

Stock Market Update

Equity

The Ukrainian stock market corrected slightly last week with the PFTS index declining by 0.2% to 536 points. There were several disappointing corporate reports which drove selling in blue chips. The country's oil flagship producer UkrNafta (UNAF) unveiled a net loss of UAH 278mn for 2Q19 against expectations of solid profit for the period. The UNAF stock shed 1.2% to UAH 159 per share. In the electricity generation sector, CentrEnergO (CEEN) posted a record high net loss for 2Q19, sending the stock's quotes down by 1.4% to UAH 10.85. DonbasEnergO (DOEN) also disappointed with a net loss for the second quarter. The stock inched down 0.2% to UAH 23.67. Raiffeisen Bank Aval (BAVL) was the exception among local blue chips, posting net profit of UAH 1.3bn for 2Q19 which translates into 2.1 kopecks per share. The stock did not react to the profit announcement, trading at 29.30 kopecks per share.

Meanwhile, the Ukrainian agriculture sector continued to deliver a strong performance, with national grain exports rising by 40% YoY in monetary terms and bringing in USD 4.5bn 1H19. In volume terms, the grain exports amounted to 26.2mn tonnes in the period. The largest deliveries, accounting for 15% of the total, were directed to Egypt. Separately the government said that this year's grain harvest has reached 35.6mn tonnes as of mid-season, exceeding last year's harvest by 10% for the same date.

In London trading, Ferrexpo (FXPO) slumped 13% to GBp 224 amid a sharp drop in benchmark iron ore prices from USD 120 per tonne to USD 97/tonne. MHP (MHPC) remained below the psychological technical line of USD 10 per share, listing at USD 9.62.

Warsaw-listed Ukrainian agro names were all in the red, with Kernel (KER) slipping 0.5% to PLN 48.70, Astarta (AST) dropping by 4.9% to PLN 23.30, and Agroton (AGT) losing 12% to close at PLN 2.95 per share.

The hryvnia enjoyed more gains against the dollar, adding 0.8% to 25.17 UAH/USD. The National Bank reported that the country's foreign currency reserves rose by USD 1.2bn in July to USD 21.8bn, covering an equivalent of 3.4 months of future imports.

Highlights

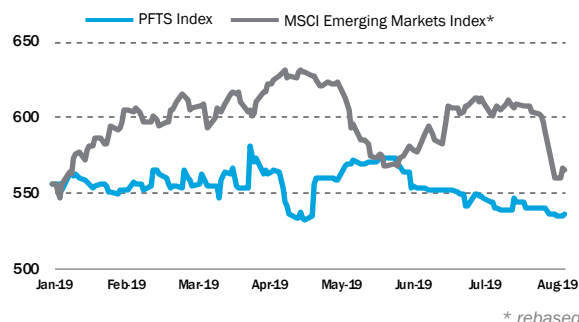
POLITICS AND ECONOMICS

- > Honcharuk Heads List of Prime Minister Candidates

STOCKS IN THE NEWS

- > UkrNafta Suffers 2Q Net Loss of UAH 278mn in Amid Lower Sales
- > CentrEnergO Posts Record Quarterly Net Loss of UAH 1.2bn for 2Q19

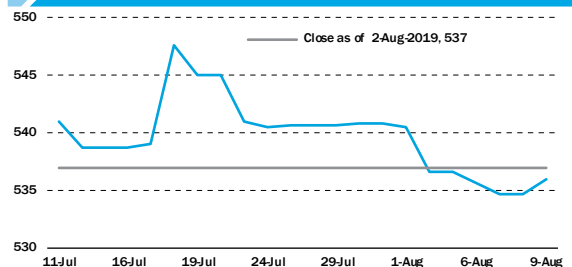
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	536	-0.2%	-4.2%
RTS	1287	-0.5%	20.4%
WIG20	2119	-4.4%	-7.9%
MSCI EM	981	-2.2%	1.6%
S&P 500	2918	-0.5%	16.4%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	0.0 p.p.	-1.0 p.p.
Ukraine-2024	6.6%	0.1 p.p.	-3.9 p.p.
Ukraine-2028	7.5%	0.1 p.p.	-3.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	25.17	-0.8%	-9.1%
EUR	28.11	-0.5%	-11.4%

Honcharuk Heads List of Prime Minister Candidates

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NEWS

A top incoming MP from President Zelenskiy's People's Servant (SN) party last week named 4 candidates to head the next Ukrainian Cabinet of Ministers. David Arakhamia, the likely SN faction leader, said that the candidates include the president's Deputy Chief of Staff Oleksiy Honcharuk, IMF Deputy Executive Director Vladislav Rashkovan, and the two top executives of Ukraine's state energy giant Naftogaz, Andriy Kobolev and Yuriy Vitrenko. Notably, Arakhamia's list did not include 2 candidates who have previously been considered front-runners for the job, former Finance Minister Oleksandr Danyliuk and former Economics Minister Aivaras Abromavicius. With 254 mandates in the 424-seat legislature, Zelenskiy will be able to appoint his preferred prime minister (and foreign and defense ministers) without opposition. It was previously announced that SN party leader Dmytro Razumkov will become the new head (Speaker) of Parliament. The first parliamentary session is scheduled for Aug 29.

COMMENTARY

In our view, Kobolev, the biggest heavyweight on the list, is not a real candidate for the prime minister's job; we suppose that his name is merely being paraded for the benefit of the Western diplomatic/business community, with whom he has strong credibility due to his achievements at Naftogaz. Kobolev would represent too much of an independent power center for Zelenskiy, who we believe will prefer a less experienced PM dependent on constant support from the presidential administration. The obvious candidate which fits this description is the 35-year old Honcharuk, a lawyer with close ties to the Zelenskiy inner circle who previously headed a commission overseeing the use of Western donor funds under the Economics Ministry. We also would not be surprised to see Abromavicius ultimately named prime minister despite his lack of inclusion on Arakhamia's list; Abromavicius, who was recently installed by Zelenskiy to run the state-owned armaments conglomerate UkrOboronProm, would be a stronger PM than Honcharuk while still falling firmly into the category of non-political technocrat whose appointment would be welcomed by international investors.

UkrNafta Suffers 2Q Net Loss of UAH 278mn in Amid Lower Sales

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UKRNAFTA (UNAF UK)

Price: UAH 160 Market Cap: USD 345mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.4	0.3	1.5	1.0	n/a
2019E	0.6	0.1	0.6	0.4	n/a

NEWS

UkrNafta, Ukraine's largest oil producer, reported a net loss of UAH 278mn for 2Q19 (USD 10.5mn at the average UAH/USD exchange rate for the period) compared to net profit of UAH 800mn for 2Q18, according to the company's quarterly financial report. UkrNafta's revenue was down by 15% YoY to UAH 7.18bn and EBITDA fell 94% to UAH 100mn in the period. For 1H19, the company posted a net profit of only UAH 18mn, down from net profit of UAH 2.06bn in 1H18. On the balance sheet side, UkrNafta reported no interest-bearing debt as of 30 Jun 2019, while cash and cash equivalents stood at UAH 163mn. The report acknowledged tax arrears to the Ukrainian government of UAH 11.3bn as of the reporting date.

UKRNAFTA FINANCIAL RESULTS

UAH mn	2Q19	2Q18	1Q19	QoQ	YoY	1H19	1H18	YOY
Net revenue	7,182	8,494	6,701	+7.2%	-15.4%	13,883	16,762	-17.2%
EBITDA	100	1790	759	-86.8%	-94.4%	860	3799	-77.4%
EBITDA margin	1.4%	21.1%	11.3%	-9.9 p.p.	-19.7 p.p.	6.2%	22.7%	-16.5 p.p.
Net Income	-278	800	296	+/-	+/-	18	2,061	-99.1%
Net margin	-3.9%	9.4%	4.4%	-8.3 p.p.	-13.3 p.p.	0.1%	12.3%	-12.2 p.p.

Source: Company data,

COMMENTARY

UkrNafta's substantial revenue decline and net loss for 2Q19 both came as a complete surprise for us after the company had raised its average daily oil output by 6.2% YoY to 4,180 tonnes (30,400 barrels) in 2Q19. We had expected that UkrNafta would show a solid net profit of UAH 35 per share in 2Q19 instead of this net loss of UAH 5.12 per share. Nevertheless, we see from the company's quarterly filings that the primary reason behind the net loss was an increase in operating expenses, which could be a temporary factor rather than a permanent one. For the moment we remain optimistic regarding UkrNafta's ability to generate profit from its ongoing operations. UkrNafta's financial result for the full year will mainly depend on whether the company finalizes its large natural gas deal with the state gas giant NaftoGaz. The UNAF stock continues to trade around the UAH 160 level.

CentrEnergO Posts Record Quarterly Net Loss of UAH 1.2bn for 2Q19

by Dmitry Churin
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CENTRENERGO (CEEN UK)

Price: UAH 10.85 Market Cap: USD 159mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.6	0.3	8.7	3.7	5.8%
2019E	0.6	0.2	neg	57	0.0%

NEWS

CentrEnergO, Ukraine's second-largest thermal electricity generation company by installed capacity, reported a net loss of UAH 1.22bn for 2Q19 (USD 46mn at the average exchange rate for the period) compared to net profit of UAH 271mn in 2Q18, according to the company's financials published on its official website. On the top line, CentrEnergO's net revenue declined by 15% YoY to UAH 3.22bn while EBITDA worsened from UAH 406mn for 2Q18 to a large negative EBITDA of UAH -1.34bn for 2Q19. For the 1H19 period, CentrEnergO's net revenue declined by 9.0% YoY to UAH 7.25bn while EBITDA fell into negative territory at UAH -1.23bn. The net loss for 1H19 was UAH 1.19bn compared to a net profit of UAH 439mn a year ago. On the balance sheet side, the company reported available cash of UAH 505bn (USD 19mn) and no interest bearing debt as of 30 June 2019.

CENTRENERGO'S FINANCIAL RESULTS

UAH mn	2Q19	2Q18	1Q19	QoQ	YoY	1H19	1H18	YoY
Net revenue	3,229	3,828	4,030	-19.9%	-15.6%	7,259	7,974	-9.0%
EBITDA	-1,348	406	117	+/-	+/-	-1,231	705	+/-
EBITDA margin	-41.7%	10.6%	2.9%	-44.6 p.p.	-52.3 p.p.	-17.0%	8.8%	-25.8 p.p.
Net Income	-1,227	271	30	+/-	+/-	-1,197	439	+/-
Net margin	-38.0%	7.1%	0.7%	-38.7%	-45.1 p.p.	-16.5%	5.5%	-22.0 p.p.

Source: Company data,

COMMENTARY

This unfortunate figure for 2Q19 represents CentrEnergO's largest-ever quarterly net loss. The company's problems with profitability were revealed in April when management said that low thermal electricity tariffs had caused disruptions in operations. In our view, CentrEnergO's reported primary cost for coal in 2Q could have been artificially inflated, as intermediary traders who supplied the fuel were interested in squeezing maximum value from state-run CentrEnergO ahead of the national elections. Some Ukrainian business media outlets have reported, citing undisclosed sources, that there have been changes in the coal supply chain for CentrEnergO since the presidential election. At this point we cannot evaluate whether changes in the way CentrEnergO obtains its fuel would improve the company's profitability in 3Q19 and beyond. Meanwhile, CentrEnergO continues to undergo a management reshuffle, with two acting CEOs having come and gone after the supervisory board dismissed long-standing CEO Oleg Kozemko in early June. With the appearance of the 1H19 financial report, we are revising our full-year forecast for CentrEnergO's net profit from UAH 1.96 per share down to a net loss of UAH 1.41 per share, implying no dividend payout for 2019.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	48.7	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	9.6	16.5	72%	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	23.3	-	-	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	2.95	12.0	307%	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	224	250	12%	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	159	270	70%	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	34.1	-	-	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	34.2	-	-	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	10.85	25.60	136%	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	0.293	0.47	60%	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	536	-0.2%	-4.2%								
Iron Ore Mining												
Ferrexpo	FXPO	224	-13.8%	15.1%	1,595	1,934	24.0%	4.8	3.8	3.8	3.1	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.5	-1.4%	38.1%	66	34	5.0%	3.7	13.4	1.7	3.2	0.2
Specialized Machinery												
Turboatom	TATM	11.6	-2.1%	-15.3%	195	186	3.8%	6.9	7.1	4.6	4.5	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	445	456	24.0%	9.7	8.4	4.8	4.6	1.2
Oil & Gas												
UkrNafta	UNAF	159	-1.2%	18.2%	343	336	3.0%	1.4	0.6	1.0	0.4	0.1
Regal Petroleum	RPT	34.1	-12.9%	-45.9%	132	92	21.6%	3.1	13.2	1.7	4.2	1.8
JKX Oil	JKX	34.2	-10.9%	-13.4%	71	179	50.4%	4.6	3.9	5.8	5.3	1.6
Power Utilities												
Centrenergy	CEEN	10.85	-1.4%	-19.6%	159	139	21.7%	8.7	neg	3.7	57	0.2
Donbasenergy	DOEN	23.67	-0.2%	-25.8%	22	29	14.2%	5.8	8.7	1.3	1.5	0.1
Consumer												
MHP	MHPC	9.62	-3.2%	-10.9%	1,017	2,538	34.1%	7.9	6.0	5.6	5.3	1.3
Kernel	KER	48.70	-0.5%	-3.0%	1,003	1,625	61.8%	19.2	4.2	7.3	5.2	0.4
Astarta	AST	23.30	-4.9%	-0.9%	151	446	37.0%	neg	4.4	6.9	5.2	0.8
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	2.95	-12.2%	-26.3%	17	0	25.0%	1.2	1.7	n/a	n/a	n/a
Banks												
Raiffeisen Bank Aval	BAVL	0.293	-4.6%	-13.8%	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
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	2	25.2%	7.1%	0.4%	71	18	-18	17.3%	3.4%	-3.2%
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			17.50%	16.00%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			17.60%	16.45%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.70%	16.35%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			6.25%	4.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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