

Stock Market Update

Equity

Kyiv-listed stocks ended mostly lower last week as the corporate earnings reports for the third quarter released thus far have not provided investors with any fresh inspiration. Blue chip CentrEnergy (CEEN) was the biggest disappointment, as the state-owned electricity generation company posted a net loss of UAH 291mn for 3Q19, extending its overall year-to-date (9M19) net loss to UAH 1.49bn. The CEEN stock fell 4.2% to UAH 9.50. Raiffeisen Bank Aval (BAVL) reported a net profit of 1.82 kopecks per share, which also missed the market's expectations. However, the stock declined by only 0.6% to 30.80 kopecks. UkrNafta (UNAF), which has not published its 3Q19 financial results yet, traded at UAH 144 last week.

The PFTS index remained virtually unchanged for the third week in a row, sitting at 522 points.

London-listed Ferrexpo (FXPO) shed 0.8% to GBp 130 after plunging to as low as GBp 120 per share in mid-week trading on continued concerns about Ukrainian criminal charges facing majority owner Constantine Zhevago. The company is now valued at less than 3.0x P/E. The FXPO stock traded above GBp 200 level as recently as September.

In London, MHP (MHPC) was once again under pressure, losing 1.2% to close at USD 8.44 per share. Meanwhile, natural gas producer JKN Oil&Gas (JKX) extended its winning streak, gaining 2.8% to GBp 29.50 after the company won a court case against Ukraine's government regarding USD 2.3mn in unpaid production taxes.

Two Warsaw-listed Ukrainian agro stocks demonstrated strong gains, with sporadically-traded Agrotan (AGT) jumping by 47% to PLN 3.83 and beaten-down Astarta (AST) rebounding by 5.1% to PLN 17.60. However, top liquid name Kernel (KER) was sluggish, edging down by 0.4% to PLN 42.50.

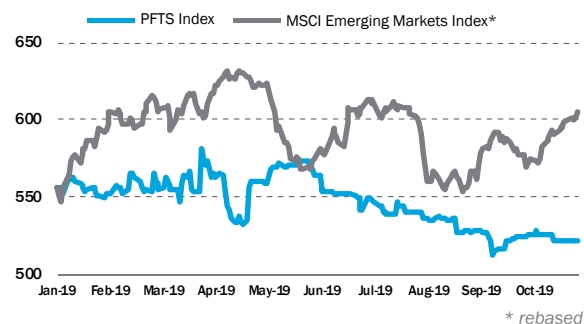
On the interbank currency market, the hryvnia added 1.2% to 24.83 UAH/USD.

Highlights

STOCKS IN THE NEWS

- > CentrEnergy Posts 3Q Loss of UAH 291mn Amid Low Electricity Tariff
- > Raiffeisen Aval Reports 3Q EPS of 1.82 Kopecks, Missing Expectations
- > TurboAtom's 9M19 Profit Down 34% YoY to UAH 377mn

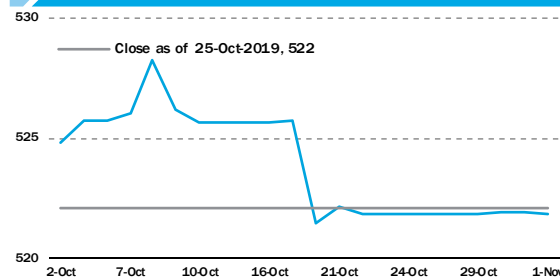
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	522	0.0%	-6.7%
RTS	1455	2.2%	36.1%
WIG20	2235	2.3%	-2.9%
MSCI EM	1049	1.4%	8.6%
S&P 500	3066	1.5%	22.3%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
Ukraine-2024	6.6%	0.0 p.p.	-3.9 p.p.
Ukraine-2028	7.1%	-0.6 p.p.	-3.7 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.83	-1.2%	-10.3%
EUR	27.74	-0.5%	-12.5%

CentrEnergO Posts 3Q Loss of UAH 291mn Amid Low Electricity Tariff

by Dmitry Churin
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CENTRENERGO (CEEN UK)

Price: UAH 9.50 Market Cap: USD 141mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.6	0.2	7.7	3.2	6.5%
2019E	0.6	0.2	neg	neg	0.0%

NEWS

CentrEnergO, Ukraine's largest thermal electricity generation company by installed capacity, had a net loss of UAH 291mn in 3Q19 compared to its net profit of UAH 50mn in 3Q18, according to financials published on Oct 31. On the top line, the company's net revenue increased by 13% YoY to UAH 3.64bn while EBITDA turned into negative territory, amounting to UAH -211mn for the period, compared to EBITDA of UAH 149mn for 3Q18. For 9M19, CentrEnergO's net loss was UAH 1.49bn, compared to net profit of UAH 490mn a year earlier.

On the balance sheet side, the company had a net cash position of UAH 506bn as of 30 Sept 2019.

CENTRENERGO'S FINANCIAL RESULTS

UAH mn	3Q19	3Q18	2Q19	QoQ	YoY	9M19	9M18	YoY
Net revenue	3,643	3,375	3,229	+13%	8.0%	10,902	11,349	-3.9%
EBITDA	-211	149	-1,348	+/-	+/-	-1,442	853	+/-
EBITDA margin	-5.8%	4.4%	-41.7%	+36 p.p.	-10.2 p.p.	-13.2%	7.5%	-20.7 p.p.
Net Income	-291	50	-1,348	+/-	+/-	-1,488	490	+/-
Net margin	-8.0%	1.5%	-41.7%	+34 p.p.	-9.5 p.p.	-13.6%	4.3%	-18.0 p.p.

Source: Company data,

COMMENTARY

Unfortunately this dismal 3Q result will probably end CentrEnergO's impressive multi-year streak of paying a substantial dividend to minority shareholders, as in our opinion it is now impossible that the company will end 2019 with a net profit. The company has had two consecutive quarters of substantial net losses as a result of low thermal electricity tariffs combined with the unavailability of cheap steam coal on the market. CentrEnergO uses intermediary traders for coal purchases, which has often resulted in inflated prices for the fuel. Another worrying development is that CentrEnergO's liabilities have grown sharply this year, with accounts payable rising by almost four times to UAH 2.36bn since the start of the year. In the same period, the company's inventories fell by half to UAH 454mn. This resulted in negative working capital of UAH 1.05bn at the end of 3Q19 compared to positive working capital of UAH 730mn at the start of the year.

Although historically CentrEnergO has had a poor financial performance in the fourth quarter, we believe that 4Q19 will be profitable for the company. We forecast that CentrEnergO will earn UAH 370mn in net profit. Nevertheless, for the full year, this will imply a net loss of UAH 1.12bn.

Raiffeisen Aval Reports 3Q EPS of 1.82 Kopecks, Missing Expectations

by Dmitry Churin
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RAIFFEISEN BANK AVAL (BAVL UK)

Price: UAH 0.308 Market Cap: USD 763mn

	P/Assets	P/Book	P/E	Div. Yield
2018	0.31	1.8	4.1	19%
2019E	0.32	1.7	4.5	23%

NEWS

Raiffeisen Bank Aval, the Ukrainian subsidiary of Austria-based Raiffeisen International, posted a net profit of UAH 1.12bn for 3Q19, representing earnings per share of 1.82 kopecks, or 15% less than in the same period a year ago, according to financials published on Thursday (Oct 31). Raiffeisen Aval's gross interest income rose by 9.4% YoY while net interest income declined by 3.4% YoY to UAH 1.78bn in the period. For 9M19, the bank reported a decrease in net profit by 14% YoY to UAH 3.50bn, implying EPS of 5.70 kopecks.

On the balance sheet side, the bank's loan portfolio decreased by 5.4% YtD to UAH 44.3bn, while its total assets grew by 4.0% YtD to UAH 76bn (USD 3.16bn).

COMMENTARY

Raiffeisen Aval's reported EPS of 1.82 kopecks for 3Q19 missed our forecast of EPS of 2.70 kopecks. The main reason for this weaker-than-expected result for the quarter was a surprising 50% YoY surge in the bank's interest expenses amid the modest 9.4% increase in gross interest income. We were also disappointed by the bank's loan portfolio decrease since the start of the year, but this development could be partly justified by the stronger hryvnia, which has risen from 27.70 UAH/USD at the beginning of 2019 to 24.08 UAH/USD at the end of September; this has devalued the foreign currency assets of Ukrainian banks in the hryvnia terms. Nevertheless, we see that Raiffeisen Aval's balance sheet looks very healthy, with an equity-to-asset ratio of 15.3% on the reported date.

The lower-than-expected net profit for 3Q19 has forced us to revise our forecast for Raiffeisen Aval's full-year profit down from 10.08 kopecks to 7.81 kopecks per share. The bank, in which Raiffeisen holds an ownership stake of some 68%, has paid out almost all of its annual profit in dividends in recent years. The EBRD holds a 30% stake, with around 2% percent free-floating and/or held by minority shareholders.

The Kyiv-listed BAVL stock had a neutral reaction to the publication of the 3Q19 financial results, with quotes remaining in a bid/ask corridor of 30.50 - 31.50 kopecks.

TurboAtom's 9M19 Profit Down 34% YoY to UAH 377mn

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TURBOATOM (TATM UK)

Price: UAH 10.60 Market Cap: USD 180mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.9	1.9	6.4	4.4	11.7%
2019E	0.8	1.7	5.9	4.4	12.6%

NEWS

Kharkiv-based TurboAtom, a state-owned manufacturer of equipment for thermal, hydro and nuclear power plants, reported a decline in net profit of 34% YoY to UAH 377mn for 9M19 (USD 14mn at the average UAH/USD rate). The implied earnings per share for the period were UAH 0.89, compared to EPS of UAH 1.34 for 9M18. On the top line, the company's sales rose by 29% to UAH 2.33bn while EBITDA decreased by 9.3% to UAH 781mn. TurboAtom had no interest-bearing debt as of 30 Sept 2019, while its cash balance was UAH 77mn as of the reporting date.

TURBOATOM FINANCIALS			
UAH mn	9M19	9M18	chg.
Net revenue	2,330	1,812	28.5%
EBITDA	781	861	-9.3%
<i>margin</i>	33.5%	47.5%	-14.0 p.p.
Net Income	377	568	-33.5%
<i>net margin</i>	16.2%	31.3%	-15.1 p.p.

Source: Company data.

COMMENTARY

TurboAtom's, in which the Ukrainian government holds a controlling 75.2% stake, reported net profit of UAH 0.89 per share for 9M19 was below our expectation; we projected that the company would earn UAH 1.89 for full-year 2019. This forecast now looks quite optimistic, but taking into account the nature of the machinery equipment production business, the lower profit could be due to some delays in TurboAtom's order deliveries. This means that the company could still reach our profit forecast for FY19 in case of a successful 4Q.

The Kyiv-listed TATM stock is currently trading at bid/ask of UAH 10.80/UAH 11.10 per share. In terms of last 12-month EBITDA, the company is now valued at EV/EBITDA of 4.7x.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	42.5	82.0	93%	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	17.6	32.0	82%	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	3.83	12.0	213%	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	130	250	92%	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	144	270	88%	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	28.2	--	--	U/R	Natgas extractor Regal Petroleum (RPT) got hammered, plunging 30% 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						
DonbasEnergO	DOEN	26.6	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergO	CEEN	9.50	25.60	169%	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 10 per share after yet another failed attempt to privatize the company. Persisting uncertainty about whether CentrEnergO 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 CentrEnergO more attractive for privatization.
Banks						
Raiffeisen Bank Aval	BAVL	0.308	0.47	53%	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 4.8bn in net profit in FY19, which would imply earnings per share of 7.8 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	522	0.0%	-6.7%								
Iron Ore Mining												
Ferrexpo	FXPO	130	-0.8%	-33.2%	987	1,269	24.0%	2.9	2.4	2.5	2.0	0.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.4	1.5%	56.6%	76	44	5.0%	4.2	15.5	2.2	4.1	0.2
Specialized Machinery												
Turboatom	TATM	10.6	-0.2%	-22.8%	180	177	3.8%	6.4	5.9	4.4	3.9	1.7
Motor Sich	MSICH	5,390	0.0%	0.0%	451	472	24.0%	9.8	-16.8	4.9	30.7	1.3
Oil & Gas												
UkrNafta	UNAF	144	-1.4%	7.1%	314	308	3.0%	1.3	0.5	0.9	0.3	0.1
Regal Petroleum	RPT	28.2	-2.4%	-55.2%	117	77	21.6%	2.8	11.7	1.4	3.5	1.5
JKX Oil	JKX	29.5	2.8%	-25.3%	65	174	50.4%	4.3	3.6	5.6	5.1	1.6
Power Utilities												
Centrenergy	CEEN	9.50	-4.2%	-29.6%	141	121	21.7%	7.7	neg	3.2	-4	0.2
Donbasenergy	DOEN	26.62	0.0%	-16.6%	25	28	14.2%	6.6	neg	1.2	4.0	0.1
Consumer												
MHP	MHPC	8.44	-1.2%	-21.9%	892	2,219	34.1%	7.0	4.1	4.9	4.7	1.1
Kernel	KER	42.50	-0.4%	-15.3%	887	1,581	61.8%	4.7	3.9	4.6	3.9	0.3
Astarta	AST	17.60	5.1%	-25.1%	115	372	37.0%	neg	2.2	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	3.83	47.3%	-4.3%	22	31	25.0%	1.6	2.3	2.2	2.4	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.308	-0.6%	-9.4%	763		1.8%	4.1	4.5	1.8	1.7	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	104	37	40	45	42.6%	43.1%	43.6%	26	28	30	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%
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	529	104	38	-34	25.2%	7.1%	-6.4%	71	18	-39	17.3%	3.4%	-7.4%
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	437	234	239	253	169	187	168	41.8%	44.6%	38.5%

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			16.50%	14.75%	n/a	n/a	S/A	04 Mar 2020	n/a
UA4000198006			16.75%	15.10%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			16.75%	15.10%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			5.40%	3.50%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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