

Stock Market Update

Equity

Most Kyiv-listed stocks finished lower last week, with the PFTS index falling by 2.4% to 515 points, which is the benchmark's lowest level in 13 months. Information that an IMF mission arrived in Kyiv and started talks on a new cooperation program for Ukraine failed to inspire local investors. Fighting corruption will be a key component of any new lending program Ukraine gets with the IMF, the organization's official spokesman said in a Sept 12 briefing in Washington. The country has a tough debt repayment schedule for 2020-2022 and therefore has a pressing need to replace the current USD 3.9bn standby arrangement with the IMF, which expires at the end of the year, with a longer-term program.

In the PFTS index basket, CentrEnergO (CEEN) was the worst-performing component, dropping by 6.9% to UAH 10.11 per share after a Kyiv court reopened an old case regarding the company's non-payment for coal that it received back in 2004. We doubt that the case has any prospects, but taking into account the condition of the country's justice system, the news was clearly negative for CentrEnergO. Raiffeisen Bank Aval (BAVL) slipped 1.3% to 30.60 kopecks, while on the other end of the curve, DonbassEnergO (DOEN) gained 2.0% to UAH 24.55.

London-listed poultry producer MHP (MHPC) remained on the downslope, sliding 7.0% to USD 8.56, which is the stock's lowest level since March 2016. We assume that some investors dumped the stock after the company attracted USD 350mn in additional debt in the form of 10-year Eurobonds at 6.25%. Although the funds will be used to refinance existing bonds maturing in 2020, there are still concerns that MHP's debt-to-EBITDA ratio could cross the ceiling of 3.0x by the year-end. Iron ore giant Ferrexpo (FXPO) recovered a small portion of its recent losses, advancing by 6.3% to GBp 204 per share.

Warsaw-listed Ukrainian agro stocks demonstrated a general decline last week. Astarta (AST) shed 1.7% to close at PLN 22.90 and Kernel (KER) dropped by 2.8% to PLN 43.75.

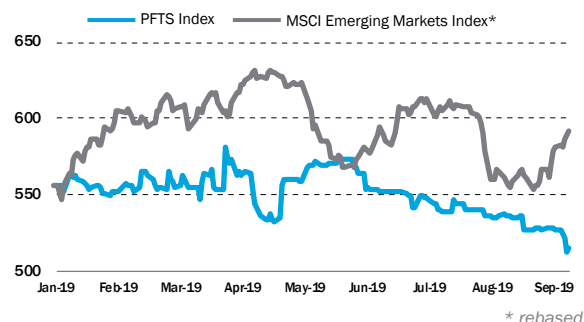
On the currency market, the hryvnia smashed through the 25 UAH/USD resistance line, strengthening by 1.1% to 24.80 UAH/USD. This is the best rate for the national currency against the dollar since July 2016.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Praises Trump for Releasing USD 250mn in Military Aid, Calls Russian Sanctions a "Peace Tax"
- > Ukraine Upgraded to B- by Fitch with Positive Outlook
- > CPI Declines by 0.3% MoM in August, Slowing 12M Inflation to 8.8%

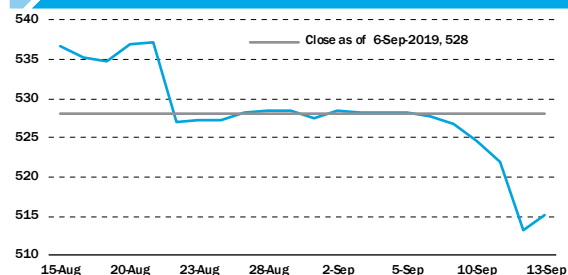
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	515	-2.4%	-7.9%
RTS	1385	3.2%	29.6%
WIG20	2192	1.3%	-4.8%
MSCI EM	1226	21.6%	27.0%
S&P 500	3007	1.0%	20.0%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	16.5%	0.0 p.p.	-1.5 p.p.
Ukraine-2024	6.3%	0.1 p.p.	-4.2 p.p.
Ukraine-2028	7.5%	0.2 p.p.	-3.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.80	-1.1%	-10.4%
EUR	27.45	-0.7%	-13.4%

Zelenskiy Praises Trump for Releasing USD 250mn in Military Aid, Calls Russian Sanctions a “Peace Tax”

by Will Ritter
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NEWS

President Zelenskiy said on Friday (Sept 13) that he is “grateful” to US President Trump for agreeing to disburse USD 250mn in military assistance to Ukraine that was previously approved by the US Congress. The Trump administration said it would release the aid last week after having delayed it in order to review whether the money would be spent to advance US interests. Zelenskiy, speaking at Kyiv’s annual YES business & diplomatic conference, noted that Washington has promised a separate USD 140mn aid package via the State Department, it was reported by US-government-funded media outlet RFE/RL. Zelenskiy also called for a continuation of economic sanctions against Russia to punish Moscow’s aggression in Eastern Ukraine, saying they are necessary “to maintain world order”. He called the sanctions “a peace tax... in the civilized world, it’s normal to pay taxes”.

COMMENTARY

It appears to us that Zelenskiy has outplayed Trump on this issue, as Trump was clearly trying to hold up the aid money in order to gain political assistance from Zelenskiy for Trump’s own re-election campaign by demanding a farcical investigation into “Ukrainian interference” in the 2016 US election. However, given the strong support for Ukraine from both major US political parties, Trump was holding a losing hand and he had no choice but to release the package. Overall, Zelenskiy put on an outstanding show at the high-profile conference, demonstrating that his honeymoon period of popularity as the country’s new president has still not expired. Nonetheless, there are clouds on the horizon, as not everyone was pleased with the appearance of industrialist Igor Kolomoyskiy at the YES conference and his clear proximity to Zelenskiy, Prime Minister Oleksiy Honcharuk, and Chief of Staff Andriy Bogdan. The situation with Kolomoyskiy’s alleged siphoning of billions of dollars out of the country’s largest bank remains unresolved, and a lack of accountability on this issue could put Kyiv’s cooperation with the IMF at risk. Kolomoyskiy, who is the archrival of YES organizer Victor Pinchuk, had never previously attended the event in its 16-year history. Separately, another possible sign of forthcoming political tensions in the country is Bogdan’s statement, reported Monday (Sept 16) by the domestic Ukrayinska Pravda outlet, that there are “psychologically sick people” inside Zelenskiy’s 254-member People’s Servant parliamentary faction. Bogdan admitted that some of the MPs had been recruited for the president’s party “on Facebook” with only a single day’s notice.

Ukraine Upgraded to B from B- by Fitch with Positive Outlook

by Dmitry Churin
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NEWS

Ukraine's sovereign credit rating was upgraded to B from B- with a positive outlook by US-based rating agency Fitch, according to a report released last week. Fitch said that Ukraine's long-term foreign currency Issuer Default Rating (IDR) improved due to the new government's strong stated commitment to structural reforms and engagement with international financial instruments. Analysts at Fitch predict that the country's government debt will decline to 48% of GDP by the end of this year and to 44% by 2021. However, Fitch added that the repayment dynamics of the government debt were highly dependent on the hryvnia's future exchange rate.

RATING ASSUMPTIONS (as reported by Fitch)

- Ukraine's general government deficit will drop to 2.1% of GDP in 2019 and average 2.3% in 2020-2021.
- Average inflation will decline to 8.5% in 2019 and to 5.7% in 2021.
- There will be continued engagement with the IMF.

RATING SENSITIVITIES

The main factors that could, individually or collectively, lead to an upgrade:

- Increased foreign currency reserves and external financing flexibility.
- Improvement of structural indicators, such as governance standards.
- Higher growth prospects while preserving improved macroeconomic stability.
- Further declines in government indebtedness and improvements in the debt structure.

The main factors that could, individually or collectively, lead to the Outlook being revised to back down to Stable from Positive are:

- Re-emergence of external financing pressures or increased macroeconomic instability, for example stemming from failure to agree on an IMF program or delays to disbursements from it.
- External or political/geopolitical shocks that weaken the macroeconomic performance and Ukraine's fiscal and external position.
- Failure to improve standards of governance, raise economic growth prospects or reduce the public debt/GDP ratio.

COMMENTARY

Ukraine's ratings upgrade follows strong 2Q economic growth of 4.6% and comes as no surprise after the country's Eurobonds rallied sharply over the past two months. Ukraine's state and state guaranteed debt amounted to USD 82.4bn as of Jul 31. The Finance Ministry estimated that UAH 83bn (USD 3.3bn) would be spent on debt servicing and repayment by the year end, with the lion's share of this figure in UAH-denominated redemptions; UAH debt can be smoothly refinanced by placement of new domestic bonds. Meanwhile, for the 2020-2022 period, total debt payments are estimated at UAH 898bn (USD 36bn at the current UAH/USD rate). Payments on foreign debt are scheduled at around USD 20bn in the next three years, which means that Kyiv will definitely need to access to international markets for refinancing and also will need support from Western donors, especially the IMF.

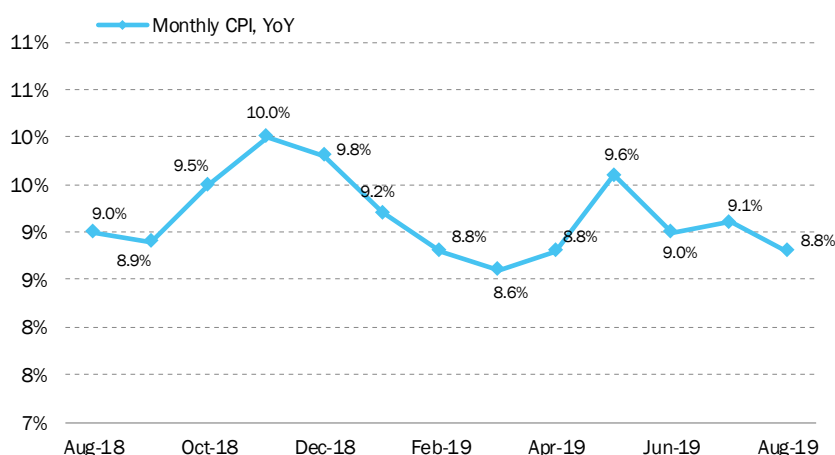
CPI Declines by 0.3% MoM in August, Slowing 12M Inflation to 8.8%

by Dmitry Churin
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NEWS

Ukraine's State Statistics Committee (UkrStat) reported that consumer prices declined by 0.3% MoM in August, slowing 12-month inflation to 8.8% YoY from 9.1% YoY in July and 9.0% YoY in June, according to data released on Sept 9. This was the third consecutive monthly deflation after -0.6% MoM in July and -0.5% MoM in June. For 8M19 (a slightly different measurement of full-year inflation than the 12-month rolling figure) the CPI index growth remained at 9.0% YoY.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The seasonal consumer deflation is likely come to an end in September, which means that the full-year inflation figure is expected in the range of 8.5-9.5%. If there are no surprises in the September inflation report (due on Oct 9), we expect that the National Bank will make its fourth cut in its key refinancing rate this year. The NBU monetary board meeting is scheduled for Oct 24, and we forecast that the key rate will be decreased by 50 bps from the current 16.50% to 16.00%. The central bank has thus far not been in a hurry to lower the rate to the announced medium term target of 8.00%, limiting its cuts to a half point.

In individual components of the consumer price basket, there was a seasonal drop in fruit & vegetable prices, which drove a 0.4% MoM decline in the overall food price category. There was also a continuation of the downward trajectory in natural gas prices amid slumping energy prices on the main European gas hubs. Natural gas prices in Europe dropped to a ten-year low in early July, as Russia and the United States continue to fight for market share. Natural gas for households in Ukraine was 4.5% MoM cheaper in August. Petroleum product prices in Ukraine declined by 1.7% MoM as the strong hryvnia helped to make energy imports cheaper.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	43.8	82.0	87%	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	8.6	16.5	93%	BUY	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. 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. 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.
Astarta	AST PW	22.9	42.0	83%	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	3.07	12.0	291%	BUY	Agroton unveiled a strategy to increase its land bank from 119,000 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. Agroton reported that its net profit was USD 3.3mn (PLN 0.51 per share) 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 continues to invest in growth, spending USD 2.2mn on CapEx in 1H19.
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	146	270	85%	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	29.7	--	--	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	24.6	--	--	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	10.11	25.60	153%	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	0.306	0.47	54%	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	515	-2.4%	-7.9%								
Iron Ore Mining												
Ferrexpo	FXPO	204	6.3%	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	11.7	-1.7%	-15.0%	196	187	3.8%	7.0	7.1	4.6	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
Oil & Gas												
UkrNafta	UNAF	146	0.8%	8.7%	316	309	3.0%	1.3	0.5	0.9	0.3	0.1
Regal Petroleum	RPT	33.0	4.8%	-47.6%	130	90	21.6%	3.1	13.0	1.7	4.1	1.8
JKX Oil	JKX	29.7	1.0%	-24.8%	62	171	50.4%	4.1	3.4	5.5	5.0	1.5
Power Utilities												
Centrenergo	CEEN	10.11	-6.9%	-25.1%	149	129	21.7%	8.1	neg	3.4	52	0.2
Donbasenergo	DOEN	24.55	2.0%	-23.1%	23	26	14.2%	6.0	neg	1.1	3.7	0.1
Consumer												
MHP	MHPC	8.56	-7.0%	-20.7%	905	2,232	34.1%	7.1	4.1	5.0	4.7	1.1
Kernel	KER	43.75	-2.8%	-12.8%	889	1,669	61.8%	17.1	3.7	7.5	5.4	0.4
Astarta	AST	22.90	-1.7%	-2.6%	146	403	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	3.07	7.0%	-23.3%	17	26	25.0%	1.3	1.8	1.9	2.0	0.4
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.306	-1.3%	-10.0%	750		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	2,690	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%
Electric Utilities																
Centrenerg	CEEN	412	533	570	104	38	2	25.2%	7.1%	0.4%	71	18	-18	17.3%	3.4%	-3.2%
Donbasenerg	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	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%
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			17.25%	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
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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