

Stock Market Update

Equity

Ukraine's domestic PFTS equity index was on the rise for a third straight week, advancing by 2.2% to 528 points. Raiffeisen Bank Aval (BAVL) continued to be the best performing blue chip so far this year, adding 2.7% to 38.00 kopecks after news that the bank earned UAH 4.45bn in net profit last year, which translates into EPS of 7.72 kopecks. The market expects that Raiffeisen Aval will pay a 5.40 kopecks dividend, implying a dividend yield of 14%.

Low liquidity index member DonbasEnergo (DOEN) gained 6.2% to UAH 25.90 while CentrEnergo (CEEN) remained at UAH 8.53, with no reaction to news that the Kyiv commercial court has unblocked the process of privatizing the company. Controversial Ukrainian company UkrDonInvest had tried to block CentrEnergo's privatization in the courts after a failed privatization tender which took place in October 2018. The State Property Fund called off the auction, at which the 78% state stake in CentrEnergo was offered for USD 220mn; UkrDonInvest was one of two bidders at the event.

UkrNafta (UNAF) corrected by 4.4% to UAH 158 per share after a 12% surge over the preceding week.

On the London Stock Exchange, MHP (MHPC) continue to decline, losing 3.2% to USD 8.00 despite the company's majority owner and CEO Yuriy Kosyuk repeating his plans to expand MHP's business in the EU. Mr. Kosyuk noted that the company's Slovenian asset Perutnina Ptuj had grown by 30% YoY last year in terms of output. Meanwhile, top liquid issue Ferrexpo (FXPO) added 1.9% to GBp 148.

In Warsaw trading, Kernel (KER) edged up by 0.4% to PLN 47.60, and beaten-down Astarta (AST) jumped by 12% to PLN 18.00 after a report that CEO Victor Ivanchyk acquired additional shares at an average price of PLN 17.20. Mr. Ivanchyk is the company's largest shareholder with a 38.7% reported stake.

On the currency front, the hryvnia added 0.2% against the dollar to close at 24.46 UAH/USD. The National Bank reported that it continued to purchase hard currencies to add to its forex reserves last week.

Highlights

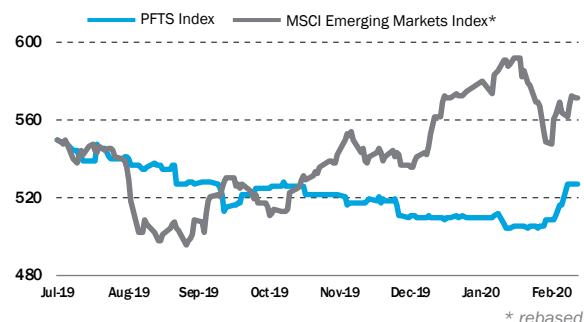
POLITICS AND ECONOMICS

- > Bogdan Forced Out of Zelenskiy Administration After Only 9 Months
- > Zelenskiy Takes Star Turn in Munich, Calls for Donbass Elections
- > Headline Inflation Slows to 3.2% after January Data

STOCKS IN THE NEWS

- > Raiffeisen Aval Posts 4Q19 EPS of 2.02 Kopecks, Beating Expectations

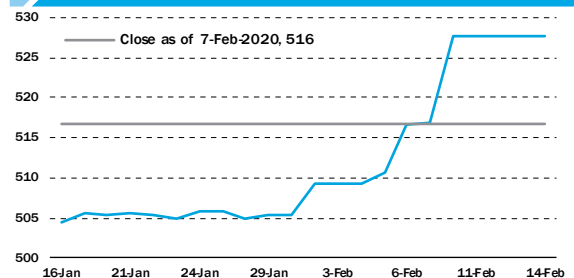
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	528	2.2%	3.5%
RTS	1541	2.0%	-0.5%
WIG20	2125	1.2%	-1.1%
MSCI EM	1106	1.4%	-0.8%
S&P 500	3380	1.6%	4.6%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	11.0%	0.0 p.p.	2.5 p.p.
Ukraine-2024	4.6%	-0.1 p.p.	-2.0 p.p.
Ukraine-2028	6.3%	-0.1 p.p.	-0.7 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.46	-0.2%	3.3%
EUR	26.52	-1.2%	0.4%

Bogdan Forced Out of Zelenskiy Administration After Only 9 Months

by Will Ritter
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NEWS

The first head of President Zelenskiy's administration (a job also referred to as Chief of Staff) Andriy Bogdan resigned under pressure last week after less than 9 months in office. Bogdan, who was closely linked to industrialist Igor Kolomoyskiy and the latter's "1+1" national television channel, was a key figure in Zelenskiy's election campaign last year. Bogdan was immediately replaced at the Bankova presidential offices by informal Zelenskiy advisor Andriy Yermak, who gained prominence in recent months for his role in negotiations with US lawyer and politician Rudolph Giuliani. The circumstances surrounding these talks led to a major political scandal in the US, while sharply raising Yermak's profile.

COMMENTARY

It is perhaps fitting that Bogdan, who had staged a prank resignation back in August to taunt the media, met his end in the Zelenskiy administration so quickly. Bogdan's links to Kolomoyskiy were seen as a problem by the international community, and although he won a power struggle against the highly-regarded reformer Oleksander Danyliuk, leading to Danyliuk quitting the administration in September, Bogdan's position appeared to weaken afterwards. Bogdan was also the key figure behind the Zelenskiy administration's drive last summer to depose popularly-elected Kyiv Mayor Vitaliy Klitschko from his post and replace him with "1+1" television executive Oleksander Tkachenko, a move which would have had exceedingly poor optics for Zelenskiy; Yermak is said to have opposed Bogdan's effort, which Zelenskiy eventually abandoned, behind the scenes. Yermak himself has faced some criticism for short-circuiting the Foreign Ministry with his negotiations with Giuliani and his prominent role in the prisoner exchange process with Russia. Our main lesson from this transition from Bogdan to Yermak at Bankova is that stars in the Zelenskiy administration can rise and fall very quickly, and more turnover should be expected.

Zelenskiy Takes Star Turn in Munich, Calls for Donbass Elections

by Will Ritter
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NEWS

President Zelenskiy made a star-studded appearance at the annual Munich Security Conference on Saturday in Germany, sitting for a televised interview at the event's main session and also attending a Ukraine-focused sub-group sponsored by industrialist Victor Pinchuk. Zelenskiy's appearance was one of the main stories of the day on international television network CNN. He used the interview to push back against perceptions that Ukraine is one of the world's most corrupt countries. Notably, Zelenskiy called for municipal and provincial elections to be held in the Donbass occupied territories, as well as in occupied Crimea, this October. No elections have been conducted in the Donbass since the cities of Donetsk and Lugansk were forcibly taken over by pro-Russian separatists in early 2014. In Ukraine, the central government controls the timing of local elections, which are held on the same date nationwide.

COMMENTARY

The administration of former President Poroshenko refused to agree to elections in the Donbass occupied territories unless Moscow withdrew its military from the region and returned control of the pre-2014 border to Kyiv, a demand which has still not been met. So far, Zelenskiy has stuck to his predecessor's position, so it remains to be seen whether he really believes a deal on restoring the border will be made this year, or whether he was simply engaging in some grandstanding for the assembled international press corps. In general, we see the increasing PR skill with which Zelenskiy is able to handle external relations with the West as probably his biggest asset as President. At the same time as he improves his pro-Western image, however, things are getting tougher for Zelenskiy domestically, as his parliamentary majority looks increasingly fragile and he faces popular opposition to his critical land reform initiative. Zelenskiy also announced last week that he intends to file a lawsuit against one of the country's top anti-corruption media outlets, "Schemes", for reporting that he held a secret meeting with top Russian security official Nikolay Patrushev during his still-unexplained visit to the small Gulf Arab country of Oman in early January.

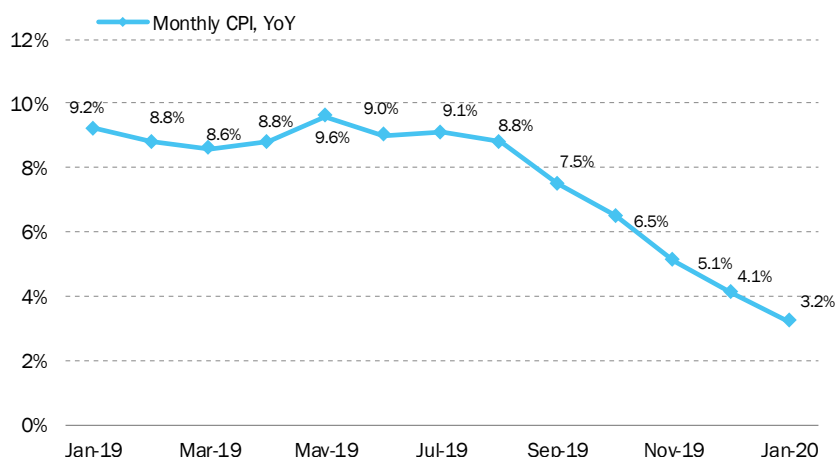
Headline Inflation Slows to 3.2% after January Data

by Dmitry Churin
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NEWS

Rolling 12-month consumer inflation in Ukraine slowed to a new multi-year low of 3.2% in January from 4.1% in December, according to State Statistics Committee data published earlier this month. The CPI increase on a monthly basis was 0.2% in the period, compared to a deflation of 0.2% in December.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The pace of consumer inflation in January was surprisingly low, especially taking into account the 3% devaluation of the Ukrainian currency in the period. The main factor behind the restrained CPI was a high comparison base from last January in terms of energy prices. UkrStat reported that natural gas tariffs for households were down by 21% YoY in January despite their growth by 10% month-on-month. The aggregate utility service price index declined by 2.8% YoY in January, while on a monthly basis it showed a rise of 1.7%.

On a 12-month comparison basis, food prices grew by 3.1% YoY in January and alcohol prices surged by 12.6% YoY on excise duty increases. Prices in the healthcare sector rose 2.8% YoY while transportation services became cheaper by 1.4% YoY.

The National Bank, in its latest macroeconomic forecast publication, said that it sees full-year consumer inflation at 4.8% for 2020, with a medium-term target of 4% - 6%.

Raiffeisen Aval Posts 4Q19 EPS of 2.02 Kopecks, Beating Expectations

by Dmitry Churin
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RAIFFEISEN BANK AVAL (BAVL)

Price: UAH 0.38 Market Cap: USD 955mn

	P/Assets	P/Book	P/E	Div. Yield
2019	0.25	1.7	5.2	14%
2020E	0.26	1.8	5.7	13%

NEWS

Raiffeisen Bank Aval, the Ukrainian subsidiary of Austria-based Raiffeisen International, posted a net profit of UAH 1.24bn for 4Q19 (+22% YoY), implying earnings per share of 2.02 kopecks, according to data released by the National Bank last week. For full-year 2019, the bank saw a decline in net profit by 6.7% YoY to UAH 4.45bn (USD 173mn at the average exchange rate for FY19). Raiffeisen Aval's gross interest income rose by 14.7% YoY last year and net interest income increased by 10.7% YoY to UAH 7.17bn.

On the balance sheet side, Raiffeisen Aval's loan portfolio grew by a sluggish 1.2% YoY to UAH 47.9bn, while its total assets increased by an impressive 25% YoY to UAH 92.2bn (USD 3.89bn), mainly as a result of revaluation of the bank's bond portfolio.

COMMENTARY

Due to the better than expected financial results for 4Q19, Raiffeisen Aval's net profit of 7.72 kopecks per share for FY19 was somewhat higher than our latest forecast revision for the period, but the bank did not improve its net profit compared to FY18, when it reported EPS of 8.27 kopecks per share. However, Raiffeisen Aval still demonstrated a superior return-on-equity of 38% for FY19. We continue to view the bank's balance sheet as very healthy, with an estimated equity-to-asset ratio of 14.1% at the start of this year.

If majority owner Raiffeisen International retains its last-year policy of a 70% dividend payout, the bank's shareholders will receive a DPS of 5.40. At the current BAVL stock price, this would represent a dividend yield of around 14%.

We forecast that for full-year 2020, the bank will have a quite similar performance to 2019, earning UAH 4.2bn, which would imply earnings per share of 6.83 kopecks.

The Kyiv-listed BAVL stock had a positive reaction to the publication of the 4Q19 financials, with quotes rising 2.7% to 38.00 kopecks.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	47.6	82.0	72%	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	8.0	16.5	106%	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	18.1	32.0	77%	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	3.85	12.0	212%	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	148	250	69%	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	158	270	71%	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	27.1	--	--	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						
DonbasEnergO	DOEN	25.9	--	--	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.
Banks						
Raiffeisen Bank Aval	BAVL	0.380	0.47	24%	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	528	2.2%	3.7%								
Iron Ore Mining												
Ferrexpo	FXPO	148	1.9%	-7.0%	1,134	1,416	24.0%	2.7	3.5	2.3	2.6	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%	183	180	3.8%	5.9	5.4	3.6	3.2	1.5
Motor Sich	MSICH	5,390	0.0%	0.0%	458	486	24.0%	neg	46	26	10.1	1.7
Oil & Gas												
UkrNafta	UNAF	158	-4.4%	9.1%	350	342	3.0%	12.0	4.6	3.4	1.2	0.3
Regal Petroleum	RPT	21.5	0.0%	-1.6%	90	50	21.6%	9.0	11.2	2.3	2.6	0.9
JKX Oil	JKX	27.1	3.0%	14.3%	61	169	50.4%	3.3	3.8	5.0	4.4	1.4
Power Utilities												
Centrenergy	CEEN	8.53	0.0%	-7.9%	129	108	21.7%	neg	21	neg	4.3	0.2
Donbasenergy	DOEN	25.94	6.2%	2.6%	25	24	14.2%	neg	10.4	3.1	2.6	0.1
Consumer												
MHP	MHPC	8.00	-3.6%	-12.1%	845	1,985	34.1%	2.7	2.5	4.7	4.0	0.9
Kernel	KER	47.60	0.4%	-0.8%	973	1,667	61.8%	5.1	4.2	4.8	4.1	0.4
Astarta	AST	18.05	11.8%	12.8%	116	373	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	3.85	-10.5%	4.1%	21	31	25.0%	2.3	3.1	2.4	2.8	0.6
Banks												
Raiffeisen Bank Aval	BAVL	0.380	2.7%	23.5%	955		1.8%	5.2	5.7	1.7	1.8	0.26

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																
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%
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	2,647	3,893	3,623	420	550	524	239	280	292	187	185	168	44.6%	33.6%	32.0%

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

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