

Stock Market Update

Equity

Kyiv-listed stocks finished mostly higher last week, with individual corporate stories playing key role in trading activation on local exchanges. The PFTS index advanced by 1.4% to 516 points, buoyed by a 12% gain in UkrNafta (UNAF). The stock reached UAH 165 per share after an announcement that state-owned natural gas storage operator UkrTransGaz signed a deal that effectively transferred 2.06bn cubic meters of gas to UkrNafta, ending a multi-year intra-group conflict.

Quotes for Raiffeisen Bank Aval (BAVL) jumped by 6.6% to 37.00 kopecks amid rising expectations that the bank will pay a dividend of up to 7.50 kopecks per share from its FY19 profit. Meanwhile, CentrErgo (CEEN) remained unchanged at UAH 8.53 per share, and DonbasErgo (DOEN) decreased by 1.6% to UAH 24.43.

In major economic news, Ukraine's current account deficit shrank by 75% YoY to USD 1.1bn in 2019 as a result of the arrival of a USD 2.9bn penalty payment from Russia's Gazprom and a continuation of the solid flow of remittances in the period. In relative terms, the C/A deficit decreased to 0.7% of GDP from 3.3% of GDP seen in 2018.

In political developments, Parliament started the second and final reading of the very sensitive land reform bill. The reading might take several weeks, as some 4000 amendments need to be voted on by MPs. But the proposed amendments were either identical or were already included in other legislative acts. The bill, which would open up the sale of the country's farmland starting this autumn, won initial backing in late 2019.

On the London Stock Exchange, MHP (MHPC) was unable to reverse its recent downturn, losing an additional 2.1% to close at USD 8.30. Ferrexpo (FXPO) added 6.6% to GBp 145 in highly volatile trading. Natgas producer Regal Petroleum (RPT) picked up 2.4% to GBp 21.50.

In Warsaw trading, top liquid Ukrainian stock Kernel (KER) edged up by 1.0% to PLN 47.40 and beaten-down Astarta (AST) added 2.2% to PLN 16.15.

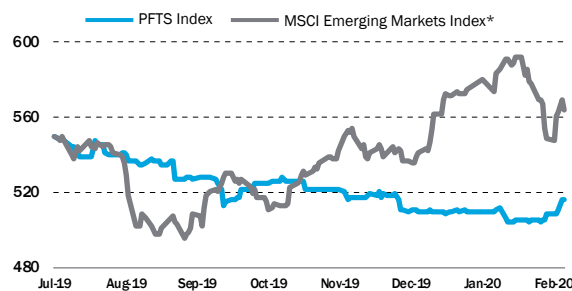
The hryvnia finally showed some strength last week for the first time since the New Year, regaining 2.1% to 24.52 UAH/USD after the National Bank reported that its foreign currency reserves increased by USD 1.0bn to USD 26.3bn in January.

Highlights

POLITICS AND ECONOMICS

- > First Signs of Open Conflict Between Zelenskiy & Kolomoyskiy Emerge
- > Ukraine Doubles BoP Surplus to USD 5.9bn in FY19 After Gazprom Payment

STOCK MARKET PERFORMANCE

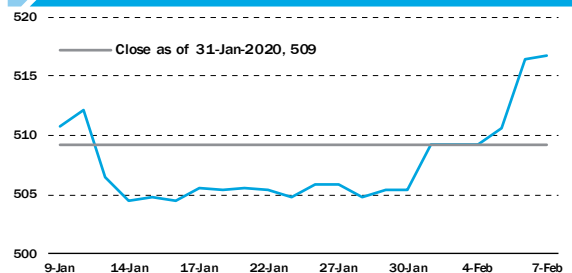


* rebased

MARKET INDEXES

	Last	1W ch	YTD
PFTS	516	1.4%	1.3%
RTS	1511	-0.4%	-2.4%
WIG20	2099	2.0%	-2.3%
MSCI EM	1091	2.7%	-2.1%
S&P 500	3327	3.2%	3.0%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	11.0%	0.0 p.p.	2.5 p.p.
Ukraine-2024	4.7%	-1.7 p.p.	-1.9 p.p.
Ukraine-2028	6.4%	-0.2 p.p.	-0.6 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.52	-2.1%	3.5%
EUR	26.85	-2.3%	1.6%

First Signs of Open Conflict Between Zelenskiy & Kolomoyskiy Emerge

by Will Ritter
w.ritter@eavex.com.ua

NEWS

The Ukrainian Security Service (SBU) on Wednesday (Feb 5) raided the offices of People's Servant Party MP Olexander Dubinskiy, a top ally of industrialist Igor Kolomoyskiy, to search for evidence that Dubinskiy may have been illegally recording Cabinet meetings. Last month, audio of the meetings were leaked in which Prime Minister Oleksiy Honcharuk made unflattering comments about Zelenskiy's, and also his own, understanding of economic issues. Dubinskiy's office is located on the premises of the 1+1 national television channel, which is owned by Kolomoyskiy and which aired Zelenskiy's entertainment programs for more than a decade. The results of the raid were not publicized.

COMMENTARY

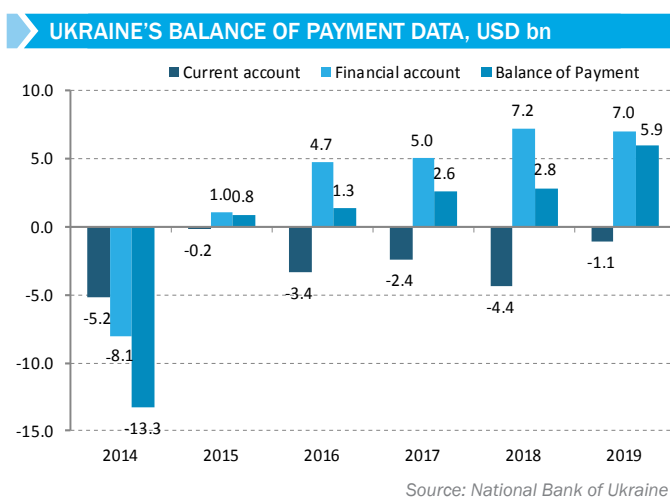
The director of the SBU is Ivan Bakanov, Zelenskiy's long-time close business confidante, and the Dubinskiy raid is likely to have been the result of Zelenskiy's personal order. Therefore, we believe we are seeing the end of all pretense of harmonious relations between Zelenskiy and Kolomoyskiy, the oligarch whose backing played a key role in Zelenskiy's rise to power only one year ago. Kolomoyskiy has been causing various unpleasant problems for Zelenskiy over the past 6 months by demanding the denationalization of PrivatBank and making openly pro-Russian and anti-IMF statements, but up until now, Zelenskiy had not made any active public responses against the oligarch. Importantly, we currently see that the People's Servant Party, which is theoretically pro-presidential and holds a commanding majority of 253 seats in the legislature, is breaking up into different factions, not all of which can be counted on to support Zelenskiy's initiatives. The current land reform drive, which is one of Zelenskiy's key priorities, is being opposed by People's Servant MPs loyal to Kolomoyskiy, and it faces a long bureaucratic slog through the legislature. We repeat our view that with his recent actions and statements, Zelenskiy is pivoting toward more pro-Western positions that are somewhat at odds with the desires of the core electorate that voted him into office. However, the president appears confident that he can retain enough popularity to maintain his political viability, and we applaud this bold approach. We note that 25 years ago, former President Leonid Kuchma followed a rather similar path after being elected on the back of overwhelming support from Russophone southeastern Ukraine.

Ukraine Doubles BoP Surplus to USD 5.9bn in FY19 After Gazprom Payment

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Ukraine has reported a balance of payments (BoP) surplus of USD 5.9bn for full-year 2019, which is double the 2018 figure. Prior years' data was a surplus of USD 2.8bn for 2018 and USD 2.6bn for 2017, according to information from the National Bank (NBU) released last week. The country had a current account (C/A) deficit of USD 1.1bn in the period (compared to a deficit of USD 4.4bn for FY18). Ukraine's financial and capital account surplus was USD 7.0bn in FY19 (after a surplus of USD 7.2bn in FY18). The NBU reported an increase in foreign direct investments (FDI) into Ukraine by 6.1% YoY to USD 2.5bn in 2019.



COMMENTARY

Ukraine's current account improved considerably in December after state-owned energy giant NaftoGaz received a one-time penalty payment of USD 2.9bn from Russia's Gazprom. As a result, the C/A surplus of USD 2.4bn was registered for the month, offsetting much of the C/A deficit of USD 3.5bn accumulated over 11M19. The biggest single factor supporting the C/A, however, was a heavy flow of remittances from abroad, which reached USD 12.9bn last year (+12% YoY). In relative terms, the C/A deficit for 2019 was just 0.7% of GDP, down from 3.3% of GDP for 2018, although the improvement was almost entirely due to the one-off Gazprom payment (our initial forecast was a deficit of 1.3% of GDP).

Meanwhile, on the goods & services side, Ukraine's trade deficit widened by 6.6% YoY to USD 12.1bn last year, as exports growth from Ukraine failed to outpace the import growth.

For 2020, we forecast that Ukraine's C/A deficit will amount to USD 3.5bn (2.2% of GDP), which would be covered by the expected net FDI of USD 3.0bn and foreign currency borrowings on international markets by both the government and businesses amid the favorable low interest rate environment.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	47.4	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	8.3	16.5	99%	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	16.2	32.0	98%	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	4.30	12.0	179%	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	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.
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	165	270	64%	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	21.5	--	--	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	26.3	--	--	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	24.4	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	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 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	0.370	0.47	27%	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	516	1.3%	1.4%								
Iron Ore Mining												
Ferrexpo	FXPO	145	6.6%	-8.8%	1,103	1,385	24.0%	2.6	3.4	2.2	2.5	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	73	46	5.0%	2.8	7.9	1.2	3.2	0.2
Specialized Machinery												
Turboatom	TATM	10.6	0.0%	0.0%	182	179	3.8%	5.9	5.4	3.6	3.2	1.5
Motor Sich	MSICH	5,390	0.0%	0.0%	457	485	24.0%	neg	46	26	10.1	1.6
Oil & Gas												
UkrNafta	UNAF	165	12.2%	14.1%	365	357	3.0%	12.5	4.8	3.6	1.3	0.3
Regal Petroleum	RPT	21.5	2.4%	-1.6%	89	49	21.6%	8.9	11.1	2.2	2.6	0.9
JKX Oil	JKX	26.3	3.1%	11.0%	58	167	50.4%	3.2	3.6	4.9	4.4	1.4
Power Utilities												
Centrenergy	CEEN	8.53	0.0%	-7.9%	129	107	21.7%	neg	21	neg	4.3	0.2
Donbasenergy	DOEN	24.43	-1.6%	-3.4%	24	22	14.2%	neg	9.8	2.9	2.4	0.1
Consumer												
MHP	MHPC	8.30	-2.1%	-8.8%	877	2,017	34.1%	2.8	2.6	4.8	4.0	0.9
Kernel	KER	47.40	1.0%	-1.3%	968	1,662	61.8%	5.1	4.2	4.8	4.1	0.3
Astarta	AST	16.15	2.2%	0.9%	104	361	37.0%	4.7	4.0	3.9	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	4.30	-3.4%	16.2%	24	33	25.0%	2.5	3.4	2.6	3.0	0.6
Banks												
Raiffeisen Bank Aval	BAVL	0.370	6.6%	20.2%	928		1.8%	5.2	5.2	1.7	1.4	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		
		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	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%
Banks																
		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
UAH denominated Bonds									
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%	9.75%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.50%	9.75%	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

Eavex Capital

7 Klovsky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
E-mail: office@eavex.com.ua
Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board
yuriy.yakovenko@eavex.com.ua

SALES & TRADING

Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

Alexander Klymchuk
Equity and Fixed Income
a.klymchuk@eavex.com.ua

Eugene Klymchuk
Fixed Income Sales and Trading
e.klymchuk@eavex.com.ua

RESEARCH

Dmitry Churin
Head of Research
d.churin@eavex.com.ua

Will Ritter
Research editor
w.ritter@eavex.com.ua