

Stock Market Update

Equity

Ukrainian equities listed in Kyiv traded mixed over the week with quotes for most blue chips remaining in their recent corridors. The PFTS index lost 0.9% to close at 517 points on a 6.5% drop in DonbasEnergy (DOEN). The stock headed south to UAH 24.90 after the company reported a net loss of UAH 2.93 per share for 9M19. Meanwhile, UkrNafta (UNAF) showed no reaction to its latest poor earnings report, sitting at UAH 145 per share after the company posted a third-quarter net loss of UAH 382mn. On the upside, CentrErgo (CEEN) gained 4.4% to UAH 9.92 per share which we view as a rather technical rebound amid the stock's 27% decline since the start of the year. Raiffeisen Bank Aval (BAVL) was unchanged at 30.80 kopecks.

London-listed Ferrexpo (FXPO) edged up by 0.7% to GBP 131 after dipping as low as GBP 120 at midweek in volatile trading as the stock searches for its bottom. MHP (MHPC) rose 1.4% to USD 8.56 while natural gas producer JKC Oil&Gas (JKX) slipped by 0.7% to GBP 29.30 after strong gains over the preceding weeks.

In Warsaw trading, Astarta (AST) and Agroton (AGT) both extended their rebound. Astarta surged by 12% to PLN 19.80 and Agroton advanced by 13% to PLN 4.33 after a 47% jump in late October. Top liquid name Kernel (KER) remained sluggish, declining by 1.1% to PLN 42.00 amid statistics indicating that Ukrainian sunflower oil exports have grown by only a moderate 3.4% YoY to USD 3.0bn this season so far. India was the major importer of Ukrainian sunflower oil, accounting of 31% of deliveries.

On the interbank currency market, the hryvnia gained 1.2% to 24.53 UAH/USD. The National Bank reported that the country's foreign currency reserves were almost unchanged on a monthly basis, standing at USD 21.4bn as of Nov 1. A steady supply of foreign currencies from Ukrainian exporters and foreign portfolio investors provided the NBU with an opportunity to replenish the reserves by USD 194mn in net forex purchases. Overall, the NBU bought foreign currencies in the equivalent amount of USD 425mn last month, while selling USD 231mn in order to prevent any volatile hryvnia appreciation by intervening at a single exchange rate.

Highlights

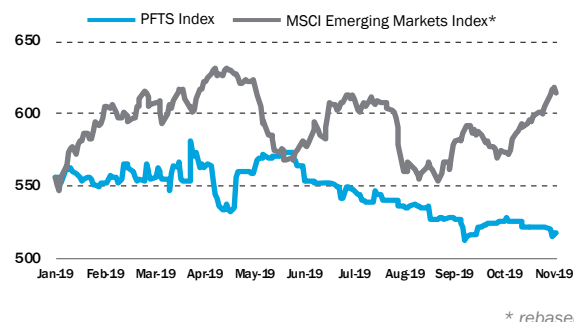
POLITICS AND ECONOMICS

- > Key Trump Ally Erik Prince Interested in Motor Sich Purchase

STOCKS IN THE NEWS

- > UkrNafta Reports 3Q Loss of UAH 382mn After Oil Auction Failures

STOCK MARKET PERFORMANCE

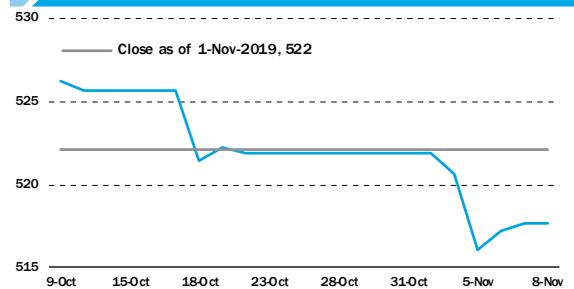


* rebased

MARKET INDEXES

	Last	1W ch	YTD
PFTS	517	-0.9%	-7.6%
RTS	1457	0.1%	36.3%
WIG20	2255	0.9%	-2.0%
MSCI EM	1065	1.5%	10.3%
S&P 500	3093	0.9%	23.4%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
Ukraine-2024	6.7%	0.1 p.p.	-3.8 p.p.
Ukraine-2028	7.1%	0.0 p.p.	-3.7 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.53	-1.2%	-11.4%
EUR	27.09	-2.3%	-14.6%

Key Trump Ally Erik Prince Interested in Motor Sich Purchase

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NEWS

A billionaire political ally of US President Trump, Erik Prince, is interested in purchasing the Zaporizhia-based Motor Sich aviation production complex, the Wall Street Journal reported last week. The report stated that earlier this year, Prince visited the plant in Eastern Ukraine along with acting US Ambassador William Taylor, and that Prince has made 9 trips to Ukraine since 2014. China-based company Skyrizon Aviation allegedly acquired Motor Sich, which has a significant free float on Ukraine's equity market, from its previous majority owner sometime in 2017 or early 2018, although no details about the transaction have ever been made public. Around the time of the transaction, Ukraine's securities regulator froze trading in the Motor Sich stock for unknown reasons, and trading has still not been resumed. President Zelenskiy said on Thursday (Nov 7) that he knew nothing about Prince's discussions about buying the company and only found out about it via the news media. Erik Prince was an informal advisor and a major donor to Trump's 2016 presidential campaign, giving it a reported USD 250,000.

COMMENTARY

The Wall Street Journal's article on Prince's interest in Motor Sich attracted a lot of attention, but it failed to clarify a key question, i.e. what is the current ownership status of the company. According to official registration documents, no entity currently owns a stake larger than 25% in Motor Sich, thus eliminating the company's legal obligation to identify its shareholders. However, we assume that Skyrizon and its ultimate beneficiary Jing Wang have already completed the purchase of the company from its previous majority owner (longtime CEO Viacheslav Boguslaev) and are in effective control of it. This implies that Prince's bid for Motor Sich would have to involve the annulment of Boguslaev's sale to Skyrizon. This could theoretically occur on the basis of a ruling by Ukraine's Anti-Monopoly Committee, which never approved the sale. As for Prince himself, he is a highly politicized figure associated with religious fundamentalists in the US who are a key pillar of the Trump coalition and who, like Trump himself, generally hold pro-Russian views. Prince also has extensive business operations in China, which makes the Trump administration line that it is trying to prevent Chinese control of Motor Sich look a bit strange, and we are unsure about whether to take this claim at face value. We can't rule out that Prince, whose net worth is listed at USD 2.4bn, is acting as a frontman for some other unidentified interests, as the whole story as the WSJ presented it does not seem to add up. Motor Sich has suffered from financial difficulties this year as its sales to its key clients in Russia have been declining for several years; the Poroshenko administration had instituted a ban on the company's (largely military-related) sales to Russia back in 2014 but did not immediately enforce it. Through September, the formerly highly-profitable company reported a net loss of UAH 525mn (USD 20mn) for 2019. According to the most recent trading in the MSICH stock before it was frozen in April 2018, the company is valued at some USD 470mn.

UkrNafta Reports 3Q Loss of UAH 382mn After Oil Auction Failures

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 145 Market Cap: USD 321mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.3	0.2	1.4	0.9	n/a
2019E	1.1	0.2	11.1	3.0	n/a

NEWS

UkrNafta, Ukraine's largest oil producer, reported a 3rd-quarter net loss of UAH 382mn compared to its net profit of UAH 2.67bn in 3Q18, according to financials published on Nov 5. This brought the company's year-to-date net loss (through 9M19) to UAH 364mn, compared to a net profit of UAH 4.73bn a year earlier. EBITDA for 9M19 plunged seven-fold to UAH 994mn amid a 21% YoY drop in revenue to UAH 27.1bn. On the balance sheet side, UkrNafta reported no interest-bearing debt as of 30 Sept 2019, but acknowledged that its accrued tax debt remained at UAH 11.4bn (USD 473mn).

UKRNAFTA FINANCIAL RESULTS

UAH mn	3Q19	3Q18	2Q19	QoQ	YoY	9M19	9M18	YOY
Net revenue	7,438	10,292	7,182	+3.6%	-28%	21,320	27,054	-21%
EBITDA	134	3,004	100	+34%	-96%	994	6,802	-85%
EBITDA margin	1.8%	29.2%	1.4%	+0.4 p.p.	-27.4 p.p.	4.7%	25.1%	-20.5 p.p.
Net Income	-382	2,665	-278	+/-	+/-	-364	4,726	+/-
Net margin	-5.1%	25.9%	-3.9%	-1.3 p.p.	-31.0 p.p.	-1.7%	17.5%	-19.2 p.p.

Source: Company data,

COMMENTARY

UkrNafta's awful financial results this year are mainly due to a breakdown in the way in which it brings its oil to the market. The company has long been obligated to sell its extracted oil at monthly auctions, at which the main buyer is its minority shareholder Privat Group. UkrNafta admitted that in the January-September period, only 7 out of the 15 scheduled auctions actually took place. This failure to sell a substantial fraction of extracted crude oil has led to excessive inventories and disruptions in the operational cycle. Despite the drop in sales, UkrNafta has actually increased its crude output this year by 5.3% YoY to 1.13mn tonnes (8.2mn barrels) as of 9M19. Another reason for UkrNafta's net loss for 9M19 was an allocation of UAH 2.6bn into accounting reserves to cover part of the unpaid production taxes from 2014-15. With the appearance of UkrNafta's 3Q19 earnings report, we are lowering our initial forecast for the company's full-year profit. Previously our bullish profit forecast was based on the announced deal between UkrNafta and state natural gas giant NaftoGaz regarding a large payment from NaftoGaz as part of a complex deal to resolve UkrNafta's tax debt problem, but the government appears to be blocking this arrangement, as it would be costly to the national budget. This implies that UkrNafta is likely to continue to be weighed down by the huge tax debt and the penalties which the State Fiscal Service is accruing on this debt. In our estimation, if UkrNafta manages to unload its excessive oil inventories in 4Q19, the company will earn UAH 1.1bn in net profit in the Oct-Dec quarter, implying a rather small full-year net profit of UAH 750mn or UAH 13.83 per share. Although UkrNafta did not impress with its 3Q financials, we remain bullish on the UNAF stock. Our target price is unchanged at UAH 270 per share as we believe that the company will increase its revenue and profitability in the medium term.

The UNAF stock is quoted near UAH 145, with the latest earnings report having little visible impact on the price.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	42.1	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	8.6	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	19.8	32.0	62%	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	4.33	12.0	177%	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	131	250	91%	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	145	270	86%	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	29.3	--	--	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.
Power Utilities						
DonbasEnergO	DOEN	24.9	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergO	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 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	517	-1.0%	-7.6%								
Iron Ore Mining												
Ferrexpo	FXPO	131	0.8%	-32.7%	995	1,277	24.0%	3.0	2.4	2.5	2.0	0.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.4	0.0%	56.6%	77	45	5.0%	4.3	15.7	2.2	4.2	0.2
Specialized Machinery												
Turboatom	TATM	10.7	1.4%	-21.7%	185	182	3.8%	6.6	6.1	4.5	4.0	1.7
Motor Sich	MSICH	5,390	0.0%	0.0%	457	485	24.0%	9.9	-33.9	5.1	26.3	1.4
Oil & Gas												
UkrNafta	UNAF	145	0.7%	7.8%	321	314	3.0%	1.4	11.1	0.9	3.0	0.2
Regal Petroleum	RPT	28.2	0.0%	-55.2%	117	77	21.6%	2.8	11.7	1.4	3.5	1.5
JKX Oil	JKX	29.3	-0.7%	-25.8%	65	173	50.4%	4.2	3.5	5.6	5.1	1.6
Power Utilities												
Centrenergo	CEEN	9.92	4.4%	-26.5%	149	129	21.7%	8.1	neg	3.4	-4	0.2
Donbasenergo	DOEN	24.90	-6.5%	-22.0%	24	23	14.2%	6.3	neg	1.0	3.3	0.1
Consumer												
MHP	MHPC	8.56	1.4%	-20.7%	905	2,232	34.1%	7.1	4.1	5.0	4.7	1.1
Kernel	KER	42.05	-1.1%	-16.2%	870	1,564	61.8%	4.6	3.8	4.5	3.9	0.3
Astarta	AST	19.80	12.5%	-15.7%	129	386	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	4.33	13.1%	8.3%	24	34	25.0%	1.8	2.6	2.4	2.6	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.308	-0.1%	-9.5%	772		1.8%	4.1	4.6	1.8	1.8	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	18	35.8%	21.2%	5.2%	117	46	-13	26.8%	10.2%	-3.8%
Oil & Gas																
Ukrnafta	UNAF	1,011	1,328	1,327	67	350	105	6.6%	26.4%	7.9%	4	237	29	0.4%	17.8%	2.2%
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																
Centrenergo	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			16.00%	14.20%	n/a	n/a	S/A	04 Mar 2020	n/a
UA4000198006			16.25%	14.50%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			16.25%	14.50%	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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