

Stock Market Update

Equity

Kyiv-listed stocks ended mixed during last week's trading period of only two sessions, as Orthodox Easter coincided with Labor Day this year to create an extended holiday period. The PFTS index edged down by 0.2% to close at 559 points on Friday (May 3).

UkrNafta (UNAF) did not react much to weak financial results for 1Q19, for which the market seemed to be prepared. The stock shed 3.2% to UAH 150 after the company said its net profit dropped by four times to UAH 5.46 per share in January-March compared to the previous year's results for the period. Raiffeisen Bank Aval (BAVL) declined by 0.6% to 35.40 kopecks as traders wait for the announcement of the ex-rights date for the generous 5.79 kopeck dividend payout from FY18 profit. In second-tier names, Krukiv Wagon (KVBZ) continued its uptrend, advancing by 8.3% to UAH 13.00 per share after the company reported a 4.3x YoY increase in net profit to UAH 313mn. The stock has risen by 24% since the start of the year but remains illiquid on the trading floor.

In London trading, Ferrexpo (FXPO) recovered a small part of the sharp 25% drop over preceding week, gaining 3.8% to GBp 221 per share. Natural gas producer JKN Oil&Gas (JKX) added 6.2% to GBp 60 on the nose and Regal Petroleum (RPT) was up 2.4% to GBp 42.50.

In Warsaw, Kernel (KER) once again failed to climb above the resistance line of PLN 55, falling 3.6% to PLN 51.50. Astarta (AST) lost 4.5% to PLN 25.30 while Agroton (AGT) rose 15% to PLN 3.90.

The hryvnia saw minimal action over the 2-day work week, inching down 0.3% against the dollar to close at 26.50 UAH/USD.

Highlights

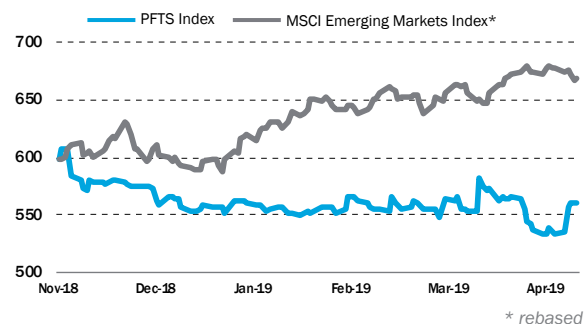
POLITICS AND ECONOMICS

- > Zelenskiy Still Haggling with MPs Over Inauguration Date

STOCKS IN THE NEWS

- > UkrNafta Posts Weak 1Q19 Net Profit of UAH 5.46 Per Share

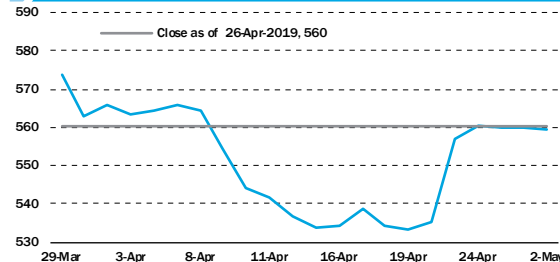
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	559	-0.2%	-0.1%
RTS	1236	-0.6%	15.7%
WIG20	2284	-1.8%	-0.8%
MSCI EM	1083	0.5%	12.2%
S&P 500	2945	0.8%	17.5%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	-0.5 p.p.	-0.5 p.p.
Ukraine-2024	9.3%	0.2 p.p.	-1.2 p.p.
Ukraine-2032	9.0%	0.1 p.p.	-1.1 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	26.50	0.3%	-4.3%
EUR	29.54	-0.1%	-6.8%

Zelenskiy Still Haggling with MPs Over Inauguration Date

by Will Ritter
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NEWS

Incoming president Volodymyr Zelenskiy requested an inauguration date of May 19 at a meeting with top Ukrainian parliamentarians on Saturday (May 4), but he was rebuffed by Parliament Speaker Andriy Parubiy, who offered a date of May 28. The difference is significant because after May 27, Zelenskiy would be legally barred from dismissing Parliament and calling an early election. The election is currently scheduled to take place at the end of October. By law, Zelenskiy must be inaugurated within 30 days of the official certification of results, which falls on June 1. No further clarity on the issue is likely until the next meeting of Parliament on May 14. If he were to take office on May 19, Zelenskiy would legally be able to disband Parliament prior to May 27 because of the absence of a working 226-MP coalition in the legislature (due to several prior defections from President Poroshenko's BPP bloc). If the coalition formally collapses, there is a 30-day waiting period for a new coalition, followed by a 60-day campaign period.

COMMENTARY

In our view, it is not a promising sign that Zelenskiy is already getting stonewalled by Parliament before he even takes office. The protracted haggling makes Zelenskiy look ineffective, which is the major concern heading into his presidency, as there is no doubt that he is well-intentioned. It seems to us that Zelenskiy is wasting too much of his early political capital on uncertainty over the parliamentary election; at this point, we don't believe that moving the election up by (at most) a couple of months would be worth the trouble. We also note that the summer is a bad time for elections in Ukraine, as many people are on vacation and not present in their voting districts; out of 14 national elections in Ukraine's history (7 presidential and 7 parliamentary), only one - the 1994 presidential vote won by Leonid Kuchma - was held in summer. Clearly, Speaker Parubiy and the ruling (in coalition with the BPP) People's Front faction that he leads have little incentive to give up their power early in order to aid the prospects of a rival party - Zelenskiy's Servant of the People party - in the next election. In terms of where Zelenskiy intends to position his party, we have been quite surprised by his initial confrontational statements toward the Russian regime of President Putin. Although it is encouraging to see that Zelenskiy intends to play on a pro-Ukrainian field, this is likely to cost him in electoral terms, as Zelenskiy's most committed voter base is in the Russophone cities of southeastern Ukraine. If this strategy continues, by October Servant of the People could be expected to lose significant support to the more traditional pro-Russian parties, Opposition Bloc and Za Zhyttia, which it would be hard-pressed to make up in support from pro-Western Ukrainophone voters. Unfortunately, we are all too able to envision a scenario in which Zelenskiy lacks strong representation in Parliament and sees his presidential powers stripped away by Ukraine's longstanding political-business clans via so-called "constitutional reform" in the coming year.

UkrNafta Posts Weak 1Q19 Net Profit of UAH 5.46 Per Share

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 150 Market Cap: USD 307mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.2	0.2	1.3	0.9	n/a
2019E	0.5	0.1	0.5	0.3	n/a

NEWS

UkrNafta, Ukraine's largest oil producer, posted a net profit of UAH 296mn in 1Q19, which translates into EPS of UAH 5.46 (down from EPS of UAH 23.26 year-on-year), according to the company's financial results published on Apr 30. UkrNafta's revenue fell 19% YoY to UAH 6.7bn in the period and EBITDA dropped by 62% YoY to UAH 759mn.

On the balance sheet side, UkrNafta reported that its total assets were at UAH 41.3bn as of 31 March 2019. The company has no outstanding bank loans, but its unpaid taxes amounted to UAH 11.5bn at the end of the quarter.

UKRNAFTA FINANCIAL RESULTS

UAH mn	1Q19	1Q18	YoY
Net revenue	6,701	8,268	-19.0%
EBITDA	759	2,008	-62.2%
EBITDA margin	11.3%	24.3%	-13.0 p.p.
Net profit	296	1,261	-76.5%
net margin	4.4%	15.3%	-10.8 p.p.

Source: Company data.

COMMENTARY

UkrNafta's weak financial results for 1Q19 were no surprise for the market, as it was previously known that the company failed to conduct at least one of its planned oil auctions in the period. As for operational results, the company said earlier that it had increased oil output by 6.4% YoY to 376,000 tonnes (2.7mn barrels) in 1Q19, and that natural gas extraction rose by 10.6% YoY to 290mn cubic meters. UkrNafta is planning to increase its oil production by 4% YoY to 1.5mn tonnes (11mn barrels) in 2019 as a result of implementation of a CapEx program of UAH 2.9bn (near USD 100mn).

At least for now, we expect that UkrNafta will considerably improve its financial results in 2Q19 if it manages to sell its oil accumulated in storage facilities. The company's most recent successful oil auction was held on Apr 5, when it sold 257,300 tonnes (1.9mn barrels) at an average price of USD 68 per barrel.

The UNAF stock listed on Kyiv's PFTS exchange had a neutral reaction to the 1Q19 profit announcement. UNAF has posted a rise of 12% since the start of the year, in contrast to the PFTS index's decline of 0.1% for the period.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	51.5	82.0	59%	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	11.2	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	25.3	-	-	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	3.90	12.0	208%	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	221	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	150	270	80%	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	42.5	-	-	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	60.0	-	-	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	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	12.50	25.60	105%	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.
Banks						
Raiffeisen Bank Aval	BAVL	0.354	0.47	33%	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). 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
			1W	YtD				2018	2019E	2018	2019E	2019E
PFTS Index	UX	559	-0.2%	-0.1%								
Iron Ore Mining												
Ferrexpo	FXPO	221	3.8%	13.5%	1,678	2,017	24.0%	5.0	4.0	4.0	3.2	1.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	13.0	8.3%	23.8%	56	24	5.0%	13.9	11.5	2.8	2.4	0.3
Specialized Machinery												
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	434	24.0%	9.2	8.0	4.5	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	150	-3.2%	11.5%	307	300	3.0%	1.3	0.5	0.9	0.3	0.1
Regal Petroleum	RPT	42.5	2.4%	-32.5%	176	136	21.6%	4.2	17.6	2.5	6.2	2.7
JKX Oil	JKX	60.0	6.2%	51.9%	133	241	50.4%	8.7	7.2	7.8	7.1	2.2
Power Utilities												
Centrenergo	CEEN	12.50	-0.8%	-7.4%	174	163	21.7%	9.5	6.8	4.3	4.2	0.3
Donbasenergo	DOEN	29.70	0.0%	-7.0%	26	33	14.2%	6.9	10.4	1.5	1.8	0.1
Consumer												
MHP	MHPC	11.20	-0.4%	3.7%	1,183	2,349	34.1%	9.2	4.7	5.2	4.8	1.3
Kernel	KER	51.50	-3.6%	2.6%	1,066	1,688	61.8%	20.5	5.1	7.6	5.4	0.5
Astarta	AST	25.30	-4.5%	7.7%	164	460	37.0%	-6.8	4.8	7.1	5.4	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	3.90	14.7%	-2.5%	22	12	25.0%	2.2	3.1	0.8	0.9	0.3
Banks												
Raiffeisen Bank Aval	BAVL	0.354	-0.6%	4.1%	821		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
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	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	450	387	156	96	100	35.8%	21.2%	25.8%	117	46	53	26.7%	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	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%
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	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%
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			19.50%	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
UAH denominated Bonds									
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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