16bn. The company's cash and cash equivalents were at UAH 174mn at the end of 2018.

### UKRNAFTA FINANCIAL RESULTS

UAH mn	4Q18	4Q17	3Q18	QoQ	YoY	2018	2017	YOY
Net revenue	9,059	6,985	10,292	-12.0%	+29.7%	36,113	26,907	+34.2%
EBITDA	2,715	-918	3,004	-9.6%	+/-	9,517	1,774	+436%
EBITDA margin	30.0%	-13.1%	29.2%	+0.8 p.p.	+43.1 p.p.	26.4%	6.6%	+19.8 p.p.
Net profit	1,712	-996	2,665	-35.7%	+/-	6,438	102	+6226%
net margin	18.9%	-14.3%	25.9%	-7.0 p.p.	+33.2 p.p.	17.8%	0.4%	+17.4 p.p.

Source: Company data,

### COMMENTARY

In our view, the ongoing farce around UkrNafta's dividend situation reflects behind-the-scenes posturing between the three sides in the company's ongoing corporate conflict: the Ukrainian government, state-owned energy giant NaftoGaz (which is the custodian of the government stake in UkrNafta), and industrialist Igor Kolomoyskiy. As a state-owned entity, UkrNafta is obligated to pay out at least 30% of its yearly profit in dividends by existing law, and the government recently issued an order that upped this percentage to 90% for FY18. This implies that UkrNafta's dividend from FY18 profit could potentially be as high as UAH 107 per share. On the other hand, UkrNafta CEO Mark Rollins said that the company faces legal obstacles to pay dividends due to the huge tax debt, which was accrued during 2014-15 when Kolomoyskiy refused to pay UkrNafta's taxes after the new post-EuroMaidan government sharply raised the production tax rate on oil & gas.

We did not get a clear answer whether UkrNafta would follow the law and would ultimately pay out 90% of profit for FY18 in the form of a dividend to the national budget directly. The situation now looks like another hard line of conflict between NaftoGaz (which controls the state's 50%+1 share in UkrNafta), Kolomoyskiy's Privat Group (owns 42% stake in UkrNafta), and the government, which is seeking an opportunity to collect UkrNafta's tax debt plus tax penalties.

The Kyiv-listed UkrNafta stock was little-changed over the week, closing at UAH 155 per share on Friday (Apr 26).

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	53.4	82.0	54%	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	26.5	-	-	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	3.40	12.0	253%	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	213	250	17%	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.
<b>Specialized Machinery</b>						
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.
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	155	270	74%	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	41.5	-	-	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	56.5	-	-	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.
<b>Power Utilities</b>						
DonbasEnerg	DOEN	29.7	33.5	13%	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 UAH 33.63, 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.
CenterEnerg	CEEN	12.60	25.60	103%	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 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.
<b>Banks</b>						
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	560	5.0%	-0.6%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	213	-25.5%	9.4%	1,617	2,020	24.0%	3.9	3.1	3.5	2.8	1.3
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	12.0	14.3%	14.3%	52	20	5.0%	12.8	10.6	2.3	2.0	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.5	0.0%	-23.4%	167	158	3.8%	6.0	6.1	3.9	3.9	1.7
Motor Sich	MSICH	5,390	0.0%	0.0%	423	399	24.0%	8.2	7.2	4.5	4.3	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	155	6.2%	15.2%	317	311	3.0%	1.3	0.6	0.9	0.3	0.1
Regal Petroleum	RPT	41.5	3.8%	-34.1%	172	132	21.6%	4.1	17.2	2.4	6.0	2.6
JKX Oil	JKX	56.5	-1.4%	43.0%	125	233	50.4%	8.2	6.8	7.6	6.9	2.1
<b>Power Utilities</b>												
Centrenergy	CEEN	12.60	4.1%	-6.7%	176	158	21.7%	9.6	6.9	4.2	4.0	0.3
Donbasenergy	DOEN	29.70	7.2%	-7.0%	26	32	14.2%	6.9	10.4	1.4	1.7	0.1
<b>Consumer</b>												
MHP	MHPC	11.25	0.0%	4.2%	1,189	2,355	34.1%	9.3	4.8	5.2	4.8	1.3
Kernel	KER	53.40	-0.7%	6.4%	1,105	1,727	61.8%	21.2	5.3	7.8	5.6	0.5
Astarta	AST	26.50	-3.3%	12.8%	172	468	37.0%	-7.2	5.0	7.2	5.5	0.8
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	-3.2	8.0	23.2	20.4	2.6
Agroton	AGT	3.40	3.0%	-97.0%	19	9	25.0%	1.9	2.7	0.6	0.7	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.356	0.0%	4.7%	826		1.8%	4.4	3.8	2.0	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
<b>Iron Ore Mining</b>																
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%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	141	81	89	14	9	10	9.9%	10.7%	11.4%	12	4	5	8.6%	5.0%	5.5%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
Centrenergo	CEEN	412	533	570	104	38	39	25.2%	7.1%	6.9%	71	18	25	17.3%	3.4%	4.5%
Donbasenergo	DOEN	147	224	225	8	23	19	5.8%	10.2%	8.4%	2	4	3	1.4%	1.7%	1.1%
<b>Consumer</b>																
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	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	37	41	11	15	14	20.3%	39.7%	33.2%	8	10	7	16.1%	27.0%	17.2%
<b>Banks</b>																
		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
<b>UAH denominated Bonds</b>									
UA4000195580			19.50%	18.00%	n/a	n/a	S/A	04 Sept 2019	n/a
UA4000196620			19.50%	18.00%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			19.60%	18.30%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>UAH denominated Bonds</b>									
UA4000201743			7.50%	5.15%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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