

Stock Market Update

Equity

Kyiv-listed stocks finished mixed last week after the government strongly implied that the quarantine measures in Ukraine will be extended beyond the current Apr 24 expiration date. Meanwhile, only around 3,500 cases of COVID-19 have been confirmed in the country, which is the lowest per capita rate in Europe. Ukraine is less dependent on international tourism and production chains than many other countries, meaning that the worsening global economic situation could be less damaging to the country than the 2008-09 financial meltdown.

In individual blue chip names, Raiffeisen Bank Aval (BAVL) gained a solid 6.3% to 34.00 kopecks. On the downside, DonbassEnergy (DOEN) dropped by 3.0% to UAH 21.60 after the company admitted high risks of non-payments from its electricity consumers under direct contracts. CentrEnerg (CEEN) was unchanged at UAH 7.25. Quotes for UkrNafta (UNAF) were also flat despite the failure to close the company's large natural gas compensation deal with its state-owned parent group NaftoGaz; the deal was postponed to August. UNAF shares had an indicative un-traded price of UAH 135 last week.

Ukrainian companies listed abroad saw firm gains in line with the recovery on major European bourses. Iron ore producer Ferrexpo (FXPO) surged by 22% to GBp 143 and MHP (MHPC) advanced by 4.9% to USD 6.40. Kernel (KER) shot up by 14% to PLN 40.75 while Astarta (AST) inched up by only 0.4% to PLN 11.65.

On the currency market, the hryvnia added 1.3% against the dollar to close at 27.10 UAH/USD amid the drying up of hryvnia cash flow during the economic shutdown. The National Bank reported that its foreign reserves slumped by 7.8% to USD 24.9bn in March after USD 2.2bn were spent to support the national currency on the interbank market during intense speculative attacks at the beginning of the quarantine. Despite the large outflow, the NBU reserves still cover 3.7 months of future imports.

Highlights

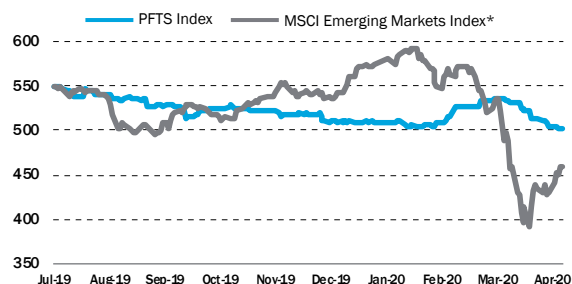
POLITICS AND ECONOMICS

- Ukraine to Extend Quarantine Despite Lowest COVID Rate in Europe
- March Inflation Comes in at 2.3% YoY, Not Yet Reflecting Quarantine Shock

STOCKS IN THE NEWS

- UkrNafta Unloads Oil at USD 22/bbl After Failing to Sell Above USD 40 During Feb/Mar

STOCK MARKET PERFORMANCE

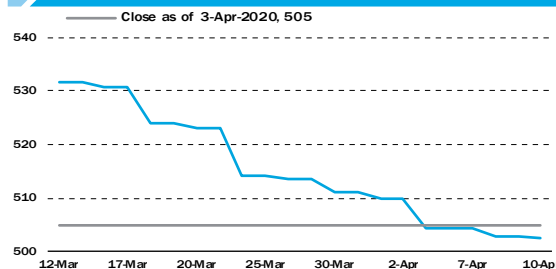


* rebased

MARKET INDEXES

	Last	1W ch	YTD
PFTS	503	-0.4%	-1.4%
RTS	1123	7.0%	-27.5%
WIG20	1615	7.2%	-24.8%
MSCI EM	888	6.8%	-20.3%
S&P 500	2789	12.1%	-13.7%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	10.0%	0.0 p.p.	-3.5 p.p.
Ukraine-2024	9.6%	-0.8 p.p.	3.0 p.p.
Ukraine-2028	11.3%	-0.2 p.p.	4.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	27.10	-1.3%	14.4%
EUR	29.65	0.1%	12.2%

Ukraine to Extend Quarantine Despite Lowest COVID Rate in Europe

by Will Ritter
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NEWS

Prime Minister Dennis Shmygal said in a public television appearance on Friday (Apr 10) that Ukraine's COVID-19 virus quarantine will be gradually lifted during a period from May until July. The quarantine is nominally set to end on Apr 24. Ukraine currently has some 3,500 reported cases of the COVID (less than 1 case per 10,000 inhabitants), which the lowest rate per capita in Europe, with 93 deaths blamed on the disease. Shmygal said the government is working on a plan to address the economic consequences of the quarantine shutdown, which it will present to the public. Shmygal said the government's plan will try to limit the country's economic contraction for 2020 to 5%, and that the suspended school year for children should resume in early June and finish in July.

COMMENTARY

The very low incidence of the COVID-19 in Ukraine can be viewed from both angles, i.e. that the government's quarantine order helped to stop the spread of the disease, but also that such a complete shutdown of the economy was an unnecessarily draconian move amid an infection rate that might have remained low under a less severe regime. We expect the quarantine measures to be extended until at least May 12 (the start of the first full week after the traditional May holiday period), and even in the best case, the economic re-start will surely be quite gradual. Therefore, we view Shmygal's estimate of a GDP decline for this year of only 5% as ludicrously optimistic; a 2-month closure of the economy will surely cost at least 10% of GDP, and likely even more, as many small businesses around the country will not re-open at the end of the quarantine. Although the general public has thus far been quite supportive of President Zelenskiy's handling of the COVID crisis, any attempt to extend restrictive measures beyond mid-May and the beginning of the outdoor weather season could have sudden and volatile consequences; the most vulnerable citizens in society are the ones who suffer most from the quarantine, and Ukraine lacks the economic margin of safety enjoyed by the richer countries in Europe, which can afford a longer shutdown.

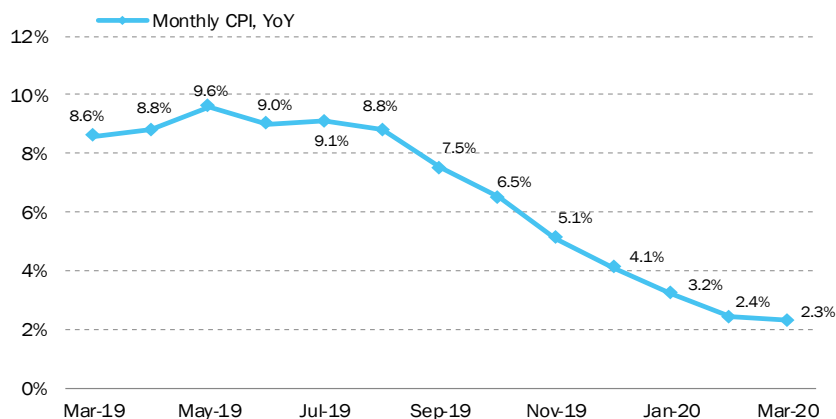
March Inflation Comes in at 2.3% YoY, Not Yet Reflecting Quarantine Shock

by Dmitry Churin
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NEWS

Ukraine's headline consumer inflation stood at 2.3% in March, ticking down by 0.1 p.p. from the 2.4% registered in February, according to State Statistics Committee data published last week. On a month-on-month basis, the CPI rose by 0.8%, driven by cost increases for imported goods amid the hryvnia devaluation in the period.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The CPI figures for March do not yet reflect the pricing turbulence for food products which appeared after the government imposed the nationwide quarantine on Mar 17, as it took up to a week for the full effect of the harsh restrictions to be felt; we will need to wait for the April data to get a full picture of the situation. UkrStat's food price index grew by only 0.4% MoM in March, although clothing prices surged by 12.8% MoM. A drag on the expected rise in inflation was the March plunge global oil prices, which drove lower energy costs in Ukraine. The official aggregate price index for petroleum products declined by 1.7% MoM, heating/hot water costs decreased by 5.2% MoM and natural gas prices for households fell 11.6% YoY in March.

The government's newly-revised macro forecast for 2020 foresees consumer inflation accelerating from the 2019 multi-year low of 4.1% to 11.6%. Among other key indicators, Ukraine's GDP is now projected to contract by 3.9% this year, in contrast to the initial forecast of economic growth of 3.7%. We believe the contraction will be significantly larger than the government forecast (based on a period of economic shutdown lasting 15% or more of the year), but it is too soon to make a precise estimate. The government's forecast of the unemployment rate increasing from 8.1% to only 9.4% also looks out of touch with reality, considering that many Ukrainians working abroad have returned back home due to the European quarantine and will have difficulty finding work.

UkrNafta Unloads Oil at USD 22/bbl After Failing to Sell Above USD 40 During Feb/Mar

by Dmitry Churin
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UKRNAFTA (UNAF UK)

Price: UAH 135 Market Cap: USD 271mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019E	0.9	0.2	9.3	2.7	n/a
2020E	0.8	0.2	3.6	0.9	n/a

NEWS

UkrNafta, Ukraine's largest oil producer, sold 4.4mn barrels of crude oil at a price near USD 22/bbl at its auction on Apr 7. According to the auction rules, the starting price was linked to the average price for Russian Urals oil for the prior 15 days before the auction date announcement. UkrNafta had not held a successful oil auction since late January, when the company sold some 900,000 bbl at a price of USD 63/bbl.

COMMENTARY

The results of this auction can only be described as disgraceful, as UkrNafta has unloaded what amounts to more than one third of its annual output at the bottom of the market. This once again confirms our suspicion that UkrNafta's management has no goal of improving financial results, while minority owner Igor Kolomoyskiy continues to use his influence over the company to siphon away its profits (entities linked to Kolomoyskiy are major buyers of UkrNafta's oil, and thus benefit from the low pricing). UkrNafta sold its extracted oil output from the last five months at this low price, after failing to sell it in February and March when prices were at least 2x higher. Taking into account that UkrNafta's oil extraction costs are slightly below USD 20/bbl, the profit from these sales will be miniscule.

In other UkrNafta-related news, the company's supervisory board approved amendments to the large natural gas compensation deal with state-owned NaftoGaz that postponed its closure until Aug 1, dashing expectations that it would be closed in March, resulting in a huge net profit for 1Q20. We now assume that UkrNafta's financial results both for 1Q and 2Q will be unimpressive. An additional challenge for UkrNafta is a decreasing demand for petroleum products at its filling station network. The company said that in terms of the volumes sold, the decline could be 20% compared to the last year's average readings.

The UNAF stock remained illiquid, with a wide bid/ask spread of almost 15%. The stock had an indicative price of UAH 135 last week.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	40.8	82.0	101%	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	158%	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	11.7	32.0	175%	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	3.12	12.0	285%	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	143	250	75%	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	135	270	100%	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	15.7	--	--	U/R	
JKX Oil & Gas	JKX LN	19.0	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	21.6	--	--	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	0.340	0.47	38%	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	503	-0.3%	-1.2%								
Iron Ore Mining												
Ferrexpo	FXPO	143	22.3%	-10.3%	1,050	1,331	24.0%	2.6	3.6	2.3	3.1	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	66	40	5.0%	2.1	7.2	1.0	2.8	0.2
Specialized Machinery												
Turboatom	TATM	10.3	-1.5%	-2.6%	161	158	3.8%	13.2	4.7	3.2	2.8	1.3
Motor Sich	MSICH	5,390	0.0%	0.0%	414	442	24.0%	neg	41	24	9.2	1.5
Oil & Gas												
UkrNafta	UNAF	135	0.0%	-6.6%	271	264	3.0%	9.3	3.6	2.7	0.9	0.2
Regal Petroleum	RPT	15.7	2.6%	-28.1%	63	23	21.6%	6.3	7.9	1.0	1.2	0.4
JKX Oil	JKX	19.0	4.1%	-19.8%	41	149	50.4%	2.2	2.5	4.4	3.9	1.2
Power Utilities												
Centrenergo	CEEN	7.25	0.0%	-21.7%	99	78	21.7%	neg	16	neg	3.1	0.1
Donbasenergo	DOEN	21.63	-3.0%	-14.4%	19	18	14.2%	neg	7.9	2.3	1.9	0.1
Consumer												
MHP	MHPC	6.40	4.9%	-29.7%	676	1,816	34.1%	2.2	2.0	4.3	3.6	0.8
Kernel	KER	40.75	13.5%	-15.1%	781	1,475	61.8%	4.1	3.4	4.3	3.6	0.3
Astarta	AST	11.65	0.4%	-27.2%	70	327	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	3.12	1.3%	-15.7%	16	26	25.0%	1.7	2.3	2.0	2.3	0.5
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.340	6.3%	10.5%	773		1.8%	4.2	4.6	1.4	1.5	0.21

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																
Centrenerg	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%	-1.1%	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			21.0%	14.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			21.0%	14.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			21.0%	14.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			21.0%	14.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			21.0%	14.0%	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000204853			6.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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