

## Stock Market Update

### Equity

Ukraine's PFTS equity index was on the rise last week, adding 0.7% and closing at 509 points. The National Bank's decision to slash its main refinancing rate by an enormous 250 basis points from 13.50% to 11.00% had a positive impact on local stocks, despite the regulator's benchmark rate is still higher than the yield on the government's 1-year treasuries, which stands at 10%. In general, the National Bank continues to ease its monetary policy with the aim of maintaining inflation at the target level of 5% and supporting steady economic growth. Current expectations are that the key rate will be lowered to 7% by the year-end. The next meeting of the NBU Board on monetary policy issues is due on Mar 12.

In individual stocks, Raiffeisen Bank Aval (BAVL) gained 1.2% to 34.70 kopecks while CentrEnerg (CEEN) remained at UAH 8.53 per share. Quotes for UkrNafta (UNAF) moved up by 1.7% to UAH 147 after the company reported that its oil extraction increased by 4.7% YoY to 1.52mn tonnes (11.1mn bbl) in full-year 2019.

On the London Stock Exchange, MHP (MHPC) took another hit, falling 3.4% to USD 8.48 after an announcement that the company's 4Q19 financial results will be unimpressive due to higher production costs in the period. Iron ore producer Ferrexpo (FXPO) dropped by 6.5% to GBP 136 after a Ukrainian court placed a restriction covering 50.3% of the group's domestic ore mining subsidiary Poltavskiy GOK. Ferrexpo is the sole shareholder in Poltavskiy GOK. The restriction does not affect ownership of the shares but prohibits their transfer. Ferrexpo said it believes this restriction is temporary and is related to the criminal charges in Ukraine involving Constantine Zhevago (Ferrexpo's largest shareholder), related to Zhevago's now-insolvent F&C Bank.

In Warsaw trading, Astarta (AST) slumped by 8.9% to PLN 15.80 and Kernel (KER) edged down by 0.7% to PLN 46.95. Sporadically-traded Agroton (AGT) advanced by 7.5% to PLN 4.45.

On the currency front, the hryvnia was weak once again, losing a hefty 2.3% against the dollar to UAH/USD 25.05.

## Highlights

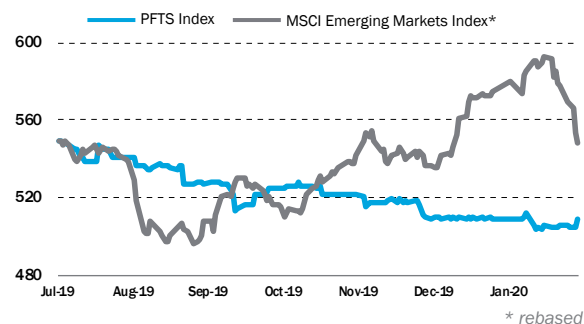
### POLITICS AND ECONOMICS

- > Pompeo, Zelenskiy Avoid Controversial Topics After Meeting
- > Ukraine's Public Debt Rises 8% YoY to USD 84bn (54% of GDP) in 2019

### STOCKS IN THE NEWS

- > MHP's Poultry Export Volume Moves Up 25% YoY in FY19

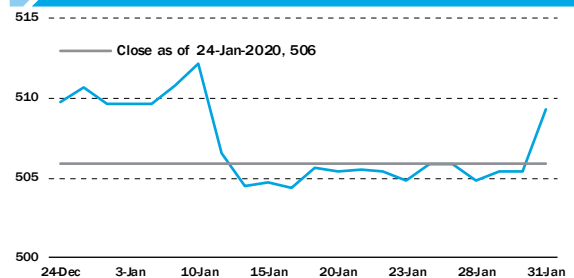
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
PFTS	509	0.7%	0.0%
RTS	1517	-5.1%	-2.1%
WIG20	2057	-4.5%	-4.3%
MSCI EM	1062	-5.1%	-4.7%
S&P 500	3225	-2.1%	-0.2%

## PFTS 1M PERFORMANCE



## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	11.0%	-2.5 p.p.	2.5 p.p.
Ukraine-2024	6.4%	0.5 p.p.	-0.2 p.p.
Ukraine-2028	6.6%	0.4 p.p.	-0.4 p.p.

## CURRENCY

	Last, UAH	1W ch	YTD
USD	25.05	2.3%	5.7%
EUR	27.75	2.8%	5.0%

## Pompeo, Zelenskiy Avoid Controversial Topics After Meeting

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### NEWS

US Secretary of State Michael Pompeo met in Kyiv with Ukraine's top officials, including President Zelenskiy and Foreign and Defense Ministers Vadym Prystaiko and Anatoliy Zahorodniuk, on Thursday (Jan 30). It was Pompeo's first visit to Kyiv as a member of the Trump administration (he had previously made an unpublicized trip to the Donbass conflict zone in his previous post as CIA director), and was the first high-level US visit since then-Secretary of Defense James Mattis came in August 2018. After the Zelenskiy-Pompeo meeting, a joint press conference was held at the presidential administration at which the two officials spoke about the importance of maintaining positive relations between the two countries, and Pompeo reaffirmed the US commitment to Ukraine's territorial integrity, stating that territories taken from Ukraine from Russia by force will not be recognized by Washington. For his part, Zelenskiy refused to be drawn in by a reporter's question about the Ukraine-linked impeachment process against US President Trump, stressing his position that Kyiv wants to stay out of US domestic affairs. Trump is set to be acquitted on charges of abuse of power by the Senate later this week. In terms of the long-awaited visit to the White House of Zelenskiy, the Ukrainian leader said that it should occur "when there is something concrete to be signed", and should not be a visit simply for its own sake.

### COMMENTARY

Pompeo is the second-most important US government official after Donald Trump, and it was somewhat reassuring to see his visit to Ukraine come off without any major controversies amid what has obviously been a very fraught recent several months in US-Ukraine relations. In our view, Pompeo's willingness to stick to the pre-Trump Republican Party line in regard to the Russian-occupied territories is an important bulwark against Trump's own rather hostile views toward Kyiv. We note that Trump himself has not made such statements of support for Ukraine, and he seems to be deliberately leaving it to other members of his administration to do so. Beyond the public platitudes of "commitment to improving bilateral relations and support for territorial integrity", it remains somewhat unclear what Trump's Ukraine policy really is, and who is in charge of executing it now that Acting Ambassador William Taylor and Special Representative Kurt Volker have departed. We doubt that Zelenskiy's US visit will occur before Trump faces re-election in November; the long process of choosing Trump's opponent begins today (Feb 3), with former Vice President Joseph Biden and leftist-socialist senator Bernard Sanders as the top contenders. As for Zelenskiy, the Pompeo visit demonstrated his increasing skill at managing tasks in the area of high-profile external relations, even as his domestic approval rating has begun to decline from its historically high "honeymoon" level.

**Ukraine's Public Debt Rises 8% YoY to USD 84bn (54% of GDP) in 2019**

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**NEWS**

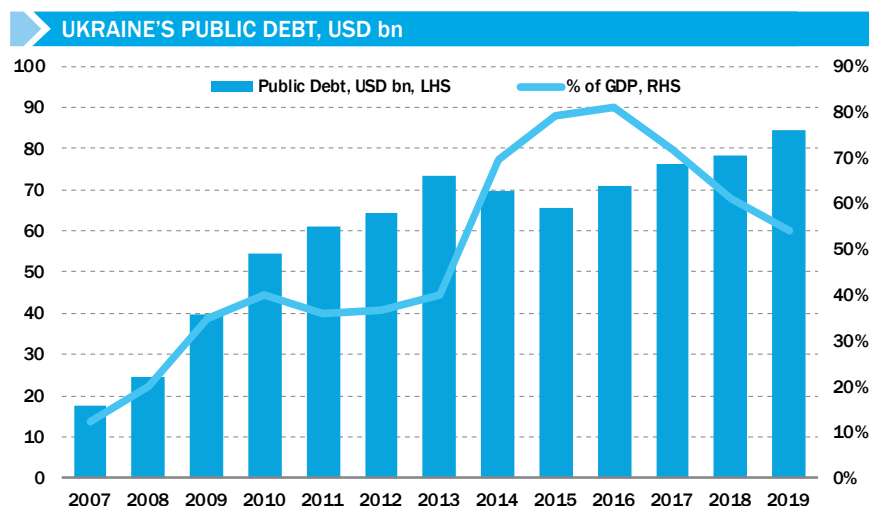
Ukraine's state and guaranteed debt increased by 7.7% YoY in USD terms to USD 84.4bn over full-year 2019, according to data from the Finance Ministry released last week. The country's public debt falls into three main categories:

- domestic debt of an equivalent of USD 35.4bn;
- outstanding Eurobonds with maturity over 2020-2032 in the amount of USD 22.3bn;
- IMF loans of USD 11.3bn.

These categories represent around 80% of the public debt.

In a currency breakdown, domestic UAH-denominated debt represented an equivalent of USD 30.9bn as of end-2019, or 37% of total debt. The USD- and EUR-denominated debt represented 39% and 10% respectively.

As reported in mid-January, Ukraine's foreign currency reserves reached a 7-year high of USD 25.3bn as of start of this year.



Source: Finance Ministry of Ukraine

**COMMENTARY**

We estimate that the end-2019 level of public debt amounts to 54% of Ukraine's GDP, declining in relative terms compared to 60% of GDP for end-2018 and 78% of GDP for end-2017. Additionally, it is important to note that in UAH terms, the absolute level of Ukraine's debt decreased by 7.8% YoY from UAH 2.168tn to UAH 1.998tn amid the hryvnia's appreciation against the USD & EUR last year.

In 2020, Ukraine is on the hook to pay some USD 7.1bn for redemption and servicing of external debt, suggesting that the Finance Ministry will be busy searching for sources of refinancing. Meanwhile, it is likely that the domestic debt with maturity in 2020 for a total amount of UAH 231bn (an equivalent of USD 9.3bn) will be mostly refinanced by issuance of new UAH-denominated sovereign bonds. The largest external debt repayments this year are scheduled in March (USD 1.13bn), May (USD 1.39bn), and September (USD 2.52bn). Overall, Ukraine's public debt servicing and redemption obligations in 2020 are estimated at UAH 401bn (USD 17bn), which in relative terms implies 10% of GDP, and 40% of the national budget's planned income.

## MHP's Poultry Export Volume Moves Up 25% YoY in FY19

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### MHP (MHPC LI)

Price: USD 8.48 Market Cap: USD 896mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019E	0.7	1.0	2.9	4.8	8.6%
2020E	0.6	0.9	2.7	4.1	8.5%

## NEWS

London-listed poultry producer MHP (MHPC LI) reported that its poultry sales volume increased by 13% YoY to 670,000 tonnes in full-year 2019, according to the company's operational update issued on Jan 30. MHP also reported that its poultry exports rose 25% YoY to some 357,500 tonnes in 2019, accounting for 53% of total sales volume, up from a share of 48% a year before. In 4Q19 alone, sales volume rose by 10% YoY to 158,600 tonnes. The company said its production facilities operated at full capacity in the quarter. The reported sales volume does not include the output from MHP's recently-acquired plant in Slovenia. On the pricing side, MHP's average achieved sales price for poultry declined by 5% YoY in UAH terms amid an appreciation of the hryvnia of some 15% during 2019.

MHP's sunflower oil segment demonstrated a 22% YoY growth in sales to 184,100 tonnes in 2019, with all of the sales being exports. The grain segment showed a total harvest of 2.41mn tonnes of crops, which was 9% less than in FY18. MHP operates a land bank of 363,000 hectares in Ukraine.

### MHP OPERATIONAL UPDATE

Poultry	4Q19	4Q18	Change	2019	2018	Change
Sales volume, tonnes	158,624	144,183	+10%	669,964	593,527	+13%
Domestic	70,972	71,253	0%	312,531	306,680	+2%
Export	87,651	72,929	+20%	357,433	286,846	+25%
Price per 1 kg net VAT	34.69	40.56	-14%	38.06	39.86	-5%

Source: Companies' data

## COMMENTARY

MHP's upbeat operational update failed to cheer up investors after the company faced a suspension of its exports to the EU due a case of bird flu was recorded in Vinnytsya province, the location of MHP's main facilities. Also the company admitted that preliminary estimates for full-year 2019 EBITDA are somewhat lower than the latest guidance of USD 450mn. Our forecast for MHP's EBITDA was more optimistic at USD 475mn. This means that the company's financial results for 4Q19 will be quite poor. For 9M19, the company had reported an EBITDA of USD 357mn. Nevertheless, we believe that MHP remains on a strong footing, with further export expansion on the horizon this year. MHP's full-year 2019 financial results are due to be announced in late March. Meanwhile, the company gave a net debt figure of USD 1.14bn as of end-2019, with a cash balance of near USD 300mn. The debt is rather large and puts MHP near the maximum upper range of its informal Eurobond covenant of a 3.0x Net Debt/EBITDA ratio.

With the appearance of MHP's operational update, we now forecast that the company will report only a moderate net profit of USD 34mn for 4Q19 (0.32 cents per share), bringing full-year net profit to USD 310mn (USD 2.93 per share). At the current share price of USD 8.48, the company is valued at P/E of just 2.9x.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	47.0	82.0	75%	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	8.5	16.5	95%	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	15.8	32.0	103%	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	4.45	12.0	170%	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	136	250	84%	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	147	270	84%	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	21.0	--	--	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	25.5	--	--	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.
<b>Power Utilities</b>						
DonbasEnergO	DOEN	24.8	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergO	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 CentrEnergO 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 CentrEnergO more attractive for privatization.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.347	0.47	35%	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	509	0.7%	0.1%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	136	-6.5%	-14.5%	1,049	1,331	24.0%	2.5	3.3	2.1	2.4	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	71	44	5.0%	2.7	7.8	1.2	3.1	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.6	0.0%	0.0%	178	175	3.8%	5.7	5.2	3.5	3.2	1.4
Motor Sich	MSICH	5,390	0.0%	0.0%	447	476	24.0%	neg	45	25	9.9	1.6
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	147	1.7%	1.7%	318	311	3.0%	10.9	4.2	3.1	1.1	0.3
Regal Petroleum	RPT	21.0	-6.7%	-3.9%	88	48	21.6%	8.8	11.0	2.2	2.5	0.9
JKX Oil	JKX	25.5	-20.1%	7.6%	57	166	50.4%	3.1	3.6	4.9	4.4	1.4
<b>Power Utilities</b>												
Centrenergy	CEEN	8.53	0.0%	-7.9%	126	105	21.7%	neg	21	neg	4.2	0.2
Donbasenergy	DOEN	24.83	0.9%	-1.8%	23	22	14.2%	neg	9.8	2.9	2.4	0.1
<b>Consumer</b>												
MHP	MHPC	8.48	-3.4%	-6.8%	896	2,036	34.1%	2.9	2.7	4.8	4.1	0.9
Kernel	KER	46.95	-0.7%	-2.2%	959	1,653	61.8%	5.1	4.2	4.8	4.1	0.3
Astarta	AST	15.80	-8.9%	-1.3%	101	358	37.0%	4.6	3.9	3.8	3.5	0.6
Avangardco	AVGR	0.20	0.0%	0.0%	13	344	22.5%	6.4	4.3	20	18	2.9
Agroton	AGT	4.45	7.5%	20.3%	25	34	25.0%	2.6	3.5	2.6	3.1	0.6
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.347	1.2%	12.8%	852		1.8%	4.8	4.7	1.6	1.3	0.29

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>																
Centrenergo	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	420	502	28.9%	20.1%	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			11.50%	9.50%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			11.50%	9.50%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			11.50%	9.50%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.50%	-	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.50%	-	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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