

## Stock Market Update

### Equity

Kyiv-listed stocks ended virtually unchanged last week with the PFTS index closing just 0.1% higher at 528 points. The National Bank's move to cut the key refinancing rate from 17.00% to 16.50% had no impact on the local stock market. The rate cut had been expected to be even larger before July's above-target inflation figure of 9.1% was released.

In individual blue chips, UkrNafta (UNAF) remained at UAH 145 per share, ignoring business media reports that state-run energy giant NaftoGaz put into its financial plan a payment of UAH 17bn to UkrNafta for previously delivered natural gas. However, the payment could still be frozen by the new government. Raiffeisen Bank Aval (BAVL) and CentrErgo (CEEN) were also inactive over the week, with the latter finishing at UAH 10.86 per share.

In London trading, Ferrexpo (FXPO) dipped below the support level of GBP 200. The stock lost 5.0% to close at GBP 192 amid further slippage in the benchmark iron ore price, which has corrected from a peak of USD 120 per tonne to USD 92 per tonne since mid-July. Poultry producer MHP (MHPC) had a volatile trading week, falling to a level slightly below USD 9.00 and then recovering to USD 9.20 after the company reported a quite impressive 2Q19 net profit of USD 1.31 per share.

Warsaw-listed Ukrainian agro stocks were mixed. Agroton (AGT) dropped by 8.0% to PLN 2.87 after the company posted financial results for 1H19 that showed substantially lower net profit year-on-year. Sugar producer Astarta (AST) climbed 1.3% to PLN 23.30 and Kernel (KER) inched down by 0.2% to PLN 45.00.

The hryvnia once again demonstrated strength, gaining 0.3% to 25.08 UAH/USD after the country's foreign currency reserves grew to USD 22bn. The National Bank said it had purchased USD 300mn from the market in August.

## Highlights

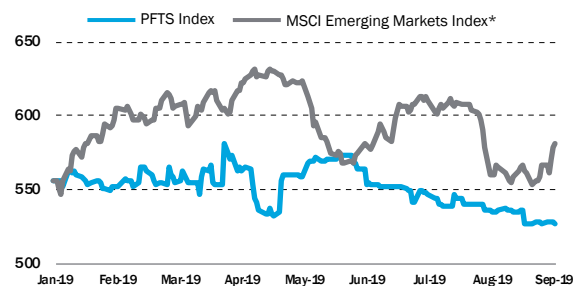
### POLITICS AND ECONOMICS

- > Putin Hands Zelenskiy Big Political Victory with Prisoner Swap

### STOCKS IN THE NEWS

- > MHP Increases Net Profit by 38% YoY to USD 138mn in 2Q19
- > Agroton Reports EPS of PLN 0.51 for 1H19, Missing Expectations

## STOCK MARKET PERFORMANCE

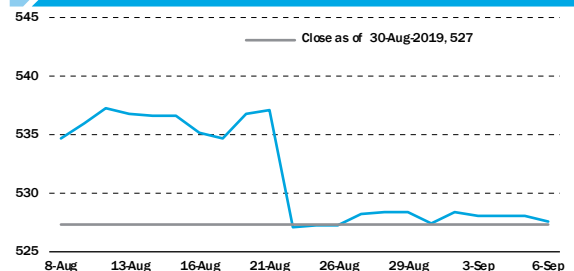


\* rebased

## MARKET INDEXES

	Last	1W ch	YTD
PFTS	528	0.1%	-5.7%
RTS	1342	3.8%	25.6%
WIG20	2163	1.1%	-6.0%
MSCI EM	1008	2.4%	4.4%
S&P 500	2978	1.8%	18.8%

## PFTS 1M PERFORMANCE



## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	16.5%	-0.5 p.p.	-1.5 p.p.
Ukraine-2024	6.2%	-0.6 p.p.	-4.3 p.p.
Ukraine-2028	7.3%	-0.7 p.p.	-3.5 p.p.

## CURRENCY

	Last, UAH	1W ch	YTD
USD	25.08	-0.3%	-9.4%
EUR	27.64	-0.5%	-12.8%

## Putin Hands Zelenskiy Big Political Victory with Prisoner Swap

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### NEWS

Ukraine and Russia exchanged 70 political prisoners (35 on each side) on Saturday (Sept 7) via specially arranged flights to Kyiv's Boryspil airport and Moscow's Vnukovo airport respectively. The returned Ukrainian prisoners included filmmaker Oleg Sentsov, war journalist Roman Suschenko, and 22 Ukrainian sailors captured last November by the Russian Coast Guard. The most prominent names on the Russian side were RIA Novosti journalist Kirill Vyshinskiy and Vladimir Tsemakh, an aviation warfare specialist for the Donbass separatist forces who the Dutch government has named as a suspect in the shooting down of the MH17 Netherlands-Malaysia passenger flight in 2014. Ukraine's release of Tsemakh to Russia was criticized by the foreign ministries of several EU countries as well as by Australia. President Zelenskiy was on hand for the arrival of the flight to greet the returning Ukrainians, and the event was widely covered by domestic media.

### COMMENTARY

The release of the prisoners is a big domestic political win for Zelenskiy, as the inability to obtain their freedom over the previous two years was a constant thorn in the side of former President Petro Poroshenko. Meanwhile, the Putin regime benefits by appearing to the West to be behaving in a reasonable way, which will help the Kremlin in its push to shake off the remaining European Union and US punitive sanctions. In the bigger picture, however, we see this new detente between Kyiv and Moscow as moving toward a scenario in which the Kremlin will try to resolve the Donbass conflict on terms disadvantageous to Ukrainian sovereignty. Bringing the occupied Donbass territories and their overwhelmingly pro-Russian electorates back into Ukraine would be an extremely expensive and risky proposition; we are not sure that Zelenskiy grasps the complications of this outcome, but we know that Putin certainly does. We think that further steps toward the "normalization" of relations between Russia and Ukraine are likely in the near term, as the Kremlin seems to have an interest in building up Zelenskiy's political standing for the time being at the expense of the more Russia-hawkish elements in the Ukrainian political spectrum.

**MHP Increases Net Profit by 38% YoY to USD 138mn in 2Q19**

by Dmitry Churin  
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**MHP (MHPC LI)**

Price: USD 9.20 Market Cap: USD 972mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.9	1.5	7.6	5.1	8.2%
2019E	0.8	1.2	4.4	4.8	8.2%

**NEWS**

Central-Ukraine-based, London-listed agro group MHP increased its net profit by 38% YoY to USD 138mn in 2Q19, which implies earnings per share of USD 1.31 in the period, according to financials released on Sept 6. Revenue rose 31% YoY to USD 510mn in the quarter while EBITDA (adjusted for forex gains/losses) declined by 6% YoY to USD 164mn. For the first half (1H19), the company posted net revenue of USD 946mn (+36% YoY), EBITDA of USD 247mn (-6% YoY), and net profit of USD 171mn (-10% YoY). The company's export sales rose 43% YoY to USD 552mn in 1H19, accounting for 58% of total revenue. On the balance sheet side, MHP's total debt was USD 1.49bn as of 30 Jun 2019, with long-term debt representing 78% of the amount. Management said the weighted average interest rate on the debt is around 7%. This puts MHP's debt-to-EBITDA ratio at 2.9x as of 30 Jun 2019 compared to 2.5x as of the start of the year.

**MHP FINANCIALS**

USD mn	2Q19	2Q18	chg.	1H19	1H18	chg.
Net revenue	510	388	+31%	946	694	+36%
EBITDA	164	174	-6%	247	263	-6%
margin	32.2%	44.8%	-13 p.p.	26.1%	37.9%	-12 p.p.
Net Income	138	100	+38%	171	190	-10%
net margin	27.1%	25.8%	+1 p.p.	18.1%	27.4%	-9 p.p.

Source: Company data.

**COMMENTARY**

MHP's reported USD 1.31 net profit per share for 2Q19 beat our forecast of USD 1.10 for the period, and we are raising our full-year projection for MHP's net profit from USD 170mn to USD 220mn, which would imply earnings per share of USD 2.08. At the current stock price of USD 9.20, the company is valued at P/E of 4.4x. In our view, one of the explanations for the low valuation of the company could be an increased level of debt. MHP's net debt to EBITDA of 2.9x represents a concern that the ceiling of 3.0x embedded in MHP's Eurobonds could be crossed. Additionally, investors may be concerned about political risk related to the administration of new Ukrainian President Vladimir Zelenskiy, with an investigation already having been opened into MHP's receipt of state subsidies over the last decade; MHP controlling shareholder Yuriy Kosyuk was a close political ally of previous president and Zelenskiy rival Petro Poroshenko.

In a segment breakdown, MHP's poultry business generated USD 688mn (+12% YoY) in revenue in 1H19 and the grain segment brought in USD 83mn in the period. The company spent USD 59mn on CapEx in 1H19, down from USD 126mn in 1H18.

MHP's lightly-traded stock gained 1% on the earnings report but remains 20% below this year's maximum of USD 11.50 per share.

## Agroton Reports EPS of PLN 0.51 for 1H19, Missing Expectations

by Dmitry Churin  
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### AGROTON (AGT PW)

Price: PLN 2.87 Market Cap: USD 16mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.2	0.4	1.7	2.0	0%
2019E	0.2	0.4	1.2	1.8	0%

## NEWS

Eastern Ukrainian-based crop grower Agroton reported that its net profit was USD 3.3mn (PLN 0.51 per share) in 1H19, down from USD 11.8mn in 1H18, according to the company's financial report released last week. Agroton's net revenue rose by 7.4% YoY to USD 17.8mn in the period while EBITDA fell by 65% YoY to USD 2.4mn. On the balance sheet side, Agroton's net debt amounted to USD 9.4mn as of 30 Jun 2019, and total assets were USD 111mn.

### AGROTON FINANCIALS

USD mn	1H19	1H18	chg.
Net revenue	17.8	16.6	+7.4%
EBITDA	2.4	7.0	-65.2%
margin	13.7%	42.2%	-28.5 p.p.
Net Income	3.3	11.8	-72.2%
net margin	18.4%	71.0%	-52.6 p.p.

Source: Company data.

## COMMENTARY

Both Agroton's EBITDA and its net profit for 1H19 missed our expectations, but we are still holding out some hope that the company will be able to deliver our target of net profit of USD 9.5mn for full-year 2019. Agroton's bottom line in 1H19 suffered pressure from a higher cost of sales and smaller gain from revaluation of biological assets. On the other hand, the company's net cash from operating activity declined by a more modest 19% YoY to USD 5.0mn in 1H19.

In our view, Agroton currently has a fairly healthy financial position, with an estimated Net Debt/EBITDA ratio of 1.0x. The company, which is based in Lugansk province, continues to invest in growth, spending USD 2.2mn on CapEx in 1H19.

In a segment breakdown, vegetable oil sales brought USD 5.8mn in sales, accounting for around 40% of the company's total revenue for 1H19. Sunflower seed sales were at USD 5.8mn, accounting for 33% of revenue in the period. Winter wheat sales were USD 2.6mn in 1H19. Agroton now operates a land bank of 119,000 hectares in Ukraine.

The Warsaw-listed AGT stock has been in a downward trend since May, when it reached its local maximum of PLN 3.95 per share. The stock now trades at PLN 2.87, with its most recent minimum at PLN 2.76.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	45.0	82.0	82%	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	9.2	16.5	79%	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	42.0	80%	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	2.87	12.0	318%	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	192	250	30%	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	145	270	86%	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	31.5	--	--	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	29.4	--	--	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.
<b>Power Utilities</b>						
DonbasEnerg	DOEN	24.1	--	--	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	10.86	25.60	136%	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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.310	0.47	52%	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	528	0.1%	-5.7%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	192	-5.0%	-1.4%	1,384	1,666	24.0%	4.1	3.3	3.3	2.7	1.0
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	14.5	0.0%	38.1%	66	34	5.0%	3.7	13.5	1.7	3.2	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	11.9	0.0%	-13.5%	200	191	3.8%	7.1	7.3	4.7	4.6	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	447	458	24.0%	9.7	8.5	4.8	4.6	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	145	0.0%	7.8%	314	307	3.0%	1.3	0.5	0.9	0.3	0.1
Regal Petroleum	RPT	31.5	-2.8%	-50.0%	124	84	21.6%	2.9	12.4	1.6	3.8	1.7
JKX Oil	JKX	29.4	-3.6%	-25.6%	62	170	50.4%	4.0	3.4	5.5	5.0	1.5
<b>Power Utilities</b>												
Centrenergy	CEEN	10.86	0.0%	-19.6%	160	140	21.7%	8.7	neg	3.7	57	0.2
Donbasenergy	DOEN	24.07	0.0%	-24.6%	23	25	14.2%	5.9	neg	1.1	3.6	0.1
<b>Consumer</b>												
MHP	MHPC	9.20	-3.2%	-14.8%	972	2,299	34.1%	7.6	4.4	5.1	4.8	1.2
Kernel	KER	45.00	-0.2%	-10.4%	915	1,695	61.8%	17.6	3.8	7.6	5.5	0.4
Astarta	AST	23.30	1.3%	-0.9%	149	406	37.0%	neg	2.9	6.3	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	2.87	-8.0%	-28.3%	16	25	25.0%	1.2	1.7	n/a	n/a	n/a
<b>Banks</b>												
										<b>Price/Book</b>	<b>Price/Assets</b>	
Raiffeisen Bank Aval	BAVL	0.310	0.0%	-8.8%	760		1.8%	4.1	3.5	1.8	1.6	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
<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	2,690	67	350	949	6.6%	26.4%	35.3%	4	237	599	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	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%
<b>Consumer</b>																
MHP	MHPC	1,289	1,556	1,945	459	450	475	35.6%	28.9%	24.4%	230	128	220	17.8%	8.2%	11.3%
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%
<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			17.25%	15.75%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			17.40%	16.00%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.30%	16.00%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>UAH denominated Bonds</b>									
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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