

**Stock Market Update**

**Equity**

Ukrainian equities listed in Kyiv were unaffected by the corona-virus panic on international markets on Monday (Mar 9), as domestic trading platforms were closed due to the local Women's Day holiday. Last week, stocks remained in a low volatility mode amid dry liquidity on the both the Ukrainian Exchange and PFTS Exchange.

In domestic political developments, President Zelenskiy reshuffled the government, forcing Oleksiy Honcharuk to resign as prime minister after only 6 months in office, and appointing former Ivano-Frankivsk provincial governor Dennis Shmygal in his place. Prosecutor General Ruslan Ryaboshapka was also fired by Parliament at Zelenskiy's direction. Both events were perceived as attempts by Zelenskiy to shore up his own sliding approval rating, which is down from 73% to 52% in the last two months, according to polling conducted by the Kyiv Institute of Sociology (KIS).

The most actively traded issue, Raiffaisen Bank Aval (BAVL), declined by 1.8% to 37.30 kopecks, and UkrNafta (UNAF) shed 3.2% to UAH 153 per share.

Shares of state-owned CentrEnergO (CEEN) decreased by 3.6% to UAH 8.53 as the government's newly appointed management was still unable to take control over the company due to a controversial court decision saying that the State Property Fund has not agreed the new CEO with the supervisory board.

London-listed Ukrainian equities were lower, with Ferrexpo (FXPO) falling 5.4% to GBP 123 and JXX Oil&Gas (JXX) edged down 1.0% to GBP 20.00 per share. The less liquid MHP (MHP) plunged 22% to USD 6.20, a fresh local minimum for the issue.

In Warsaw trading, Kernel (KER) slipped 9.6% to PLN 37.05 and Agroton (AGT) fell by 10% to PLN 2.86.

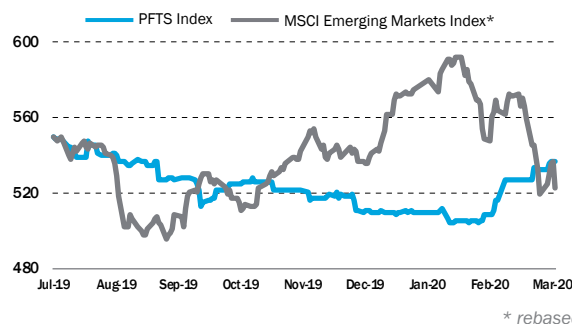
The hryvnia lost 2.9% against the dollar since last Monday, approaching the psychological support level of 25.50 UAH/USD. The national currency's current rate is 25.40 UAH/USD. The hryvnia showed no positive reaction to news that the NBU's forex reserves grew by USD 300mn to USD 26.6bn last month. Meanwhile, the National Bank is expected to announce its decision on its main refinancing rate, which currently stands at 11.00%, on Mar 12; we are expecting another large cut of 150 bps to 9.50%.

**Highlights**

**POLITICS AND ECONOMICS**

- > Zelenskiy's Government Shake-Up Appears to Favor Akhmetov

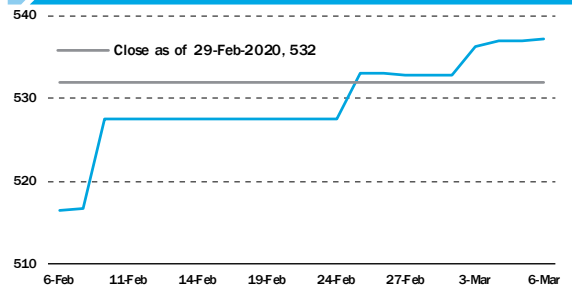
**STOCK MARKET PERFORMANCE**



**MARKET INDEXES**

	Last	1W ch	YTD
PFTS	537	0.8%	5.4%
RTS	1164	-13.8%	-24.8%
WIG20	1647	-8.7%	-23.3%
MSCI EM	1012	0.7%	-9.2%
S&P 500	2746	-7.0%	-15.0%

**PFTS 1M PERFORMANCE**



**FIXED INCOME**

	Last	1W ch	YTD
NBU Key Rate	11.0%	0.0 p.p.	2.5 p.p.
Ukraine-2024	5.6%	0.3 p.p.	-1.0 p.p.
Ukraine-2028	7.1%	0.3 p.p.	0.1 p.p.

**CURRENCY**

	Last, UAH	1W ch	YTD
USD	25.40	2.9%	7.2%
EUR	28.83	6.5%	9.1%

## Zelenskiy's Government Shake-Up Appears to Favor Akhmetov

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

### NEWS

Prime Minister Oleksiy Honcharuk was forced to resign last week after only 6 months in office, in a Cabinet shake-up engineered by President Zelenskiy's administration. About half of the government's ministers are being replaced in the changes. The new prime minister will be Dennis Shmygal, who served as governor of Ivano-Frankivsk province (an appointed position). Shmygal was also a long-time top executive at electricity conglomerate DTEK, which is owned by industrialist Rinat Akhmetov. Another high-profile casualty of the reshuffle is Finance Minister and IMF point-person Oksana Markarova, who is being replaced by Igor Umanskiy; Umanskiy held the Finance Ministry portfolio a decade ago, during the latter years of Victor Yuschenko's presidency. Taking over at the Energy Ministry will be Ivan Plachkov, another former Akhmetov employee who managed DTEK's KyivEnergO subsidiary. Like Umanskiy, Plachkov held the same ministerial post during the Yuschenko administration. The most notable returnee to the new Cabinet is Interior Minister Arseniy Avakov, who has held the job as Ukraine's top law enforcement official ever since the EuroMaidan revolution in early 2014 and has now survived 4 Cabinet shake-ups; Zelenskiy broke an explicit promise made last August that Avakov would stay on at the Interior Ministry for only 6 months. Outside the Cabinet, another major personnel change occurred with Parliament's firing of General Prosecutor Ruslan Ryaboshapka, who like Honcharuk was a young reformer who had been in office only since September.

### COMMENTARY

Ukrainian sovereign Eurobonds sold off last week, although not particularly sharply, as investors seemed to read Zelenskiy's moves as a concession to the country's major oligarchs and a step backward against reforms. The key question for the market is whether the new government changes will allow Ukraine's new IMF loan deal to go forward. We are less bearish than others on this issue, as we believe that regardless of the government's composition, the IMF has only two major red lines: first, that Zelenskiy's signature land reform initiative be pushed through as promised this autumn; and second, that nationalized PrivatBank not be returned to its former owner, industrialist Igor Kolomoyskiy. If Zelenskiy is able to deliver on these two issues, other transgressions, such as the removal of the well-regarded Ryaboshapka from the PGO, will likely be forgiven. Overall, we see Zelenskiy's moves as acknowledging the reality of having to work with Ukraine's oligarchs, and with Akhmetov in particular; Zelenskiy has been trying to convince Akhmetov to buy up unprofitable state coal mines, and also likely the largest state-owned electricity producer CentrEnergO. Such sales to Akhmetov would clearly violate anti-monopoly laws, but Zelenskiy has stated that he would be able to push the State Anti-Monopoly Committee to approve the deals. As for Avakov, who held on at InMin for 5 years despite his fierce rivalry with Poroshenko (thanks to Avakov's control of a key bloc of Parliament deputies), Zelenskiy may have felt that he had no other good options for this powerful post. We see a pattern of cooperation and competition developing between Zelenskiy and the oligarchs which will inevitably lead to a decline in the President's high popularity. The risk in this game (which we pointed out last spring even before Zelenskiy took office) is that Zelenskiy could end up being turned into a plaything of the oligarchs if he loses too much public support. And despite nominally holding a parliamentary majority, it is far from certain that Zelenskiy could count on the loyalty of his own MPs in the event of his falling popularity and a coordinated effort to reduce his constitutional powers and/or oust him before the end of his 5-year term.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	37.1	82.0	121%	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	6.2	16.5	166%	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	13.4	32.0	139%	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	2.86	12.0	320%	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	123	250	103%	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	--	--	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	153	270	76%	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	15.9	--	--	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	20.0	--	--	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>						
DonbasEnerg	DOEN	27.6	--	--	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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.373	0.47	26%	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	537	0.8%	5.5%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	123	-5.4%	-22.6%	945	1,227	24.0%	2.3	3.0	2.0	2.2	0.8
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	71	43	5.0%	2.7	7.7	1.1	3.1	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.6	0.0%	0.2%	177	174	3.8%	5.7	5.2	3.5	3.1	1.4
Motor Sich	MSICH	5,390	0.0%	0.0%	442	470	24.0%	neg	44	25	9.8	1.6
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	153	-3.2%	5.8%	327	320	3.0%	11.2	4.3	3.2	1.1	0.3
Regal Petroleum	RPT	15.9	-6.2%	-27.2%	67	27	21.6%	6.7	8.3	1.2	1.4	0.5
JKX Oil	JKX	20.0	-1.0%	-15.6%	45	153	50.4%	2.4	2.8	4.5	4.0	1.3
<b>Power Utilities</b>												
Centrenergy	CEEN	8.53	-3.6%	-7.9%	124	103	21.7%	neg	21	neg	4.1	0.2
Donbasenergy	DOEN	27.60	2.6%	9.2%	26	24	14.2%	neg	10.7	3.2	2.7	0.1
<b>Consumer</b>												
MHP	MHPC	6.20	-21.5%	-31.9%	655	1,795	34.1%	2.1	2.0	4.3	3.6	0.8
Kernel	KER	37.05	-9.6%	-22.8%	775	1,469	61.8%	4.1	3.4	4.2	3.6	0.3
Astarta	AST	13.40	-6.0%	-16.3%	88	345	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	2.86	-10.6%	-22.7%	16	26	25.0%	1.7	2.3	2.0	2.3	0.5
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.373	-1.8%	21.2%	905		1.8%	4.9	5.4	1.6	1.7	0.25

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>																
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%
<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	2,647	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
<b>UAH denominated Bonds</b>									
UA4000202469			13.25%	11.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			13.25%	11.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			13.25%	11.00%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			13.25%	11.00%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			13.25%	11.00%	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

## Eavex Capital

7 Klovsyky 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

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