

## Stock Market Update

### Equity

Kyiv-listed stocks finished mostly lower for the week, although the PFTS index saw only a minimal loss of 0.1% to 506 points. CentrErgo (CEEN) was once again a drag for the market, falling by 2.5% to UAH 8.53 per share. Low-liquidity Turboatom (TATM) and Krukiv Wagon (KVBZ) were both unchanged at UAH 10.60 and UAH 15.60 respectively. Raiffeisen Bank Aval (BAVL) remained a bright spot among local stocks, propping up the index with its gain of 1.8% to 34.30 kopecks.

In major economic news, UkrStat reported that the country's industrial production slumped by 7.7% YoY in December, extending the contraction of 7.3% seen in November. For full-year 2019, the industrial output in the country declined by 1.8% YoY, failing to meet positive initial expectations at the start of last year. Nevertheless, despite disappointing results in the industrial sectors for 2019, Ukraine's economy grew by at least 3.0% last year, driven by accelerated private consumption amid rising real wages. UkrStat reported that retail sales jumped 10.5% YoY last year.

On the London Stock Exchange, shares of poultry producer MHP (MHPC) fell by 1.3% to USD 8.72, hit by information that the EU temporarily suspended imports of poultry from Ukraine after a case of bird flu was recorded in Vinnytsya province, the location of MHP's main facilities. The company released a statement assuring investors that all necessary measures are being taken to prevent potential outbreaks, and that MHP's enterprises are not under threat.

Ferrexpo (FXPO) lost 6.7% to GBP 145, as investors priced in an increase in the Ukrainian iron ore production tax from 8% to 12%.

In Warsaw trading, Astarta (AST) corrected by 7.2% to PLN 17.35 after the stock had jumped by almost 20% over the preceding week. Kernel (KER) declined by 2.9% to PLN 47.30 while sporadically-traded Agroton (AGT) surged by 20% to PLN 4.14.

The hryvnia experienced a third straight week of devaluation, shedding 0.6% against the dollar to close at 24.48 UAH/USD.

## Highlights

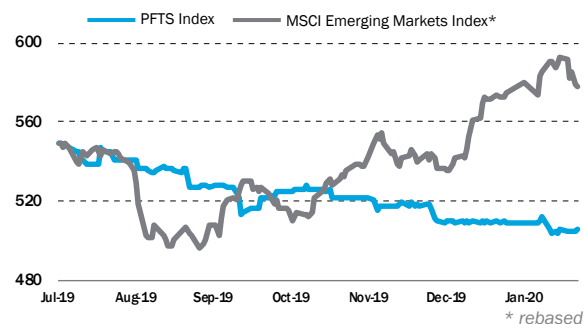
### POLITICS AND ECONOMICS

- > Pompeo Accused of Mocking Ukraine Days Before Trip to Kyiv
- > Ukraine Posts Full-Year 2019 Industrial Output Decline of 1.8%

### STOCKS IN THE NEWS

- > 2019's Record Harvest Driving Strong Kernel Grain Export Numbers

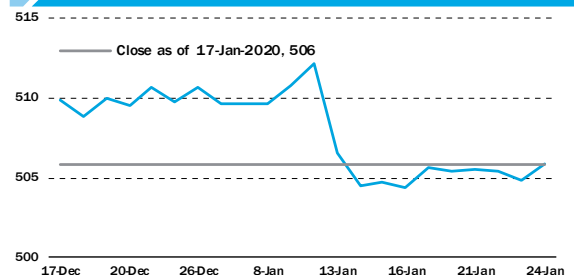
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	506	0.0%	-0.8%
RTS	1598	-3.2%	3.2%
WIG20	2153	-1.4%	0.2%
MSCI EM	1119	-2.4%	0.4%
S&P 500	3295	-1.0%	2.0%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	13.5%	0.0 p.p.	0.0 p.p.
Ukraine-2024	5.9%	-0.1 p.p.	-0.7 p.p.
Ukraine-2028	6.2%	-0.1 p.p.	-0.8 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	24.48	0.6%	3.3%
EUR	27.00	-0.1%	2.2%

## Pompeo Accused of Mocking Ukraine Days Before Trip to Kyiv

by Will Ritter  
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### NEWS

US Secretary of State Michael Pompeo was accused by a prominent US journalist of asking rhetorically, “Do you think Americans care about Ukraine?”, in a story reported by US media on Thursday (Jan 23). Pompeo made the statement in a private conversation with journalist Mary Louise Kelly of the US-government-funded outlet National Public Radio, after cutting off a scheduled interview when Kelly had asked about the circumstances surrounding the firing last spring of US Ambassador to Ukraine Marie Yovanovitch. Pompeo, who said the subsequent conversation following the interview was off the record, did not deny making the statement. He is due to visit Kyiv and hold talks with President Zelenskiy and other top officials on Thursday (Jan 30). In other Ukraine-related US news, fired National Security Advisor John Bolton has written in a forthcoming book that last summer, US President Trump explicitly linked the release of US 400mn in military aid to Kyiv to political favors from Zelenskiy. Trump, who has denied that there was a so-called “quid pro quo” for the aid, is currently facing an impeachment trial in the US Senate over the issue. The congressionally-mandated aid was eventually released after news of Trump’s alleged scheme spread through the US government, but before the situation became public.

### COMMENTARY

It remains to be seen if Pompeo’s remark will poison his upcoming visit to Ukraine, but either way, it gives further grounds for Kyiv to distrust the Trump administration and indeed the overall support of the Republican Party, whose members and associated media have been adopting pro-Russian talking points more and more frequently. While some voices have argued that hostility to Ukraine is only Trump’s personal view, we believe that this argument ignores Trump’s power to alter general Republican thinking and to set the party’s agenda at the ground floor level. Although Democrats have effectively made the case that Trump is guilty of using US taxpayer funds to try to extract favors from Zelenskiy, they lack the 67 votes needed to remove Trump from the White House, and the impeachment trial is therefore really only about influencing public opinion ahead of the US presidential election later this year. Polling has indicated that former Vice President Joseph Biden has a good chance to defeat Trump in the election if he is the Democratic candidate; however, Biden faces a tough primary campaign against leftist-socialist Senator Bernard Sanders, who has emerged as his leading challenger. We note that Sanders has often embraced isolationist and Russia-friendly foreign policy views, and a US administration led by him could actually end up being even more of a rough ride for US-Ukraine relations than the Trump administration has been. The 2016 Russian influence campaign against the US election included notable efforts to promote Sanders’ candidacy at the expense of eventual Democratic nominee Hillary Clinton.

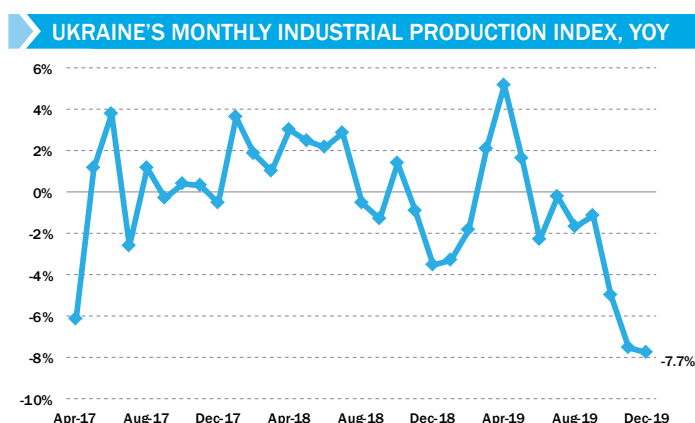
**Ukraine Posts Full-Year 2019 Industrial Output Decline of 1.8%**

by Dmitry Churin  
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**NEWS**

The State Statistics Committee (UkrStat) reported on Jan 22 that Ukraine’s industrial output (as measured by UkrStat’s index) declined by 1.8% YoY in full-year 2019. Previous years’ performances were a rise of 1.1% in 2018 and a decrease of 0.1% YoY in 2017. The manufacturing sector had a drop of 2.0% YoY in 2019, the extraction sector had a flat performance for the year, and the utility sector, including heating services, saw an output contraction of 4.1% YoY amid a higher average temperature in the period compared to 2018.

In a separate report, UkrStat said that retail sales increased by 10.5% YoY in full-year 2019, improving notably on their 6.2% YoY rise in FY18. Ukraine’s overall agricultural output rose 1.1% YoY in 2019, slowing yet still improving slightly from the 8.1% YoY growth seen in 2018. In the construction sector, output jumped by 20.0% YoY in 2019 after a rise by 8.5% YoY in 2018.



Source: State Statistics Committee

**COMMENTARY**

We continue to see a divergence in the sluggish industrial sector of Ukraine’s economy from the sharp growth in consumer spending and construction, as the latter are being fueled by remissions from Ukrainians living abroad. The official FY19 figure for industrial production came in below all the forecasts (including ours) made at the start of 2019, which were in the range of 2% growth. On the one hand, the output decrease in the utility sector cannot be considered as clearly negative news for Ukraine’s economy, as besides the random climate factor, this also indicates the implementation of energy-saving technologies by households and businesses. The initial forecasts for industrial growth were based on assumptions of a gradual recovery in Ukraine’s metallurgical sector, which instead of moderate growth demonstrated an output decline of 3.1% YoY in 2019 due to worsening demand for steel on global markets in 2H19. December was the worst month of all, with the Ukrainian metallurgical sector seeing a contraction of 10.0% YoY measured by the UkrStat index.

Looking at industrial production in a sector breakdown, there was a 3.3% YoY increase in chemical product output in FY19 and minimal 0.2% YoY growth in food production. Meanwhile, the heavyweight machinery sector showed an aggregate output decrease of 5.6% YoY in last year, with a sharp drop of 14.5% YoY in December.

For 2020, we optimistically forecast only a very small increase in Ukrainian industrial output of 0.4% YoY.

## 2019's Record Harvest Driving Strong Kernel Grain Export Numbers

by Dmitry Churin  
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### KERNEL (KER PW)

Price: PLN 47.30 Market Cap: USD 1,009mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY19	0.7	0.4	5.3	4.9	2.0%
FY20E	0.6	0.4	4.4	4.2	2.0%

### NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and exporter, reported that its sunflower and soybean oil sales volume declined by 9% YoY to 346,000 tonnes in the Oct-Dec quarter while grain exports grew by 30% YoY to 2.26mn tonnes in the period (2Q20 in the company's July-to-June reporting calendar), according to an operational update published on Jan 21. In other key business segments, Kernel also demonstrated mixed operational results. Seed crushing volume was unchanged year-on-year at 943,000 tonnes in the Oct-Dec quarter, while export terminal throughput rose 35% YoY to 1.69mn tonnes in the period. The half-year operational results were the following: vegetable oil sales decreased by 17% YoY to some 647,000 tonnes in July-December 2019, while grain export volume rose by 24% YoY to 3.88mn tonnes.

### KERNEL OPERATIONAL UPDATE

Volume	2Q FY20	2Q FY19	Change	1H FY20	1H FY19	Change
Grain exports, tonnes	2,262,727	1,745,807	+30%	3,883,678	3,128,560	+24%
Vegetable oil sales, tonnes	346,461	379,392	-9%	647,333	784,326	-17%
Oilseed crush, tonnes	942,683	940,556	0%	1,571,408	1,359,138	+16%
Export terminals throughput, tonnes	1,692,237	1,256,723	+35%	2,887,420	2,239,360	+29%

Source: Companies' data

### COMMENTARY

Kernel did not particularly impress the market with its operational results, as the increase in grain exports was widely expected amid Ukraine's 2019 record high grain harvest of 75mn tonnes. However, with a notable improvement in Kernel's seed-crushing margin for its sunflower oil business in the Oct-Dec quarter and solid grain exports, we believe the company will report notably better financial results in a year-over-year comparison. According to our forecasts, Kernel's net profit rose by 20% YoY to USD 106mn in the Oct-Dec quarter. The company is due to publish its interim financial report on Feb 28.

Separately, Kernel announced that an approved dividend of USD 0.25 per share for the financial year ended 30 Jun 2019 will be paid this year on Apr 30 to shareholders on the register at the close of business day on Apr 23. Kernel's share price on the Warsaw Stock Exchange declined by 2.9% to PLN 47.30 per share last week in line with an overall correction on European bourses. The KER share price is now facing the PLN 50 line as a technical resistance level.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	47.3	82.0	73%	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	88%	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	17.4	32.0	84%	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	4.14	12.0	190%	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	145	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.
<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	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	22.5	--	--	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	31.9	--	--	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>						
DonbasEnero	DOEN	24.6	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnero	CEEN	8.53	25.60	200%	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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.343	0.47	37%	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 4.6bn in net profit in FY19, which would imply earnings per share of 7.5 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	506	0.0%	-0.6%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	145	-6.7%	-8.6%	1,117	1,399	24.0%	2.7	3.5	2.2	2.5	1.0
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	74	46	5.0%	2.8	8.0	1.2	3.3	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.6	0.0%	0.0%	184	181	3.8%	5.9	5.4	3.7	3.2	1.5
Motor Sich	MSICH	5,390	0.0%	0.0%	460	489	24.0%	neg	46	26	10.2	1.7
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	145	-0.3%	0.0%	322	315	3.0%	11.0	4.2	3.2	1.1	0.3
Regal Petroleum	RPT	22.5	0.0%	3.0%	94	54	21.6%	9.4	11.8	2.5	2.8	1.0
JKX Oil	JKX	31.9	0.0%	34.6%	71	180	50.4%	3.9	4.5	5.3	4.7	1.5
<b>Power Utilities</b>												
Centrenergy	CEEN	8.53	-2.5%	-7.9%	129	108	21.7%	neg	22	neg	4.3	0.2
Donbasenergy	DOEN	24.60	0.8%	-2.7%	24	23	14.2%	neg	10.0	2.9	2.5	0.1
<b>Consumer</b>												
MHP	MHPC	8.78	-1.3%	-3.5%	928	2,221	34.1%	3.0	2.8	4.7	4.4	1.0
Kernel	KER	47.30	-2.9%	-1.5%	994	1,688	61.8%	5.3	4.3	4.9	4.2	0.4
Astarta	AST	17.35	-7.2%	8.4%	114	371	37.0%	5.2	4.4	4.0	3.6	0.6
Avangardco	AVGR	0.20	0.0%	0.0%	13	344	22.5%	6.4	4.3	20	18	2.9
Agroton	AGT	4.14	19.7%	11.9%	24	33	25.0%	2.5	3.4	2.6	3.0	0.6
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.343	1.8%	11.5%	867		1.8%	4.8	4.8	1.6	1.3	0.30

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
<b>Iron Ore Mining</b>																
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%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	26	9	9.0%	9.1%	3.8%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
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%
<b>Consumer</b>																
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%
<b>Banks</b>																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2,491	3,166	2,925	420	535	648	239	280	292	187	179	180	44.6%	33.5%	27.8%

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>									
UA4000202469			11.75%	9.75%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			11.75%	9.75%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			11.75%	9.75%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.75%	-	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.75%	-	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
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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