

Stock Market Update

Equity

Ukrainian stocks were broadly lower last week despite encouraging macroeconomic statistics indicating that the country's GDP rose by a solid 4.2% YoY in 3Q19. The growth notably exceeds the latest expectations for 3.7% YoY expansion in the quarter.

Heavyweight blue chip CentrEnergO (CEEN) was the major drag on the gauge, falling by 7.3% to UAH 9.20 after the company lost a court case against one of its coal suppliers and now is facing penalties of UAH 740mn (USD 30mn). DonbasEnergO (DOEN) was also in the red, with the stock dropping by 3.6% to UAH 24.00.

UkrNafta (UNAF) remained almost flat at UAH 146 per share, while Raiffeisen Bank Aval (BAVL) shed 1.5% to 30.30 kopecks amid a scandal regarding the arrest of CEO Olexander Pizaruk, who has been accused of corrupt activity during his tenure as deputy head of the National Bank in 2014-2016.

London-listed Ferrexpo (FXPO) remained volatile but finished the week essentially unchanged near GBP 130. The worsening outlook for iron ore prices has put new pressure on the stock, preventing its rebound from the sharp drop prior months due to the legal difficulties of majority owner Constantine Zhevago. MHP (MHPC) finally climbed back to USD 9.00, gaining 5.1% for the week. Sporadically-traded Avangard (AVGR) slumped 20% from 25 to 20 US cents per share. The once-high-flying agro stock had an IPO price of USD 11 back in 2010.

In Warsaw trading, Ukrainian agro companies saw a sell-off after Parliament passed a bill to open up a farmland market in the country. Although there are fears that agro producers will now be forced to pay more to rent their land banks, we strongly believe that the farmland reform will ultimately add value to agro holdings. Kernel (KER) declined by 3.4% to PLN 40.60, Astarta (AST) tumbled 17% to PLN 16.50, and Agroton (AGT) lost 7.6% to PLN 4.00.

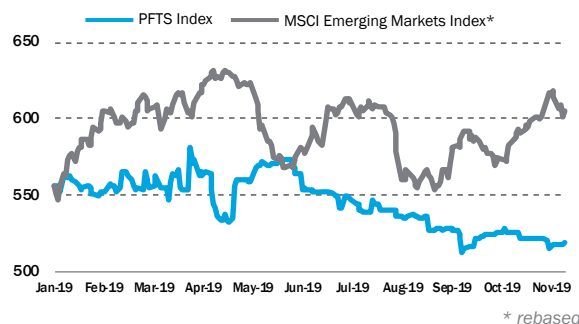
On the interbank currency market, the hryvnia was strong, advancing by 1.6% to 24.14 UAH/USD. Still, over the medium term, we are expecting a moderate devaluation of the currency of around 10% to 27 UAH/USD over the coming year or so.

Highlights

POLITICS AND ECONOMICS

- > Kolomoyskiy Threatens West, Makes Shocking Pro-Russian Statements
- > Ukraine Passes Law to Launch Long-Awaited Farmland Market
- > Ukraine's Consumer Inflation Stands at 6.5% YoY in October Declining from 7.5% in September

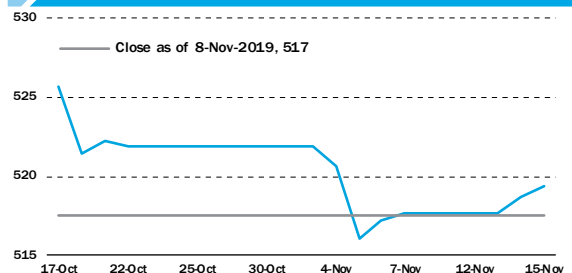
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	519	0.4%	-7.2%
RTS	1443	-1.0%	35.0%
WIG20	2237	-0.8%	-2.8%
MSCI EM	1048	-1.6%	8.5%
S&P 500	3120	0.9%	24.5%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
Ukraine-2024	6.8%	0.1 p.p.	-3.7 p.p.
Ukraine-2028	7.2%	0.1 p.p.	-3.6 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.14	-1.6%	-12.8%
EUR	26.70	-1.4%	-15.8%

Kolomoyskiy Threatens West, Makes Shocking Pro-Russian Statements

by Will Ritter
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NEWS

Billionaire industrialist Igor Kolomoyskiy threatened Europe and Poland with “a new Warsaw Pact” in a wide-ranging interview with the New York Times published last week. Kolomoyskiy said financing from Russia could replace loans from the IMF, which has held up funding on concerns about Kolomoyskiy’s alleged theft from PrivatBank prior to its nationalization in 2016. “We’ll take USD 100bn from the Russians. I think they’d love to give it to us today,” Kolomoisky said. He also complained that Ukraine has no chance to enter the European Union or NATO, but that “Russia would love to bring us into a new Warsaw Pact... Russian tanks will be stationed near Krakow and Warsaw.” Kolomoyskiy said that he is determined to either regain ownership of PrivatBank, the country’s largest retail financial institution, or receive compensation from the state.

COMMENTARY

We note that during his 4-year tenure in power, Ukraine’s allegedly pro-Russian president Victor Yanukovich never made any public comments even remotely similar to what Kolomoyskiy told the NYT last week. Such threats can only be described as Kolomoyskiy doing the work of the Putin regime. Quite telling for us is the silence from Zelenskiy and his administration, which indicate that Zelenskiy indeed fears his patron Kolomoyskiy and does not feel himself in command of the situation. Unfortunately, it now appears that when Kyiv and the West relied on Kolomoyskiy’s muscle to keep Dnipro, Zaporizhia, Odessa, and the western Donbass from falling into Russian hands back in 2014, they essentially made a deal with the devil, and Kolomoyskiy is now demanding his due in the form of billions of dollars lost by the state in the PrivatBank nationalization. Although it would be easy to dismiss Kolomoyskiy’s claims in the NYT interview as idle boasting, his words do in fact reflect the approximate views of much of the population in Russophone southeastern Ukraine, i.e. the core electorate that propelled Zelenskiy to the presidency. We see Zelenskiy as being on a collision course with reality, as up to now he has been able to have it both ways by appealing to both the pro-Western electorate and the pro-Russian one, but this honeymoon scenario cannot continue indefinitely. Therefore, it is not unreasonable to expect Zelenskiy’s presidency to gradually morph into a return to the “multi-vectoralism” of the Yanukovich years, when Kyiv and its elites tried to leverage Ukraine’s geopolitical status to play Russia and the West off against each other. However, the difference and the danger this time is that we believe that US President Trump would be absolutely untroubled to see Kyiv returned to the Russian geopolitical orbit, and unlike previous US presidents, he would not employ US policy to prevent such an outcome.

Ukraine Passes Law to Launch Long-Awaited Farmland Market

by Dmitry Churin
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NEWS

Ukraine's Parliament passed the preliminary version of a key bill on Nov 13 to create a land market and open up the sale of farmland from October 2020. The bill was backed in the first reading by 240 lawmakers out of the 226 minimum votes required. Only MPs from the ruling People's Servant party and independent MPs voted in favor, with other factions abstaining. The second, decisive reading of the bill is expected in December. Tenants will have the first right to purchase the farmland which they are currently leasing if the owner wishes to sell, according to the document.

COMMENTARY

Although this is a milestone achievement for Ukraine to finally pass legislation to open the farmland market, there is still a very controversial constraint in place: a ban against foreigners and foreign companies buying farmland until 2024. The bill proposed a loophole for foreign agro companies which have been leasing land in Ukraine for more than three years, as such entities will be allowed to purchase land which they currently have under lease.

Among other notable provisions, the bill provides restrictions on the concentration of land in one owner's hands – at the oblast (provincial) level, no single owner can hold more than 8% of the total land, while at the local district (county) level, the limit is set at 35% for a single owner.

The Ukrainian rural population owns 30.7mn hectares of agriculture land, which accounts for 74% of the total farmland in the country. Individuals received small plots of farmland after the breakup of the Soviet Union, and a moratorium against selling these small plots has been in place since 2001.

In a separate bill, lawmakers proposed to allocated UAH 8.4bn (USD 350mn) in financial support for small farmers in 2020.

Ukraine's Western donors, in particular the World Bank, the EBRD and the EU, have expressed their strong support for land reform in the country and praised it as beneficial for all sides. We believe that the farmland reform launch should help the government to secure a new loan program with the IMF. The Washington-based lender has long pointed out that Ukraine could unlock large economic potential with agricultural land sales.

In term of individual public agro companies, we believe that the farmland reform does not present a threat to their operations. Earlier this year, the top management of both Kernel (KER PW) and MHP (MHPC LI) gave assurances that their companies are ready for the farmland market opening. Currently estimates suggest that the land will start trading at a price of USD 1100-1700 per hectare, or roughly 3x cheaper than farmland in Central/Eastern European countries.

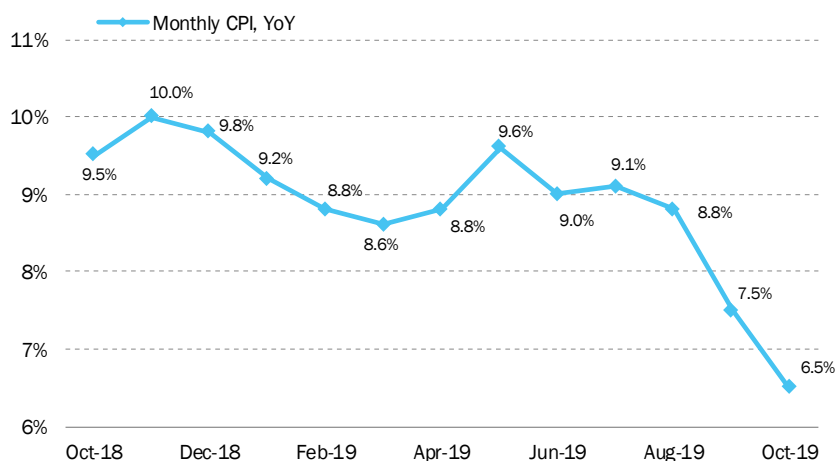
Ukraine's Consumer Inflation Stands at 6.5% YoY in October Declining from 7.5% in September

by Dmitry Churin
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NEWS

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month inflation stood at 6.5% in October slowing from 7.5% consumer inflation registered in September. However, on a monthly basis, there was a rise in the consumer price index by 0.7% as prices for vegetables grew by 4.6% MoM and for bread products increased by 1.5% MoM. For 10M19 (which is an average measurement of inflation for the last 12-month) the CPI index growth was at 8.6% YoY.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The CPI finally fell into trajectory declared by the National Bank in the medium term monetary policy. A draft bill for central budget for 2020 currently includes a forecast of consumer inflation of 6.0%. In case energy prices do not go up sharply on global markets we assume that consumer inflation in Ukraine has all the chances to slowdown below 5% by the end of next year. In our view, the fresh inflation figure will be a strong argument for the National Bank for cutting its key refinancing rate further from 15.50% to the target rate of 8.00%. Next meeting of the National Bank's monetary board is scheduled for 12 December. We expect that the key rate will be lowered by 150 bps to 14.00%. Primary local UAH-denominated bond market has already reacted on expectations of lower interest rate with the Finance Ministry placing 1-year debt papers at 13.75% at the weekly auction held on Nov 12.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	40.6	82.0	102%	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	16.5	32.0	94%	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	4.00	12.0	200%	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	146	270	85%	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	27.3	--	--	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	28.6	--	--	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	24.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.20	25.60	178%	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 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	0.303	0.47	55%	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	519	0.4%	-7.2%								
Iron Ore Mining												
Ferrexpo	FXPO	130	-0.8%	-33.2%	986	1,268	24.0%	2.9	2.4	2.5	2.0	0.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.0	-14.8%	33.3%	66	34	5.0%	3.7	13.5	1.7	3.2	0.2
Specialized Machinery												
Turboatom	TATM	10.7	0.0%	-21.7%	187	184	3.8%	6.7	6.2	4.5	4.1	1.8
Motor Sich	MSICH	5,390	0.0%	0.0%	462	490	24.0%	10.0	-34.3	5.1	26.6	1.4
Oil & Gas												
UkrNafta	UNAF	146	0.7%	8.6%	326	319	3.0%	1.4	11.3	0.9	3.0	0.2
Regal Petroleum	RPT	27.3	-3.4%	-56.7%	113	73	21.6%	2.7	11.3	1.3	3.3	1.5
JKX Oil	JKX	28.6	-2.4%	-27.6%	63	172	50.4%	4.1	3.4	5.6	5.1	1.5
Power Utilities												
Centrenergo	CEEN	9.20	-7.3%	-31.9%	140	120	21.7%	7.6	neg	3.1	-4	0.2
Donbasenergo	DOEN	24.00	-3.6%	-24.8%	23	22	14.2%	6.1	neg	1.0	3.2	0.1
Consumer												
MHP	MHPC	9.00	5.1%	-16.7%	951	2,278	34.1%	7.4	4.3	5.1	4.8	1.2
Kernel	KER	40.60	-3.4%	-19.1%	830	1,524	61.8%	4.4	3.6	4.4	3.8	0.3
Astarta	AST	16.50	-16.7%	-29.8%	106	363	37.0%	neg	2.1	5.6	2.7	0.7
Avangardco	AVGR	0.20	-20.0%	-28.6%	13	344	22.5%	neg	6.4	23	20	2.6
Agroton	AGT	4.00	-7.6%	0.0%	22	32	25.0%	1.6	2.3	2.2	2.4	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.303	-1.5%	-10.9%	768		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																
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			15.50%	13.50%	n/a	n/a	S/A	04 Mar 2020	n/a
UA4000198006			16.00%	14.25%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			16.00%	14.25%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			5.40%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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