

**Stock Market Update**

**Equity**

Kyiv-listed stocks finished in the red last week, failing to find support from local traders who are becoming more and more dissatisfied with the market's lack of liquidity. The PFTS index shed 1.5% to close at 539 points after gaining 1.0% over the preceding week. The Ukrainian stock market index has lost 3.6% since the year start, significantly underperforming the broad MSCI emerging market gauge, which has added 8.7% YtD.

Shares of Raiffeisen Bank Aval (BAVL) edged down 1.5% to 30 kopecks on the nose, while CentrEnego (CEEN) was unchanged at UAH 11.00 and DonbasEnego (DOEN) fell 3.1% to UAH 25.54 as the company announced a special shareholders' meeting with the agenda containing a so-called "item on large deals". The DOEN minority shareholders who vote against the "large deals" at the meeting will receive a guaranteed option to sell their shares to the company at a predetermined price. Quotes for UkrNafta (UNAF) were flat at UAH 175 amid expectations that the company will post a solid net profit for 2Q19. Unconfirmed reports are saying that UkrNafta's primary cost for production of 1 barrel of crude oil was USD 18.50 in June.

In London trading, Ferrexpo (FXPO) was little-changed at GBp 263 per share as benchmark iron ore prices remained strong. MHP (MHPC) regained 1.5% to USD 10.30 after dropping earlier this month on information that the national Anti-Monopoly Committee opened a case against the company. JKX Oil&Gas (JKX) slid 4.8% to GBp 37.70 despite the company's release of an upbeat operational update showing an increase in gas production by 7.1% QoQ in Ukraine in 2Q19. The negative point for JKX, however, was a fall in the average achieved gas price by 20% QoQ in the period. In Warsaw, Kernel (KER) gained 1.4% to PLN 52.00 while Astarta (AST) corrected by 2.4% to PLN 24.40 per share.

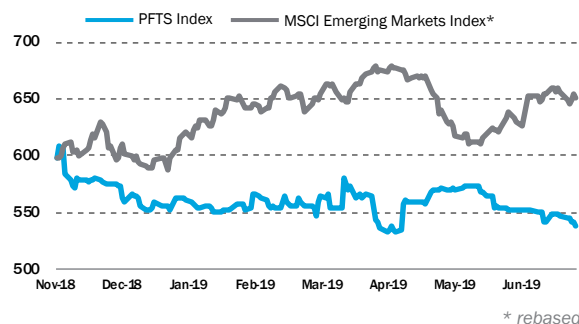
On the currency front, the hryvnia inched down by 0.3% against the dollar to 25.78 UAH/USD. The National Bank continued to purchase foreign currency, reporting that over the month of June the country's forex reserves increased by a whopping USD 1.2bn to USD 20.6bn.

**Highlights**

**POLITICS AND ECONOMICS**

- > Zelenskiy Support Edges Back Up with 1 Week Left Before Vote
- > Ukraine's Headline Inflation Falls 0.6p.p. to 9.0% YoY in June

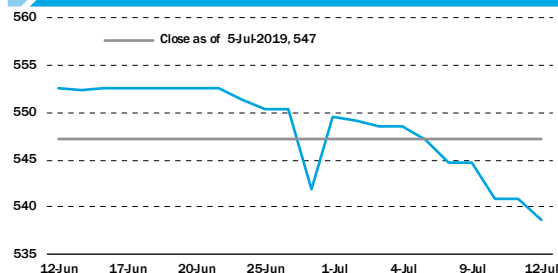
**STOCK MARKET PERFORMANCE**



**MARKET INDEXES**

	Last	1W ch	YTD
PFTS	539	-1.5%	-3.6%
RTS	1387	-0.1%	29.8%
WIG20	2321	-0.7%	0.8%
MSCI EM	1050	-0.8%	8.7%
S&P 500	3013	0.8%	20.2%

**PFTS 1M PERFORMANCE**



**FIXED INCOME**

	Last	1W ch	YTD
NBU Key Rate	17.5%	0.0 p.p.	-0.5 p.p.
Ukraine-2024	8.0%	0.2 p.p.	-2.5 p.p.
Ukraine-2028	8.5%	0.5 p.p.	-2.3 p.p.

**CURRENCY**

	Last, UAH	1W ch	YTD
USD	25.78	0.3%	-6.9%
EUR	28.99	0.6%	-8.6%

## Zelenskiy Support Edges Back Up with 1 Week Left Before Vote

by Will Ritter  
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### NEWS

The People's Servant (SN) party of President Zelenskiy saw its support recover to 47% of decided voters in the latest poll by the Rating Group, one of Ukraine's major polling agencies. SN's backing had dipped 42% in Rating's previous poll a week earlier. Other results in the poll gave the pro-Russian Opposition Platform 11.6%, ex-President Poroshenko's European Solidarity party 8.2%, and the Holos and Batkivschyna parties between 6 and 7 percent each. The minimum barrier for entry into Parliament is 5%. A poll by the Kyiv Institute of Sociology (KIIS), another major agency which is somewhat better-regarded than Rating, showed similar figures, although their numbers notably left Sviatoslav Vakarchuk's Holos just below the 5% level. The Rating poll was conducted from Jul 6-10, while the KIIS poll is from late June/early July. Election Day is on Sunday (Jul 21).

### COMMENTARY

The key to Zelenskiy's campaign is that he is trying to play on two electoral fields at once: his large base of Russian-speaking supporters in southeastern Ukraine, and also national-patriotic voters in Central Ukraine who are disillusioned with the country's post-EuroMaidan progress and are inclined to vote for a political newcomer who pays lip service to Euro-Atlantic geopolitics and is not openly pro-Russian. For those in Central and Western Ukraine who are not so easily convinced by Zelenskiy, however, Poroshenko seems to have found a firm niche as a known quantity, with his support solidifying in the high single digits after previously dipping as low as 5% in early June. Zelenskiy is clearly benefiting from a sleepy summer campaign with lackluster debates on the issues, in which few voters seem to open to changing their minds. Pop music superstar Vakarchuk has thus far failed to make a commanding impression and appears to be getting out-campaigned by Poroshenko and also by former Security Service chief Igor Smeshko, whose Strength and Honor party still has a chance to reach the 5% minimum with a growing base of support in Western Ukraine. Nonetheless, we expect Vakarchuk to squeak into Parliament thanks to his celebrity status; his failure to do so would represent a significant defeat for pro-Western Ukrainian politics.

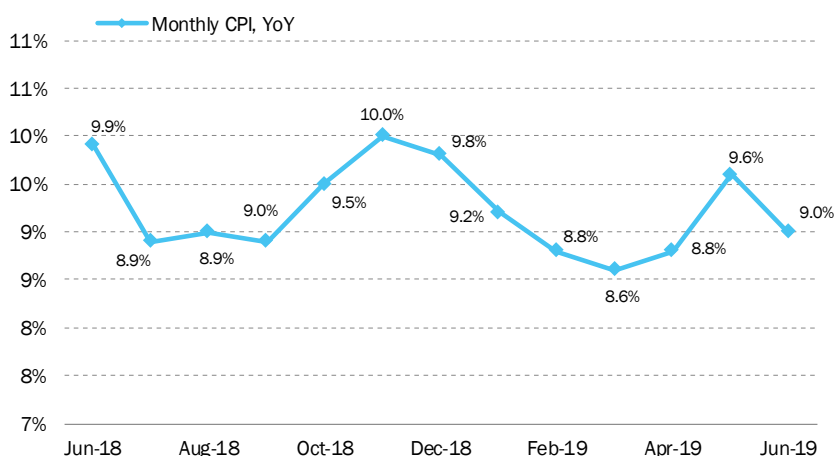
**Ukraine's Headline Inflation Falls 0.6p.p. to 9.0% YoY in June**

by Dmitry Churin  
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**NEWS**

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month consumer inflation declined to 9.0% YoY in June from 9.6% in May, while in April the CPI headline rate was 8.8% YoY, according to official data released on Jul 9. UkrStat said that for the month of June alone, there was deflation of 0.5% MoM after inflation of 0.7% MoM for May. For 1H19 (a slightly different measurement of full-year inflation than the 12-month rolling figure) the CPI index growth was at 9.0% YoY.

**UKRAINE'S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

Moderate deflation in June is a historical seasonal pattern in Ukraine. Nonetheless, we had expected that the decline in rolling 12-month inflation would be larger than 0.6 p.p MoM. In the main consumer basket categories, the aggregate food prices decreased by 1.2% MoM in June while on the yearly comparison basis, food prices demonstrated growth of 8.8%. In the utility service sector, there was a drop in the natural gas price by 6.4% MoM in June as a result of lower prices for gas on European hubs. In fact, the European prices are at a historical low, thanks to competition between Russia and the US, and below the cost of transporting gas from the US to Europe.

The CPI report showing that inflation is more or less under control should encourage the National bank to lower its key interest rate from the current 17.50% to 17.00% at the coming policy meeting on Jul 18.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	52.0	82.0	58%	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	10.3	16.5	60%	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	24.4	--	--	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	3.56	12.0	237%	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	264	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.
<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.  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.
<b>Oil &amp; Gas</b>						
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	39.6	--	--	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	37.7	--	--	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	25.5	--	--	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.
<b>Banks</b>						
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
			1W	YtD				2018	2019E	2018	2019E	2019E
PFTS Index	UX	539	-1.5%	-3.6%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	264	0.3%	35.5%	1,945	2,284	24.0%	5.8	4.6	4.5	3.6	1.4
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	12.3	-5.4%	17.1%	55	23	5.0%	3.0	11.1	1.1	2.1	0.1
<b>Specialized Machinery</b>												
Turboatom	TATM	11.8	0.3%	-13.6%	194	185	3.8%	6.9	7.0	4.6	4.5	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	434	445	24.0%	9.4	8.2	4.7	4.5	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	175	0.0%	30.1%	368	361	3.0%	1.6	0.7	1.0	0.4	0.1
Regal Petroleum	RPT	39.6	1.5%	-37.1%	159	119	21.6%	3.8	15.9	2.2	5.4	2.4
JKX Oil	JKX	37.7	-4.8%	-4.6%	81	189	50.4%	5.3	4.4	6.1	5.6	1.7
<b>Power Utilities</b>												
Centrenergo	CEEN	11.00	0.0%	-18.5%	158	147	21.7%	8.6	6.2	3.8	3.7	0.3
Donbasenergo	DOEN	25.54	-3.1%	-20.0%	23	30	14.2%	6.1	9.2	1.3	1.6	0.1
<b>Consumer</b>												
MHP	MHPC	10.30	1.5%	-4.6%	1,088	2,609	34.1%	8.5	6.4	5.8	5.5	1.3
Kernel	KER	52.00	1.4%	3.6%	1,096	1,718	61.8%	21.0	5.2	7.7	5.5	0.5
Astarta	AST	24.40	-2.4%	3.8%	161	457	37.0%	-6.7	4.7	7.0	5.3	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	3.56	1.7%	-11.0%	20	3	25.0%	1.5	2.2	0.2	0.3	0.1
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.300	-1.5%	-11.8%	716		1.8%	3.8	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
<b>Iron Ore Mining</b>																
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%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	141	200	220	14	20	11	9.9%	10.2%	4.9%	12	18	5	8.6%	9.0%	2.2%
<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	450	387	156	96	100	35.8%	21.2%	25.8%	117	46	53	26.7%	10.2%	13.6%
<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>																
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%
<b>Consumer</b>																
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%
<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	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
<b>UAH denominated Bonds</b>									
UA4000195580			18.45%	17.35%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			19.00%	18.00%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			19.50%	18.00%	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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