

Stock Market Update

Equity

Kyiv-listed stocks were broadly lower last week in line with the heavy sell-off seen on global financial markets. Ukrainian flagship oil producer UkrNafta (UNAF) was the biggest decliner, slumping 9.2% to UAH 139 amid tumbling crude benchmarks. Saudi Arabia and Russia are now engaged in a price war after failing to agree on a supply cut at their Vienna OPEC-plus meeting. Russia and Saudi Arabia had been curtailing their collective production since 2016 in an effort to bolster prices.

In other local blue chips, Raiffaisen Bank Aval (BAVL) edged down by 0.8% to 37.00 kopecks and CentrEnergO (CEEN) dropped by 1.5% to UAH 8.40 per share.

Both London- and Warsaw-listed Ukrainian equities were hit hard by the global stock market turmoil. Iron ore miner Ferrexpo (FXPO) fell 10.8% to GBP 110 and poultry giant MHP (MHPC) lost 3.2% to USD 6.00, nearing its all-time low. Kernel (KER) also continued to slide, losing 3.9% to PLN 35.60. We assume that the company's largest shareholder and CEO Andriy Verevsky will use the situation to buy up more free-floating shares from the market, as he had been purchasing the KER stock at a reported average price of PLN 42 in recent weeks.

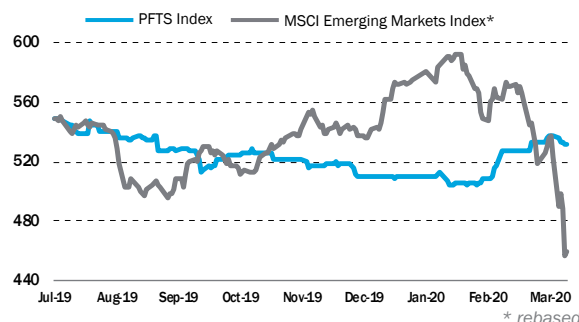
On the currency front, the hryvnia was a victim of high demand for the USD safe haven among local speculators. The national currency fell 4.3% to 26.49 UAH/USD despite the National Bank's heavy interventions using its reserves, which stood at USD 26.6bn at the beginning of the month. The NBU also made a widely expected decision to cut its key refinancing rate from 11.00% to 10.00% as it continues to implement its goal of easing monetary policy.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy, Yermak Under Fire for Entering Direct Talks with DNR/LNR
- > Ukraine Headline Inflation Slows Sharply to 2.4% in February

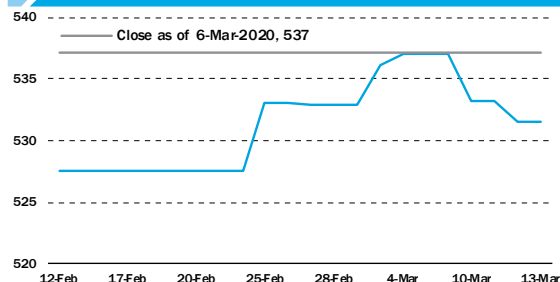
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	532	-1.0%	4.3%
RTS	945	-18.8%	-39.0%
WIG20	1265	-23.2%	-41.1%
MSCI EM	891	-12.0%	-20.1%
S&P 500	2711	-1.3%	-16.1%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	-1.0 p.p.	-3.5 p.p.
Ukraine-2024	9.8%	4.2 p.p.	3.2 p.p.
Ukraine-2028	9.2%	2.1 p.p.	2.2 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	26.49	4.3%	11.8%
EUR	29.65	2.8%	12.2%

Zelenskiy, Yermak Under Fire for Entering Direct Talks with DNR/LNR

by Will Ritter
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NEWS

Several thousand demonstrators gathered at the presidential administration building on Sunday (Mar 15) to protest the reported decision by President Zelenskiy to open direct talks with the leadership of pro-Russian separatist groups in Donetsk and Lugansk provinces (DNR/LNR) on a wide-ranging peace deal. Up to now, Kyiv has only negotiated with the Russian government on ending the 6-year-old Donbass conflict, claiming that the DNR & LNR are entirely controlled from Moscow. Also, members of the Azov paramilitary group on Thursday (Mar 12) disrupted an event touting plans to reunite the occupied Donbass territories with Ukraine, claiming it betrayed national interests, with police making a number of arrests. The intensified Donbass negotiations are part of a plan being pursued under the leadership of new presidential administration chief Andriy Yermak.

COMMENTARY

This situation in regard to conflict within Ukrainian society over Zelenskiy's and Yermak's negotiating strategy is useful for the Kremlin because it aggravates the split between Ukraine's national-patriotic electorate in the center/west of the country and the more Russia-friendly electorate in the southeast. We see a key objective of Russian policy as encouraging the complete separation of Zelenskiy from the pro-Ukrainian electorate, thus forcing him to be wholly reliant on the support of pro-Russian voters; the fact that Zelenskiy has enjoyed a certain level of bipartisan support in the opening months of his presidency has clearly been a problem for the Kremlin. The coalition opposing the Yermak-led Donbass initiative is likely to include both hard-line nationalists and pro-Western civil society groups - i.e. the two most politically active segments of the Ukrainian population. However, it is possible that a silent majority of citizens actually favor the more conciliatory approach - long a key demand of the Kremlin - of direct talks between Kyiv and Donetsk/Lugansk. We remain skeptical that there is any near-term scenario whereby the occupied territories can be re-integrated under Kyiv's control without sacrificing the overall stability of the Ukrainian state, as the price paid to Russia for regaining the Donbass will simply be too high. This is even more true now that the Zelenskiy government is facing the serious external shock of the global corona-virus outbreak; Ukraine's sovereign Eurobonds lost an astounding 19 percent of their value in last week's trading, and an absolute priority (far more important than the Donbass negotiations) must be placed on maintaining macroeconomic stability.

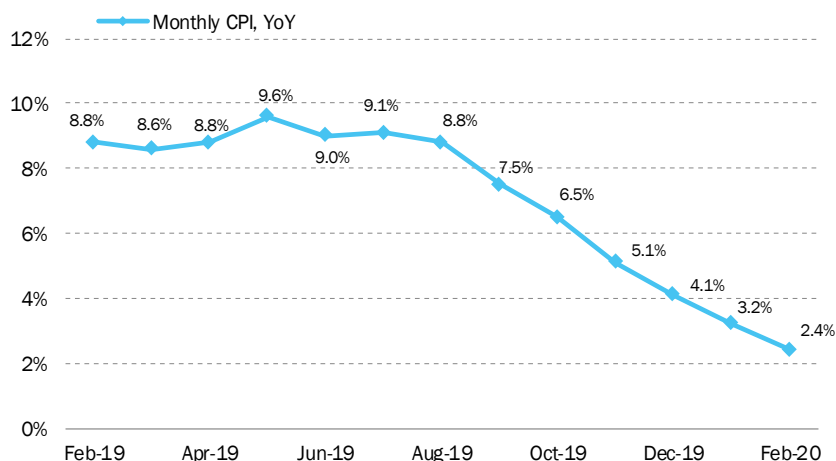
Ukraine Headline Inflation Slows Sharply to 2.4% in February

by Dmitry Churin
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NEWS

Rolling 12-month consumer inflation in Ukraine slowed to a new multi-year low of 2.4% in February after 3.2% in January and 4.1% in December, according to State Statistics Committee data published last week. The CPI declined on a monthly basis by 0.3% in the period mainly on lower energy prices.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

Consumer inflation in Ukraine has been sharply decreasing since mid-2019, when it stood at a level of 9.0% YoY. However, we suppose that February could be the low-water mark for the domestic CPI index, given that global economic pessimism beyond Ukraine's control has seen the hryvnia devalue by some 10% against the major hard currencies over the past 3 weeks. Although the current economic conditions are starting to look very challenging amid risks of global recession, the large decline in oil prices should be a positive factor in helping the National Bank to stay close to its forecast of inflation of 4.8% for full-year 2020. Also working in favor of macroeconomic stability are the NBU's solid reserves of near USD 27 billion, which should allow the central bank to keep any decline in the hryvnia to a manageable level.

On a month-on-month comparison basis, the utility sector prices declined by 2.0% and the aggregate food price index edged down by 0.4% in February. Meanwhile, prices in the healthcare sector rose by 0.5% MoM and telecommunication service prices grew by 0.3% MoM.

The lower pace of inflation in February and signs of economic slowdown prompted the National Bank to cut its key refinancing rate by 100 bps from 11.00% to 10.00% on Thursday (Mar 12). The central bank continues to aim for a key rate in the range of 7%, and said it will be ready to act with further monetary easing if needed. We had anticipated that the key rate would be lowered to 9.50%.

The next meeting of the NBU Board on monetary policy issues is due on Apr 23.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	35.6	82.0	130%	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	6.0	16.5	175%	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	10.4	32.0	209%	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	2.50	12.0	380%	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	110	250	127%	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	139	270	94%	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	15.8	--	--	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	17.8	--	--	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	26.8	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	8.40	25.60	205%	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	532	-1.0%	4.4%								
Iron Ore Mining												
Ferrexpo	FXPO	110	-10.6%	-30.8%	816	1,098	24.0%	1.9	2.5	1.7	2.0	0.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	69	42	5.0%	2.6	7.5	1.1	2.9	0.2
Specialized Machinery												
Turboatom	TATM	10.6	0.0%	0.2%	172	169	3.8%	5.5	5.1	3.4	3.0	1.4
Motor Sich	MSICH	5,390	0.0%	0.0%	430	458	24.0%	neg	43	25	9.5	1.6
Oil & Gas												
UkrNafta	UNAF	139	-9.2%	-3.9%	289	282	3.0%	9.9	3.8	2.8	1.0	0.2
Regal Petroleum	RPT	15.8	-0.6%	-27.7%	64	24	21.6%	6.4	8.0	1.1	1.3	0.4
JKX Oil	JKX	17.8	-11.3%	-25.1%	38	147	50.4%	2.1	2.4	4.3	3.9	1.2
Power Utilities												
Centrenergy	CEEN	8.40	-1.5%	-9.3%	119	98	21.7%	neg	20	neg	3.9	0.1
Donbasenergy	DOEN	26.80	-2.9%	6.0%	24	23	14.2%	neg	10.1	3.0	2.5	0.1
Consumer												
MHP	MHPC	6.00	-3.2%	-34.1%	634	1,774	34.1%	2.0	1.9	4.2	3.5	0.8
Kernel	KER	35.60	-3.9%	-25.8%	731	1,425	61.8%	3.9	3.2	4.1	3.5	0.3
Astarta	AST	10.35	-22.8%	-35.3%	67	324	37.0%	3.0	2.5	3.5	3.1	0.5
Avangardco	AVGR	0.20	0.0%	0.0%	13	344	22.5%	6.4	4.3	20	18	2.9
Agroton	AGT	2.50	-12.6%	-32.4%	14	23	25.0%	1.5	2.0	1.8	2.1	0.4
Banks												
Raiffeisen Bank Aval	BAVL	0.370	-0.8%	20.2%	873		1.8%	4.7	5.2	1.6	1.7	0.24

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	110	122	40	49	56	43.1%	45.0%	45.6%	28	31	34	29.9%	28.3%	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			16.00%	12.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			16.00%	12.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			16.00%	12.00%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			16.00%	12.00%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			16.00%	12.00%	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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