

Stock Market Update

Equity

Kyiv-listed stocks finished mixed last week, but the PFTS index saw a notable decline of 1.5% to 527 points as it was weighed down by a drop in UkrNafta shares. Quotes for the oil producer fell by almost 12% to UAH 140 after the State Fiscal Service (SFS) filed a lawsuit aiming to strip UAH 547mn from the company's bank account. The SFS claimed that UkrNafta's overall tax debt has increased from UAH 14.6bn to UAH 15.8bn (USD 630mn) this year despite the company reporting that it had paid UAH 7.6bn in taxes in 7M19.

On the upside, CentrEnergO (CEEN) added 1.1% to UAH 10.82 after a Kyiv court closed the 15-year old case related to the company's possible bankruptcy. The court decision was long-awaited and should help to make CentrEnergO more attractive for privatization. Banking blue chip Raiffeisen Bank Aval (BAVL) remained unchanged at 30 kopecks on the nose.

In London trading, Ferrexpo (FXPO) extended its local downward move amid ongoing corporate governance concerns, falling 3.8% to GBP 204 per share. MHP (MHPC) also ended in the red, edging down by 0.6% to USD 9.78.

In Warsaw, Kernel (KER) slumped by 8.7% to PLN 44.70, the stock's lowest level since September 2015. We assume that Kernel's recent slide from its last local peak of PLN 54.00 reached in April has nothing to do with the company's fundamentals, which look solid. Astarta (AST) shed 2.6% to PLN 22.40, ignoring the company's surprisingly high net profit of PLN 5.39 per share for 1H19.

On the interbank currency market, the hryvnia gained 0.2% against the dollar to close at 25.12 UAH/USD.

Highlights

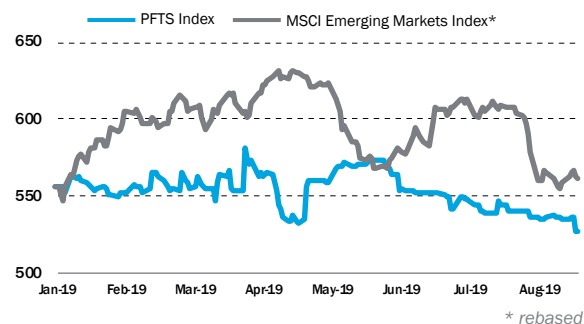
POLITICS AND ECONOMICS

- > Trump Administration Pushing Zelenskiy to Open Political Investigations
- > Ukraine's Current Account Deficit Improves to 0.3% of GDP in 1H19

STOCKS IN THE NEWS

- > Astarta's 1H Profit Declines by 19% YoY Despite 30% Rise in Revenue

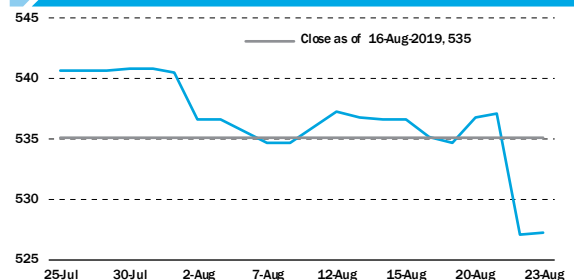
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	527	-1.5%	-5.8%
RTS	1261	2.0%	18.0%
WIG20	2103	0.2%	-8.6%
MSCI EM	960	-1.1%	-0.6%
S&P 500	2878	-0.4%	14.8%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	0.0 p.p.	-1.0 p.p.
Ukraine-2024	6.9%	-0.3 p.p.	-3.6 p.p.
Ukraine-2028	8.2%	-0.3 p.p.	-2.6 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	25.12	-0.2%	-9.2%
EUR	28.01	0.3%	-11.7%

Trump Administration Pushing Zelenskiy to Open Political Investigations

by Will Ritter
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NEWS

A key representative of US President Trump, his lawyer Rudolph Giuliani, met in recent weeks with a personal envoy of President Zelenskiy in Washington and called on Zelenskiy to pursue a pair of criminal investigations that could help Trump in his re-election effort next year, the New York Times reported on Thursday (Aug 21). The first case concerns a claim that as Vice President, US Democratic presidential candidate Joseph Biden pressured President Poroshenko to fire then-General Prosecutor Victor Shokin in an effort to advance a Biden family member's personal interest in a Ukrainian natural gas company; the second case is related to efforts by Ukrainian government officials - in particular Poroshenko Bloc MP Serhiy Leschenko - to "interfere" in the 2016 US presidential election by taking deliberate steps to damage the Trump campaign. Giuliani said he had coordinated his activity with the US State Department.

COMMENTARY

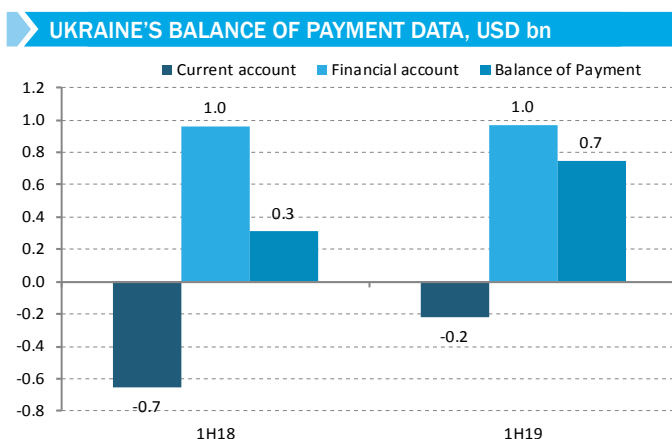
It looks to us like Donald Trump is trying to extract political favors from Zelenskiy in exchange for a high-profile White House invitation before the end of this year. As we have written previously, both of these "crimes" appear to be farcical: the Biden case rests on the anti-corruption credibility of Shokin, who is possibly the most lowly-regarded Ukrainian government official of the post-EuroMaidan era. As for Giuliani's election interference claim, he fails to mention the total incompetence of those doing the interfering; ultimately, the efforts of Leschenko and Alexandra Chalupa (a US citizen with Ukrainian ethnic roots) to smear Trump campaign manager Paul Manafort turned out to be more of a gift to Trump's 2016 election campaign than a hindrance. This situation will present an early test of Zelenskiy's diplomatic judgement, and it will certainly be interesting to see how he handles it. We think Zelenskiy can scarcely afford to refuse to play ball with Trump, and therefore we expect to hear some more noise on this topic once Zelenskiy's appointee for General Prosecutor takes office (probably in October). Overall, our view is that Trump's efforts to derail the Biden campaign via Ukraine smack of desperation, and they show that Trump understands he is facing an uphill battle to win re-election if Biden indeed becomes the Democratic nominee.

Ukraine's Current Account Deficit Improves to 0.3% of GDP in 1H19

by Dmitry Churin
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NEWS

Ukraine's current account (C/A) trade deficit amounted to USD 221mn in 1H19 (0.3% of GDP) compared to a C/A deficit of 1.1% of GDP for 1H18, according to the latest data from the National Bank of Ukraine. Ukraine's balance of payments (BoP) surplus was reported at USD 744mn for 1H19, which is 2.1x YoY higher than a year earlier. The country's financial and capital account surplus was USD 968mn in 1H19 (after a surplus of USD 961mn in 1H18). The NBU reported a decline in foreign direct investments (FDI) into Ukraine by 11% YoY to USD 972mn in the period.



Source: National Bank of Ukraine

COMMENTARY

Improvement in the country's current account was mainly achieved as a result of an increase in remittances from Ukrainians working abroad. Meanwhile, the pace of exports growth (+5.9% YoY) was lower than the pace of imports growth (+8.6% YoY) in 1H19. The trade deficit in 1H19 was USD 4.36bn, widening by 13% YoY. The share of EU countries in Ukrainian exports was 38%, while the share of exports to Russia was only about 6% in the period. Ukraine's total exports were USD 22.5bn in 1H19, with agriculture products accounting for 45% of the supplies. On the import side, machinery products accounted for 30% of total imports worth USD 27.7bn in the period.

Currently we do not see substantial reasons for a further improvement in the C/A in 2H19. Therefore we leave unchanged our forecast for the full-year the C/A deficit at around 1.4% of GDP (down from a deficit of 3.3% of GDP in 2018).

Astarta's 1H Profit Declines by 19% YoY Despite 30% Rise in Revenue

by Dmitry Churin
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ASTARTA (AST PW)

Price: PLN 22.40 Market Cap: USD 138mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.4	1.0	neg	6.5	0%
2019E	0.4	0.8	2.7	3.1	0%

NEWS

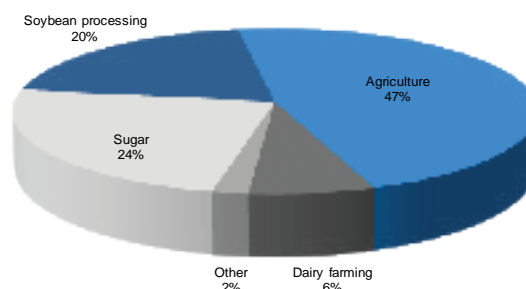
Kyiv-based Astarta Holding, Ukraine's largest sugar producer and a major crop grower, reported that its net profit declined by 19% YoY to EUR 30.3mn in 1H19, implying PLN 5.39 earnings per share, according to financials published earlier this month. Astarta's revenue rose by 30% YoY to EUR 228mn in the period and EBITDA increased by 5.9% YoY to EUR 64mn. The company reported net debt of EUR 257mn as of 30 Jun 2019.

In a segment breakdown, Astarta's agriculture operations accounted for 47% of revenue in 1H19, up from 34% in 2018. The sugar segment revenue was EUR 55mn, accounting for 24% of the top line for the period. The soybean segment brought in EUR 46mn (20% of total sales). The remaining revenue came from the dairy farming segment and other small miscellaneous branches.

ASTARTA FINANCIALS

EUR mn	1H19	1H18	chg.
Net revenue	228	175	+30.2%
EBITDA	64	60	+5.9%
margin	27.9%	34.3%	-6.4 p.p.
Net Income	30.3	37.3	-18.8 p.p.
net margin	13.3%	29.0%	-15.7 p.p.

REVENUE BREAKDOWN



Source: Company data.

COMMENTARY

Although Astarta's net profit declined in the reporting period, the actual figure was much better than expected after the grim results of 2H18 when the company posted a net loss of EUR 58mn. A strong performance in the crop segment, which demonstrated a 2.1x YoY increase in sales to EUR 106mn, was the main factor behind Astarta's financial recovery in 1H19. Meanwhile, the sugar segment disappointed with an 18% YoY drop in sales to EUR 55mn, as both sugar sales volumes and pricing were lower in the period.

With the appearance of the 1H19 financial results, we are raising our forecast for Astarta's full-year 2019 net profit from EUR 30mn to EUR 45mn. At the current stock price of PLN 22.40, the company is thus valued at forward P/E of 2.7x.

The Warsaw-listed AST stock had a muted reaction to the earnings report, as the company's debt-to-EBITDA ratio remains at a quite high level of 4.2x, which is a moderate improvement from the level of 5.2x seen at the end of 2018.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	44.7	82.0	83%	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	9.8	16.5	69%	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	22.4	42.0	88%	BUY	With the appearance of the 1H19 financial results, we are raising our forecast for Astarta's full-year 2019 net profit from EUR 30mn to EUR 45mn. Astarta's revenue rose by 30% YoY to EUR 228mn in 1H19 and EBITDA increased by 5.9% YoY to EUR 64mn. Meanwhile, the company's net profit declined by 19% YoY to EUR 30.3mn in 1H19, implying PLN 5.39 earnings per share.
Agroton	AGT PW	2.98	12.0	303%	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.
Iron Ore						
Ferrexpo	FXPO LN	204	250	23%	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	140	270	93%	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	33.0	--	--	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	33.5	--	--	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	23.9	--	--	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	10.82	25.60	137%	BUY	The CEEN stock has been in a downward trend since October 2018, falling from a level of UAH 18 to the current level of UAH 11 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. This year Kyiv court closed the 15-year old case related to the company's possible bankruptcy. The court decision was long-awaited and should help to make CentrEnerg more attractive for privatization.
Banks						
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 2019E
			1W	YtD				2018	2019E	2018	2019E	
PFTS Index	UX	527	-1.5%	-5.8%								
Iron Ore Mining												
Ferrexpo	FXPO	204	-3.8%	4.8%	1,471	1,753	24.0%	4.4	3.5	3.5	2.8	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.5	0.0%	38.1%	66	34	5.0%	3.7	13.5	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%	446	457	24.0%	9.7	8.5	4.8	4.6	1.2
Oil & Gas												
UkrNafta	UNAF	140	-11.9%	4.1%	302	295	3.0%	1.3	0.5	0.8	0.3	0.1
Regal Petroleum	RPT	33.0	8.9%	-47.6%	130	90	21.6%	3.1	13.0	1.7	4.1	1.8
JKX Oil	JKX	33.5	8.8%	-15.2%	70	179	50.4%	4.6	3.8	5.8	5.3	1.6
Power Utilities												
Centrenergy	CEEN	10.82	1.1%	-19.9%	159	139	21.7%	8.7	neg	3.7	57	0.2
Donbasenergy	DOEN	23.92	1.1%	-25.1%	23	25	14.2%	5.9	neg	1.1	3.6	0.1
Consumer												
MHP	MHPC	9.78	-0.6%	-9.4%	1,033	2,554	34.1%	8.1	6.1	5.7	5.4	1.3
Kernel	KER	44.70	-8.7%	-11.0%	902	1,682	61.8%	17.3	3.8	7.6	5.4	0.4
Astarta	AST	22.40	-2.6%	-4.7%	142	399	37.0%	neg	2.8	6.2	3.0	0.7
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	2.98	2.8%	-25.5%	16	-1	25.0%	1.2	1.7	n/a	n/a	n/a
Banks												
Raiffeisen Bank Aval	BAVL	0.300	0.0%	-11.8%	734		1.8%	3.9	3.4	1.8	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	7	5.8%	10.2%	3.1%	2	4	-3	1.4%	1.7%	-1.2%
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	133	26.1%	15.3%	24.2%	69	-24	51	13.5%	-5.7%	9.3%
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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