

## Stock Market Update

### Equity

Kyiv-listed stocks edged higher ahead of the national parliamentary election held on Sunday (Jul 21), with the PFTS index climbing by 1.1% over the week to close at 545 points. Polls predicted (accurately) that President Zelenskiy's People's Servant (SN) party would secure around 43% of the national party list votes, implying that the president could enjoy levels of political dominance rarely seen before in Ukraine. We assume that SN will be able to form a government without the help of any junior coalition partners by securing loyalty from the independent MPs elected from geographic districts. Since becoming president, Zelenskiy has been warmly greeted by Ukraine's western backers, after his reassurances that Kyiv would maintain EU integration plans.

Among individual stocks, Raiffeisen Bank Aval (BAVL) gained 1.3% to 30.40 kopecks and CentrErgo (CEEN) rose 1.8% to UAH 11.20. UkrNafta (UNAF) declined by 2.9% to UAH 170 after the company sold an unimpressive volume of oil at its regular monthly auction. The contract price for oil was fixed at UAH 62 per barrel.

In London trading, Ferrexpo (FXPO) had a quiet trading week, edging up by 0.9% to close at GBp 266 per share. MHP (MHPC) fell 2.9% to the USD 10 support line after news that there could be an investigation into state subsidies received by the company in 2017-2018.

Warsaw-listed agro names were lower, with Kernel (KER) dropping by 2.7% to PLN 50.60 and Astarta (AST) losing 2.5% to PLN 23.80 per share.

The hryvnia experienced elevated volatility over the week, slipping to 26.06 UAH/USD before strengthening back to 25.75 UAH/USD. The National Bank's decision to cut its key interest rate by 50 bps to 17.00% did not appear to impact the interbank currency market.

## Highlights

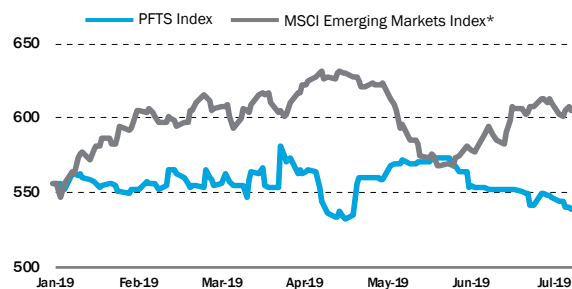
### POLITICS AND ECONOMICS

- > Zelenskiy's SN Dominates Russophone Districts, Wins Outright Majority

### STOCKS IN THE NEWS

- > MHP's Poultry Sales Increase by 18% YoY in 2Q19
- > Kernel's Sunflower Oil Sales Volume Up 7% YoY in Apr-Jun Quarter

### STOCK MARKET PERFORMANCE

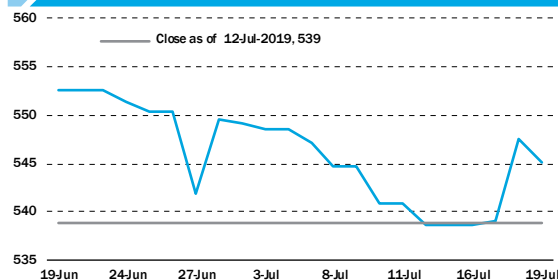


\* rebased

### MARKET INDEXES

	Last	1W ch	YTD
PFTS	545	1.1%	-2.6%
RTS	1345	-3.0%	25.9%
WIG20	2338	0.7%	1.6%
MSCI EM	1057	0.7%	9.5%
S&P 500	2976	-1.2%	18.7%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	-0.5 p.p.	-1.0 p.p.
Ukraine-2024	8.1%	0.1 p.p.	-2.4 p.p.
Ukraine-2028	8.6%	0.1 p.p.	-2.2 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	25.75	-0.1%	-7.0%
EUR	28.89	-0.3%	-8.9%

## Zelenskiy's SN Dominates Russophone Districts, Wins Outright Majority

by Will Ritter  
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### NEWS

The People's Servant (SN) party of new President Volodymyr Zelenskiy performed much better than expected in Ukraine's parliamentary election on Sunday (Jul 21), winning an estimated 250 seats in the country's 424-seat legislature. This figure will give SN a comfortable majority in the new Parliament with no need to align with any coalition partners. Although most of the focus heading into the vote was on the national party list voting, the margin of SN's victory came from the geographic district voting, whereby voters directly choose a local representative. SN is projected to win a whopping 127 out of the 199 geographic mandates, including nearly all the mandates in the country's Russian-speaking southeastern provinces. Meanwhile, in the party list voting, Zelenskiy's SN performed a bit worse than expected, picking up 42.5% of the national vote (some polls in the past month had predicted a result in the high 40s), but nonetheless far outstripped all of its competitors. The other parties entering Parliament on the party lists (based on estimates with 65% of the vote counted) are the pro-Russian Opposition Platform (13.0%), ex-President Poroshenko's European Solidarity (8.5%), Yulia Tymoshenko's Batkivschyna (8.0%), and Sviatoslav Vakarchuk's Holos (6.3%). Notable results of parties below the 5% entry barrier were 3.8% for Oleg Lyashko's Radical party (which is one of the 5 parties in the outgoing legislature), 3.7% for Igor Smeshko's Strength and Honor, 2.2% for the nationalist Svoboda Union, and 2.1% for the Ukrainian Strategy party of outgoing Prime Minister Volodymyr Groysman. Total turnout in the election was reported by the CEC at 49.8%, which is a bit higher than expected for a summertime election and only about 2% below the turnout in the previous parliamentary vote in 2014.

### COMMENTARY

The Zelenskiy campaign clearly was able to successfully focus its branding on the hard-to-forecast geographic races, especially those in Russian-speaking southeastern Ukraine where the former actor has his core base of support. For us, the interesting thing to watch is that now that Zelenskiy has achieved a nationwide legislative majority, we wonder how much control he and his inner circle are really going to have over what will surely be a massive, sprawling and varied political organization. Although Zelenskiy's core voters in the southeast and those in the center and west of the country voted for the same party, we are not at all sure that they were voting for the same agenda, and we expect fundamental conflicts about Zelenskiy's overall strategy to appear sooner rather than later. The immediate focus now turns to the top posts in the new ruling hierarchy; SN party leader Dmitry Razumkov is expected to become the next Parliament Speaker, while Zelenskiy said that he intends to nominate an "economist" to be Prime Minister, implying that former Finance Minister Oleksandr Danyliuk or former Economics Minister Aivaras Abromavicius could be top candidates for the job. The current government led by PM Groysman will remain in place until the new Cabinet is formed, which could occur as soon as within one month.

## MHP's Poultry Sales Increase by 18% YoY in 2Q19

by Dmitry Churin  
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### MHP (MHPC LI)

Price: USD 10.10 Market Cap: USD 1,067mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.0	1.7	8.3	5.8	7.4%
2019E	0.9	1.3	6.3	5.4	7.4%

## NEWS

MHP, Ukraine's largest poultry producer, reported that its poultry sales volume increased by 18% YoY to 181,300 tonnes in 2Q19, according to the company's operational update published on Jul 17. The company's domestic market sales grew by 1% to 83,800 tonnes while exports jumped by 39% YoY to 97,400 tonnes in the period. MHP also reported that the average achieved price for its poultry rose by 2% YoY to UAH 40.06 per kilogram in 2Q19. The company said that its production facilities continued to operate at full capacity in the period. MHP's poultry sales for 1H19 rose by 20% YoY to 345,300 tonnes thanks to expanded capacity at its main facility in Vinnytsia. Separately, MHP showed operational results for its recently acquired plant in Slovenia. The plant produced 20,600 tonnes of chicken and turkey meat in 1H19.

In other business segments, MHP's sunflower oil sales were up by 26% YoY to 186,500 tonnes in 1H19 while soybean oil sales volume dropped by 23% YoY to 24,300 tonnes in the period. In the grain segment, MHP saw its spring crops in good condition, but did not report any harvest or yield figures. MHP operates a land bank of 365,000 hectares in Ukraine.

### MHP OPERATIONAL UPDATE

Poultry	2Q19	2Q18	Change	1H19	1H18	Change
Sales volume, tonnes	181,273	153,137	+18%	345,278	288,437	+20%
Price per 1 kg net VAT	40.06	39.38	+2%	39.63	39.17	+1%

Source: Companies' data

## COMMENTARY

MHP's operational results were in line with expectations. The company has an existing target to increase poultry output by 15% YoY this year, and it looks quite achievable. However, it also seems that MHP's ability to create any further expansion of its poultry sales in Ukraine is very limited amid tough competition and slow market growth. Therefore the company continues to rely on exports, following a strategy of both geographic diversification and a product mix optimization.

Although MHP had fairly good operational results in 1H19, we forecast that the company's net profit will decline by 22% YoY to USD 150mn for the period. MHP is due to publish its financial results for 1H19 on Sept 3.

MHP's operational update had no measurable impact on the stock, which is infrequently traded; London-listed MHPC shares were listed at USD 10.10 last week.

Eavex Capital has a BUY rating for the stock with a target price of USD 16.50, which implies 63% upside.

## Kernel's Sunflower Oil Sales Volume Up 7% YoY in Apr-Jun Quarter

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### KERNEL (KER PW)

Price: PLN 50.60 Market Cap: USD 1,061mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY18	0.9	0.7	20.4	7.6	1.9%
FY19E	0.8	0.4	4.4	5.4	1.9%

## NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, reported an increase in its sunflower sales volume by 7% YoY to 445,000 tonnes in the Apr-Jun quarter (the company's 4Q19 in its July to June reporting calendar), according to an operational update published on Jul 17. The company's oilseeds processing also grew by 7% YoY in the period, reaching 896,000 tonnes of seeds. Meanwhile, for full-year 2019 (which ended in June), Kernel increased its sunflower seed crushing volume by only 1% YoY to 3.16mn tonnes. The crushing volume was the highest in the company's history. Sunflower oil sales volumes rose by 15% YoY in the full-year period to 1.62mn tonnes. In other key business segments, Kernel demonstrated an impressive grain sales growth of 2.2x YoY to 10.44mn tonnes in full-year 2019, while in 4Q19 alone the grain trading volume grew by 57% YoY to 2.47mn tonnes.

### KERNEL OPERATIONAL UPDATE

Volume	4Q19	4Q18	Change	FY19	FY18	Change
Sunflower oil sales in bulk, tonnes	445,294	416,942	+7%	1,619,222	1,413,341	+15%
Oilseed crush, tonnes	896,225	833,998	+7%	3,163,524	3,135,730	+1%
Grain sales, tonnes	2,472,047	1,572,925	+57%	10,444,494	4,646,421	+2.2x
Export terminals throughput, tonnes	1,299,512	1,611,717	-19%	6,012,989	6,064,727	-1%

Source: Companies' data

## COMMENTARY

Kernel's operational results in its core sunflower oil segment were somewhat below our expectation of low double digit growth for the Apr-Jun quarter. Nonetheless, an impressive increase in grain trading amid the record high harvest in Ukraine once again proved Kernel's strong position on the market. We believe that the company's modern storage infrastructure and motivated management team were the main factors behind the success in the grain segment. Kernel posted a net profit of USD 190mn for the 9-month June-March period (+3.7x YoY). We forecast that the company will report net profit of USD 50mn for the April-June quarter bringing its full-year net profit to USD 240mn (+4.6x YoY). Kernel is due to report its full-year financial results for 2019 in mid-October.

We estimate that Kernel is now valued at trailing P/E of 4.4x. Eavex Capital has a BUY recommendation for the KER stock with a target price of PLN 82 per share, implying an upside of 62%. The publication of the Apr-Jun operating results had a NEUTRAL impact on Kernel's share price on the Warsaw Stock Exchange. The stock, which is the second-most liquid Ukrainian equity issue behind London-listed Ferrexpo, traded at PLN 50.60 on Friday (Jul 19).

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	50.6	82.0	62%	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	10.1	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	23.8	-	-	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-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	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	266	250	-6%	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	170	270	59%	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	38.4	-	-	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	37.8	-	-	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	25.3	-	-	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	11.20	25.60	129%	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	0.304	0.47	55%	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	545	1.1%	-2.6%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	266	0.9%	36.7%	1,962	2,301	24.0%	5.9	4.7	4.6	3.7	1.4
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	12.3	0.0%	17.1%	54	22	5.0%	3.0	11.0	1.1	2.1	0.1
<b>Specialized Machinery</b>												
Turboatom	TATM	11.5	-2.9%	-16.1%	186	177	3.8%	6.6	6.8	4.4	4.3	1.9
Motor Sich	MSICH	5,390	0.0%	0.0%	429	440	24.0%	9.3	8.1	4.6	4.4	1.1
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	170	-2.9%	26.4%	353	347	3.0%	1.5	0.6	1.0	0.4	0.1
Regal Petroleum	RPT	38.4	-3.0%	-39.0%	154	114	21.6%	3.7	15.4	2.1	5.2	2.3
JKX Oil	JKX	37.8	0.3%	-4.3%	81	190	50.4%	5.3	4.4	6.2	5.6	1.7
<b>Power Utilities</b>												
Centrenergy	CEEN	11.20	1.8%	-17.0%	159	147	21.7%	8.6	6.2	3.9	3.8	0.3
Donbasenergy	DOEN	25.25	-1.1%	-20.9%	23	30	14.2%	6.0	8.9	1.3	1.6	0.1
<b>Consumer</b>												
MHP	MHPC	10.10	-1.9%	-6.5%	1,067	2,588	34.1%	8.3	6.3	5.8	5.4	1.3
Kernel	KER	50.60	-2.7%	0.8%	1,061	1,683	61.8%	20.4	4.4	7.6	5.4	0.4
Astarta	AST	23.80	-2.5%	1.3%	157	452	37.0%	-6.5	4.6	7.0	5.3	0.8
Avangardco	AVGR	0.25	-3.8%	-10.7%	16	347	22.5%	-3.2	8.0	23.2	20.4	2.6
Agroton	AGT	3.30	-7.3%	-17.5%	19	2	25.0%	1.4	2.0	0.1	0.1	0.0
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.304	1.3%	-10.6%	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	26.8%	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	3,965	319	223	310	14.7%	9.3%	7.8%	176	52	240	8.1%	2.2%	6.1%
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			18.00%	17.35%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			18.50%	17.75%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			18.75%	17.75%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>UAH denominated Bonds</b>									
UA4000201743			7.00%	5.15%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research



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