

Stock Market Update

Equity

Locally-listed Ukrainian stocks were generally lower for the third week in a row, as the Zelenskiy administration admitted that even under an optimistic scenario of a low infection rate of the COVID-19 disease that Ukrainian economy will contract by 5% this year. The government has restricted most business activity by imposing a nationwide state of emergency because of the COVID situation until Apr 24, although currently fewer than 500 cases of the virus have been registered nation-wide.

In individual blue chips, Raiffaisen Bank Aval (B AVL) fell 6.1% to 31.00 kopecks and CentrErgo (CEEN) dropped by 3.3% to UAH 7.25 per share. Shares of UkrNafta (UNAF) rebounded by 7.7% to UAH 140 after the company asked the government for a temporary reduction in the tax rates for oil and condensate extraction from the current 31% down to only 6%. The government has not yet responded to the proposal.

Quotes for Krukiv Wagon (KVBZ) had no reaction to the company's earnings report for 2019 and its announcement that no dividend distribution from the FY19 profit is planned. The low-liquidity KVBZ stock has an indicative (non-traded) price of UAH 15.60, which is looks quite low taking into account the company's net profit of UAH 6.89 per share in FY19.

London-listed Ferrexpo (FXPO) failed to extend its rebound, falling back by 12% to GBp 112 per share, while MHP (MHPC) demonstrated a firm recovery of 12% to USD 6.38. In Warsaw trading, Kernel (KER) saw a minor 1.0% rebound to close at PLN 34.55 while beaten-down Astarta (AST) was more robust, rising 9.4% to PLN 11.60 amid broad recovery momentum on European bourses.

On the currency market, the hryvnia weakened by 2.1% to 28.08 UAH/USD. The National Bank remained active with interventions on the market to prevent a sharper hryvnia devaluation.

Highlights

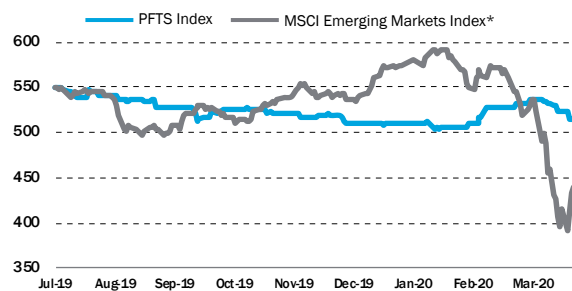
POLITICS AND ECONOMICS

- > Umanskiy Removed as Finance Minister after Only 25 Days; Ukrainian Sovereigns Rebound as COVID Quarantine Extended to Apr 24
- > Ukraine's Industrial Output Down 1.5% YoY in February Despite Extra Day; Retail Sales Rocket Higher by 16% YoY Ahead of Quarantine Crash

STOCKS IN THE NEWS

- > Krukiv Wagon's FY19 Net Profit Up 60% YoY to UAH 790mn; No Dividend Expected

STOCK MARKET PERFORMANCE

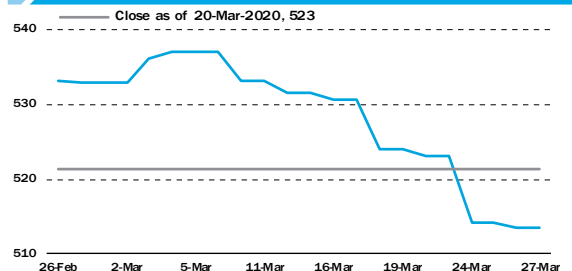


* rebased

MARKET INDEXES

	Last	1W ch	YTD
PFTS	513	-1.8%	0.7%
RTS	954	3.2%	-38.4%
WIG20	1460	-1.9%	-32.0%
MSCI EM	842	4.9%	-24.5%
S&P 500	2541	10.3%	-21.4%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	0.0 p.p.	-3.5 p.p.
Ukraine-2024	11.9%	-3.8 p.p.	5.3 p.p.
Ukraine-2028	12.3%	-3.0 p.p.	5.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	28.08	2.1%	18.5%
EUR	30.93	4.8%	17.1%

Umanskiy Removed as Finance Minister after Only 25 Days; Ukrainian Sovereigns Rebound as COVID Quarantine Extended to Apr 24

by Will Ritter
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NEWS

Finance Minister Igor Umanskiy was abruptly forced out of his post today (Mar 30) after less than a month in the job, domestic media reported. Umanskiy is expected to be replaced by Serhiy Marchenko, who served as a deputy minister at MinFin under Olexander Danyliuk during 2016-2018. However, a vote in Parliament to immediately confirm Marchenko failed (he received support from 223 MPs, 3 votes short of the required 226, as many MPs are absent due to the COVID epidemic). Umanskiy had previously headed MinFin more than a decade ago during the presidency of Victor Yushenko. In other news, President Zelenskiy declared an official national state of emergency due to the COVID-19 virus and extended the quarantine - which closes most businesses and public transportation - from Apr 3 until Apr 24. Ukraine has thus far experienced relatively few cases of the COVID, with the official nationwide number currently at 475. The country's sovereign Eurobonds saw huge gains which entirely erased the losses of the preceding week, with Kyiv reported to be closing in on a new loan package with the IMF in ongoing talks.

COMMENTARY

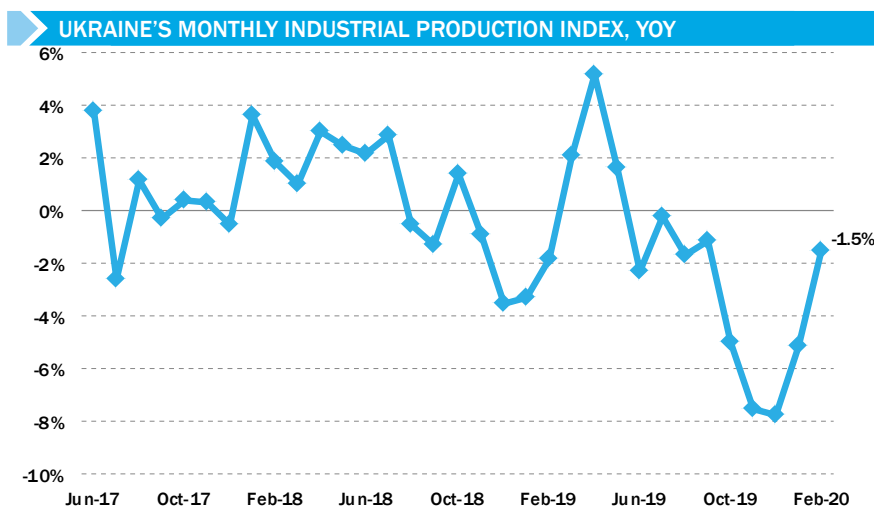
We suppose that Umanskiy's quick ouster from MinFin was related to the situation with the IMF, with such an old-guard official not being viewed as capable of getting the deal done; the choice of Marchenko (we believe he will eventually be confirmed by Parliament despite today's setback) as the replacement indicates an attempt to return to the days of Danyliuk, who was and remains well-regarded in Western circles. Of course, the episode looks like a fumble by the Zelenskiy administration, which could have spared itself the trouble by simply leaving previous finance minister Oxana Markarova in place. We see the rebound in Ukrainian sovereign Eurobonds, which gained back some 20 percent of their value last week, as being related not only to an imminent IMF deal, but more importantly to the understanding that some of the trillions of dollars being issued by the US Federal Reserve to prevent the collapse of the bond markets is indeed quickly making its way to purchases of Ukrainian and other emerging-market sovereigns. In terms of the quarantine extension, we suppose that the date of Apr 24 was purposely chosen to mask the government's intention to keep the restrictions until mid-May, as May 1-9 in Ukraine is a traditional holiday period. While this lengthy shutdown for a disease with a fatality rate of perhaps only 0.1% carries enormous costs for Ukraine's economy and could lead to serious social and political unrest within a matter of weeks, it is nonetheless in line with measures taken by almost all the countries in Europe.

Ukraine's Industrial Output Down 1.5% YoY in February Despite Extra Day; Retail Sales Rocket Higher by 16% YoY Ahead of Quarantine Crash

by Dmitry Churin
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NEWS

Ukraine's aggregate industrial output fell by 1.5% year-on-year in February after a 5.6% YoY output drop registered in January, the State Statistics Committee (UkrStat) reported last week. The month-on-month change (unadjusted for the different number of days) was a rise of 0.4%. In the manufacturing sectors the aggregate production decline was 0.4% and in the utility sector contraction was 1.8% YoY thanks to warmer than average weather during the month. Meanwhile in the extraction industry, the output drop was 4.1% YoY due to a 15.3% YoY decrease in coal production. For 2M20, the IP index is down by 3.1% YoY even with the benefit of the additional leap-year day.



Source: State Statistics Committee

COMMENTARY

The smaller 1.5% YoY decline in Ukrainian industry compared to recent months is an illusion, as UkrStat did not adjust the data to take into account February's additional day this year; when we subtract 3.5% of output to account for the additional day, we see that the month's industrial drop was 5.0% YoY, i.e. on a similar level to the very poor performance of November, December and January. Of course, the figures are going to get worse in March due to the Zelenskiy administration's introduction of the COVID-19 quarantine in the middle of this month. We assume that the steel and the machinery industries will face a prolonged period of output contraction this year. UkrStat reported that the metallurgical production index declined by 7.3% YoY in 2M20 and the aggregate machinery output decreased by 13.6% YoY. On the other hand, lower crude oil prices will have a limited negative impact on Ukraine's oil&gas industry as the country's oil production is thin and the overall oil&gas industry is quite small. What is certain is that Ukraine's multi-year retail sales juggernaut growth will finally come to an end, with most brick-and-mortar retailers closed due to the quarantine. In February, aided by the 3.5% extra-day bump, retail sales shot up at a record 15.7% YoY pace. The construction sector's index increased by 3.6% YoY in the period, while the index measuring agricultural production inched up by 0.1% YoY in Jan-Feb 2020.

Krukiv Wagon's FY19 Net Profit Up 60% YoY to UAH 790mn; No Dividend Expected

by Dmitry Churin
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KRUKIV WAGON (KVBZ UK)

Price: UAH 15.60 Market Cap: USD 64mn

	P/E	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.5	0.1	2.1	1.0	0.0%
2020E	0.5	0.2	6.9	2.6	0.0%

NEWS

Kremenchuk-based Ukrainian railcar producer Krukiv Wagon raised its net profit by 61% YoY to UAH 790mn in full-year 2019 (USD 33mn at the average UAH/USD rate for the period), according to data published with the announcement for the company's general shareholders meeting scheduled on Apr 16. The agenda for the general shareholders meeting suggests that the company will not pay a dividend from last year's profit, directing the funds to working capital and other needs.

COMMENTARY

The announced Krukiv Wagon bottom line for FY19 exceeded our forecast by 16%. The UAH 790mn figure represents a net profit of UAH 6.89 per share in FY19, although in 4Q19 alone the profit was just 8 kopecks per share. Krukiv Wagon has not unveiled its order book for 2020 but it could be considerably smaller than for 2019, when several export orders brought in the lion's share of sales.

We currently forecast that as a result of the decrease in production, Krukiv's net profit could fall by 3.4x YoY to UAH 230mn in 2020.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	34.6	82.0	137%	BUY	<p>The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. 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.</p> <p>Kernel had revenue of USD 1.86bn (-17% YoY), EBITDA of USD 216mn (-6% YoY), and net profit of USD 100mn (-39% YoY) in July-December (the company's 1H20, as its financial year runs from July to June).</p> <p>The company aims to achieve EBITDA of USD 500mn by 2021.</p>
MHP	MHPC LI	6.4	16.5	159%	BUY	<p>London-listed agro group MHP posted a net profit of USD 105mn in 3Q19, representing earnings per share of 99 cents. Year-to-date through September, the company reported revenue of USD 1,511bn (+33% YoY), EBITDA of USD 357mn (-1% YoY), and net profit of USD 276mn (+94% YoY). On the balance sheet side, MHP's total debt was USD 1.58bn as of 30 Sept 2019. The debt structure shifted further to long-term liabilities, which accounted for 93% of total debt.</p> <p>With a cautiously positive outlook for 4Q19 we believe the company could deliver a net profit of USD 2.93 per share for full-year of 2019</p>
Astarta	AST PW	11.6	32.0	176%	BUY	<p>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.</p>
Agroton	AGT PW	3.03	12.0	296%	BUY	<p>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.</p> <p>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.</p>
Iron Ore						
Ferrexpo	FXPO LN	112	250	123%	BUY	<p>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.</p>
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	BUY	<p>Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project.</p> <p>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.</p>
Oil & Gas						
UkrNafta	UNAF	140	270	93%	BUY	<p>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.</p>
Concern Galnaftogaz	GLNG	n/a	--	--	U/R	<p>Galnaftogaz is pursuing a plan to aggressively expand its filling station network.</p>
Regal Petroleum	RPT LN	13.8	--	--	U/R	
JKX Oil & Gas	JKX LN	15.5	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	24.3	--	--	U/R	<p>The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.</p>
CenterEnerg	CEEN	7.25	25.60	253%	BUY	<p>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 8 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. In 2019 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.</p>
Banks						
Raiffeisen Bank Aval	BAVL	0.310	0.47	52%	BUY	<p>Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, earned UAH 4.7bn in net profit in FY19, which implied earnings per share of 7.72 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%. 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.</p>

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	513	-1.8%	0.9%								
Iron Ore Mining												
Ferrexpo	FXPO	112	-11.9%	-29.5%	805	1,086	24.0%	2.0	2.8	1.9	2.5	0.8
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	64	37	5.0%	2.1	6.9	1.0	2.6	0.2
Specialized Machinery												
Turboatom	TATM	10.5	1.6%	-1.1%	157	154	3.8%	12.9	4.6	3.1	2.8	1.3
Motor Sich	MSICH	5,390	0.0%	0.0%	399	427	24.0%	neg	40	23	8.9	1.5
Oil & Gas												
UkrNafta	UNAF	140	7.7%	-3.2%	270	264	3.0%	9.3	3.6	2.7	0.9	0.2
Regal Petroleum	RPT	13.8	-1.8%	-37.1%	54	14	21.6%	5.4	6.7	0.6	0.7	0.3
JKX Oil	JKX	15.5	3.3%	-34.6%	32	141	50.4%	1.8	2.0	4.1	3.7	1.2
Power Utilities												
Centrenergo	CEEN	7.25	-3.3%	-21.7%	95	74	21.7%	neg	16	neg	2.9	0.1
Donbasenergo	DOEN	24.34	1.4%	-3.7%	20	19	14.2%	neg	8.5	2.5	2.1	0.1
Consumer												
MHP	MHPC	6.38	11.9%	-29.9%	674	1,814	34.1%	2.2	2.0	4.3	3.6	0.8
Kernel	KER	34.55	1.0%	-28.0%	670	1,364	61.8%	3.5	2.9	3.9	3.4	0.3
Astarta	AST	11.60	9.4%	-27.5%	71	328	37.0%	3.2	2.7	3.5	3.2	0.5
Avangardco	AVGR	0.20	0.0%	0.0%	13	344	22.5%	6.4	4.3	20	18	2.9
Agroton	AGT	3.03	12.2%	-18.1%	16	25	25.0%	1.7	2.3	2.0	2.3	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.310	-6.1%	0.7%	679		1.8%	3.7	4.0	1.2	1.3	0.19

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	1,507	1,330	503	586	430	39.5%	38.9%	32.3%	335	403	290	26.3%	26.7%	21.8%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	31	9	9.0%	10.5%	3.8%
Specialized Machinery																
Turboatom	TATM	94	110	122	40	49	56	43.1%	45.0%	45.6%	28	12	34	29.9%	11.1%	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			23.0%	17.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			23.0%	17.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			23.0%	17.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			23.0%	17.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			23.0%	17.0%	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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