

**Stock Market Update**

**Equity**

Kyiv-listed stocks traded in a sideways trend last week amid an intensive political news flow from President Zelenskiy's first press conference. Among other things, Zelenskiy said he is not satisfied with the way provisions of the Minsk Agreements are being implemented and intends to raise this issue at a meeting of the leaders of the so-called Normandy-format countries (Ukraine, Germany, France, and Russia). The date of the next summit of the Normandy Four could be set by the end of the month.

The PFTS index ticked down by 0.1% to close virtually unchanged at 526 points. The two utility sector blue chips moved in opposite directions, with CentrEnergO (CEEN) declining by 3.7% to UAH 9.92 while DonbassEnergO (DOEN) gained 3.3% to UAH 27.36 per share. Raiffeisen Bank Aval (BAVL) edged up by 0.3% to 30.60 kopecks after information that the bank's net profit was UAH 3.16bn for 8M19 (5.13 kopecks per share). In individual PFTS index components, UkrNafta (UNAF) corrected by 1.3% to UAH 150 per share.

In London-listed Ukrainian stocks, Ferrexpo (FXPO) was again under pressure, falling 5.7% to GBP 147. Poultry producer MHP (MHPC) was also weak, slipping 0.9% to USD 8.44 per share.

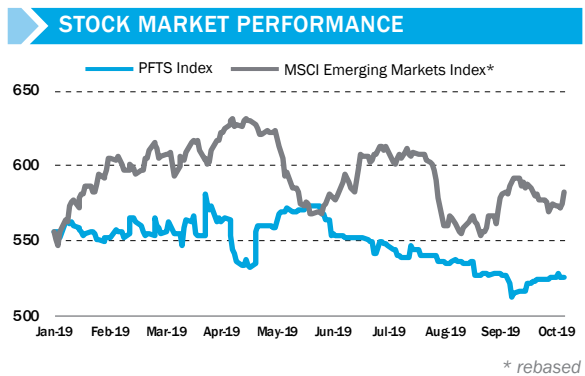
Warsaw-listed Ukrainian agro companies extended their losing streak, with Kernel (KER) decreasing by 3.3% to PLN 41.95 despite a report that the company's largest shareholder Andriy Verevsky purchased some 37,000 shares from the market in early October at an average price of PLN 42.74. The main reason behind the recent declines in Ukrainian agro stocks listed both in Warsaw and London is the impending land reform in Ukraine, which has raised concerns regarding the way in which large agro companies will operate their land banks. It obvious that these companies do not have the financial resources to purchase all of the land which they lease under the current system.

On the currency front, the hryvnia appreciated by 0.7% to 24.62 UAH/USD last week. The National Bank's admission that the country's foreign currency reserves fell by more than USD 500mn to USD 21.4bn in September appeared to have no influence on the market. Today UAH/USD pair traded at 24.82.

**Highlights**

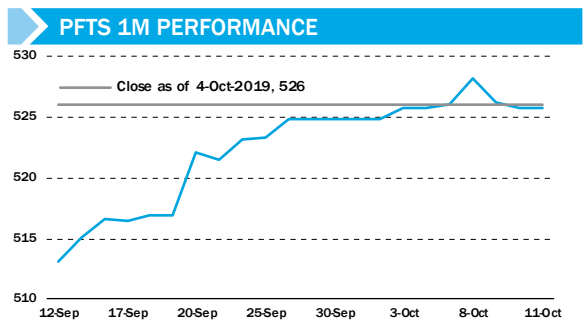
**POLITICS AND ECONOMICS**

- > Zelenskiy Declines to Provide Specifics on PrivatBank at First Open Press Event
- > Ukraine's Headline Inflation Slows to 3-Year Low of 7.5%



**MARKET INDEXES**

	Last	1W ch	YTD
PFTS	526	-0.1%	-6.0%
RTS	1324	0.8%	23.9%
WIG20	2154	1.7%	-6.4%
MSCI EM	1011	1.5%	4.7%
S&P 500	2966	0.5%	18.3%



**FIXED INCOME**

	Last	1W ch	YTD
NBU Key Rate	16.5%	0.0 p.p.	-1.5 p.p.
Ukraine-2024	6.8%	-0.1 p.p.	-3.7 p.p.
Ukraine-2028	8.0%	-0.3 p.p.	-2.8 p.p.

**CURRENCY**

	Last, UAH	1W ch	YTD
USD	24.82	-0.1%	-10.3%
EUR	27.36	0.2%	-13.7%

## Zelenskiy Declines to Provide Specifics on PrivatBank at First Open Press Event

by Will Ritter  
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### NEWS

President Zelenskiy held his first press conference since taking office on Thursday (Oct 10) at a mall in central Kyiv. The event was open to all accredited journalists and ran for 14 hours, with Zelenskiy taking some 300 questions. The most popular topic was Zelenskiy's plan for resolving the Donbass conflict, with the President denying that the so-called "Steinmeier Formula" for returning the occupied territories to Ukrainian control entails granting "autonomy" to the region. Another key topic was the land reform promised by the president, which would legalize the sale of farmland; Zelenskiy said that in the initial stage of the reform, only Ukrainians and not foreigners would be allowed to buy land "for a couple of years". The land market is due to come into effect on 1 Oct 2020. Also, Zelenskiy refused to give specific guidance on how he intends to handle the issue of PrivatBank, the country's largest retail financial institution, as former owner Igor Kolomoyskiy continues to challenge the bank's nationalization in court. The President said only that he "will defend the interests of the state". An important ruling in the PrivatBank case could come later this week, with observers stating that a decision in Kolomoyskiy's favor is likely.

### COMMENTARY

Zelenskiy's marathon press conference was similar to the style used by Russian President Putin and Belarusian President Lukashenko, i.e. a single long press session held roughly once a year in lieu of shorter but more regular and frequent interactions with the media. This post-Soviet media strategy has the advantage of diluting negative reactions to the leaders' comments, as there is simply too much material to cover at one time. Still, we must admit that Zelenskiy fared quite well overall, gave the impression of being serious and adequately informed, and seemed to avoid any major mistakes. As we wrote last week, we believe that Zelenskiy's success on the Donbass issue will largely depend on the willingness of Kolomoyskiy and Interior Minister Arseniy Avakov to rein in the paramilitary groups which they sponsor and which adamantly oppose a Ukrainian withdrawal from the conflict zone. In general, however, even initial success on the peace plan will ultimately lead to many more questions, as Ukraine does not have the financial resources to rebuild the Donbass on its own. On PrivatBank, we can only assume that Zelenskiy is trying to kick the can down the road in hopes that the International Monetary Fund will offer his government some leeway in the event that Ukraine's courts do not hold Kolomoyskiy accountable for siphoning billions of dollars out of the bank via insider lending schemes.

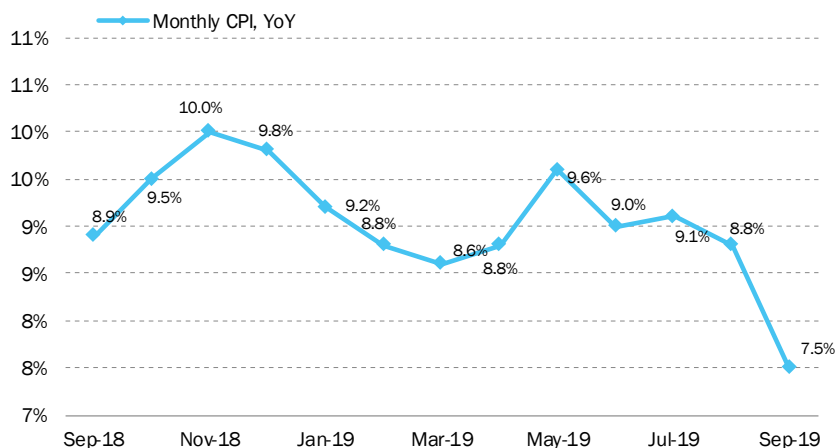
**Ukraine's Headline Inflation Slows to 3-Year Low of 7.5%**

by Dmitry Churin  
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**NEWS**

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month inflation slowed to 7.5% in September from 8.8% in August and 9.1% in July, according to data released on Oct 9. On a monthly basis, there was a rise in the consumer price index by 0.7% after three consecutive monthly deflations. For 9M19 (a slightly different measurement of full-year inflation than the 12-month rolling figure) the CPI index growth was at 8.8% YoY.

**UKRAINE'S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

As we expected, the seasonal consumer deflation came to an end in September, but with inflation for the month much lower than a year ago, the high comparison base led to a slowdown in the year-on-year inflation figure. The announced headline inflation for September of 7.5% is the lowest in Ukraine since June 2016, when it was 6.9%. Among individual consumer price basket categories, there was a notable 9.9% MoM increase in education services which are traditionally related to the start of the new school year. In the heavily weighted food category, prices grew by 0.3% MoM in September. On a yearly basis the food inflation was 9.1% while the aggregate utility service price index increased by 5.4% in the reported period.

We reiterate our expectation that the National Bank will cut its key refinancing rate at the next monetary board meeting scheduled on Oct 24, with a reduction by 100 bps from the current 16.50% to 15.50%.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	42.0	82.0	95%	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	8.4	16.5	95%	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	17.1	32.0	87%	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	2.35	12.0	411%	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	147	250	70%	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	151	270	79%	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	27.4	-	-	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	9.92	25.60	158%	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	0.306	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	526	-0.1%	-6.0%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	147	-5.8%	-24.5%	1,095	1,377	24.0%	3.3	2.6	2.7	2.2	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	16.2	2.9%	54.3%	75	43	5.0%	4.2	15.3	2.1	4.1	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.6	0.0%	-22.6%	181	172	3.8%	6.5	6.6	4.3	4.2	1.8
Motor Sich	MSICH	5,390	0.0%	0.0%	453	474	24.0%	9.8	-16.8	5.0	30.8	1.3
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	151	0.7%	12.3%	332	325	3.0%	1.4	0.6	0.9	0.3	0.1
Regal Petroleum	RPT	34.0	0.0%	-46.0%	138	98	21.6%	3.3	13.8	1.8	4.5	2.0
JKX Oil	JKX	29.3	0.0%	-25.8%	64	172	50.4%	4.2	3.5	5.6	5.1	1.5
<b>Power Utilities</b>												
Centrenergy	CEEN	9.92	-3.7%	-26.5%	148	128	21.7%	8.1	neg	3.4	52	0.2
Donbasenergy	DOEN	27.36	3.3%	-14.3%	26	29	14.2%	6.8	neg	1.2	4.1	0.1
<b>Consumer</b>												
MHP	MHPC	8.44	-0.9%	-21.9%	892	2,219	34.1%	7.0	4.1	4.9	4.7	1.1
Kernel	KER	41.95	-3.3%	-16.4%	853	1,547	61.8%	4.5	3.7	4.5	3.8	0.3
Astarta	AST	17.10	-7.6%	-27.2%	109	366	37.0%	neg	2.1	5.6	2.7	0.7
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	2.35	-8.2%	-41.3%	13	22	25.0%	1.0	1.4	1.6	1.7	0.4
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.306	0.3%	-10.0%	762		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
<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	354	156	96	15	35.8%	21.2%	4.3%	117	46	-27	26.8%	10.2%	-7.6%
<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 (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%
<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>									
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

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