

Stock Market Update

Equity

Kyiv-listed Ukrainian stocks started the new year on a positive note, rising after the long-awaited deal with Russia regarding a new 5-year natural gas transit contract for 2020-2024. Preliminary estimates said that the country's economy will receive benefits of near UAH 150bn (USD 6.2bn) from the deal in addition to the direct revenues from pipeline transit services for Gazprom. The agreement foresees the transit of at least 65bn cubic meters of Russian gas in 2020, and USD 40bn cu-m per annum thereafter. Payment for these volumes is guaranteed even in case of less pumping through the Ukrainian pipeline system.

The PFTS index edged up 0.6% last week to close at 512 points. Raiffeisen Bank Aval (BAVL) was the growth leader, advancing by 4.0% to 32.00 kopecks per share. CentrEnergO (CEEN) was unchanged at UAH 9.26 while DonbasEnergO (DOEN) slipped 1.1% to UAH 25.00.

London-listed natural gas producer JKC Oil&Gas (JKX) surged by 20% to GBP 28.50 after the company published an upbeat operational update for 2019. JKC's gas extraction rose by 20% YoY to 10,700 boepd last year, with more new wells having been completed in Ukraine in December. The company's CapEx amounted to USD 26mn in 2019 and its net cash position stood at USD 15mn as of Dec 31. Shares of JKC's close peer Regal Petroleum (RPT) were also on the rise, appreciating by 11% to GBP 24.30. Iron ore giant Ferrexpo (FXPO) dropped by 6.1% to GBP 146 despite the company's announcement of a special dividend of 6.6 US cents per share. The ex-rights date for the dividend passed on Friday (Jan 10). MHP (MHPC) was inactive, remaining at the USD 9.00 level.

In Warsaw trading, Kernel (KER) has been a clear bright spot in the last two weeks, jumping from PLN 44.00 to PLN 48.80 per share, a gain of 12%.

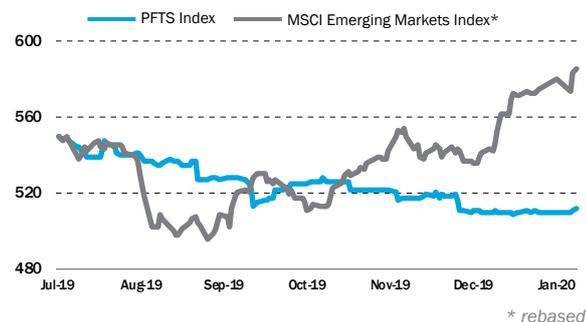
On the currency front, the hryvnia has given up 1.0% since the start of 2020 against the dollar to 23.92 UAH/USD. The National Bank's report that the country's foreign currency reserves reached a 7-year high of USD 25.3bn did not appear to influence the market.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Demands Compensation from Iran for PS 752 Shoot-Down
- > Ukraine Ends 2019 with Full-Year Inflation of Only 4%

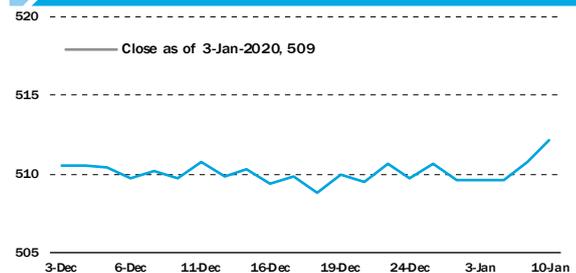
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	512	0.6%	0.5%
RTS	1612	2.8%	4.1%
WIG20	2178	1.5%	1.4%
MSCI EM	1133	1.8%	1.7%
S&P 500	3265	0.6%	1.1%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	13.5%	0.0 p.p.	0.0 p.p.
Ukraine-2024	6.2%	-0.4 p.p.	-0.4 p.p.
Ukraine-2028	6.5%	-0.5 p.p.	-0.5 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	23.92	1.0%	1.0%
EUR	26.72	1.3%	1.1%

Zelenskiy Demands Compensation from Iran for PS 752 Shoot-Down

by Will Ritter
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NEWS

President Zelenskiy on Saturday (Jan 11) demanded that the Iranian government pay compensation to Ukraine and prosecute the responsible parties for firing a missile at Flight PS 752 from Tehran to Kyiv, which crashed on Tuesday (Jan 7) shortly after taking off, resulting in the loss of 176 lives, including 11 Ukrainians. The flight was operated by Ukraine's national flagship carrier Ukraine International Airlines (UIA), which is controlled by industrialist Igor Kolomoyskiy. After initially blaming mechanical problems for the crash, Iran was forced to admit having shot down the plane after the US circulated video evidence of the missile in the air. Head of Ukraine's National Security & Defense Council (RNBO) Oleksiy Danilov accused Iran of ignoring standard crash investigation procedures and bulldozing the site before Ukrainian specialists could examine it. On Saturday, the Iranian government reversed its stance, with a top military commander taking full responsibility for the tragedy, explaining that his air defense unit was on high alert for US retaliation in the hours after Iran had bombed a US military base in neighboring Iraq, and that an officer had mistaken the UIA flight for an incoming hostile attack.

COMMENTARY

Although UIA clearly bears no fault for this incident (beyond the questionable decision to operate flights to Iran during a period of high military tensions), it could still have negative economic repercussions in damaging Ukraine's growing status as a major hub for travel between European countries and destinations in the Middle and Far East. Conspiracy theories have emerged that somehow the shoot-down could have been a deliberate act, and while we do not wish to lend any credence to those, we also note that the consequences for the Iranian regime if they had shot down a German, Russian, or Turkish civilian plane (all of which departed from Khomeini Airport at around the same time as PS 752) would likely have been far more severe. The Zelenskiy administration appears to have handled the tragedy in a professional and appropriate manner. In particular, Danilov - about whom little was known prior to his taking over the RNBO post from the much more high-profile Oleksander Danyliuk - has come off well. As for larger geopolitical implications, we think the PS 752 crash could have the effect of temporarily de-escalating tensions between the US and Iran, and also could renew pressure on Moscow to finally admit its own guilt in shooting down Malaysian Airlines Flight MH17 over the Donbass occupied territories in July 2014.

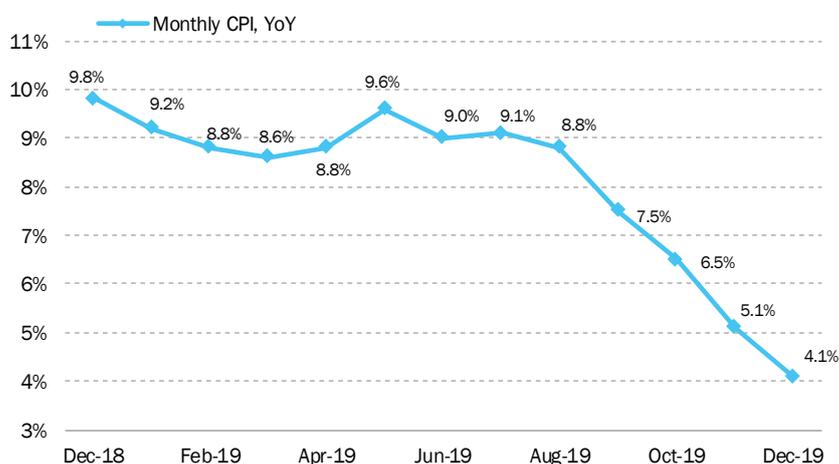
Ukraine Ends 2019 with Full-Year Inflation of Only 4%

by Dmitry Churin
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NEWS

Ukraine’s officially reported consumer price inflation has come in at 4.1% YoY for full-year 2019 following the December data published by the State Statistics Committee (UkrStat) last week. The rolling 12-month inflation figure slowed sharply during the autumn, and it had been 5.1% YoY after the November data. Major consumer price categories showed the following full-year rises: food +4.9%, clothing -2.3%, utility services -1.9%, healthcare +3.8%. The highest jump in subcategories was in railway tickets, which rose in price by 19.2% in 2019. For December alone, the CPI index moved down by 0.2% MoM. Meanwhile, in producer prices it was a 7.4% YoY decline in 2019. In major producer price categories, extraction sector prices dropped by 22.8%, aggregate manufacturing prices decreased by 5.7%, and utility sector prices declined by 5.6% over 2019.

UKRAINE’S ROLLING 12-MONTH CPI INFLATION



Source: State Statistics Committee

COMMENTARY

The actual FY19 consumer inflation came well below the initial consensus forecast of 7.3% YoY. The main factor behind the restrained inflation last year was a substantial revaluation of the hryvnia, with the national currency appreciating by 13.6% YoY from 27.70 UAH/USD to the current level of 23.92 UAH/USD. Last year’s inflation in the country was the lowest since 2013, when consumer prices rose by just 0.5% YoY amid then-President Yanukovich’s attempt to lock down utility prices for households using strict regulatory means. Our current projection for consumer inflation in 2020 is 5.5%, assuming the economy stays on the recovery path. The National Bank also sees an inflation target close to 5% for 2020. This means that the NBU is likely to lower its key refinancing interest rate further at its scheduled monetary board meeting on Jan 30. We expect the rate to be slashed from 13.50% to 12.00%, with further easing in March.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	48.7	82.0	68%	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	9.1	16.5	82%	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	146	250	72%	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	144	270	88%	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	24.3	--	--	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	28.5	--	--	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	25.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.26	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 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	0.320	0.47	47%	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 2020E
			1W	YtD				2019	2020E	2019	2020E	
PFTS Index	UX	512	0.6%	0.6%								
Iron Ore Mining												
Ferrexpo	FXPO	146	-6.1%	-8.5%	1,118	1,400	24.0%	2.7	3.5	2.2	2.5	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	74	47	5.0%	2.8	8.1	1.2	3.3	0.2
Specialized Machinery												
Turboatom	TATM	10.6	0.0%	0.0%	185	182	3.8%	6.0	5.5	3.7	3.3	1.5
Motor Sich	MSICH	5,390	0.0%	0.0%	464	493	24.0%	-34.1	46.4	26.4	10.3	1.7
Oil & Gas												
UkrNafta	UNAF	144	-0.4%	-0.4%	324	316	3.0%	11.1	4.3	3.2	1.1	0.3
Regal Petroleum	RPT	24.3	11.2%	11.2%	102	62	21.6%	10.2	12.7	2.8	3.2	1.1
JKX Oil	JKX	28.5	20.3%	20.3%	64	172	50.4%	3.5	4.0	5.1	4.5	1.4
Power Utilities												
Centrenergy	CEEN	9.26	0.0%	0.0%	142	121	21.7%	-3.3	neg	-3.2	5	0.2
Donbasenergy	DOEN	25.00	-1.1%	-1.1%	25	23	14.2%	-7.9	neg	3.0	2.5	0.1
Consumer												
MHP	MHPC	9.06	-0.4%	-0.4%	957	2,250	34.1%	3.1	2.9	4.7	4.5	1.0
Kernel	KER	48.70	1.5%	1.5%	1,016	1,710	61.8%	5.4	4.4	4.9	4.2	0.4
Astarta	AST	15.70	-1.9%	-1.9%	103	360	37.0%	neg	3.9	3.9	3.5	0.6
Avangardco	AVGR	0.20	0.0%	0.0%	13	344	22.5%	neg	4.3	20	18	2.9
Agroton	AGT	3.60	-2.7%	-2.7%	20	30	25.0%	2.2	2.9	2.3	2.7	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.320	4.0%	4.0%	816		1.8%	4.4	4.5	1.5	1.2	0.28

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		
		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E
Iron Ore Mining																
Ferrexpo	FXPO	1,274	1,593	1,450	503	629	550	39.5%	39.5%	37.9%	335	419	320	26.3%	26.3%	22.1%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	26	9	9.0%	9.1%	3.8%
Specialized Machinery																
Turboatom	TATM	94	106	122	40	49	56	43.1%	46.4%	45.6%	28	31	34	29.9%	29.2%	27.9%
Motor Sich	MSICH	450	358	294	96	19	48	21.2%	5.2%	16.3%	46	-14	10	10.2%	-3.8%	3.4%
Oil & Gas																
Ukrnafta	UNAF	1,328	1,148	1,240	350	99	280	26.4%	8.6%	22.6%	237	29	76	17.8%	2.5%	6.1%
Regal Petroleum	RPT	60	50	55	54	22	19	90.0%	44.0%	34.5%	42	10	8	na	20.0%	14.5%
JKX Oil	JKX	93	111	120	31	34	38	33.2%	30.5%	31.7%	15	18	16	16.5%	16.5%	13.3%
Electric Utilities																
Centrenergy	CEEN	533	587	660	38	-38	25	7.1%	-6.4%	3.8%	18	-44	6	3.4%	-7.4%	0.9%
Donbasenergo	DOEN	224	249	276	23	8	9	10.2%	3.1%	3.3%	4	-3	2	1.7%	-1.2%	0.9%
Consumer																
MHP	MHPC	1,556	2,090	2,257	450	475	502	28.9%	22.7%	22.2%	128	310	335	8.2%	14.8%	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	424	537	623	65	93	104	15.3%	17.4%	16.6%	-24	22	26	-5.7%	4.1%	4.2%
Avangardco	AVGR	127	135	120	15	17	19	11.8%	12.6%	15.8%	-5	2	3	-3.9%	1.5%	2.5%
Agroton	AGT	57	63	55	14	13	11	24.7%	20.6%	20.0%	14	9	7	23.7%	15.1%	12.7%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2,491	3,166	2,925	420	543	655	239	280	0	187	187	180	44.6%	34.4%	27.5%

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			13.50%	11.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			13.50%	11.50%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			13.25%	11.25%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			13.20%	-	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			13.10%	-	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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