

## Stock Market Update

### Equity

Kyiv-listed equities finished mixed last week, with corporate events determining the direction of quotes. UkrNafta (UNAF) jumped by 12% to UAH 135 after the company received a UAH 800mn debt repayment from its minority shareholder Privat Group for oil delivered back in 2015. Total debt under those deals with Privat nonetheless still stands near UAH 7bn, and UkrNafta believes that the debt will be paid out in installments within 3 or 6 years. The company had to go to court to force Privat's entities to agree to the settlements in compliance with current legislation.

On the downside, Raiffeisen Bank Aval (B AVL) slumped by 8.8% to 30.10 kopecks and DonbasEnerg o (DOEN) dropped by 3.1% to UAH 19.60 per share.

Motor Sich (MSICH), whose shares have been frozen from trading since April 2018, reported mixed financial results for 1Q20. The company had an operating profit of UAH 267mn in 1Q20 compared to an operating loss of UAH 125mn in 1Q19. However, on the bottom line the company's net loss increased by 36% YoY to UAH 220mn as a result of unexpected 'other non-operating losses' of UAH 498mn. Separately, the company said that it was unable to conduct a general shareholders meeting due to the unavailability of its shareholder register.

In London trading, MHP (MHPC) moved up by 4.7% to USD 6.18 while Ferrexpo (FXPO) weakened by 3.6% to GBp 137. Warsaw-listed Kernel (KER) edged down by 1.3% to PLN 40.30 while Astarta (AST) picked up 5.9% to close at PLN 12.50, remaining in a volatile trading mode.

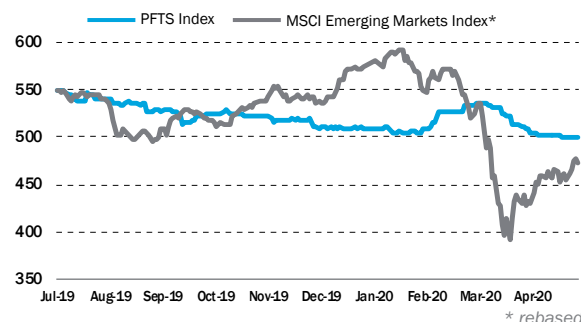
On the currency front, the hryvnia strengthened by 0.6% against the dollar to close at 26.97 UAH/USD. The National Bank remained active in taking advantage of the shortage of hryvnia liquidity due to the COVID-19 shutdown, buying up hard currencies and replenishing its foreign reserves.

## Highlights

### POLITICS AND ECONOMICS

- > Ukraine Pushes Quarantine to May 22 Despite Few COVID Cases Nationally
- > Ukraine's Public Debt at USD 80bn, Implying 54% Debt/GDP Ratio

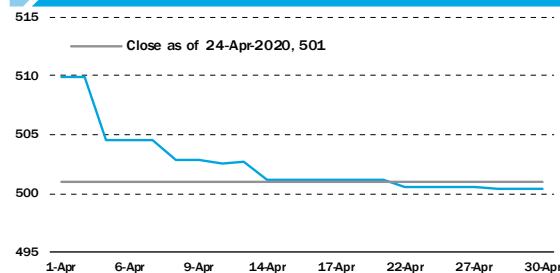
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

|         | Last | 1W ch | YTD    |
|---------|------|-------|--------|
| PFTS    | 500  | 0.0%  | -1.8%  |
| RTS     | 1125 | 4.1%  | -27.4% |
| WIG20   | 1648 | 2.9%  | -23.3% |
| MSCI EM | 917  | 4.3%  | -17.7% |
| S&P 500 | 2830 | -0.2% | -12.4% |

### PFTS 1M PERFORMANCE



### FIXED INCOME

|              | Last  | 1W ch     | YTD       |
|--------------|-------|-----------|-----------|
| NBU Key Rate | 8.0%  | 0.0 p.p.  | -5.5 p.p. |
| Ukraine-2024 | 9.9%  | -0.2 p.p. | 3.3 p.p.  |
| Ukraine-2028 | 11.4% | -0.3 p.p. | 4.4 p.p.  |

### CURRENCY

|     | Last, UAH | 1W ch | YTD   |
|-----|-----------|-------|-------|
| USD | 26.97     | -0.6% | 13.8% |
| EUR | 29.28     | -0.1% | 10.8% |

## Ukraine Pushes Quarantine to May 22 Despite Few COVID Cases Nationally

by Will Ritter  
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### NEWS

Ukraine's government will extend its COVID-19 quarantine shutdown measures from the previous expiration of May 11 until May 22, Prime Minister Dennis Shmygal announced on Monday (May 4). Shmygal justified the decision by saying that the World Health Organization has not lifted its global state of emergency. Some softening of the quarantine regime after May 11 was outlined in the new extension, but the most important restrictions closing most businesses and shutting off public transportation will remain in place. Ukraine has reported a total of around 12,000 cases of the COVID nationally since mid-March, a figure that does not subtract for people who caught the disease and have recovered. Deaths in Ukraine attributed to the COVID are at 303, or about 8 per 1 million population, which is one of the lowest rates in Europe.

### COMMENTARY

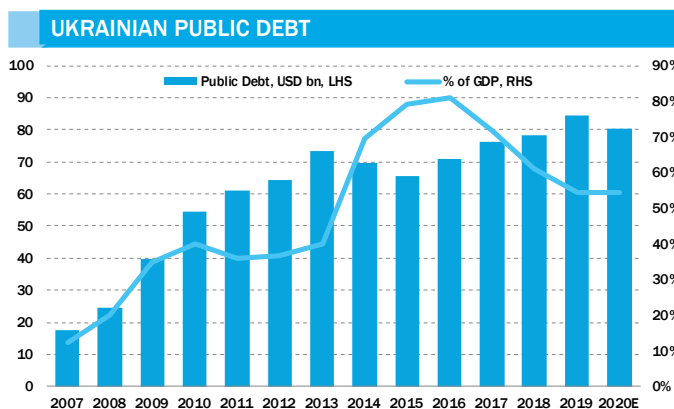
Our base-case scenario that would allow Ukraine to avoid a double-digit drop in GDP for 2020 assumes a resumption of normal economic activity no later than the start of June. In light of this, we believe that the government has now played its last card on the COVID shutdown and that it has no further room either economically or politically to extend the quarantine measures. Small-scale market sellers and producers of fruits & vegetables are being hurt particularly badly by the quarantine (to the direct benefit of Ukraine's largest corporate supermarket chains), and substantial protest actions have been popping up around the country as the restrictions are preventing the start of the outdoor commerce season. We believe the government deserves some credit for Ukraine avoiding a major COVID epidemic within the country's borders, but that the true scale of the economic damage from the quarantine will start to become apparent in June after the restrictions are lifted, as many of the nation's small businesses may be unable to reopen.

**Ukraine's Public Debt at USD 80bn, Implying 54% Debt/GDP Ratio**

by Dmitry Churin  
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**NEWS**

The Finance Ministry reported that Ukraine's overall public debt stood at USD 80.4bn as of Apr 1, decreasing in USD terms by 3.6% MoM amid a 12% devaluation in the national currency in March. Meanwhile, in UAH terms, the country's public debt grew by 10.1% to UAH 2.26tn. MinFin raised UAH 33bn through primary treasury auctions in March. Debt redemptions amounted to UAH 9.6bn in March while the debt servicing costs were at UAH 20.1bn in the period.



Source: MinFin

**COMMENTARY**

We estimate Ukraine's debt to GDP ratio at a manageable 54%. Nevertheless, it is expected that the ratio will rise to at least 65% by year-end as the government needs ramp up its borrowings to finance a very large budget deficit, which could reach an equivalent of 8% of GDP this year compared to the initial target of the deficit at 2% of GDP.

In terms of the public debt structure, domestic hryvnia-denominated debt accounted for 32%, followed by Eurobonds (29%), debt to the IMF and other IFIs (15%), domestic foreign currency-denominated debt (6%), and 'other debt' (18%).

The country's debt redemption and servicing payments are estimated at UAH 331bn (USD 12.2bn) in May-Dec 2020. In this period, MinFin should pay out UAH 186bn (USD 6.9bn) to cover the country's internal debt, and USD 5.3bn for external obligations. In May alone, redemptions coming due are UAH 68bn (USD 2.5bn), including a USD 1bn Eurobond redemption.

## EAVEX RECOMMENDATIONS

| Name                         | Ticker  | Price, per share | Target price, per share | Upside, % | Rating | Commentary   |
|------------------------------|---------|------------------|-------------------------|-----------|--------|--|
| <b>Agriculture</b>           |         |                  |                         |           |        |  |
| Kernel                       | KER PW  | 40.3             | 82.0                    | 103%      | 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 | 6.2              | 11.5                    | 86%       | 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  | 12.5             | 32.0                    | 156%      | 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  | 3.70             | 12.0                    | 224%      | 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 | 137              | 250                     | 82%       | 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    | 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  | 14.9             | --                      | --        | U/R    |  |
| JKX Oil & Gas                | JKX LN  | 17.5             | --                      | --        | U/R    |  |
| <b>Power Utilities</b>       |         |                  |                         |           |        |  |
| DonbasEnerg                  | DOEN    | 19.6             | --                      | --        | 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    | 7.40             | 25.60                   | 246%      | 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    | 0.301            | 0.47                    | 56%       | 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,<br>UAH* | Absolute performance |        | MCap<br>USD mn | EV<br>USD mn | Free float | P/E  |       | EV/EBITDA |       | EV/Sales<br>2020E |
|------------------------------|--------|----------------|----------------------|--------|----------------|--------------|------------|------|-------|-----------|-------|-------------------|
|                              |        |                | 1W                   | YtD    |                |              |            | 2019 | 2020E | 2019      | 2020E |                   |
| PFTS Index                   | UX     | 500            | 0.0%                 | -1.7%  |                |              |            |      |       |           |       |                   |
| <b>Iron Ore Mining</b>       |        |                |                      |        |                |              |            |      |       |           |       |                   |
| Ferrexpo                     | FXPO   | 137            | -3.6%                | -13.8% | 1,000          | 1,281        | 24.0%      | 2.5  | 3.4   | 2.2       | 3.0   | 1.0               |
| <b>Railcar Manufacturing</b> |        |                |                      |        |                |              |            |      |       |           |       |                   |
| Kryukiv Wagon                | KVBZ   | 15.6           | 0.0%                 | 0.0%   | 66             | 40           | 5.0%       | 2.2  | 7.2   | 1.1       | 2.8   | 0.2               |
| <b>Specialized Machinery</b> |        |                |                      |        |                |              |            |      |       |           |       |                   |
| Turboatom                    | TATM   | 9.0            | -13.5%               | -14.9% | 141            | 138          | 3.8%       | 11.5 | 4.1   | 2.8       | 2.5   | 1.1               |
| Motor Sich                   | MSICH  | 5,390          | 0.0%                 | 0.0%   | 416            | 444          | 24.0%      | neg  | 42    | 24        | 9.3   | 1.5               |
| <b>Oil &amp; Gas</b>         |        |                |                      |        |                |              |            |      |       |           |       |                   |
| UkrNafta                     | UNAF   | 135            | 12.5%                | -6.6%  | 272            | 265          | 3.0%       | 9.3  | 3.6   | 2.7       | 0.9   | 0.2               |
| Regal Petroleum              | RPT    | 14.9           | -4.8%                | -31.8% | 59             | 19           | 21.6%      | 5.9  | 7.4   | 0.9       | 1.0   | 0.3               |
| JKX Oil                      | JKX    | 17.5           | 14.8%                | -26.2% | 37             | 146          | 50.4%      | 2.0  | 2.3   | 4.3       | 3.8   | 1.2               |
| <b>Power Utilities</b>       |        |                |                      |        |                |              |            |      |       |           |       |                   |
| Centrenergy                  | CEEN   | 7.40           | 2.8%                 | -20.1% | 101            | 83           | 21.7%      | neg  | 17    | neg       | 3.3   | 0.1               |
| Donbasenergy                 | DOEN   | 19.60          | -3.1%                | -22.5% | 17             | 16           | 14.2%      | neg  | 7.2   | 2.1       | 1.7   | 0.1               |
| <b>Consumer</b>              |        |                |                      |        |                |              |            |      |       |           |       |                   |
| MHP                          | MHPC   | 6.18           | 4.7%                 | -32.1% | 653            | 1,793        | 34.1%      | 3.0  | 3.8   | 8.3       | 5.8   | 0.9               |
| Kernel                       | KER    | 40.30          | -1.2%                | -16.0% | 768            | 1,462        | 61.8%      | 4.1  | 3.3   | 4.2       | 3.6   | 0.3               |
| Astarta                      | AST    | 12.50          | 5.9%                 | -21.9% | 75             | 351          | 37.0%      | 39.9 | 9.5   | 4.1       | 3.4   | 0.6               |
| Avangardco                   | AVGR   | 0.20           | 0.0%                 | 0.0%   | 13             | 344          | 22.5%      | 6.4  | 4.3   | 20        | 18    | 2.9               |
| Agroton                      | AGT    | 3.70           | 7.2%                 | 0.0%   | 19             | 29           | 25.0%      | 2.0  | 2.7   | 2.2       | 2.6   | 0.5               |
| <b>Banks</b>                 |        |                |                      |        |                |              |            |      |       |           |       |                   |
| Raiffeisen Bank Aval         | BAVL   | 0.301          | -8.8%                | -2.2%  | 687            |              | 1.8%       | 3.7  | 4.1   | 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 |
| <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>    |        |              |       |       |              |       |       |               |       |       |            |       |       |                   |       |       |
| 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%              | -1.1% | 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                 |             |             | 15.0%     | 12.0%     | n/a               | n/a    | S/A           | 30 Sept 2020  | n/a           |
| UA4000200174                 |             |             | 16.0%     | 13.0%     | n/a               | n/a    | S/A           | 20 Jan 2021   | n/a           |
| UA4000195176                 |             |             | 16.0%     | 13.0%     | n/a               | n/a    | S/A           | 11 Aug 2021   | n/a           |
| UA4000203236                 |             |             | 16.0%     | 13.0%     | n/a               | n/a    | S/A           | 05 Jan 2022   | n/a           |
| UA4000204002                 |             |             | 16.0%     | 13.0%     | 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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