

Stock Market Update

Equity

Ukraine's PFTS equity index finally reversed its three-week downward trend, recovering part of the losses amid a rally on global stock markets and adding 1.0% for the week to close at 547 points. However, Kyiv-listed blue chips were mixed, as the long-awaited launch of a new competitive electricity market in Ukraine raises concerns regarding the administrative price cap for electricity sold by thermal power generators. As a result, CentrEneGo (CEEN) shares fell 4.3% to UAH 11.00 and DonbasEneGo (DOEN) was flat at UAH 26.35. On the upside, UkrNafta (UNAF) was the growth leader for the week, rising 9.4% to UAH 175 after the company reported a successful start of new oil well drilling in Lviv province. UkrNafta's financial plan for 2019 envisages drilling of three new wells for a total cost of UAH 2.9bn (USD 110mn). Raiffeisen Bank Aval (BAVL) added 1.5% over the week to close at 30.45 kopecks.

In London trading, Ferrexpo (FXPO) corrected somewhat after an extended upward run, losing 4.4% and ending at GBP 263 per share. Shares of Ukraine's largest poultry producer MHP (MHPC) hit turbulence after the national Anti-Monopoly committee opened a case against the company. The case revealed that MHP sets conditions with its trading partners on the consolidation of sales territories, requires distributors to adhere to pricing policy, and forbids them to sell the products of competitors. MHP's majority owner Yuriy Kosyuk was a political ally of previous President Poroshenko, and this news is an indication that the new political environment in Kyiv may turn out to be less favorable for the company. MHPC's low-liquidity stock dropped slightly below the USD 10 level before finishing at USD 10.15 (-1.9% for the week).

In Warsaw, top liquid agro name Kernel (KER) climbed above the resistance line of PLN 50 per share on a solid gain of 5.7% to PLN 51.30. Astarta (AST) also was notably higher, picking up 4.2% to PLN 25.00.

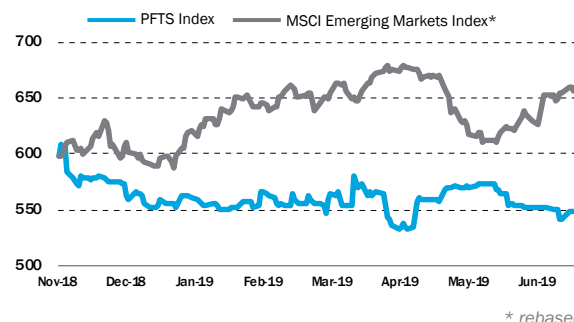
On the interbank currency market, the hryvnia had one of its best weeks of the year so far, gaining 1.8% against the dollar to close at 25.70 UAH/USD. Statistics showing that the country's current account surplus was USD 257mn in 5M19 (0.5% of GDP), compared to a C/A deficit of USD 526mn (1.1% of GDP) in 5M18, provided some fundamental support for the local currency.

Highlights

POLITICS AND ECONOMICS

- > Poroshenko's Party Gains in New Poll; Zelenskiy's SN Leads with 42%
- > UkrZaliznytsa Raises USD 500mn with 8.25% 5-Year Eurobonds

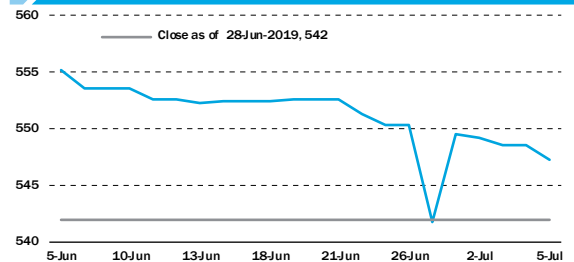
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	547	1.0%	-2.2%
RTS	1389	-0.2%	30.0%
WIG20	2337	-0.7%	1.5%
MSCI EM	1059	0.5%	9.7%
S&P 500	2990	1.7%	19.3%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	-0.0 p.p.	-0.5 p.p.
Ukraine-2024	7.8%	-0.1 p.p.	-2.7 p.p.
Ukraine-2032	8.0%	-0.1 p.p.	-2.1 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	25.70	-1.8%	-7.2%
EUR	28.81	-3.0%	-9.1%

Poroshenko's Party Gains in New Poll; Zelenskiy's SN Leads with 42%

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

NEWS

With only 2 weeks left until the Jul 21 parliamentary election, the European Solidarity party of former President Petro Poroshenko saw its support move up substantially in a new poll conducted by the Rating Group, one of Ukraine's major polling agencies. European Solidarity would win 8.3% support of decided voters, the poll reported, up from 5.0% a month earlier. The 5% figure put Poroshenko at risk of failing to obtain representation, since that is the minimum threshold for entering the legislature from the party lists. Also gaining moderately, to 13.4% from 12.0%, was the Russian-leaning Opposition Platform led by former Energy Minister Yuriy Boyko. The leftist Batkivschyna party of political veteran Yulia Tymoshenko lost some ground, dropping from 9.4% a month ago to 7.2%, while newcomer Sviatoslav Vakarchuk's Holos (The Voice) party, which campaigns on similar territory to European Solidarity, was little-changed near 7%. Two additional generally pro-Western parties, Civil Position and Strength & Honor, remain below the 5% threshold in the range of 3%. The People's Servant (SN) party of President Zelenskiy continues to hold a large lead in the polling, edging down slightly to 42.3%. The Rating poll was conducted from Jun 29-Jul 3. The party lists will elect a total of 225 MPs, while an additional 198 MPs will be elected in geographic districts. Voting will not be held in 27 districts which are currently occupied by pro-Russian separatists.

COMMENTARY

The established parties of Poroshenko, Tymoshenko, and Boyko essentially colluded with Zelenskiy by accepting the new president's clearly illegal dissolution of Parliament on May 21 without a fight. All sides assumed that they would benefit from a lightning-quick election campaign in summer - the season in which the Ukrainian public is the least politically engaged - and thus deny any other political forces enough time to organize and take bites out of the electoral pie. The lone exception is Vakarchuk, Ukraine's biggest cultural superstar, who is proving capable of leveraging his fame to achieve substantial political support on short notice. Although it is very difficult to predict the outcome of the geographic district voting, the current polling indicates that Zelenskiy may fail to achieve a parliamentary majority on his own and could thus be forced to negotiate to find a coalition partner(s). Zelenskiy has previously stated that he would not cooperate with any forces from the outgoing Parliament, leaving only Vakarchuk's Holos as a potential junior coalition party.

UkrZaliznytsa Raises USD 500mn with 8.25% 5-Year Eurobonds

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

NEWS

UkrZaliznytsa (UZ Rail), Ukraine's state railway operator, raised USD 500mn through a placement of 5-year Eurobonds with an 8.25% coupon, according to a statement from the company's CEO Yevhen Kravtsov. Demand for the issue reached USD 2.5bn, allowing UZ Rail to get a lower yield. The bond was initially offered with guidance on the yield of between 8.50% and 8.625%. The company will use the cash to refinance its existing debt. Earlier this year, UZ Rail redeemed USD 150mn of out of its USD 500mn Eurobonds maturing in 2021. This issue has an amortizing repayment schedule with 60% of the principal amount due this year, 20% due in 2020, and 20% in 2021. The next redemption is due on Sept 15.

COMMENTARY

Although UZ Rail's Eurobonds have no state guarantee, we still consider them as a quasi-sovereign issue as the government owns 100% of UZ Rail (which is controlled by the Infrastructure Ministry). In line with our view, the new bond yield is only 55 bps above the sovereign yield curve, which represents the tightest spread since 2013, when the previous Eurobond was issued with a 9.50% coupon. The improvement in global risk appetite thus far in 2019 bodes well for the Ukrainian government's ability to raise additional borrowings at a reasonably low rate. UZ Rail's total debt amounted to UAH 32bn (USD 1.2bn) as of end-2018, with the share of bank loans at 54% as of the reporting date. The company spent UAH 3.5bn last year to service its quite expensive debt. We estimate that UZ Rail's net debt to EBITDA is at a manageable level of 1.9x despite the company's weak interest coverage ratio (EBIT/financial cost) of just 1.04x compared to a general minimum safe level of 1.5x. UZ's revenue rose by 13% YoY to UAH 83bn (USD 3.1bn) in full-year 2018, with EBITDA of UAH 16.1bn (USD 610mn) and a small net profit of UAH 204mn (USD 7.7mn) for the period.

UkrZaliznytsa's previous Eurobond (UZ Rail-21s) with a coupon of 9.875% have low liquidity on the market. The bond has an indicative quote of 99.2/100.2 (10.9%/9.8%), which is a very large spread of 350 bps over the sovereign yield curve.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	51.3	82.0	60%	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	10.2	16.5	63%	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	25.0	-	-	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	3.50	12.0	243%	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	15%	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	263	250	-5%	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	175	270	54%	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	39.0	-	-	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	39.6	-	-	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	26.4	-	-	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	11.00	25.60	133%	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	0.305	0.47	54%	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	547	1.0%	-2.2%								
Iron Ore Mining												
Ferrexpo	FXPO	263	-4.4%	35.1%	1,943	2,282	24.0%	5.8	4.6	4.5	3.6	1.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	13.0	0.0%	23.8%	58	26	5.0%	3.2	11.8	1.3	2.4	0.1
Specialized Machinery												
Turboatom	TATM	11.8	1.7%	-13.9%	194	185	3.8%	6.9	7.0	4.6	4.5	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	436	447	24.0%	9.5	8.3	4.7	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	175	9.4%	30.1%	369	363	3.0%	1.6	0.7	1.0	0.4	0.1
Regal Petroleum	RPT	39.0	5.4%	-38.1%	157	117	21.6%	3.7	15.7	2.2	5.3	2.3
JKX Oil	JKX	39.6	2.9%	0.3%	85	194	50.4%	5.6	4.6	6.3	5.7	1.7
Power Utilities												
Centrenergy	CEEN	11.00	-4.3%	-18.5%	158	147	21.7%	8.6	6.2	3.9	3.8	0.3
Donbasenergy	DOEN	26.35	0.0%	-17.4%	24	31	14.2%	6.3	9.5	1.4	1.6	0.1
Consumer												
MHP	MHPC	10.15	-1.9%	-6.0%	1,073	2,594	34.1%	8.4	6.3	5.8	5.5	1.3
Kernel	KER	51.30	5.7%	2.2%	1,087	1,709	61.8%	20.9	5.2	7.7	5.5	0.5
Astarta	AST	25.00	4.2%	6.4%	166	462	37.0%	-6.9	4.9	7.1	5.4	0.8
Avangardco	AVGR	0.26	0.0%	-7.1%	17	348	22.5%	-3.3	8.3	23.2	20.5	2.6
Agroton	AGT	3.50	0.0%	-12.5%	20	3	25.0%	1.5	2.1	0.2	0.2	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.305	0.5%	-10.4%	729		1.8%	3.9	3.3	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	26.7%	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																
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%
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	3,364	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	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			18.45%	17.35%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			19.50%	18.00%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			19.50%	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

Eavex Capital

7 Klovsky 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