

## Stock Market Update

### Equity

Ukrainian stocks listed in Kyiv were mixed last week, with the PFTS index inching up by 0.1% to 526 points. A report from the National Bank that the business activity outlook index had grown for a third month in a row had a neutral impact on the local market. According to the results of the survey in September, the service and industrial sectors are the most optimistic, for which the indexes were 57.3 and 58.1 respectively. A reading above the neutral level of 50 implies a positive business outlook compared with the previous month.

In individual PFTS index components, UkrNafta (UNAF) corrected by 1.3% to UAH 150 per share while Raiffeisen Bank Aval (BAVL) gained 1.7%, moving back above the 30-kopeck line to 30.50.

In London trading there was a further drop in iron ore producer Ferrexpo (FXPO) that was likely associated with a court decision obligating the company's CEO and majority owner Constantine Zhevago to repay UAH 1.5bn (USD 60mn) of the National Bank's 2015 refinancing of Zhevago's insolvent Finance&Credit Bank. FXPO lost 8.8% to close at GBP 156 per share. MHP (MHPC) was also lower, falling 5.3% to USD 8.52 per share, which we believe is a reflection of investors' concerns regarding the company's debt policy.

Warsaw-listed Ukrainian agro companies were under selling pressure, with Kernel (KER) losing 2.4% to PLN 43.40 and Astarta (AST) sliding 9.3% to PLN 18.50.

The hryvnia was volatile last week, at one point losing as much as 5% and touching the 25 UAH/USD level before recovering to 24.85 UAH/USD, a loss of 3.0% for the week after the domestic currency's very strong performance in September. We suppose that the resignation of top reformer Oleksandr Danyliuk from President Zelenskiy's government created some concern among investors about Kyiv's chances of receiving a new IMF loan program.

## Highlights

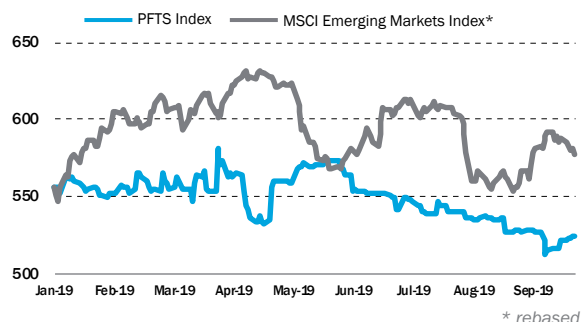
### POLITICS AND ECONOMICS

- > Nationalists Demonstrate Against Zelenskiy's Donbass Peace Plan
- > Sondland Emerges as Key Figure in Trump-Ukraine Scandal

### STOCKS IN THE NEWS

- > Kernel's FY19 Revenue Jumps 66% YoY, Tops USD 4bn

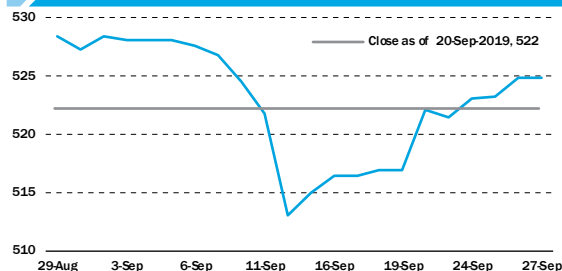
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	526	0.1%	-6.0%
RTS	1314	-1.8%	23.0%
WIG20	2119	-2.6%	-7.9%
MSCI EM	996	-0.5%	3.1%
S&P 500	2952	-0.3%	17.8%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	16.5%	0.0 p.p.	-1.5 p.p.
Ukraine-2024	6.9%	0.1 p.p.	-3.6 p.p.
Ukraine-2028	8.3%	0.4 p.p.	-2.5 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	24.85	3.0%	-10.2%
EUR	27.30	3.1%	-13.9%

## Nationalists Demonstrate Against Zelenskiy's Donbass Peace Plan

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

Several thousand demonstrators gathered on Kyiv's Independence Square on Monday (Oct 7) to protest President Zelenskiy's acceptance of the so-called "Steinmeier Formula" aimed at resolving the Donbass conflict and bringing the Russian-occupied territories in Donetsk and Lugansk provinces back under Ukrainian control. Under the plan, municipal elections should be conducted next year in the territories under Ukrainian supervision, and the territories should receive broad autonomous powers not granted to other Ukrainian provinces. Zelenskiy has repeatedly denied that the Steinmeier Formula represents a "capitulation" to Russian interests.

### COMMENTARY

It was inevitable that sooner rather than later, Zelenskiy would bump up against the same wall on the Donbass issue faced by his predecessor Petro Poroshenko: in order to achieve the stated aim of bringing the occupied Donbass territories back into Ukraine, it has always been necessary to promise linguistic and cultural autonomy for the overwhelmingly Russian-speaking populations living there. In our opinion, Poroshenko navigated the issue skillfully, choosing to accept an indefinitely "frozen" conflict rather than agreeing to Russian demands that would burden the Ukrainian state and call into question Kyiv's long-term pro-Western political orientation. The major advantage which Zelenskiy currently enjoys is that unlike Poroshenko, Zelenskiy has the backing of Interior Minister Arseniy Avakov and Igor Kolomoyskiy, who are the patrons of sizable non-government "volunteer" armed groups who have previously responded to proposals for a Donbass peace compromise with threats of violence. If Avakov and Kolomoyskiy keep their "volunteers" in check, it is likely that Zelenskiy will be able to move forward with his plan. However, whether the pro-Russian DNR/LNR armed formations will actually withdraw from the occupied territories ahead of any hypothetical 2020 election date, is highly questionable, we believe.

## Sondland Emerges as Key Figure in Trump-Ukraine Scandal

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

Gordon Sondland, the US Ambassador to the European Union, exchanged text messages with Trump administration Special Envoy Kurt Volker and acting US Ambassador to Ukraine William Taylor that indicated that a visit to the White House by President Zelenskiy was contingent on Zelenskiy pursuing criminal investigations against Trump's leading political opponent Joseph Biden, US media reported last week. The messages, which were provided to the US Congress by Volker following his resignation in late September and then released by Congress to the public, also implied that Trump tried to block USD 250mn in military aid to Ukraine amid Zelenskiy's reluctance to order politically motivated investigations that would have ramifications for US politics. Trump has repeatedly claimed that Ukraine tried to interfere in the 2016 US election to damage his campaign while denying US security agencies' unanimous conclusion that the Russian government was taking sustained, coordinated actions in 2016 to help Trump win the presidency. Trump ultimately released the military aid last month amid mounting pressure from an internal US investigation of his comments made to Zelenskiy during a July phone conversation.

### COMMENTARY

The scope of Sondland's role in trying to twist Zelenskiy's arm on politically motivated investigations, as well as his role in the Trump administration's Ukraine policy - which is not part of his brief as Ambassador to the EU - were not publicly well known until last week's release of the text communications. In response to a message from Ambassador Taylor on Sept 8 that it would be "crazy" to tie Kyiv's receipt of military aid to a criminal investigation of Biden, Sondland replied that Trump had not demanded any "quid pro quo" from Zelenskiy in return for releasing the aid; however, it should be noted that Sondland made this "no quid pro quo" claim well after he had become aware of the internal investigation into the Trump-Zelenskiy conversation, and he therefore probably realized by that point that his texts with Taylor were likely to become public. As for Trump's ongoing claim of "Ukrainian interference" in the 2016, we acknowledge that there indeed appear to have been some isolated efforts, in particular by MP Serhiy Leschenko and some elements in the independent Anti-Corruption Bureau (NABU), to influence the US election by publicizing damaging information about Trump's campaign manager Paul Manafort. However, we re-state our view that any such activities originating in Ukraine aimed at damaging Trump via Manafort were poorly organized and incompetent, and they ultimately ended up helping Trump's campaign more than they hurt it.

## Kernel's FY19 Revenue Jumps 66% YoY, Tops USD 4bn

by Dmitry Churin  
d.churin@eavex.com.ua

### KERNEL (KER PW)

Price: PLN 43.40 Market Cap: USD 900mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY19	0.7	0.4	4.8	4.6	2.3%
FY20E	0.6	0.3	4.0	3.9	2.3%

## NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, said its full-year revenue for the 2019 financial year topped USD 4bn, coming in 66% higher YoY (the company's financial year runs from July to June) at USD 3.99bn, according to figures published on Sept 30. Kernel's EBITDA increased by 56% YoY to USD 346mn and net profit jumped by 3.6x to USD 189mn in the period. In a segment breakdown, the sunflower oil business EBITDA was USD 109mn (+42% YoY), infrastructure and trading EBITDA was USD 106mn (+5% YoY), and the farming EBITDA reached USD 182mn (+ 100% YoY) for the financial year.

In the Apr-Jun quarter alone, the company had EBITDA of USD 61mn (+2.3x YoY) and a net loss of USD 1mn compared to net profit of USD 1mn in the same period of last year.

On the balance sheet side, Kernel's net debt amounted to USD 694mn as of 30 June 2019, implying a Net Debt/EBITDA ratio of 2.0x compared to 2.8x a year earlier.

### KERNEL FINANCIAL RESULTS

USD mn	4Q FY19	4Q FY18	YoY	FY19	FY18	YoY
Net revenue	934	789	+18%	3,992	2,403	+66%
EBITDA	61	27	+129%	346	223	+56%
EBITDA margin	6.5%	3.4%	+3.2 p.p.	8.7%	9.3%	-0.6 p.p.
Net Income	-1	1	+/-	189	52	+263%
Net margin	-0.1%	3.4%	-3.5 p.p.	4.7%	2.2%	2.6 p.p.

Source: Company data,

## COMMENTARY

We view Kernel's financial report for the Apr-Jun quarter as mixed. On the one hand, the company's EBITDA of USD 61mn in the period doubled our forecast, but on the other, the failure to show a bottom line profit was an unpleasant surprise for us.

For Kernel's 2020, we forecast that the company will further increase its revenue by 20% YoY to USD 4.75bn and will show net profit growth of 22% to USD 230mn. Improvements in the oilseed crushing margin and expected expansion in the company's grain trading operations are among our main assumptions for the bullish forecast. Kernel is by far the largest grain exporter from Ukraine, delivering 6.1mn tonnes of grain to international markets in its recently completed financial year.

Kernel's stock has fallen by 17% since its local maximum of PLN 52.30 seen in July. We suspect that investors have concerns that Kernel will face higher land leasing costs once Ukraine's farmland reform, which is a key promise of President Zelenskiy, starts to be implemented. The stock traded at PLN 43.40 on Friday, implying that forward P/E now stands at 4.0x.

**EAVEX RECOMMENDATIONS**

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	43.4	82.0	89%	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	8.5	16.5	94%	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	18.5	42.0	127%	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	2.56	12.0	369%	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	156	250	60%	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.
<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	150	270	80%	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	34.0	--	--	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	29.3	--	--	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	26.5	--	--	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	10.30	25.60	149%	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	0.305	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	526	0.2%	-6.0%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	156	-8.8%	-19.9%	1,129	1,411	24.0%	3.4	2.7	2.8	2.2	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.8	0.0%	50.0%	75	43	5.0%	4.2	15.2	2.1	4.0	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.6	-5.4%	-22.6%	186	177	3.8%	6.6	6.7	4.4	4.3	1.9
Motor Sich	MSICH	5,390	0.0%	0.0%	464	475	24.0%	10.1	8.8	5.0	4.8	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	150	-1.3%	11.5%	337	330	3.0%	1.4	0.6	0.9	0.3	0.1
Regal Petroleum	RPT	34.0	-2.9%	-46.0%	134	94	21.6%	3.2	13.4	1.7	4.3	1.9
JKX Oil	JKX	29.3	-0.7%	-25.8%	62	170	50.4%	4.0	3.4	5.5	5.0	1.5
<b>Power Utilities</b>												
Centrenergo	CEEN	10.30	-1.9%	-23.7%	158	137	21.7%	8.6	neg	3.6	56	0.2
Donbasenergo	DOEN	26.48	1.1%	-17.0%	26	28	14.2%	6.8	neg	1.2	4.1	0.1
<b>Consumer</b>												
MHP	MHPC	8.52	-5.3%	-21.1%	900	2,228	34.1%	7.0	4.1	5.0	4.7	1.1
Kernel	KER	43.40	-2.4%	-13.5%	865	1,559	61.8%	4.6	3.8	4.5	3.8	0.3
Astarta	AST	18.50	-9.3%	-21.3%	116	373	37.0%	neg	2.3	5.7	2.8	0.7
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	2.56	-7.9%	-36.0%	14	23	25.0%	1.0	1.5	1.7	1.8	0.4
<b>Banks</b>												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.305	1.7%	-10.3%	778		1.8%	4.2	3.6	1.9	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																
Centrenerg	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 (FY18, FY19, FY20E)	KER	2,403	3,992	4,750	223	346	405	9.3%	8.7%	8.5%	52	189	230	2.2%	4.7%	4.8%
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
<b>UAH denominated Bonds</b>									
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
<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



## Eavex Capital

7 Klovisky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: office@eavex.com.ua  
Web-page: www.eavex.com.ua

Yuriy Yakovenko  
**Chairman of the Board**  
yuriy.yakovenko@eavex.com.ua

### SALES & TRADING

Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
p.korovitsky@eavex.com.ua

Alexander Klymchuk  
**Equity and Fixed Income**  
a.klymchuk@eavex.com.ua

Eugene Klymchuk  
**Fixed Income Sales and Trading**  
e.klymchuk@eavex.com.ua

### RESEARCH

Dmitry Churin  
**Head of Research**  
d.churin@eavex.com.ua

Will Ritter  
**Research editor**  
w.ritter@eavex.com.ua

Investing in emerging markets' securities may entail certain risks. There may be limited information available on such securities. Securities of emerging markets' companies may be less liquid and their prices more volatile than securities of comparable developed markets' companies. In addition, exchange rate movements may have an adverse effect on the value of an investment.

This document is based on data we deem to be reliable, though we do not guarantee its accuracy or completeness and make no warranties regarding results from its usage. Forecasts are estimates by specialists working for us, and actual events may turn out to be fundamentally different due to unforeseen circumstances. This document is provided for information purposes only.

Copyright 2019 Eavex Capital. All rights reserved.

Securities and Stock Market State Commission licence, issued 06.10.2015