

Stock Market Update

Equity

Ukraine's PFTS equity index remained in a sideways local trend last week, edging down by 0.9% to 540 points. The political and geopolitical news flow had a noticeable impact on local traders' sentiments. The Ukraine-Russia relationship saw an additional line of confrontation after Ukraine's Security Service (SBU) seized a Russian tanker that Moscow allegedly used to block three Ukrainian naval vessels before detaining them and 24 Ukrainian sailors in November near Crimea. Russia's Foreign Ministry said it was currently investigating the incident and warned Kyiv of a harsh response.

In the individual PFTS index basket names, DonbassEnergo (DOEN) slumped by 6.1% to UAH 23.72 per share after the company decided to sign an exclusive contract to sell electricity to a trading entity controlled by DOEN's majority shareholder. We assume that this transfer pricing deal could limit DonbassEnergo's profitability. Minority shareholders that voted against the deal at the extraordinary shareholder meeting on Jul 26 will have the option to sell off their DOEN shares at UAH 28.92. Raiffeisen Bank Aval (BAVL) rose 1.0% to 30.70 kopecks while CentrEnergo (CEEN) and UkrNafta (UNAF) declined by 2.1% and 5.9% respectively, with the latter closing at UAH 160.

In London trading, Ferrexpo (FXPO) corrected by 2.3% to GBp 260 while benchmark iron ore prices appeared to consolidate near USD 120/tonne after their stunning 40% rise since mid-April. Poultry producer MHP (MHPC) slipped 1.6% to USD 9.94 amid fears that the company might be facing a serious confrontation with Ukraine's new government over previously received state subsidies.

Warsaw-listed agro names were mixed, with Kernel (KER) dropping by 3.3% to PLN 48.95 while Astarta (AST) advanced by 2.9% to PLN 24.50 per share after the company reported an encouraging operating update for 2Q19. In particular, Astarta increased its sugar sales volume by 8% YoY in the period.

On the currency front, the hryvnia remained strong, gaining 1.4% against the dollar to 25.38 UAH/USD.

Highlights

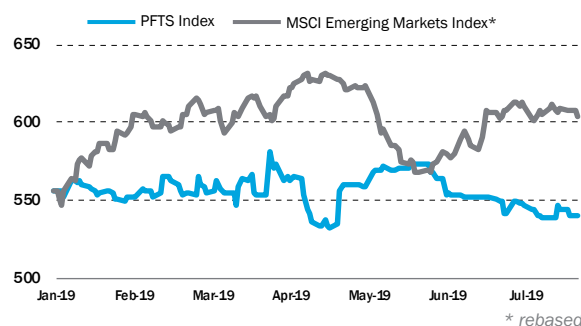
POLITICS AND ECONOMICS

- > Zelenskiy Attacks Klitschko in Power Play for Control of Capital
- > Ukraine's Industrial Production Contracts by 2.3% YoY in June

STOCKS IN THE NEWS

- > UkrNafta Raises Oil Output by 6.3% YoY to 5.5mn Barrels in 1H19

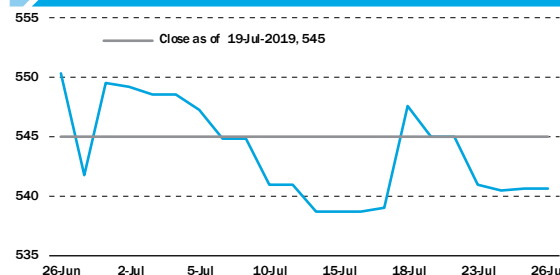
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	540	-0.9%	-3.5%
RTS	1348	0.2%	26.1%
WIG20	2304	-1.5%	0.1%
MSCI EM	1048	-0.9%	8.5%
S&P 500	3025	1.6%	20.7%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	0.0 p.p.	-1.0 p.p.
Ukraine-2024	7.3%	-0.8 p.p.	-3.2 p.p.
Ukraine-2028	7.6%	-1.0 p.p.	-3.2 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	25.38	-1.4%	-8.3%
EUR	28.25	-2.2%	-10.9%

Zelenskiy Attacks Klitschko in Power Play for Control of Capital

by Will Ritter
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NEWS

President Zelenskiy has asked the Cabinet of Ministers to dismiss Kyiv City Administration head Vitaliy Klitschko, Prime Minister Volodymyr Groysman said on Friday (Jul 26). Klitschko simultaneously holds the elected position of Kyiv mayor and the appointed position of leading the City Administration (which is equivalent to presidentially-appointed provincial governors). While the dismissal is a formality due to the change in the presidency, Zelenskiy's Chief of Staff Andriy Bogdan had previously indicated that Klitschko will not be re-appointed. Klitschko held a press conference last week stating that, at a recent meeting, Bogdan had demanded that he coordinate his city government activities with real estate developer Andriy Vavrysh and/or 1+1 television station top manager Alexander Tkachenko. The 1+1 station, which airs Zelenskiy's entertainment programming, is owned by Zelenskiy backer and industrialist Igor Kolomoyskiy. Multiple domestic media sources have written that Tkachenko is the most likely candidate to be appointed to replace Klitschko.

COMMENTARY

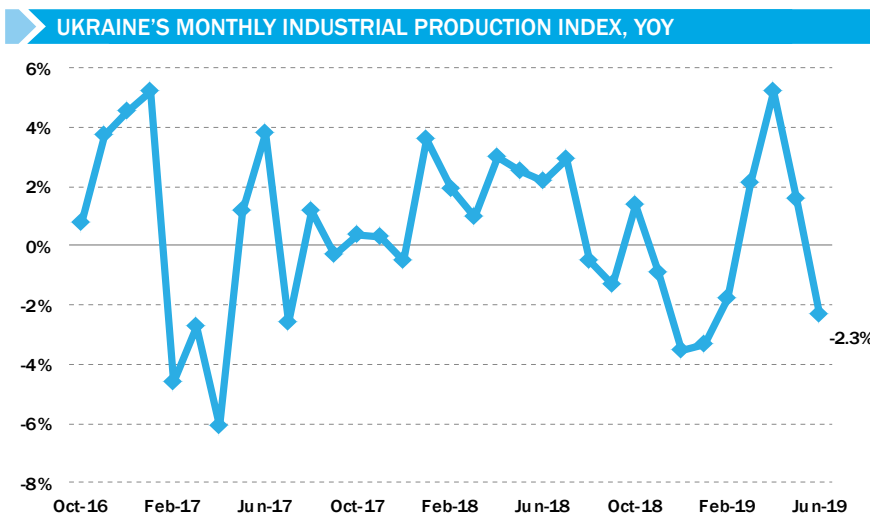
Zelenskiy seems to believe that he can unseat Klitschko in the next municipal election (which is due in the autumn of 2020), but this power play looks like a case of overreach to us; unlike Zelenskiy, Klitschko has actual achievements to show for his time in Ukrainian politics, with Kyiv unquestionably a better- and more transparently-run city today than it was when Klitschko took over as mayor 5 years ago. Choosing the Kolomoyskiy-aligned media executive Tkachenko to run the capital would be, in our view, a move very poorly received by both the Western diplomatic/business community and much of Kyiv's politically active citizens. Clearly, after his People's Servant (SN) party won more than 250 seats in Ukraine's 424-seat legislature last weekend, Zelenskiy feels that he has a mandate to appoint whomever he chooses in the capital despite the tradition of combining the job of mayor and city administration head. However, Zelenskiy may not comprehend that the parliamentary vote (like May's presidential vote) was not so much for him as it was against the status quo, and that his honeymoon-period support ratings are probably destined to be short-lived. We also wonder how much control Zelenskiy will be able to exert over his own parliamentary faction, with many of the incoming MPs having been selected on short notice and doubtless having their own diverse agendas and interests. How long Zelenskiy can continue his sleight-of-hand trick of holding down his core Russian-speaking electorate simultaneously with a large chunk of more nationally conscious Ukrainophone voters, is anyone's guess.

Ukraine's Industrial Production Contracts by 2.3% YoY in June

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial production index contracted by 2.3% YoY in June after a firm rise by 1.6% YoY in May, the State Statistics Committee (UkrStat) reported on July 23. In the manufacturing sector, the aggregate production decline was 6.1% YoY while the extraction sector showed a solid output growth of 4.3% YoY and the utility sector output demonstrated an increase of 4.4% YoY in June amid extremely warm weather conditions which led to electricity production rise of 4.0% YoY in the period. The month-on-month change (unadjusted for the different number of days) in the IP index showed a decrease of 3.7%. For 6M19, the IP index grew by 0.5% YoY.



Source: State Statistics Committee

COMMENTARY

The released industrial production data for June was notably below our expectations as we had projected a further recovery in the manufacturing sector after weak figures for January and February. The overall manufacturing output index was especially hit by disappointing results in the machinery production with this sub-category index dropped by 13.3% YoY and 6.1% MoM in June. In the steel sector UkrStat registered a 6.0% YoY decline in June but for 1H19 the steel sector still demonstrated a growth of 1.8% YoY. In the food sector there was a 0.7% YoY decline in output in June but for 1H19 the food production in the country increased by 2.8% YoY. In the consumer categories breakdown, UkrStat reported that durable goods production rose by 15.1% YoY in 1H19 while output of nondurable goods declined by 2.0% YoY in the period.

In other macroeconomic statistics, UkrStat reported an impressive growth in retail sales by 13.6% YoY in June with the figure for 1H19 came in at 10.3% YoY after the 5M19 increase of 9.6% YoY.

The construction sector's index increased by 1.7% YoY in June and grew by solid 21.2% YoY mainly as a result of continued investments in roads infrastructure in Ukraine.

The index measuring agricultural production grew by 5.8% YoY in 1H19 as Ukrainian large and medium size farmers continue to implement new technologies for improving harvest yields.

UkrNafta Raises Oil Output by 6.3% YoY to 5.5mn Barrels in 1H19

by Dmitry Churin
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UKRNAFTA (UNAF UZ)

Price: UAH 160 Market Cap: USD 342mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.4	0.3	1.4	1.0	n/a
2019E	0.6	0.1	0.6	0.4	n/a

NEWS

UkrNafta, the largest Ukrainian oil company, raised its oil & condensate output by 6.3% YoY to 756,000 tonnes (5.5mn barrels) in 1H19, according to the company's production report published on Jul 23. The 2Q19 daily average oil output was roughly 4,180 tonnes, which is essentially unchanged from 1Q19. However, on the natural gas side of the business, the company's daily average extraction declined by 1.9% QoQ to 3.16mn cubic meters in 2Q19.

UKRNAFTA PRODUCTION

	1H2019	1H2018	chg. YoY
Crude oil, mn bbl	5.50	5.18	+6.3%
Natural gas, mn cu-m	577	522	+10.5%
LPG, tonnes	55,100	55,000	+0.2%

Source: Company data.

COMMENTARY

UkrNafta's oil output rise came in line with previously-released guidance for this year, and failed to impress the market. The company managed to increase its production mostly through intensifying output at existing oil&gas wells rather than as a result of new drilling. There were four hydraulic fracturing operations completed in 1H19 as well as 71 capital workovers. The company admitted that it was constrained in terms of investment resources because of the unresolved problem of its large outstanding tax obligations from 2014-15. Lack of investment prevents UkrNafta from reaching higher output growth rates, as demonstrated by the flat daily average production from 1Q to 2Q.

The Kyiv-listed UNAF stock has been trading in a narrow range for the past three months, and did not react to the latest production figures, hovering at UAH 160 per share.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	49.0	82.0	68%	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	9.9	16.5	66%	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	24.5	--	--	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	3.36	12.0	257%	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.
Iron Ore						
Ferrexpo	FXPO LN	260	250	-4%	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	160	270	69%	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	39.2	--	--	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	38.4	--	--	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	23.7	--	--	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	10.96	25.60	134%	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	0.307	0.47	53%	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	540	-0.9%	-3.5%								
Iron Ore Mining												
Ferrexpo	FXPO	260	-2.3%	33.6%	1,902	2,241	24.0%	5.7	4.5	4.5	3.6	1.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.7	19.5%	40.0%	66	35	5.0%	3.7	13.5	1.7	3.2	0.2
Specialized Machinery												
Turboatom	TATM	11.9	3.0%	-13.5%	197	188	3.8%	7.0	7.2	4.7	4.6	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	441	452	24.0%	9.6	8.4	4.7	4.5	1.2
Oil & Gas												
UkrNafta	UNAF	160	-5.9%	19.0%	342	335	3.0%	1.4	0.6	1.0	0.4	0.1
Regal Petroleum	RPT	39.2	2.0%	-37.9%	156	116	21.6%	3.7	15.6	2.1	5.3	2.3
JKX Oil	JKX	38.4	1.6%	-2.8%	82	190	50.4%	5.4	4.5	6.2	5.6	1.7
Power Utilities												
Centrenergy	CEEN	10.96	-2.1%	-18.8%	160	148	21.7%	8.7	6.3	3.9	3.8	0.3
Donbasenergy	DOEN	23.72	-6.1%	-25.7%	22	29	14.2%	5.8	8.6	1.3	1.5	0.1
Consumer												
MHP	MHPC	9.94	-1.6%	-8.0%	1,050	2,571	34.1%	8.2	6.2	5.7	5.4	1.3
Kernel	KER	48.95	-3.3%	-2.5%	1,021	1,643	61.8%	19.6	4.3	7.4	5.3	0.4
Astarta	AST	24.50	2.9%	4.3%	160	456	37.0%	-6.7	4.7	7.0	5.3	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	3.36	1.8%	-16.0%	19	2	25.0%	1.4	2.0	0.1	0.2	0.0
Banks												
Raiffeisen Bank Aval	BAVL	0.307	1.0%	-9.7%	744		1.8%	4.0	3.4	1.8	1.5	0.31

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	26.8%	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	1,945	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%
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			18.00%	17.35%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			18.50%	17.50%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			18.75%	17.30%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			7.00%	5.10%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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