

Stock Market Update

Equity

Kyiv-listed stocks were more or less immune to the sharp drop in global equity prices last week due to the isolation and low liquidity of the local market. However, most quotes were lower on corporate-specific events.

In particular, shares of state-owned CentrEnergO (CEEN) dropped by 2.7% to UAH 8.85 after the government's newly appointed management faced problems with accessing the company's documents. The media reports said that the previous management had tried to hide evidence of large corruption schemes by physically blocking CentrEnergO's head office. This situation once again highlights the ineffectiveness of state ownership in Ukraine.

Raiffeisen Bank Aval (BAVL) shed 1.3% to 38.00 kopecks while DonbasEnergO (DOEN) and Krukiv Wagon (KVBZ) were unchanged at UAH 26.90 and UAH 15.60 respectively. UkrNafta (UNAF) corrected by 2.5% to UAH 158 amid the downturn in benchmark oil prices.

The European sell-off hit quotes for Ukrainian stocks listed in London and Warsaw. Iron ore producer Ferrexpo (FXPO) got clobbered with an 18% loss to GBP 130 per share, while less liquid MHP (MHP) declined by 3.7% to USD 7.90. Natural gas extractors Jkx Oil&Gas (JKX) and Regal Petroleum (RPT) plunged by 28% and 25% respectively to GBP 20.20 and GBP 17.00.

In Warsaw trading, Kernel (KER) slid 15% to PLN 41.00, partly under pressure from a worse-than-expected earnings report. Sugar refiner Astarta (AST) slumped to a new 10-year low after taking a 19% pummeling to PLN 14.25; such a price for the issue has not been seen since 2009 during the global financial crisis.

On the currency front, the hryvnia lost a moderate 0.8% against the dollar to close at 24.68 UAH/USD, as the currency appeared to come under some pressure from speculative sellers at the end of the month.

Highlights

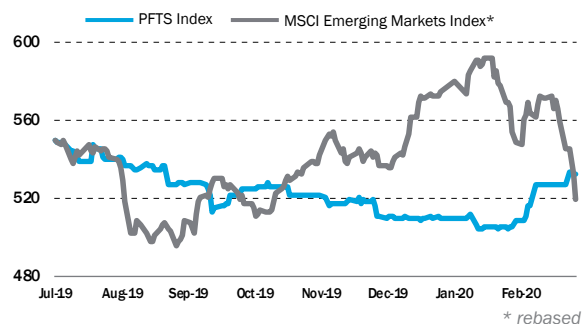
POLITICS AND ECONOMICS

- > Political Veteran Tigipko Under Consideration to Replace Honcharuk as PM
- > Ukraine's January Industrial Output Slumps by 5% YoY

STOCKS IN THE NEWS

- > Kernel's Oct-Dec EBITDA Declines by 15% YoY to USD 109mn

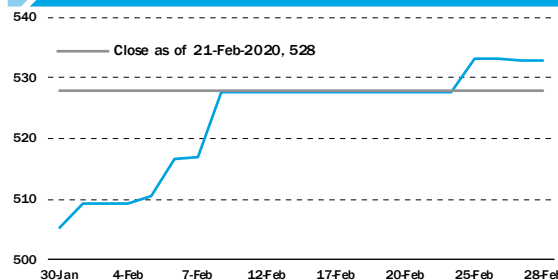
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	533	1.0%	4.6%
RTS	1350	-11.4%	-12.8%
WIG20	1804	-10.2%	-16.0%
MSCI EM	1005	-7.3%	-9.8%
S&P 500	2954	-11.5%	-8.6%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	11.0%	0.0 p.p.	2.5 p.p.
Ukraine-2024	5.3%	0.7 p.p.	-1.3 p.p.
Ukraine-2028	6.8%	0.6 p.p.	-0.2 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	24.68	0.8%	4.2%
EUR	27.07	2.2%	2.5%

Political Veteran Tigipko Under Consideration to Replace Honcharuk as PM

by Will Ritter
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NEWS

Banker and oligarch Serhiy Tigipko met last week with President Zelenskiy to discuss the possibility of Tigipko taking the position of Ukrainian prime minister, domestic media reported. Tigipko last served in government during 2010-2012 as a deputy prime minister under then-President Yanukovich. His history in government dates back much further, however, as he also served as economics minister during the first term of President Kuchma during 1997-98 after having been a top executive at PrivatBank during much of the 1990s. Tigipko ran for president in 2010, coming in third place behind Yanukovich and Yulia Tymoshenko. After being forced out of the Yanukovich government during a reshuffle in December 2012, Tigipko withdrew from politics to return to running his business empire. He was not politically active during the EuroMaidan period of 2013-14 or during the Poroshenko presidency.

COMMENTARY

There have been rumors for several months now that the Zelenskiy administration is dissatisfied with current Prime Minister Oleksiy Honcharuk, who at just 34 years of age has developed a reputation, fairly or unfairly, as being somewhat of a lightweight. Replacing him with Tigipko would have clear pluses and minuses for Zelenskiy. On the plus side, Tigipko is definitely a heavyweight figure with top-level experience, and he emerged more or less unscathed from the Yanukovich years due to having left the government a year prior to Yanukovich's shocking refusal to sign the Association Agreement with the European Union. Indeed, Tigipko was Ukraine's star reformer during the first two years of the Yanukovich administration in 2010-11, pushing through an unpopular pension reform and acting as point man for relations with the IMF before his efforts and influence were eventually sidelined in 2012 by corrupt entrenched interests. On the minus side, however, the optics of having an oligarch with a net worth estimated at somewhere between USD 500mn and USD 1bn in the top government post are simply terrible. Also - unlike Honcharuk - Tigipko is sufficiently powerful and experienced to become a political rival to Zelenskiy himself, an angle which we think will not be lost on the President and his top advisors.

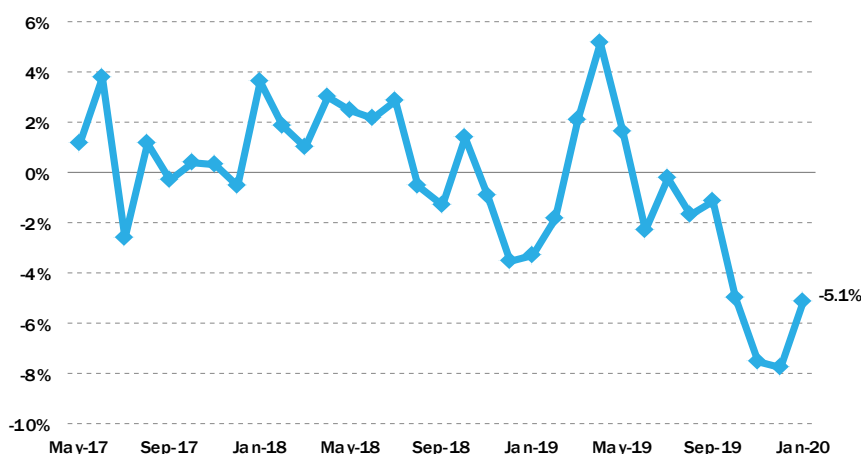
Ukraine's January Industrial Output Slumps by 5% YoY

by Dmitry Churin
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NEWS

Ukraine's industrial production fell by 5.1% YoY in January, representing an 8th straight month of notable decline following December's 7.7% YoY slide, the State Statistics Committee (UkrStat) reported last week. There was also a month-on-month unadjusted drop of 8.4% in January's industrial index as a result of the New Year holiday season. As has already been reported, Ukraine's overall industrial production for full-year 2019 showed a decline of 1.8% after a moderate increase of 1.1% seen back in 2018.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

Ukraine's industrial output continues to get hammered, creating a drag on the country's overall economic growth, which is being sustained by strong consumer spending and remissions from abroad. The best news here is that the drop in industrial production was a bit less than the awful figure from December. Core manufacturing output in January was 3.2% lower, as both the steel and the machinery sectors remained weak amid the tough situation on export markets. The overall Ukrainian metallurgical production measured by UkrStat declined by 10.3% YoY in January. However, industry association UkrMetallurgProm reported a conflicting figure, saying that steel production in the country declined by only 2.7% YoY to 1.8mn tonnes during the first month of the year. In the machinery sector, Ukrainian producers saw a 10.5% YoY drop, with the transportation machinery sub-sector demonstrating 15.5% YoY plunge.

Utility sector output fell by 11.8% YoY, but this was mainly due to warmer than average winter temperatures in the period. The extraction sector's production index declined by 4.5% YoY on lower coal extraction (-19.2% YoY). Meanwhile, extraction of iron ore edged down by 1.5% YoY and oil&gas output decreased by 3.0% YoY in January.

In other key economic statistics, UkrStat reported that retail sales volume saw galloping growth, rising 12.1% YoY in January and continuing the impressive pace that the retail sector has enjoyed for the last 4 years. Meanwhile, the agro sector's output index edged down by 0.7% YoY in the first month of the year.

Kernel's Oct-Dec EBITDA Declines by 15% YoY to USD 109mn

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 41.00 Market Cap: USD 853mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY19	0.6	0.4	4.5	4.5	2.4%
FY20E	0.5	0.3	3.7	3.8	2.4%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, posted a decline in its EBITDA by 15% YoY to USD 109mn in the Oct-Dec quarter (the company's 2Q20, as its financial year runs from July to June). According to the consolidated financial statement published on Feb 28, net revenue decreased by 9% YoY to USD 1.02bn in the period and net profit dropped by 54% YoY to USD 41mn. For 1H20, Kernel had revenue of USD 1.86bn (-17% YoY), EBITDA of USD 216mn (-6% YoY), and net profit of USD 100mn (-39% YoY).

KERNEL FINANCIAL RESULTS

USD mn	2Q FY20	2Q FY19	YoY	1H FY20	1H FY19	YoY
Net revenue	1,016.5	1,114.9	-9%	1,862.3	2,255.2	-17%
EBITDA	109.3	129.3	-15%	215.8	229.9	-6%
EBITDA margin	10.8%	11.6%	-0.8 p.p.	11.6%	10.2%	-1.3 p.p.
Net Income	41.0	88.5	-54%	100.4	164.0	-39%
Net margin	4.0%	7.9%	-3.9 p.p.	5.4%	7.3%	-1.9 p.p.

Source: Company data.

On the balance sheet side, Kernel's net debt amounted to USD 1.64bn as of 31 December 2019, implying a Net Debt/EBITDA ratio of 5.0x, an increase from 2.7x a year earlier. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, is at a much lower level of some USD 704mn.

COMMENTARY

Kernel's financial results missed our upbeat expectations, which were supported by the company's solid operational performance in Oct-Dec period. Kernel exported 2.3mn tonnes of grain in its 2Q20, which represented 30% YoY growth. The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. But Kernel's farming division showed a 70% YoY drop in achieved EBITDA to USD 19mn in 2Q20, hurting the group's overall financial performance. In the core sunflower oil segment, Kernel reported a flat EBITDA of USD 39mn for 2Q20, as 9% YoY lower sales volume was offset by a stronger crushing margin of USD 113 per tonne. Still, for the full operational year of 2020, the company is offering guidance of a crushing margin of only USD 85 per tonne (+26% YoY).

Regarding Kernel's increased Net Debt/EBITDA level, the company said that it had not breached any covenants. Kernel's Net Debt/EBITDA is tested as of Jun 30 each year, and its Eurobond 3.0x EBITDA-to-Interest covenant is tested excluding IFRS 16 impact (liabilities arising from land lease deals). The KER stock took a beating last week both from the sell-off on global stock markets and the company's worse-than-expected financial results. The stock slumped 15% to PLN 41.00 per share, a level not seen since the November bottom.

We maintain our BUY recommendation for Kernel with a target price of PLN 82.00 per share based on the group's expanded business operations, which have yet to be reflected in the share price.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	41.0	82.0	100%	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	7.9	16.5	109%	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	14.3	32.0	125%	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	3.20	12.0	275%	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	130	250	92%	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	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	17.0	--	--	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	20.2	--	--	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	8.85	25.60	189%	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	0.380	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	533	1.0%	4.7%								
Iron Ore Mining												
Ferrexpo	FXPO	130	-17.7%	-18.2%	997	1,279	24.0%	2.4	3.1	2.0	2.3	0.9
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	-4.5%	0.2%	183	180	3.8%	5.9	5.4	3.6	3.2	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	158	-2.5%	9.3%	350	343	3.0%	12.0	4.6	3.5	1.2	0.3
Regal Petroleum	RPT	17.0	-25.5%	-22.4%	71	31	21.6%	7.1	8.9	1.4	1.6	0.6
JKX Oil	JKX	20.2	-28.4%	-14.8%	45	154	50.4%	2.5	2.8	4.5	4.0	1.3
Power Utilities												
Centrenergy	CEEN	8.85	-2.7%	-4.4%	134	112	21.7%	neg	22	neg	4.5	0.2
Donbasenergy	DOEN	26.90	0.0%	6.4%	26	25	14.2%	neg	10.8	3.2	2.7	0.1
Consumer												
MHP	MHPC	7.90	-3.7%	-13.2%	835	1,975	34.1%	2.7	2.5	4.7	3.9	0.9
Kernel	KER	41.00	-15.5%	-14.6%	823	1,517	61.8%	4.4	3.6	4.4	3.7	0.3
Astarta	AST	14.25	-18.8%	-10.9%	90	347	37.0%	4.0	3.4	3.7	3.3	0.6
Avangardco	AVGR	0.20	0.0%	0.0%	13	344	22.5%	6.4	4.3	20	18	2.9
Agroton	AGT	3.20	-15.8%	-13.5%	17	27	25.0%	1.8	2.5	2.1	2.4	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.380	-1.3%	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																
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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