

## Stock Market Update

### Equity

The PFTS index decreased by 1.5% to 510 points last week after heavyweight issue UkrNafta (UNAF) lost 3.4% to close at UAH 140 per share. There was selling momentum in UNAF after the company was unable to win a tender to supply fuel to the Defense Ministry. CentrEnerg (CEEN) was again under pressure, sliding 4.3% to UAH 8.90, while Raiffeisen Bank Aval (BAVL) remained unchanged for a third week in a row at 30.80 kopecks.

In major macroeconomic statistics, there was disappointing data that industrial production in Ukraine contracted by 5.0% YoY in October. There are concerns that the Ukrainian steel sector could face additional challenges on the global market, which in turn would be negatively reflected in all other linked sectors.

In London trading, Ferrexpo (FXPO) remained on a local uptrend, advancing by 4.2% to GBp 148 per share, although we see GBp 150 as a likely resistance line for the stock given the weak outlook for iron ore pricing. MHP (MHPC) failed to extend its upward momentum from the previous week, falling back by 3.9% to USD 8.84.

Warsaw-listed Astarta (AST) rebounded by 6.9% to PLN 16.35 after the company secured USD 20mn financing from Deutsche Investitions und Entwicklungsgesellschaft (DEG) despite the company's high Net Debt-to-EBITDA ratio of 7.7x. Kernel's share price rose 1.6% to PLN 41.60 after the company posted mixed financial results for the Jul-Sept quarter. Kernel saw a 26% YoY drop in revenue in the reporting period but managed to increase its EBITDA by 6% YoY to USD 107mn. Sporadically-traded Agroton (AGT) lost 7.8% to PLN 3.54.

The hryvnia gained 0.7% over the week, breaking through the resistance level of 24 UAH/USD for the first time in more than three years. The currency pair closed at 23.97 UAH/USD on Friday (Nov 29).

## Highlights

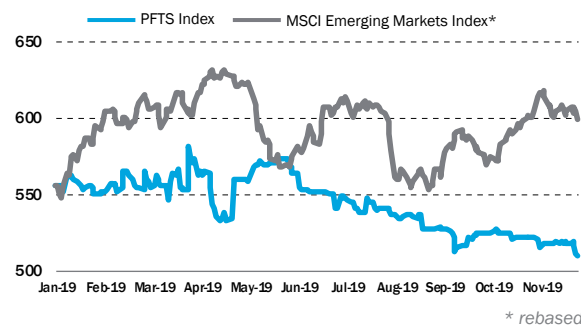
### POLITICS AND ECONOMICS

- > Zelenskiy Faces Tricky Landscape Ahead of Dec 9 Paris Summit
- > Ukraine Industrial Output Shrinks 5% YoY in October Amid Steel Sector Weakness

### STOCKS IN THE NEWS

- > Kernel Sees 20% YoY Net Profit Drop to USD 59mn in Jul-Sept Quarter

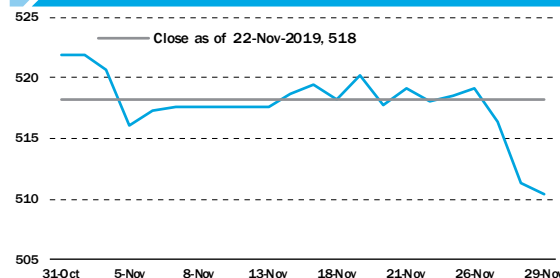
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	510	-1.5%	-8.8%
RTS	1447	-0.5%	35.4%
WIG20	2156	-1.9%	-6.3%
MSCI EM	1040	-0.9%	7.7%
S&P 500	3141	1.0%	25.3%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
Ukraine-2024	6.3%	0.1 p.p.	-4.2 p.p.
Ukraine-2028	7.5%	0.1 p.p.	-3.3 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	23.97	-0.7%	-13.4%
EUR	26.39	-0.5%	-16.8%

## Zelenskiy Faces Tricky Landscape Ahead of Dec 9 Paris Summit

by Will Ritter  
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### NEWS

President Zelenskiy, who is due to hold a summit meeting with Russian President Putin in Paris next Monday (Dec 9), again denied that he had a “quid pro quo” arrangement with US President Trump to receive USD 400mn in military aid in return for political favors, Agence France-Press reported today (Dec 2). “I did not speak with US President Trump in those terms: you give me this, I give you that,” Zelenskiy said in an interview with European publications including Germany’s Der Spiegel magazine. He said he did not “want to give an impression that we [Ukrainians] are beggars”. Zelenskiy is due to hold his first in-person meeting with Putin in 4-way “Normandy Format” talks on resolving the Donbass conflict that will also include French President Macron and German Chancellor Merkel. In regard to the summit, Zelenskiy signaled that the key to a breakthrough is the withdrawal of all Russian military forces from the occupied Donbass territories. In domestic news, Zelenskiy’s administration did not respond last week to a statement from the National Bank complaining about harassment from industrialist Igor Kolomoyskiy, who has reportedly been sponsoring protests at the NBU’s central Kyiv headquarters, including a forced entry into the premises. Kolomoyskiy is suspected of trying to sabotage Ukraine’s negotiations with the IMF, with talks ongoing for new loan deal in the range of USD 5-6bn.

### COMMENTARY

The key Kremlin demand heading into the Paris summit is that Zelenskiy’s government open direct talks with the pro-Russian Donbass separatist leadership, a condition which is anathema to Ukraine’s nationalists and which was universally rejected for 5 years by the Poroshenko administration. We believe that the Putin regime is following a strategy of trying to deprive Zelenskiy of support from Ukraine’s pro-Western electorate, thus forcing him to rely solely on his core Russian-speaking electorate in the southeastern half of the country. For his first 6 months in office, Zelenskiy has more or less been able to avoid making a choice between these two disparate ideological groups. We believe Zelenskiy is confident - perhaps too much so - that he has national majority support for making significant concessions to bring the eastern Donbass back into Ukraine. Importantly, the political forces opposing such concessions to Moscow are Ukraine’s most activist nationalist groups, and in this respect, Zelenskiy finds himself facing challenges similar to those that ultimately undermined support for Poroshenko. The current situation is complicated by Kolomoyskiy, who appears to be waging a battle to control Zelenskiy’s decision-making and who has the resources to incite significant unrest in major cities. Thus far, Zelenskiy has been quite passive in the face of Kolomoyskiy’s threats, giving the impression that he wishes to avoid a public confrontation with his former patron. In terms of the US, Zelenskiy’s latest comments will please Trump, who is facing impeachment hearings over charges that he was using US taxpayer funds to blackmail Ukraine for political favors. With or without Zelenskiy’s comments, however, the Trump impeachment drive is likely to fail, and the real test for Trump’s future will be the US presidential election due in 11 months from now.

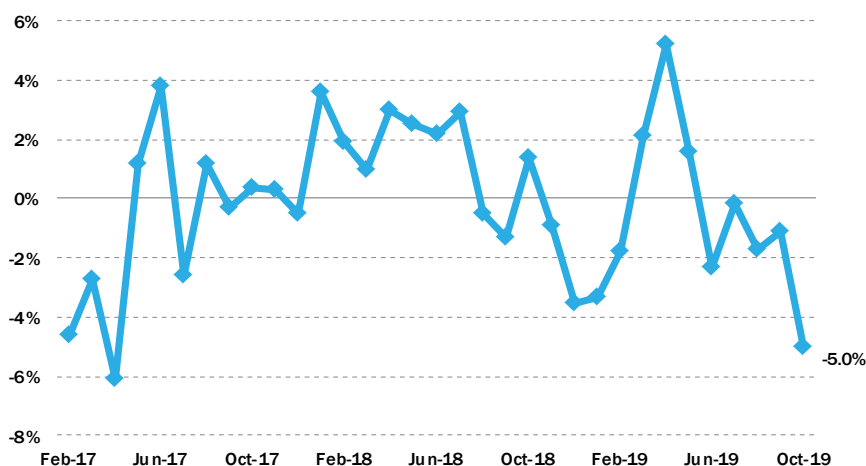
**Ukraine Industrial Output Shrinks 5% YoY in October Amid Steel Sector Weakness**

by Dmitry Churin  
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**NEWS**

Ukraine's nationwide industrial production shrank by 5.0% YoY in October amid an 11.9% YoY slump in metallurgical sector output, according to data from the State Statistics Committee. In the core manufacturing sector, aggregate production decreased by 6.0% YoY. The extraction and utility sectors also saw substantial year-on-year declines of 2.6% and 4.4% during the month. Year-to-date through October, overall industrial production in Ukraine as measured by the index is now lower by 0.6% YoY.

**UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY**



Source: State Statistics Committee

**COMMENTARY**

The October industrial data confirms the trend that has been growing throughout 2019. These poor numbers in the real sector of the economy can no longer be viewed as anomalous, and in our view, are likely to start to restrain the impressive double-digit growth numbers in retail sales and construction in 2020. The main culprit here is the slowdown in the steel sector, with the outlook for global steel demand worsening as declining auto sales across the US and Europe hit the world's steelmakers. It seems that the long term global steel demand is moving into a low-growth zone as new megatrends shape the industry. The new challenges includes the deceleration of population growth and aging populations in developing economies. Also there are environmental concerns. While the use of steel, which is highly recyclable, may enable CO2 mitigation in other sectors, inequities introduced regionally by carbon pricing mechanisms could jeopardize fair competition within the steel sector. With appearance of October's data, Ukraine moved from 13th to 14th place in the ranking of 64 countries that are the world's key steelmakers, which is compiled by the World Steel Association.

In other macroeconomic data, UkrStat reported that the agricultural production index increased by 3.1% YoY for 10M19. The construction industry, which has remained robust in Ukraine for the last three years, demonstrated a growth of 14% YoY in October. Year-to-date construction is up by a whopping 20.8% YoY through 10M19. Retail sales in the country rose by 11.0% YoY in October and 10.2% YoY through the first 10 months of 2019.

## Kernel Sees 20% YoY Net Profit Drop to USD 59mn in Jul-Sept Quarter

by Dmitry Churin  
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### KERNEL (KER PW)

Price: PLN 41.65 Market Cap: USD 874mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019FY	0.6	0.4	4.6	4.5	2.3%
FY20E	0.6	0.3	3.8	3.9	2.3%

### NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel saw a 21% YoY drop in its net profit to USD 59mn in the Jul-Sept quarter (1Q20; the company's financial year runs from July to June), according to results published on Nov 27. On the top line, Kernel's revenue fell 26% to USD 846mn amid lower soft commodities prices in the reported period. The company's EBITDA edged up by 6% YoY to USD 107mn as the EBITDA margin increased from 8.8% a year ago to 12.6% in the period. On the balance sheet side, Kernel's net debt increased by 65% to USD 1.14bn from the previous reporting quarter, implying a Net Debt/EBITDA ratio of 3.3x as of 30 Sept 2019. Taking into account Kernel's marketable inventories, the company claimed an adjusted Net Debt/EBITDA ratio of 1.6x at the end of the quarter. The company's total assets grew by 26% QoQ to USD 3.09bn.

### KERNEL FINANCIAL RESULTS

USD mn	1Q20FY	1Q19FY	YoY
Net revenue	846	1,140	-26%
EBITDA	107	101	+6%
EBITDA margin	12.6%	8.8%	-3.8 p.p.
Net Income	59	76	-21%
Net margin	7.0%	6.6%	+0.4 p.p.

Source: Company data,

### COMMENTARY

Kernel's mixed financial results for the quarter came as a disappointment for us, as our forecast was much more upbeat for the period. Nevertheless, in one aspect we were right, as Kernel managed to increase its oilseeds crushing margin substantially to USD 74 per tonne from a depressed level of USD 40/tonne in the same period last year. The company foresees that its crushing facilities will operate at full capacity in 2020, with a goal to process 3.3mn tonnes of sunflower seeds. It is also expected that the crushing margin will improve further to USD 85/tonne amid the new record sunflower seed harvest of 15.9mn tonnes in Ukraine. In other key business segments, Kernel reported that it reached all-time high net yields for wheat (5.9 tonnes per hectare, +16% YoY) and sunflower (3.5 tonnes per hectare, +11% YoY) during the 2019 harvesting campaign on its 513,000 hectare land bank. The company's farming business EBITDA amounted to USD 58mn in Jul-Sept, including a USD 34mn effect from revaluation of biological assets.

Kernel's shares showed little immediate reaction to the quarterly report's publication, with the stock gaining 1.6% to PLN 41.60 on Friday (Nov 29).

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	41.7	82.0	97%	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	8.8	16.5	87%	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	16.4	32.0	96%	BUY	The company secured USD 20mn financing from Deutsche Investitions und Entwicklungsgesellschaft (DEG) despite the company's high Net Debt-to-EBITDA ratio of 7.7x. Astarta had unexpectedly 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. However, we believe the company's financial results will improve in 4Q19.
Agroton	AGT PW	3.54	12.0	239%	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	148	250	69%	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	140	270	93%	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	24.8	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	8.90	25.60	188%	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	510	-1.5%	-8.8%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	148	4.2%	-24.0%	1,122	1,404	24.0%	3.3	2.7	2.8	2.2	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	16.4	0.0%	56.6%	78	46	5.0%	4.3	15.8	2.2	4.3	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.7	1.2%	-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
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	140	-3.4%	4.1%	313	306	3.0%	1.3	10.9	0.9	2.9	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	0.0%	-28.1%	63	171	50.4%	4.1	3.4	5.6	5.0	1.5
<b>Power Utilities</b>												
Centrenergy	CEEN	8.90	-4.3%	-34.1%	136	115	21.7%	7.4	neg	3.0	-3	0.2
Donbasenergy	DOEN	24.80	3.3%	-22.3%	24	23	14.2%	6.3	neg	1.0	3.3	0.1
<b>Consumer</b>												
MHP	MHPC	8.84	-3.9%	-18.1%	934	2,227	34.1%	7.3	3.0	4.9	4.7	1.1
Kernel	KER	41.65	1.6%	-17.0%	851	1,545	61.8%	4.5	3.7	4.5	3.8	0.3
Astarta	AST	16.35	6.9%	-30.4%	105	362	37.0%	neg	4.6	5.6	3.8	0.7
Avangardco	AVGR	0.20	0.0%	-28.6%	13	344	22.5%	neg	6.4	23	20	2.6
Agroton	AGT	3.54	-7.8%	-11.5%	20	29	25.0%	1.5	2.1	2.1	2.2	0.5
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.308	-0.1%	-9.5%	780		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
<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	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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
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%
<b>Consumer</b>																
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%
<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	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			15.75%	14.00%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			15.75%	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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