

Stock Market Update

Equity

Kyiv-listed Ukrainian stocks continued to trade in an inactive mode in the final full week of trading in 2019 before the start of the holiday period. The PFTS index saw little movement during the week as it hovered around the 510 point level.

Among important developments, Ukraine, Russia and the European Commission, based on the results of negotiations held in Berlin on Dec 19, have drawn up a protocol that brings them closer to the signing of a gas transit contract. New terms announced over the weekend imply that the political leadership in Kyiv and Moscow have approved a 5-year deal.

CentrErgo (CEEN) was unchanged at UAH 9.26 despite negative reports that the company has been selling its electricity at low prices since November. UkrNafta (UNAF) added 0.4% to UAH 145 per share, showing only a shy reaction to positive news that the company's crude oil extraction continued to increase in November.

At the bottom of the PFTS index, TurboAtom (TATM) declined by 1.4% to UAH 10.60, but the stock remained within its local trading boundaries.

London-listed Ferrexpo (FXPO) inched up by 0.2% to GBp 152, with the GBp 150 line now appearing to be an important technical level for the stock. MHP (MHPC) remained at UAH 9.00 while Regal Petroleum (RPT) shed 2.5% to GBp 21.90 and JKX Oil&Gas (JKX) declined by 4.0% to GBp 23.70 per share. Information that JKX's production from a new gas well at its Koshekablskoe field in Russia missed expectations put some pressure on the stock.

In Warsaw trading, Kernel (KER) was on the rise for the second straight week, adding 1.5% to PLN 43.35. On the downside, Astarta (AST) lost 1.9% to PLN 15.70.

The hryvnia gained another 0.8% against the dollar to 23.30 UAH/USD.

Highlights

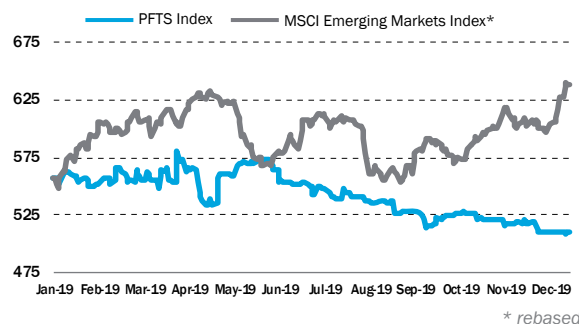
POLITICS AND ECONOMICS

- > Kyiv to Get USD 3bn as Ukraine, Russia, EU Sign 5-Year Gas Transit Deal

STOCKS IN THE NEWS

- > UkrNafta Set to Receive USD 44mn from Russia for Crimean Asset Expropriation

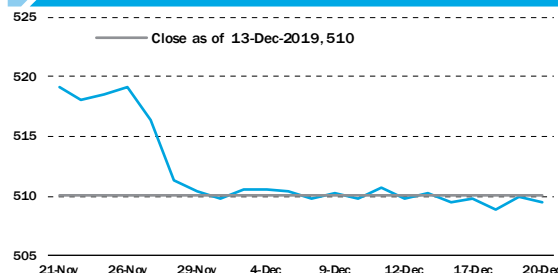
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	509	-0.2%	-8.9%
RTS	1525	0.9%	42.7%
WIG20	2128	0.5%	-7.5%
MSCI EM	1108	2.0%	14.7%
S&P 500	3221	1.7%	28.5%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	13.5%	0.0 p.p.	-4.5 p.p.
Ukraine-2024	6.6%	-0.2 p.p.	-3.9 p.p.
Ukraine-2028	7.0%	-0.1 p.p.	-3.8 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	23.30	-0.8%	-15.8%
EUR	25.87	-1.0%	-18.4%

Kyiv to Get USD 3bn as Ukraine, Russia, EU Sign 5-Year Gas Transit Deal

by Will Ritter
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NEWS

Ukraine, Russia and the European Union signed a new preliminary 5-year agreement to continue the transit of Russian natural gas across Ukrainian territory following talks on Thursday (Dec 19). The current 10-year agreement expires on Dec 31. Under this deal, Russian state operator Gazprom agreed to pay Ukraine's Naftogaz USD 2.9bn that was awarded in international arbitration for Russia's violations of the existing deal in sending too little gas for transit. In return, Ukraine agreed to drop some additional USD 8bn in legal claims. The new deal guarantees 65bn cubic meters (cu-m) of gas transit across Ukraine next year and 40bn cu-m in the years thereafter. However, the exact transit price has not been specified, with only a statement that the rate should be in line with market transit rates in Central and Western Europe.

COMMENTARY

In order to meet the EU's requirements, Ukraine was required to detach its gas transportation network (GTS) from Naftogaz's corporate structure, a condition that the EU deemed to have been met. In signing this deal for 5 years instead of only the 1-year extension desired by Moscow, Kyiv benefited from an ally of convenience in the US administration of Donald Trump, which is trying to reduce Russia's ability to sell its gas to Europe in favor of US "LNG" suppliers. The US recently placed sanctions on companies working to build the so-called "Nord Stream 2" pipeline from Russia to Germany, thus slowing down a project which will eventually reduce Russia's need to transit across Ukraine. The larger question now is whether Ukraine will renew direct gas purchases from Russia, which were shut off by the Poroshenko administration in 2015 for political reasons. Zelenskiy and Naftogaz have an opportunity to negotiate a much more favorable deal than the one signed in 2009 by then-PM Yulia Tymoshenko. A resumption of such direct gas sales would be another sign of a substantial thaw in Ukrainian-Russian relations under the Zelenskiy administration. Thus far, it is notable for us that the Kremlin has been unable to force Zelenskiy to choose between satisfying the Russophile electorate and the pro-Western electorate, as at the end of his first (partial) year in office, Zelenskiy still commands fairly broad-based national support of well over 50 percent.

UkrNafta Set to Receive USD 44mn from Russia for Crimean Asset Expropriation

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 144 Market Cap: USD 335mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018	1.4	0.2	1.4	0.9	n/a
2019E	1.2	0.2	11.6	3.1	n/a

NEWS

UkrNafta, Ukraine's largest crude oil producer, has received a final ruling from the Supreme Court of Switzerland that dismissed the Russian Federation's motion to nullify an international arbitration award of USD 44mn in favor of UkrNafta, according to the company's statement on its official website published on Dec 18.

Timetable of the issue:

On Apr 12 this year, an international arbitration tribunal ordered a payment of USD 44mn to UkrNafta from the Russian Federation as compensation for the expropriation of UkrNafta's investments in the annexed Ukrainian province of Crimea.

In May, the Russian Federation appealed to the Supreme Court of Switzerland, requesting that this decision of the international arbitration be overturned.

The Supreme Court of Switzerland dismissed the appeal of the Russian Federation on Dec 12, in a judgement that is final and not subject to appeal. This decision puts an end to the attempts of the Russian Federation to deprive UkrNafta of the opportunity to obtain compensation for its assets that were expropriated in Crimea.

COMMENTARY

Although the news had a NEUTRAL impact on UNAF stock, we believe that the company will ultimately receive the USD 44mn payment from Russia for the company's administrative office and filling stations that were left behind in Crimea following the annexation.

In other news related to UkrNafta, the company reported that its daily average oil output edged up by 0.5% month-on-month to 4,170 tonnes (30,400 barrels) during November. For the full month, UkrNafta's crude extraction was up by 2.9% YoY to 125,200 tonnes (914,000 barrels). At the most recent oil auction, UkrNafta managed to sell 132,600 tonnes (968,000 barrels) at an average price of USD 63/barrel. However, the company still has excess oil inventories due to problems with the operation of the state-obligated monthly oil auction. UkrNafta claims that usually the starting price for the auctions, which is set by a government regulatory committee, runs about 5% higher than it should, thereby depressing demand for the oil. The conflict between UkrNafta and the government regarding these starting prices has led to a situation where 11 auctions out of 20 scheduled this year were cancelled due to a lack of bidders.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	43.4	82.0	89%	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	15.7	32.0	104%	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	3.60	12.0	233%	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	153	250	64%	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	87%	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	21.9	--	--	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	23.7	--	--	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						
DonbasEnero	DOEN	25.3	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnero	CEEN	9.26	25.60	176%	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 CentrEnero 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 CentrEnero 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	509	-0.2%	-8.9%								
Iron Ore Mining												
Ferrexpo	FXPO	153	0.2%	-21.6%	1,172	1,454	24.0%	3.5	2.8	2.9	2.3	0.9
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	48.6%	76	45	5.0%	4.2	15.6	2.2	4.2	0.2
Specialized Machinery												
Turboatom	TATM	10.6	-1.4%	-22.8%	191	188	3.8%	6.8	6.3	4.6	4.1	1.8
Motor Sich	MSICH	5,390	0.0%	0.0%	479	507	24.0%	10.4	-35.6	5.3	27.5	1.4
Oil & Gas												
UkrNafta	UNAF	145	0.4%	7.5%	335	328	3.0%	1.4	11.6	0.9	3.1	0.2
Regal Petroleum	RPT	21.9	-2.5%	-65.3%	91	51	21.6%	2.2	9.1	1.0	2.3	1.0
JKX Oil	JKX	23.7	-4.0%	-40.0%	53	161	50.4%	3.5	2.9	5.2	4.8	1.4
Power Utilities												
Centrenergo	CEEN	9.26	0.0%	-31.4%	146	126	21.7%	8.0	neg	3.3	-4	0.2
Donbasenergo	DOEN	25.28	0.2%	-20.8%	26	24	14.2%	6.7	neg	1.1	3.5	0.1
Consumer												
MHP	MHPC	9.00	0.0%	-16.7%	951	2,244	34.1%	7.4	3.1	5.0	4.7	1.1
Kernel	KER	43.35	1.5%	-13.6%	900	1,594	61.8%	4.8	3.9	4.6	3.9	0.3
Astarta	AST	15.70	-1.9%	-33.2%	102	359	37.0%	neg	4.5	5.5	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	3.60	6.5%	-10.0%	20	30	25.0%	1.5	2.1	2.1	2.3	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.308	-0.1%	-9.5%	809		1.8%	4.3	4.8	1.9	1.8	0.33

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	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
UAH denominated Bonds									
UA4000202469			14.70%	13.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			14.70%	13.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			14.55%	12.85%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			14.20%	–	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			14.10%	–	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000201743			4.75%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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