

Stock Market Update

Equity

Kyiv-listed stocks finished notably higher last week amid generally positive sentiments regarding the performance of Ukrainian economy. Although the country's GDP growth slowed down to 1.5% YoY in 4Q19, there are expectations of faster growth this year due to a stimulative monetary policy and an improving business climate.

Quotes for oil&gas extractor UkrNafta (UNAF) rose 2.7% to UAH 162 per share after the company's state-owned parent group NaftoGaz provided UAH 2.5bn to help UkrNafta to pay taxes on some 2bn cubic meters of natural gas which it regained possession of after a decade-long court fight with the Ukrainian government. The payment from Naftogaz de-facto increases the probability that UkrNafta will effectively receive an above-market price on the sale of this gas, which should translate into high profits in 1Q20.

Raiffeisen Bank Aval (BAVL) remained unstoppable in its recent upward move, adding 1.3% to 38.50 kopecks, and low liquidity index member DonbasEnergo (DOEN) advanced by 3.7% to UAH 26.90 after China-based DEIC confirmed its readiness to invest USD 600mn in construction of a new unit at DOEN's Slavyansk thermal power plant. The investment agreement between Dongfang Electric International Corporation (DEIC) and DonbasEnergo for the joint implementation of the project was signed in December 2018. However, the construction work has not yet started, as the Chinese side is insisting on state guarantees. TurboAtom (TATM) gained 4.9% to UAH 11.10 per share on hopes the company will retain its policy of a high dividend payout this year.

London-listed MHP (MHPC) recovered by 2.5% to USD 8.20 after the EU lifted its Ukraine poultry meat import suspension on Feb 14. JKK Oil&Gas (JKX) added 4.1% to GBP 28.20 after the company reported that it became debt free with the final redemption of USD 5.8mn on its bonds issued back in 2013.

In Warsaw trading, Kernel (KER) climbed 1.9% to PLN 48.50 while Astarta (AST) was down by 2.8% to PLN 17.55.

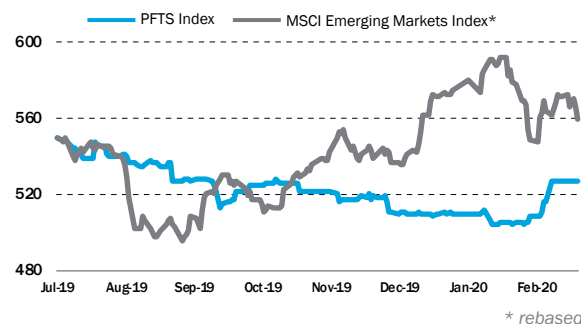
The hryvnia was little-changed against the dollar over the week, closing at 24.48 UAH/USD. The national currency's volatility decreased amid a weaker inflow of hard currencies from investors into UAH-denominated bonds, likely in response to falling yields on the instruments as the NBU continues to slash rates.

Highlights

POLITICS AND ECONOMICS

- > Kremlin Trying to Assist Bernie Sanders Campaign, US Intelligence Says
- > Ukraine's GDP Growth Slows to 1.5% YoY in 4Q19

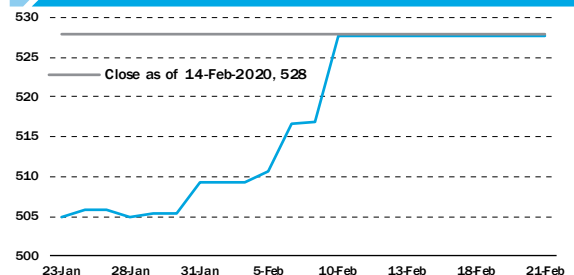
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	528	0.0%	3.5%
RTS	1524	-1.1%	-1.6%
WIG20	2009	-5.5%	-6.5%
MSCI EM	1084	-2.0%	-2.7%
S&P 500	3337	-1.3%	3.3%

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%	0.0 p.p.	-2.0 p.p.
Ukraine-2028	6.2%	-0.1 p.p.	-0.8 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.48	0.1%	3.3%
EUR	26.49	-0.1%	0.3%

Kremlin Trying to Assist Bernie Sanders Campaign, US Intelligence Says

by Will Ritter
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NEWS

US intelligence agencies have determined that the Russian government is trying to promote leftist politician Bernard Sanders at the expense of other Democratic Party candidates in the 2020 US presidential race, national US media reported last week. The ultimate goal of the Kremlin is to help current President Trump win re-election later this year, based on the assumption that Sanders is a weak opponent, the intelligence report stated. The assessment became public last week after it was provided to the US Congress. The precise methods being used by the Kremlin to increase Sanders' support and attack his opponents were not indicated. Trump responded to the news by firing US Director of National Intelligence Joseph Maguire.

COMMENTARY

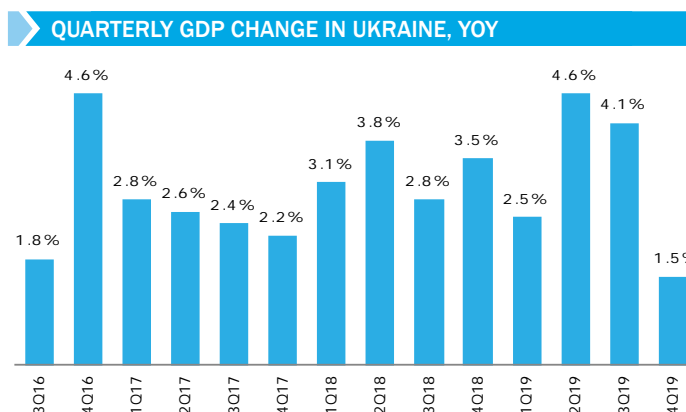
We agree with the general consensus that Sanders would prove to be a weak opponent who would lose to Trump in the November US election due to his inability to appeal to non-ideological voters in the center of the political spectrum. Sanders' dominance in the early-voting small states has indicated that concerns about Russian aggression, including interference in the US election process, are not on the radar of the leftist-socialist voters who back the Vermont senator. One of the key dynamics in the US race so far has been the big spending of multi-billionaire Michael Bloomberg, who entered the race to stop Sanders but instead has actually helped him by diluting the vote of the non-Sanders candidates. We believe that the Putin regime wishes to see Trump's term in office extended because Trump disrupts US relations with its traditional European partners while giving the Kremlin a freer hand in its foreign influence operations, particularly in the Middle East but also potentially including Ukraine. The contradiction of Trump on Ukraine is that although the US President has repeatedly expressed his skepticism and even hostility toward the country, he has also appointed highly competent people to manage the US-Ukraine relationship such as Kurt Volker and William Taylor; and Kyiv appeared to have the strong support of Secretary of State Michael Pompeo during the latter's recent visit. We suspect that President Zelenskiy would be pleased to start over with a new US counterpart next year, but that his administration will keep its preferences to itself and will begin preparing for an extension of Trump's term unless either Bloomberg or former Vice President Joseph Biden are able to slow the momentum of the Sanders campaign in the coming months.

Ukraine's GDP Growth Slows to 1.5% YoY in 4Q19

by Dmitry Churin
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NEWS

Ukraine's GDP growth decelerated to 1.5% YoY in 4Q19 from 4.1% YoY in the previous quarter, according to preliminary data from the State Statistics Committee (UkrStat) published earlier this month. The data also showed that the country's seasonally-adjusted GDP inched up by 0.1% on a quarterly basis in the period. UkrStat has not provided its assessment for the full-year 2019 GDP growth figure yet, with the report due on Mar 20. However, the preliminary 4Q figure implies that the full-year GDP rise was 3.3%.



Source: State Statistics Committee, Eavex Research

COMMENTARY

The 4Q GDP number obviously looks quite weak; we can blame this partly on an earlier agro harvest season in 2019 than in 2018, which pumped up the 3Q19 growth and then took some air out the 4Q19 data. More worryingly, there was a sustained contraction in industrial output in 4Q amid lower steel and machinery exports in the period.

Nonetheless, we are maintaining our bullish forecast for the Ukrainian economy for 2020, with a full-year GDP growth estimate of 3.8% YoY, due to an accommodating monetary policy from NBU that should increase the accessibility of borrowing to businesses across the economic spectrum. A moderate inflation environment and a generally stimulative monetary policy should help to drive consumer spending this year as well as to bring more investments into the real sector. The government has announced public investments in infrastructure, as the efficiency of domestic business suffers greatly from the bottlenecks in the transport sphere. Roads, expansion of access of the railway to the ports, electrification of railways, and the development of Dnipro river transport have been listed as priorities. These investment initiatives are aimed to attract private investors to finance infrastructure through a public-private partnership (PPP) mechanism. The government has already held successful concession tenders in two Black Sea ports - Olvia and Kherson. PPP pilot projects at airports and train stations are supposedly next in line.

An additional encouraging factor for Ukraine is that its so-called shadow economy continues to shrink in size and evolve into transparent business. The latest research from Ernst&Young said that the Ukrainian shadow economy amounts to USD 33bn or roughly one quarter of Ukraine's official GDP.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	48.5	82.0	69%	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	8.2	16.5	101%	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	17.6	32.0	82%	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	3.80	12.0	216%	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	158	250	58%	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	--	--	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	162	270	67%	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	22.8	--	--	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	28.2	--	--	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	26.9	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.10	25.60	181%	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	0.385	0.47	22%	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	0.0%	3.7%								
Iron Ore Mining												
Ferrexpo	FXPO	158	6.9%	-0.6%	1,212	1,494	24.0%	2.9	3.8	2.4	2.7	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	11.1	4.9%	4.9%	192	188	3.8%	6.2	5.6	3.8	3.4	1.5
Motor Sich	MSICH	5,390	0.0%	0.0%	457	486	24.0%	neg	46	26	10.1	1.7
Oil & Gas												
UkrNafta	UNAF	162	2.7%	12.0%	359	351	3.0%	12.3	4.7	3.5	1.3	0.3
Regal Petroleum	RPT	22.8	5.8%	4.1%	95	55	21.6%	9.5	11.9	2.5	2.9	1.0
JKX Oil	JKX	28.2	4.1%	19.0%	63	171	50.4%	3.4	3.9	5.0	4.5	1.4
Power Utilities												
Centrenergy	CEEN	9.10	6.7%	-1.7%	137	116	21.7%	neg	23	neg	4.6	0.2
Donbasenergy	DOEN	26.90	3.7%	6.4%	26	25	14.2%	neg	10.8	3.2	2.7	0.1
Consumer												
MHP	MHPC	8.20	2.5%	-9.9%	866	2,006	34.1%	2.8	2.6	4.8	4.0	0.9
Kernel	KER	48.50	1.9%	1.0%	973	1,667	61.8%	5.2	4.2	4.8	4.1	0.4
Astarta	AST	17.55	-2.8%	9.7%	111	368	37.0%	5.0	4.2	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	3.80	-1.3%	2.7%	21	30	25.0%	2.2	3.0	2.3	2.7	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.385	1.3%	25.1%	967		1.8%	5.2	5.8	1.8	1.8	0.27

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	2,647	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%	9.75%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			11.50%	9.75%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			11.50%	9.75%	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									
UA4000204853			4.75%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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