

## Stock Market Update

### Equity

Ukrainian equities listed in Kyiv came under pressure last week after official data showed a 7.7% YoY contraction in industrial output in the country in March. The machinery and metallurgical sectors had the worst performance, dropping by 17% and 16% respectively, which was balanced by a jump of 22% YoY in pharmaceutical production. Retail sales increased by 6.1% YoY last month, but this rise was down sharply from 15% YoY growth seen in February.

Quotes for CentrEnergO (CEEN) and DonbasEnergO (DOEN) fell by 4.0% and 3.7% respectively, with the former closing at UAH 7.20 after the Energy Ministry estimated that household debt for electricity stands at UAH 4.7bn. Rising non-payments amid the COVID quarantine could cause a systematic crisis in the Ukrainian energy sector. The country's largest coal mine has already been forced to suspend extraction as thermal power stations stopped their purchases.

UkrNafta (UNAF) continued to suffer as result of the global turmoil on the crude oil market. The UNAF share price dropped by 7.0% to UAH 120, while Raiffeisen Bank Aval (BAVL) was flat at 33.00 kopecks.

In London trading, MHP (MHPC) decreased by 3.3% to USD 5.90 after the company reported a 4% YoY decline in its first-quarter poultry sales. Regal Petroleum (RPT) slipped by 2.2% to GBp 15.70 while Ferrexpo (FXPO) advanced by 4.9% to GBp 142.

Warsaw-listed Kernel (KER) declined by 6.2% to PLN 40.80, ignoring the company's quite upbeat operational results for Jan-Mar. Astarta (AST) gave back 5.2% to PLN 11.80 after gaining 6.9% over the preceding week. On the upside, low-liquidity Agroton (AGT) added 5.8% to PLN 3.45.

On the interbank currency market, the hryvnia inched down 0.2% against the dollar to close at 27.14 UAH/USD. The National Bank's decision to cut its key interest rate from 10.0% to 8.0% had no influence on the hryvnia, as market hryvnia rates remain elevated in the high teens due to the COVID uncertainty.

## Highlights

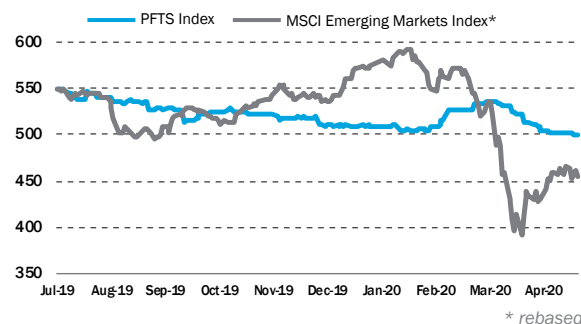
### POLITICS AND ECONOMICS

- > Saakashvili Set to Receive Gov't Post as More Top Reformers Fired

### STOCKS IN THE NEWS

- > Kernel Boosts Grain Exports by 40% YoY to 2.2mn Tonnes in Jan-Mar
- > MHP's 1Q Poultry Sales Take Hit from January EU Suspension, Slip 4% YoY

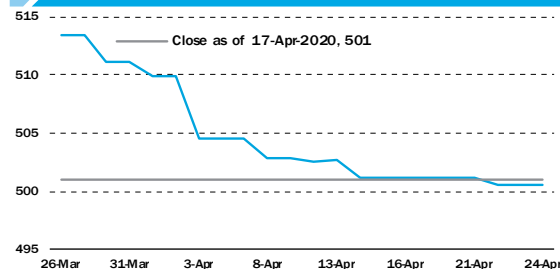
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	501	-0.1%	-1.8%
RTS	1081	1.2%	-30.2%
WIG20	1602	-2.3%	-25.4%
MSCI EM	879	-2.2%	-21.1%
S&P 500	2836	0.5%	-12.2%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	-2.0 p.p.	-5.5 p.p.
Ukraine-2024	10.1%	1.2 p.p.	3.5 p.p.
Ukraine-2028	11.7%	1.0 p.p.	4.7 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	27.14	0.2%	14.6%
EUR	29.30	-0.6%	10.9%

## Saakashvili Set to Receive Gov't Post as More Top Reformers Fired

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### NEWS

Prime Minister Dennis Shmygal last week fired two of the highest officials in Ukraine's government revenue collection services, Maxim Nefyodov of the State Customs Agency and Serhiy Verlanov of the State Tax Service. Shmygal said the moves were made at the request of new Finance Minister Serhiy Marchenko. Both officials, who are generally well-regarded in Ukraine's civil society anti-corruption community, said they had been removed without explanation for "political" considerations. Meanwhile, former Odessa provincial governor Mikhail Saakashvili, who had his Ukrainian citizenship revoked by previous President Petro Poroshenko and then restored last year by President Zelenskiy, is set to make a comeback by assuming a Deputy Prime Minister posting, subject to approval by Parliament, later this week.

### COMMENTARY

It is difficult for us to judge the situation with the dismissal of Nefyodov and Verlanov, which comes on the heels of Zelenskiy's poorly-received Cabinet shake-up last month that ousted some of the government's most credible members. It is possible that Marchenko simply wished to place his own people in charge of these key agencies, but a more sinister scenario is easily imagined given the opportunities for large-scale corruption that the revenue-collection agencies provide. As for Saakashvili, it looks surprising to us that an individual who essentially became an enemy of Ukrainian state stability by fronting militarist anti-government protests in December 2017 is being brought back into the fold by Zelenskiy, this time not as a regional official but in a high Cabinet posting. Perhaps Zelenskiy believes that some upside still remains from Saakashvili's successes in instituting public sector reforms as President of Georgia more than a decade ago. It should be remembered that Saakashvili's conflict with Poroshenko actually began with the former's attack on Interior Minister Arseniy Avakov at a government meeting in late 2016, where Saakashvili directly accused Avakov of corruption. Poroshenko eventually took Avakov's side in this argument (as failing to do so would have brought down the government, forcing a pre-term election), enraging Saakashvili. Therefore, we see Zelenskiy's rehabilitation of Saakashvili as possibly being a move to counter-balance the entrenched power of Avakov, who made it through the change in the presidency last year as well as the recent Cabinet reshuffle; he remains the only Interior Minister that Ukraine has had in the post-EuroMaidan era since early 2014.

## Kernel Boosts Grain Exports by 40% YoY to 2.2mn Tonnes in Jan-Mar

by Dmitry Churin  
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### KERNEL (KER PW)

Price: PLN 40.80 Market Cap: USD 794mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY19	0.6	0.4	4.2	4.3	2.6%
FY20E	0.5	0.3	3.5	3.7	2.6%

## NEWS

Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and exporter, said it raised its grain export volumes by 41% YoY to 2.15mn tonnes in the January-March quarter (3Q20 in the company's July-to-June reporting calendar), according to an operational update published on Apr 23. Kernel's sunflower oil sales edged down by 2% YoY to 381,000 tonnes despite an oilseeds processing increase of 4% YoY in the period. For the 9 months ending Mar 31, Kernel's sunflower oil sales volume declined by 12% YoY to 1.03mn tonnes. The company's grain export volumes from Ukraine increased by 30% YoY to 6.04mn tonnes in the 9 months ending Mar 31 and export terminal throughput rose by 41% YoY to 4.82mn.

### KERNEL OPERATIONAL UPDATE

Volume	3Q FY20	3Q FY19	Change	9M FY20	9M FY19	Change
Grain export, tonnes	2,154,597	1,527,352	+41%	6,038,275	4,655,912	+30%
Sunflower oil sales, tonnes	380,923	389,602	-2%	1,028,849	1,173,928	-12%
Oilseed crush, tonnes	940,658	908,161	+4%	2,520,370	2,267,299	+11%
Export terminals throughput, tonnes	1,937,516	1,170,622	+66%	4,824,936	3,409,982	+41%

Source: Companies' data

## COMMENTARY

Kernel's reported growth in its grain export was in line with our expectation taking into account the company's ability to intensify its trading business amid the record high grain harvest of 75mn tonnes in Ukraine in the 2019/20 season. The company's in-house harvested grain accounted for 35% of total grain exports in the quarter, with the balance volume purchased from external farmers. In the sunflower oil segment, Kernel performed at full crushing capacity in the Jan-Mar quarter, implying that any further oil sales increase in the following quarter will be limited. Sunflower oil is now the third largest exported vegetable oil globally, behind palm oil and soybean oil. Sunflower oil production and exports are growing particularly in the Black Sea region, with Ukraine (6.2mn tonnes) and Russia (3.0mn tonnes) now accounting for 80% of global world exports of 11.4mn tonnes, according to the US Department of Agriculture (USDA) report dated March 2020. Despite competing with other vegetable oils for food use, sunflower oil prices are driven by different fundamentals than those that affect soybean oil and palm oil. Spot sunflower oil prices rose to over USD 800 per tonne in January 2020, having increased by 18% over a 3-month period before falling back by some USD 100 (12%) in the next two months. Nevertheless, sunflower oil prices remain higher than a year ago, providing grounds to assume that Kernel's 3Q20 financial results in the sunflower segment should improve year-on-year despite a small 2% YoY decline in the volumes sold. Meanwhile, in the grain segment Kernel's expected financial results should definitely be strong for Jan-Mar, as both volume sales and prices in the segment were higher in the period.

The company announced that it will release its 9M20 financial results (ended in March) on May 29.

Kernel's share price on the Warsaw Stock Exchange was at PLN 40.80 last week, with the stock now well back above its local minimum in the mid-30s.

## MHP's 1Q Poultry Sales Take Hit from January EU Suspension, Slip 4% YoY

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### MHP (MHPC LI)

Price: USD 5.90 Market Cap: USD 623mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.5	0.9	2.9	8.2	4.7%
2020E	0.5	0.8	3.7	5.7	12.2%

## NEWS

London-listed MHP, Ukraine's largest poultry producer, reported that its poultry sales volume declined by 4% YoY to some 158,000 tonnes in 1Q20, according to the company's operational update published on Apr 23. MHP said that achieved pricing for its poultry decreased by 3% YoY in USD terms to USD 1.37 per kg in the period.

MHP's overall production volume of chicken meat in 1Q20 increased by 4% YoY to 178,600 tonnes, as a result of new rearing sites launched into operation during 2019 at the Vinnitsa Poultry Complex as well as due to the rising share of heavier chicken production.

In the vegetable oil segment, MHP had weak results, with sunflower oil sales volume dropping by 19% YoY to some 81,000 tonnes and soybean oil sales falling 29% YoY to 10,800 tonnes in the quarter.

### MHP OPERATIONAL UPDATE

Poultry	1Q20	1Q19	Change
Sales volume, tonnes	157,729	164,004	-4%
Domestic	75,681	70,959	+7%
Exports	82,048	93,045	-12%
Price per 1 kg net VAT (USD)	1.37	1.41	-3%

Source: Companies' data

## COMMENTARY

MHP's worse-than-anticipated poultry sales volume in 1Q20 can be blamed on a drop in exports by 12% YoY amid to a temporary sanitation-related ban against Ukraine in January and early February. The company compensated for this situation by increasing its domestic market poultry sales by 7% YoY to near 76,000 tonnes in the quarter. The quite poor operational results in the vegetable oil segment could be justified by a high comparison base of 1Q19. In the grain growing segment, MHP reported that its winter crops and spring planting campaign are in a normal condition despite very low rainfall this season.

Regarding the impact of COVID-19 on MHP, the company said it remains fully operational, while imposing additional medical screenings at production facilities.

MHP's financial results for 1Q20 are due for release on Jun 2.

The low-liquidity London-listed MHPC stock touched a multi-year low of USD 5.60 per share last week before closing at USD 5.90 on Friday (Apr 24). Eavex Capital has a BUY recommendation for MHP with a target price of USD 11.50.

MHP-2029 outstanding Eurobonds are quoted at 82.4/85.4 (9.3%/8.7%).

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
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	5.9	11.5	95%	BUY	<p>For full-year 2019, MHP increased its top line revenue by 32% YoY to USD 2.06bn and boosted its net profit by 68% YoY to USD 215mn. Export revenue rose by 28% YoY to USD 1.19bn in the period, accounting for 58% of total revenue. The company has declared a strategy of shifting toward more value-added processed products for the domestic market with the aim of improving profit margins. In terms of operating targets, MHP aims to produce up to 880,000 tonnes of poultry meat by 2024, up from some 730,000 tonnes last year. In the grain growing segment, MHP harvested around 360,000 hectares of land in Ukraine and gathered 2.41mn tonnes of crops in 2019.</p>
Astarta	AST PW	11.8	32.0	171%	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 3.5x. The continuing high debt burden is one of the primary reasons of the AST stock's poor performance in recent years. However, the company claims that its adjusted net debt, which takes into account marketable inventories, is about half of the figure derived from standard accounting calculations, and therefore implies an adjusted Net Debt/EBITDA ratio of 1.7x as of Dec 31.</p>
Agroton	AGT PW	3.45	12.0	248%	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>
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	142	250	76%	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>
<b>Specialized Machinery</b>						
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>
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	120	270	125%	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	15.3	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnerg	DOEN	20.2	--	--	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	7.20	25.60	256%	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>
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.330	0.47	42%	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	501	-0.1%	-1.7%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	142	4.9%	-10.6%	1,031	1,312	24.0%	2.6	3.6	2.2	3.1	1.0
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	66	40	5.0%	2.1	7.2	1.0	2.8	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.4	15.6%	-1.7%	162	159	3.8%	13.3	4.8	3.2	2.9	1.3
Motor Sich	MSICH	5,390	0.0%	0.0%	413	441	24.0%	neg	41	24	9.2	1.5
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	120	-7.0%	-17.0%	240	233	3.0%	8.2	3.2	2.4	0.8	0.2
Regal Petroleum	RPT	15.7	-2.2%	-28.4%	62	22	21.6%	6.2	7.7	1.0	1.2	0.4
JKX Oil	JKX	15.3	-11.6%	-35.7%	32	141	50.4%	1.8	2.0	4.1	3.7	1.2
<b>Power Utilities</b>												
Centrenergy	CEEN	7.20	-4.0%	-22.2%	98	79	21.7%	neg	16	neg	3.1	0.1
Donbasenergy	DOEN	20.23	-3.7%	-20.0%	18	16	14.2%	neg	7.3	2.1	1.8	0.1
<b>Consumer</b>												
MHP	MHPC	5.90	-3.3%	-35.2%	623	1,763	34.1%	2.9	3.7	8.2	5.7	0.8
Kernel	KER	40.80	-6.2%	-15.0%	772	1,466	61.8%	4.1	3.4	4.2	3.6	0.3
Astarta	AST	11.80	-5.2%	-26.3%	70	346	37.0%	37.4	8.9	4.0	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	3.45	5.8%	-6.8%	18	27	25.0%	1.9	2.5	2.1	2.5	0.5
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.330	0.0%	7.2%	748		1.8%	4.0	4.5	1.4	1.4	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
<b>Iron Ore Mining</b>																
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%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	31	9	9.0%	10.5%	3.8%
<b>Specialized Machinery</b>																
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%
<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>																
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%	-1.1%	0.9%
<b>Consumer</b>																
MHP	MHPC	1,556	2,056	2,100	450	216	307	28.9%	10.5%	14.6%	128	215	170	8.2%	10.5%	8.1%
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	497	577	78	86	104	18.3%	17.4%	18.1%	-21	2	8	-4.9%	0.4%	1.4%
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			16.0%	12.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			17.0%	14.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			17.0%	14.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			17.0%	14.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			17.0%	14.0%	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
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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