

## Stock Market Update

### Equity

Ukrainian stocks listed in Kyiv continued to demonstrate a mixed performance amid worsening business sentiment, with the latest survey from the National Bank saying that the Business Activity Outlook Index plunged from 45.8 to 29.9 in April. Pessimistic expectations have intensified in almost all sectors of the economy. This is not only about the services sector, which is most affected by the COVID lockdown measures, but also industry, construction, and trade.

CentrEnerg (CEEN) picked up 1.4% to UAH 7.50, DonbasEnerg (DOEN) rose 1.5% to UAH 19.90, and Raiffeisen Bank Aval (BABL) gained 3.0% back to 31.00 kopecks after the bank posted a first-quarter net profit of 1.68 kopecks per share that met most expectations. Indicative quotes for UkrNafta (UNAF) dropped by 3.7% to UAH 130 after the company said its average daily output in March-April was just 1% higher than last year despite 38 workover upgrades conducted at its oil wells since the start of the year.

In London trading, natural gas producers with assets in Ukraine saw some rebound from their recent lows, with Regal Petroleum (RPT) surging by 9.1% to GBP 16.30 and JKN Oil&Gas (JKN) climbing by 2.9% to GBP 18.00. MHP (MHPC) was unable to extend the preceding week's advance, falling back to USD 6.00 on a decline of 2.9%.

In Warsaw, Kernel (KER) slipped below the PLN 40 line on fears that depressed corn prices could hurt the company's grain trading business. The KER stock lost 3.5% to PLN 38.90, while sporadically-traded Agrotin (AGT) added 1.4% to PLN 3.75 per share.

The hryvnia continued to recover after its sharp drop in March. The Ukrainian currency gained 0.5% against the dollar last week to close at 26.84 UAH/USD. However, the hryvnia is still 12% weaker since the start of the year. The National Bank reported that its foreign currency reserves increased by an impressive USD 800mn to USD 25.7bn in April, as the NBU was able to buy up dollars from entities whose hryvnia cash flows were hit by the COVID restrictions. The NBU said that the current level of forex reserves now covers an equivalent of 4.5 months of the country's future imports.

## Highlights

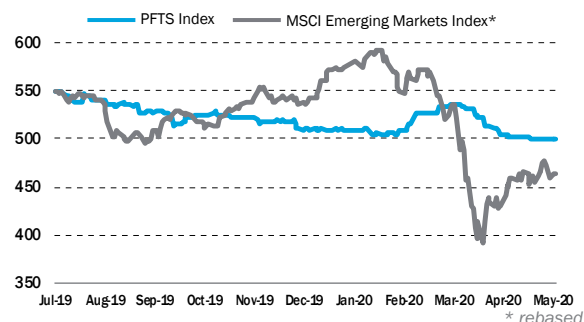
### POLITICS AND ECONOMICS

- > Tymoshenko Receives Multi-Million Payout from US Firm Skadden Arps
- > Ukraine Inflation Remains Tame at 2.1% Amid COVID Slowdown

### STOCKS IN THE NEWS

- > Raiffeisen Aval's 1Q Profit Slips 4% YoY to UAH 1.04bn

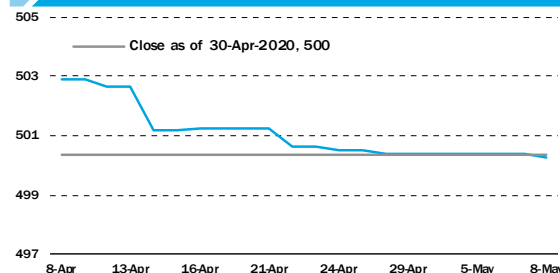
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	500	0.0%	-1.8%
RTS	1136	1.0%	-26.7%
WIG20	1612	-2.2%	-25.0%
MSCI EM	912	-0.6%	-18.2%
S&P 500	2930	3.5%	-9.3%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	0.0 p.p.	-5.5 p.p.
Ukraine-2024	9.0%	-0.9 p.p.	2.4 p.p.
Ukraine-2028	9.6%	-1.8 p.p.	2.6 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	26.84	-0.5%	12.3%
EUR	29.06	-0.8%	10.0%

## Tymoshenko Receives Multi-Million Payout from US Firm Skadden Arps

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

Former Prime Minister and current Batkivschyna Party leader Yulia Tymoshenko and her longtime political associate Serhiy Vlasenko have shared a USD 11mn settlement payout from top US law firm Skadden Arps, the New York Times reported on Sunday (May 10). The payment was made to stop Tymoshenko from filing a US lawsuit against the firm for its role in producing a 2012 report for the Yanukovich administration that justified Tymoshenko's jailing on abuse of power charges, the NYT said. Tymoshenko was accused of illegal actions that led to the signing of a 10-year natural gas purchase deal with Russia that was widely seen to be disadvantageous to Ukraine. Vlasenko, who acted as Tymoshenko's lawyer during the trial, has been an MP in the Batkivschyna faction over several iterations of the Ukrainian Parliament. After Tymoshenko was convicted, then-President Yanukovich's political advisor Paul Manafort engaged Skadden Arps to produce a comprehensive report justifying the legitimacy of the charges. Manafort used his contacts with one of the firm's best-known lawyers, Gregory Craig, who had previously served in the Obama administration as White House counsel, to arrange the deal. The source of financing for the report was hidden at the time, but it was later revealed that Ukrainian industrialist Victor Pinchuk had sent USD 4.1mn to the law firm as payment. An additional scandal related to the report came to light last year when US media wrote that Manafort had forced Skadden Arps to hire his daughter, Andrea Manafort, as an associate lawyer as part of the arrangement. Craig faced a criminal trial over his role in the Tymoshenko report but was ultimately acquitted, while Manafort is currently imprisoned in the US on unrelated tax evasion charges.

### COMMENTARY

The situation with Skadden Arps' report on Tymoshenko has been an embarrassment and a disgrace to everyone involved: from the prestigious law firm to Yanukovich to Manafort, to Pinchuk to the Obama administration (via its association with Craig) to Tymoshenko herself, no one comes away from this looking good. We view it as highly unfortunate that two longtime members of the Ukrainian kleptocratic class have received such large payouts when tens of millions of Ukrainians who suffered under their rule continue to live on incomes of less than USD 3000 per year. Nonetheless, it seems unlikely that Tymoshenko will be able to reinvigorate her once-imposing political profile on the basis of the hint of exoneration that this payout provides. Batkivschyna barely squeaked into Parliament in last summer's election, and after her 4th run for the Ukrainian presidency failed in March 2019 with an unimpressive 13% showing at the polls, Tymoshenko now occupies the dubious niche of opposing Ukraine's IMF loan agreement, which puts her in an alliance with anti-Western oligarch Igor Kolomoyskiy.

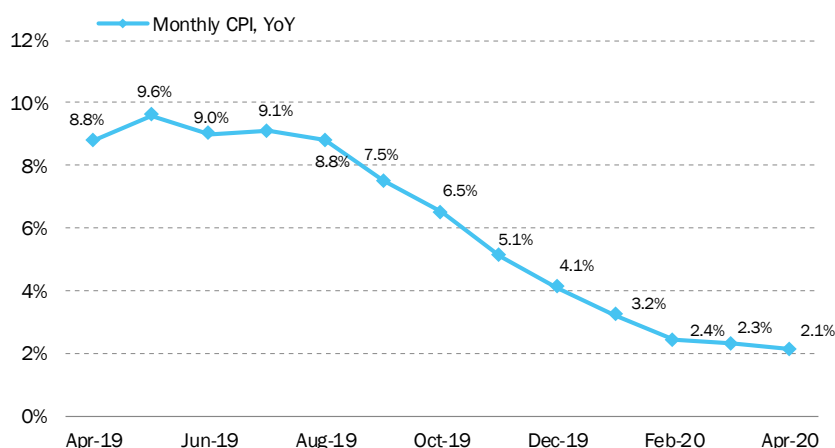
**Ukraine Inflation Remains Tame at 2.1% Amid COVID Slowdown**

by Dmitry Churin  
d.churin@eavex.com.ua

**NEWS**

Ukraine’s consumer prices rose by 0.8% MoM in April while 12-month rolling “headline” inflation slowed from 2.3% in March to 2.1% in April, according to State Statistics Committee data published on Friday (May 8). On a month-on-month basis, the largest price increase of 12.8% was registered for imported fruits, with the overall food price index rising by 2.1% MoM in April. Deflation in April was observed in the utility sector and in transportation services (-3.2% MoM and - 1.3% MoM respectively).

**UKRAINE’S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

The expected jump in Ukraine’s inflation rate for April did not arrive, as we underestimated the demand-side shock to the domestic economy of the severe COVID-19-related restrictions, as well as the deflationary effect of the historic slump in global oil prices. Businesses were hit with a cash crunch during April, forcing them to sell foreign currency savings in order to maintain liquidity, which protected the hryvnia after the initial speculative panic against the local currency seen at the start of the lockdown in mid-March. Nevertheless, its almost certain that the CPI will accelerate in the coming months as a lagging result of both the hryvnia devaluation (by some 12% YtD) and the government’s intention to pump money into the economy in an effort to stimulate a quick recovery. The National Bank has introduced new 5-year liquidity loans for commercial banks last week, aiming to support lending to businesses at more affordable rates. The NBU provided 11 banks with UAH 2.4bn at the first such auction on Friday (Apr 8). The next 5-year loans auction is scheduled for Jun 12.

## Raiffeisen Aval's 1Q Profit Slips 4% YoY to UAH 1.04bn

by Dmitry Churin  
d.churin@eavex.com.ua

### RAIFFEISEN BANK AVAL (BAVL)

Price: UAH 0.31 Market Cap: USD 709mn

	P/Assets	P/Book	P/E	Div. Yield
2019	0.20	1.3	3.8	17%
2020E	0.20	1.4	4.2	15%

## NEWS

Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, reported that its net profit declined by 4.0% YoY to UAH 1.04bn in 1Q20 (USD 41mn at the average UAH/USD exchange rate for the period), according to financials published last week. Raiffeisen Aval's gross interest income rose by 8.6% YoY to UAH 2.53bn in 1Q20 and net interest income increased by 6.7% YoY to UAH 1.56bn in the period. Meanwhile, the bank's overall non-interest expenses rose by 5.4% YoY to UAH 1.21bn.

On the balance sheet side, the size of Raiffeisen Aval's loan portfolio was unchanged on a quarterly basis at UAH 47.5bn (USD 1.7bn) while its total assets rose by 13% to UAH 93.7bn (USD 3.3bn) as the bank's cash and cash equivalents increased by 75% QoQ to UAH 23.6bn.

### RAIFFEISEN BANK AVAL FINANCIALS

UAH mn	1H20	1H19	YoY chg.
Gross interest income	2,534	2,334	8.6%
Net interest income	1,858	1,740	6.7%
Net income	1,037	1,079	-4.0%
	<b>31 Mar 2020</b>	<b>31 Dec 2019</b>	<b>QoQ</b>
Loan portfolio	47,513	47,352	0.3%
Equity	13,687	13,016	5.2%
Total assets	93,655	82,786	13.1%

Source: Company data.

## COMMENTARY

Raiffeisen Aval's 1Q earnings at 1.68 kopecks per share were held down by a UAH 225mn trading loss in the reported period. There was also a large difference between 1Q19 and 1Q20 in terms of the hryvnia performance. In 1Q20, the official UAH/USD exchange rate surged by 18%, leading to a notable revaluation of both the bank's foreign currency assets and liabilities.

The BAVL stock has demonstrated relative resistance to the Ukrainian stock market's COVID-19 related drop, remaining at or above 30 kopecks per share during the past two months. The bank's valuation multiples look very attractive, with 2020 P/E now forecasted at 4.2x and Price/Book standing at 1.4x. However, we do not rule out that Raiffeisen Aval's financial results could worsen later this year amid the poor economic fundamentals in Ukraine, prompting us to revise our base case scenario for FY20.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	38.9	82.0	111%	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	6.0	11.5	92%	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	11.7	32.0	174%	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	3.75	12.0	220%	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	136	250	84%	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	130	270	108%	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	16.3	--	--	U/R	
JKX Oil & Gas	JKX LN	18.0	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnerg	DOEN	19.9	--	--	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	7.50	25.60	241%	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	0.310	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	500	0.0%	-1.7%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	136	-0.7%	-14.5%	993	1,274	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%	67	40	5.0%	2.2	7.2	1.1	2.8	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	9.0	0.0%	-14.9%	142	139	3.8%	11.6	4.2	2.8	2.5	1.1
Motor Sich	MSICH	5,390	0.0%	0.0%	417	435	24.0%	neg	44	23	9.6	1.6
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	130	-3.7%	-10.1%	263	256	3.0%	9.0	3.5	2.6	0.9	0.2
Regal Petroleum	RPT	16.3	9.1%	-25.6%	65	25	21.6%	6.5	8.1	1.1	1.3	0.4
JKX Oil	JKX	18.0	2.9%	-24.1%	38	147	50.4%	2.1	2.4	4.3	3.9	1.2
<b>Power Utilities</b>												
Centrenergy	CEEN	7.50	1.4%	-19.0%	103	85	21.7%	neg	17	neg	3.4	0.1
Donbasenergy	DOEN	19.90	1.5%	-21.3%	18	16	14.2%	neg	7.3	2.1	1.8	0.1
<b>Consumer</b>												
MHP	MHPC	6.00	-2.9%	-34.1%	634	1,774	34.1%	2.9	3.7	8.2	5.8	0.8
Kernel	KER	38.90	-3.5%	-19.0%	738	1,432	61.8%	3.9	3.2	4.1	3.5	0.3
Astarta	AST	11.70	-6.4%	-26.9%	70	346	37.0%	37.1	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	3.75	1.4%	1.4%	19	29	25.0%	2.0	2.8	2.2	2.6	0.5
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.310	3.0%	0.7%	711		1.8%	3.8	4.2	1.3	1.4	0.20

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	278	96	19	45	21.2%	5.2%	16.3%	46	-14	9	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	3,495	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			13.5%	11.5%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			14.0%	12.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			14.0%	12.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			15.0%	12.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			15.0%	12.0%	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



## Eavex Capital

7 Klovsky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: office@eavex.com.ua  
Web-page: www.eavex.com.ua

Yuriy Yakovenko  
**Chairman of the Board**  
yuriy.yakovenko@eavex.com.ua

### SALES & TRADING

Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
p.korovitsky@eavex.com.ua

Alexander Klymchuk  
**Equity and Fixed Income**  
a.klymchuk@eavex.com.ua

Eugene Klymchuk  
**Fixed Income Sales and Trading**  
e.klymchuk@eavex.com.ua

### RESEARCH

Dmitry Churin  
**Head of Research**  
d.churin@eavex.com.ua

Will Ritter  
**Research editor**  
w.ritter@eavex.com.ua