

## Stock Market Update

### Equity

There was no substantial movements in Kyiv-listed Ukrainian stocks last week, with the PFTS index closing little-changed at 518 points on Friday (Nov 22).

In individual stocks, UkrNafta (UNAF) did not react to news that the company finally unloaded part of its excessive oil inventories at an auction held on Nov 20. The company sold some 132,000 tonnes of crude oil (roughly 10% of its annual output) at a price close to USD 63 per barrel. The stock remained at UAH 145.

CentrEnerg (CEEN) recovered part of the preceding week's losses, adding 1.1% to UAH 9.30, while DonbasEnerg (DOEN) was flat at UAH 24.00. Raiffeisen Bank Aval (BAVL) traded little-changed at 30.80 kopecks.

On the London Stock Exchange, MHP (MHPC) showed some momentum, rising 2.2% to USD 9.20 after the company reported a solid net profit of USD 2.61 per share for 9M19. Iron ore producer Ferrexpo (FXPO) gained 9.2% to GBp 142 in a further rebound after the four-month losing streak that began in July when the stock was trading at the GBp 275 level.

Warsaw-listed Astarta (AST) slid 7.3% to PLN 15.30 after the company reported weak financial results for 3Q19. Astarta's net loss for the quarter amounted to EUR 26mn after a net profit of EUR 30mn posted for 1H19. Moreover, Astarta's Net Debt-to-EBITDA ratio worsened to 7.7x. Kernel's share price climbed by 1.0% to PLN 41.00 while Agroton (AGT) shed 4.0% to PLN 3.84.

On the currency front, the hryvnia was unchanged at 24.14 UAH/USD. Among notable regulatory developments, there was an announcement from the National Bank about the launch of currency derivatives in the second quarter of 2020. At the first stage, the interest rate swap (IRS) and the conventional swap will be introduced, at the second – forward operations and a special swap. The launch of operations with currency derivatives is aimed at strengthening monetary transmission by reducing the vulnerability of the economy to changes in the hryvnia exchange rate.

## Highlights

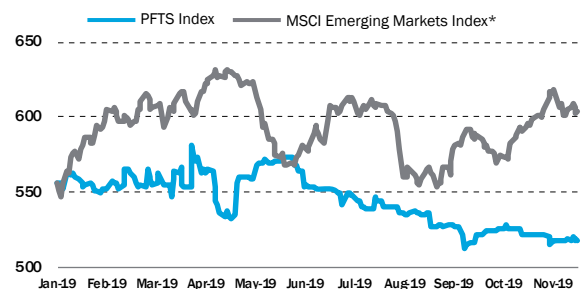
### POLITICS AND ECONOMICS

- Fiona Hill Highlights Kremlin Role in False Ukraine Interference Narrative

### STOCKS IN THE NEWS

- MHP Posts 3Q Profit of 99 Cents per Share on Large FX Gain

### STOCK MARKET PERFORMANCE

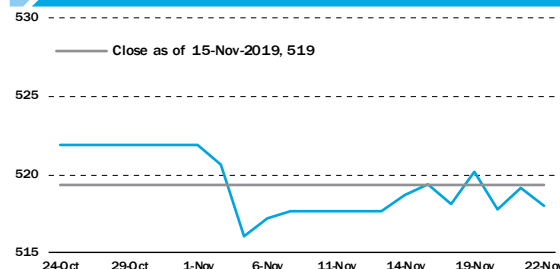


\* rebased

### MARKET INDEXES

	Last	1W ch	YTD
PFTS	518	-0.2%	-7.4%
RTS	1455	0.8%	36.1%
WIG20	2198	-1.7%	-4.5%
MSCI EM	1049	0.1%	8.6%
S&P 500	3110	-0.3%	24.1%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
Ukraine-2024	6.2%	-0.6 p.p.	-4.3 p.p.
Ukraine-2028	7.4%	0.2 p.p.	-3.4 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	24.14	0.0%	-12.8%
EUR	26.51	-0.7%	-16.4%

## Fiona Hill Highlights Kremlin Role in False Ukraine Interference Narrative

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### NEWS

US President Trump's former director for Russia issues, Fiona Hill, said claims by Trump and US Republicans that the Ukrainian government took coordinated steps to damage Trump's election campaign in 2016 originated with Russian security agencies. Hill, who resigned from her White House post in July, was testifying before Congress in impeachments hearings related to charges that Trump improperly withheld USD 400mn in US taxpayer security assistance for Ukraine while demanding political favors from President Zelenskiy. Trump has repeatedly claimed that Ukraine ran an interference operation against him in 2016, even as he continues to deny the broad, professionally documented evidence that the Russian regime intervened to help him defeat Democratic candidate Hillary Clinton. Another impeachment witness, US Ambassador to the European Union Gordon Sondland, last week testified that Trump and other top administration officials tied an express "quid pro quo" of politically motivated criminal investigations by the Zelenskiy administration in return for the congressionally approved Ukraine aid (which Trump was constitutionally obliged to deliver).

### COMMENTARY

We were pleased to see Fiona Hill publicly blow the cover off this phony story, which has been circulating in Republican media for the last year, claiming that the Ukrainian government (led at the time by then-President Poroshenko and PM Volodymir Groysman) played any significant role in the 2016 US election. This story is ultimately aimed at distracting from the very real information-warfare campaign conducted by Russian state security agencies and Russian billionaire oligarchs to attack Hillary Clinton and the Democratic Party in order to aid Trump's election. The false Russian/Republican narrative is based on the widely-reported actions of only two individuals: Serhiy Leschenko, a former Ukrainian MP and high-profile journalist, and Alexandra Chalupa, a low-level Democratic Party employee and US citizen with Ukrainian ethnic roots. Both Leschenko and Chalupa were working - on their own behalf, and independently of each other - in 2016 to smear Trump campaign manager Paul Manafort in the US media for his long-time political consulting role with former Ukrainian president Victor Yanukovich. However, the damage done to Manafort by these isolated efforts never translated into political damage to Trump, who actually gained substantially in the pre-election polls after the Manafort stories broke in August 2016. Overall, although the impeachment process is unlikely to remove Trump from office, we see it as increasing the chances that he will be defeated by a Democratic candidate in the November 2020 US election, especially if the Democratic nominee is not a left-wing ideologue. The danger for Kyiv and the Zelenskiy administration is that Ukraine, long a country which has enjoyed strong support from both US parties, could become a partisan issue, with Republicans turning hostile to Kyiv and prone to accepting Russian "sphere-of-influence" and other Moscow-propagated geopolitical arguments. Zelenskiy has thus far done an admirable job of staying out of the US domestic political fight, although the impeachment hearings have revealed that his public statements about feeling "no pressure" at any time from Trump to deliver political favors, were clearly untrue.

## MHP Posts 3Q Profit of 99 Cents per Share on Large FX Gain

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### MHP (MHPC LI)

Price: USD 9.20 Market Cap: USD 972mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	0.9	1.5	7.6	5.0	8.2%
2019E	0.7	1.1	3.1	4.8	8.2%

## NEWS

London-listed MHP, Ukraine's largest poultry producer, posted a net profit of USD 104mn in 3Q19, representing earnings per share of 99 cents, compared to a net loss of USD 49mn in 3Q18, according to financials released on Nov 19. However, the entire amount of the profit was due to a large gain on the foreign currency translation line of the statement. On the top line, MHP's revenue increased by 27% YoY to USD 560mn in the period, and EBITDA rose 10% YoY to USD 109mn. Year-to-date through September, the company reported revenue of USD 1.51bn (+33% YoY), EBITDA of USD 357mn (-1% YoY), and net profit of USD 276mn (+94% YoY).

On the balance sheet side, MHP's total debt was USD 1.58bn as of 30 Sept 2019. The debt structure shifted further to long-term liabilities, which accounted for 93% of total debt. The weighted average interest rate was reported at approximately 6.8%. The Net Debt/EBITDA ratio was 2.96x as of 30 Sept 2019, up from 2.51x at the start of the year, leaving the ratio just barely within the Eurobond covenant limit of 3.0x.

### MHP FINANCIALS

USD mn	3Q19	3Q18	chg.	9M19	9M18	chg.
Net revenue	560	441	+27%	1,505	1,136	+33%
EBITDA	109	99	+10%	357	362	-1%
margin	19%	22%	-2.7 p.p.	24%	32%	-8.1 p.p.
Net Income	104	-49	+/-	276	142	+94%
net margin	18.8%	-10.9%	+30 p.p.	18.3%	12.5%	+5.8 p.p.

Source: Company data.

## COMMENTARY

The MHP 3Q financial figures nominally beat expectations, but as noted above, the detailed breakdown of profit reveals that without the company's USD 109mn in forex rate gains, it would have ended the quarter with a net loss of USD 5mn. In terms of operating profit, MHP's margin decreased substantially from 16% in 3Q18 to just 7% in 3Q19. We assume that rising labor costs in Ukraine were the major factor behind the company's lower profitability margin, both in the most recent quarter and for 2019 overall. MHP also faced challenging conditions in its farming segment, with a downward trend in soft commodities prices on global markets this year leading to a 26% YoY drop in the segment's EBITDA to USD 95mn in 9M19. Nevertheless, the implied net profit of USD 2.61 per share for 9M19 is the highest in MHP's history. With a cautiously positive outlook for 4Q19, we believe the company could deliver a net profit of USD 2.93 per share for full-year 2019, well above our initial forecast of EPS of USD 2.08.

The MHPC stock, which has a current listing of USD 9.20 per share, is trading at P/E of 3.1x, which is the lowest multiple of the three major foreign-listed Ukrainian agro issues. In addition to the rather high debt, we think that some political concerns are holding the stock back from its fair value, as majority owner and CEO Yuriy Kosyuk was a close ally of President Zelenskiy's predecessor Petro Poroshenko, and the Zelenskiy administration has already shown its willingness to launch investigations into Ukrainian big business.

The MHPC stock has a 52-week range of USD 8.36 to USD 11.95; Eavex Capital has a fair value target price of USD 16.50 for the issue.

**EAVEX RECOMMENDATIONS**

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	41.0	82.0	100%	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	9.2	16.5	79%	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	15.3	32.0	109%	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	3.84	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.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	142	250	76%	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	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	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	28.4	--	--	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	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	9.30	25.60	175%	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.
<b>Banks</b>						
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	518	-0.2%	-7.4%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	142	9.2%	-27.0%	1,077	1,359	24.0%	3.2	2.6	2.7	2.2	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	16.4	17.4%	56.6%	78	46	5.0%	4.3	15.8	2.2	4.3	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.6	-1.2%	-22.6%	185	182	3.8%	6.6	6.1	4.5	4.0	1.7
Motor Sich	MSICH	5,390	0.0%	0.0%	462	490	24.0%	10.0	-34.3	5.1	26.6	1.4
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	145	-0.7%	7.8%	324	317	3.0%	1.4	11.2	0.9	3.0	0.2
Regal Petroleum	RPT	27.3	0.0%	-56.7%	113	73	21.6%	2.7	11.3	1.3	3.3	1.5
JKX Oil	JKX	28.4	-0.7%	-28.1%	63	171	50.4%	4.1	3.4	5.6	5.0	1.5
<b>Power Utilities</b>												
Centrenergo	CEEN	9.30	1.1%	-31.1%	142	121	21.7%	7.7	neg	3.2	-4	0.2
Donbasenergo	DOEN	24.00	0.0%	-24.8%	23	22	14.2%	6.1	neg	1.0	3.2	0.1
<b>Consumer</b>												
MHP	MHPC	9.20	2.2%	-14.8%	972	2,265	34.1%	7.6	3.1	5.0	4.8	1.1
Kernel	KER	41.00	1.0%	-18.3%	838	1,532	61.8%	4.4	3.6	4.4	3.8	0.3
Astarta	AST	15.30	-7.3%	-34.9%	98	355	37.0%	neg	4.3	5.5	3.7	0.6
Avangardco	AVGR	0.20	0.0%	-28.6%	13	344	22.5%	neg	6.4	23	20	2.6
Agroton	AGT	3.84	-4.0%	-4.0%	21	31	25.0%	1.6	2.3	2.2	2.4	0.5
<b>Banks</b>												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.308	1.7%	-9.4%	781		1.8%	4.2	4.6	1.9	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																
Centrenerg	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	2,090	459	450	475	35.6%	28.9%	22.7%	230	128	310	17.8%	8.2%	14.8%
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	96	26.1%	15.3%	17.4%	69	-24	23	13.5%	-5.7%	4.1%
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
<b>UAH denominated Bonds</b>									
UA4000197040			15.50%	13.50%	n/a	n/a	S/A	04 Mar 2020	n/a
UA4000198006			16.00%	14.00%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			16.00%	14.00%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>UAH denominated Bonds</b>									
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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