

Stock Market Update

Equity

Kyiv-listed equities were moderately higher for the week, with quotes edging up after the IMF mission's representatives who worked in Ukraine during Sept 12-26 confirmed discussions on a new cooperation program. The mission announced that Ukraine managed to improve its fiscal and monetary policies, which resulted in a sharp reduction in the country's external and internal imbalances. The overall fiscal deficit has been limited to just above 2% of GDP in the last two years and is expected to remain at the same level this year. The energy sector's quasi-fiscal deficit has been sharply reduced, which should be viewed as a major accomplishment of the post-EuroMaidan governments.

The PFTS index climbed by 0.6% to 525 points. UkrNafta (UNAF) added the most points to the gauge, advancing by 4.0% to UAH 152 per share. The company reported that its daily average oil output grew by 2.0% MoM and 4.3% YoY in August. CentrEnerg (CEEN) was also on the rise, adding 1.9% to UAH 10.50, while Raiffeisen Bank Aval (BAVL) declined by 1.6% to settle at 30 kopecks on the nose.

In London trading there was a notable drop in iron ore producer Ferrexpo (FXPO) after the company's CEO and majority owner Constantine Zhevago was summoned by Ukrainian law enforcement for questioning regarding the bankruptcy of his Finance&Credit Bank back in 2015. On the upside, MHP (MHPC) edged higher by 0.7% to USD 9.00 after the company unveiled a strategy to increase its poultry output by 20% in the next few years.

Warsaw-listed Kernel (KER) rose by 2.7% to PLN 44.45 while sugar producer Astarta (AST) slid 8.9% to PLN 20.40 on concerns regarding low soft-commodity prices.

On the interbank currency market, the hryvnia saw some volatility but ultimately gained another 1.2% to close at 24.12 UAH/USD, another fresh 3-year high. Market players believe that the large supply of foreign currencies in recent weeks has come from investors and banks who sold forex in order to purchase Ukrainian government UAH-denominated bonds.

Highlights

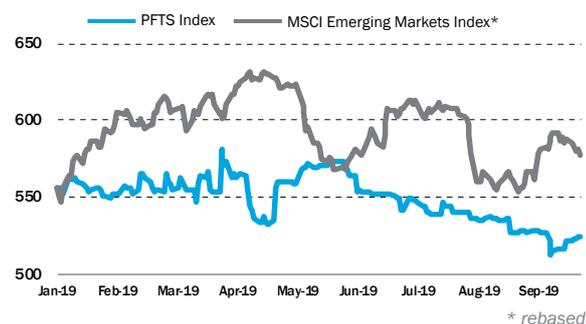
POLITICS AND ECONOMICS

- > Kyiv Hit With Resignations of Volker, Danyliuk as Zelenskiy Visits US
- > Ukraine's Industrial Output Drops by 1.7% YoY in August

STOCKS IN THE NEWS

- > MHP Forecasts EBITDA of USD 450mn for FY19

STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	525	0.6%	-6.1%
RTS	1338	-2.0%	25.2%
WIG20	2176	1.5%	-5.5%
MSCI EM	1001	-2.0%	3.7%
S&P 500	2962	-1.0%	18.2%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	16.5%	0.0 p.p.	-1.5 p.p.
Ukraine-2024	6.8%	0.4 p.p.	-3.7 p.p.
Ukraine-2028	7.9%	0.3 p.p.	-2.9 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.12	-1.2%	-12.9%
EUR	26.48	-0.9%	-16.5%

Kyiv Hit With Resignations of Volker, Danyliuk as Zelenskiy Visits US

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NEWS

Two key officials, one Ukrainian and one American, resigned from their posts last week amid President Zelenskiy's first meeting with US President Trump in New York. Head of the National Security & Defense Council (RNBO) Oleksandr Danyliuk released a letter of resignation on Friday (Sept 27); domestic Ukrainian media reported that Danyliuk had been in conflict with Zelenskiy's Chief of Staff Andriy Bogdan for months, and that the final straw was his exclusion from the delegation which Zelenskiy took with him to the US. On the same day, Trump's Special Representative to Ukraine Kurt Volker also announced his departure amid reports that he was involved in helping Trump's personal lawyer Rudolph Giuliani arrange contacts with the Zelenskiy administration. Giuliani is accused of making improper demands of Zelenskiy in regard to requesting an investigation of Trump's possible opponent in the 2020 US presidential election, Joseph Biden, in an affair that has sparked a major political scandal in the US. At his televised meeting with Trump on Wednesday (Sept 25), however, Zelenskiy denied that Trump had pressured him to investigate Biden during a phone conversation between the two leaders in July by threatening to withhold USD 250mn in previously allocated military assistance.

COMMENTARY

Both of the mentioned resignations are notable developments which are negative for Ukraine. Danyliuk is the key official whose presence in the Zelenskiy government was sold to foreign investors as a sign of the new president's commitment to serious reforms and transparency; it frankly looks bad that he is quitting after only 4 months on the job. Danyliuk was also the driving force behind the nationalization of PrivatBank, which is now under a legal threat from prior owner Igor Kolomoyskiy. Kolomoyskiy lost the bank because he was accused of siphoning billions of dollars out of it via insider lending schemes. Any move by Zelenskiy to absolve Kolomoyskiy from repaying these losses to the state would likely complicate Kyiv's efforts to reach a new loan deal with the International Monetary Fund. Beyond this, the quick resignation of such an important official gives the general impression that Zelenskiy simply does not have the house in order. Of course it is possible that Danyliuk might be persuaded to stay, but no information has yet appeared in the local media about any effort by Zelenskiy to talk him out of the decision. As for Volker, he was almost universally respected by both the Ukrainian and US diplomatic communities for his more than two years of service. Although Volker's official brief was representing the Trump Administration on matters regarding the Donbass conflict, he at times seemed to act as a de-facto US ambassador to Ukraine, weighing in on all manner of issues and always taking a tough line against Russian aggression. Volker's absence, at least in the short term, could weaken US support for Ukraine, as it is unclear whether Trump will appoint a replacement amid all the domestic political troubles he is currently experiencing. On the positive side, new acting US ambassador William Taylor appears to have more confidence and clout with the Trump administration than prior ambassador Marie Yovanovitch, who was recalled from the post several months before the scheduled end of her term. Zelenskiy referred to Yovanovitch as a "bad ambassador" in his July conversation with Trump, a transcript of the call revealed.

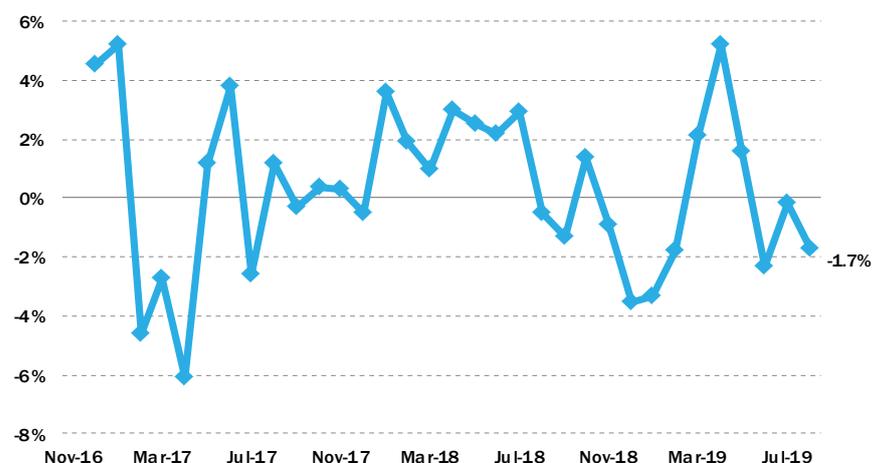
Ukraine's Industrial Output Drops by 1.7% YoY in August

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial output dropped by a notable 1.7% YoY in August after the small contraction of 0.2% YoY seen in July, according to data from the State Statistics Committee. In the core manufacturing sector, aggregate production decreased by 4.1% YoY. Meanwhile, in the extraction sector, an output growth of 2.7% YoY was registered in August amid an increase in iron ore mining by 9.2% YoY. In the utility sector, production rose by 2.0% YoY. Year-to-date through August, overall industrial production in Ukraine is nearly flat compared to 2018, having inched up by just 0.1% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The broad decline in the manufacturing sector in August was clearly outside of the general economic picture in the country, which has seen a consistent improvement in both consumer and business sentiments. In particular manufacturing sub-sectors, there was a 3.6% YoY decrease in food production. In the heavyweight components of the industrial production index, the steel sector showed contraction of 3.2% YoY and the machinery sector was down by 4.7% YoY. For 8M19, the machinery sector's output has demonstrated a 3.9% YoY decline. The industrial data for the month of August makes our initial forecast of industrial output growth of 2.1% YoY for full-year 2019 as overly optimistic. However, we prefer to wait for September's industrial figures before lowering the forecast.

In other macroeconomic data, UkrStat reported that the agricultural production index increased by 4.4% YoY for 8M19, slowing sharply from the 12% YoY rise through 7M19; this anomaly is due to an earlier-than-usual start to the grain harvest campaign this summer.

The construction industry, which has remained robust in Ukraine for the last three years, demonstrated below-trend growth of 8.9% YoY in August after its increase of 15.2% YoY in July. Year-to-date construction is up by a whopping 20.8% YoY through 8M19.

Retail sales in the country rose by 6.7% YoY in August (9.0% YoY in July and 9.9% YoY through the first 8 months of 2019).

MHP Forecasts EBITDA of USD 450mn for FY19

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 9.00 Market Cap: USD 951mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.9	1.5	7.4	5.1	8.3%
2019E	0.8	1.2	4.3	4.8	8.3%

NEWS

London-listed MHP, Ukraine's largest poultry producer, issued guidance that its EBITDA would be near USD 450mn for full-year 2019, according to a presentation made by the company at its "Investor Day" on Sept 27. The company's revenue is expected to grow by 20% YoY to USD 1.88bn this year amid a 16% YoY expected increase in poultry volume sales to 717,000 tonnes.

MHP also said that its total debt is USD 1.54bn after the company placed 10-year Eurobonds for USD 350mn at 6.25% in September.

COMMENTARY

MHP's financial targets for FY19 are somewhat below our forecasts of sales of USD 1.95bn and EBITDA of USD 475mn. Nevertheless, we do believe that the company is on track to substantially improve its net profit from USD 128mn in FY18 to USD 220mn this year, which would imply USD 2.08 earnings per share. The company's reported net profit for 1H19 was USD 1.62 per share.

Separately, MHP said that its medium-term strategy through 2024 foresees an EBITDA margin of 30% with EBITDA reaching USD 700mn in 2023. The main contribution to higher revenue and profit should come from further expansion of the company's core Vinnitsa Poultry Complex, with planned CapEx of USD 220mn through 2023.

The MHPC stock, which has a current price of USD 9.00 per share, is trading at P/E of 4.3x. The stock has lost 17% since the start of the year amid some political concerns in regard to the change in power in Kyiv; MHP majority owner Yuriy Kosyuk had close ties to ex-President Poroshenko, serving for a time in his administration.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	44.5	82.0	84%	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	9.0	16.5	83%	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	20.4	42.0	106%	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	2.78	12.0	332%	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	171	250	46%	BUY	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	152	270	78%	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	35.0	-	-	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	29.5	-	-	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	26.2	-	-	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	10.50	25.60	144%	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	525	0.6%	-6.1%								
Iron Ore Mining												
Ferrexpo	FXPO	171	-8.1%	-12.2%	1,238	1,520	24.0%	3.7	3.0	3.0	2.4	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.8	0.0%	50.0%	75	43	5.0%	4.2	15.2	2.1	4.0	0.2
Specialized Machinery												
Turboatom	TATM	11.2	-3.9%	-18.2%	196	187	3.8%	7.0	7.1	4.6	4.6	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	464	475	24.0%	10.1	8.8	5.0	4.8	1.2
Oil & Gas												
UkrNafta	UNAF	152	4.0%	13.0%	342	335	3.0%	1.4	0.6	1.0	0.4	0.1
Regal Petroleum	RPT	35.0	0.0%	-44.4%	138	98	21.6%	3.3	13.8	1.8	4.5	2.0
JKX Oil	JKX	29.5	-1.0%	-25.3%	62	171	50.4%	4.1	3.4	5.5	5.0	1.5
Power Utilities												
Centrenergy	CEEN	10.50	1.9%	-22.2%	161	140	21.7%	8.8	neg	3.7	57	0.2
Donbasenergy	DOEN	26.20	1.0%	-17.9%	26	28	14.2%	6.7	neg	1.2	4.1	0.1
Consumer												
MHP	MHPC	9.00	0.7%	-16.7%	951	2,278	34.1%	7.4	4.3	5.1	4.8	1.2
Kernel	KER	44.45	2.7%	-11.5%	885	1,665	61.8%	17.0	3.7	7.5	5.4	0.4
Astarta	AST	20.40	-8.9%	-13.2%	128	385	37.0%	neg	2.5	5.9	2.9	0.7
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	2.78	-2.5%	-30.5%	15	24	25.0%	1.1	1.6	1.7	1.9	0.4
Banks												
Raiffeisen Bank Aval	BAVL	0.300	-1.6%	-11.8%	765		1.8%	4.1	3.5	1.8	1.6	0.32

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																
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	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									
UA4000197040			17.20%	15.65%	n/a	n/a	S/A	04 Mar 2020	n/a
UA4000198006			17.40%	15.85%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.30%	15.80%	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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