

## Stock Market Update

### Equity

Kyiv-listed equities were little-changed last week despite clearly positive sentiments among traders after Parliament adopted the so-called banking bill, which was a precondition for a new support program from the IMF. Ukrainian officials now expect that the first loan tranche of near USD 1.7bn from the deal could arrive before the end of the month. The government is hoping to get USD 3.5bn from the IMF this year, which will help to cover part of the widening national budget deficit, now estimated at 8% of GDP.

In macroeconomic data, UkrStat said that Ukraine's GDP contracted by 1.5% YoY in 1Q20, which is roughly in line with our estimates, as only the last two weeks of the quarter were affected by the COVID crisis. The seasonally adjusted GDP decreased by 0.8% on a quarterly basis in 1Q20. The 2Q GDP decline is expected to be well into double digits.

Among local blue chips, CentrErgo (CEEN) and Raiffeisen Bank Aval (BAVL) were flat at UAH 7.50 and 31.00 kopecks respectively, while DonbasErgo (DOEN) edged down by 0.7% to UAH 19.76 per share.

In London trading, iron ore producer Ferrexpo (FXPO) picked up 0.8% to close at GBP 137 while MHP (MHPC) fell 3.3% to USD 5.80.

In Warsaw, Kernel (KER) slipped 1.2% to PLN 38.45. On the upside, Astarta (AST) shot up by 18% to PLN 13.80 after the company's CEO and large shareholder Viktor Ivanchik announced development plans for Astarta in an interview with NV Business Magazine.

On the currency front, the hryvnia gained 0.8% to close at 26.63 UAH/USD. There were reports from traders that NaftoGaz sold as much as USD 500mn during the week, flooding the interbank market with forex.

## Highlights

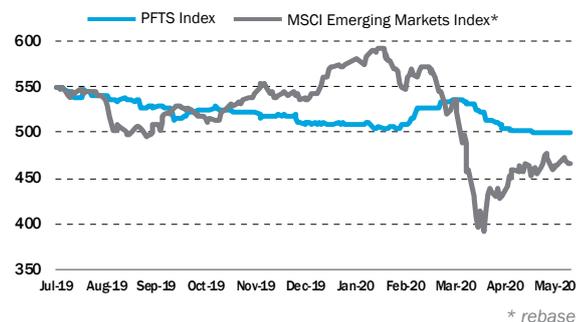
### POLITICS AND ECONOMICS

- > Ukraine Following EU Countries in Gradually Re-Opening Economy
- > Ukraine Comfortably Passes Banking Bill Required for IMF Program

### STOCKS IN THE NEWS

- > UkrNafta Reports 1Q20 Net Loss of UAH 853mn after Failing to Sell Output

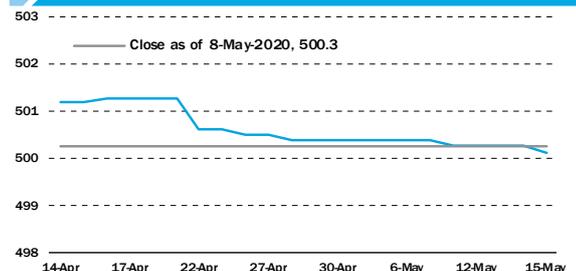
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	500	0.0%	-1.9%
RTS	1146	0.9%	-26.0%
WIG20	1596	-1.0%	-25.7%
MSCI EM	901	-1.2%	-19.2%
S&P 500	2863	-2.3%	-11.4%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	0.0 p.p.	-5.5 p.p.
Ukraine-2025	7.9%	-1.1 p.p.	1.3 p.p.
Ukraine-2028	8.8%	-0.8 p.p.	1.8 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	26.63	-0.8%	12.4%
EUR	28.80	-0.9%	9.0%

## Ukraine Following EU Countries in Gradually Re-Opening Economy

by Will Ritter  
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### NEWS

Ukraine last week continued its gradual relaxation of COVID-19 restriction measures that have now kept the country's borders shut for a full two months, since Mar 17. On Tuesday (May 12) after the long Victory Day holiday weekend, many of the city's offices resumed working, and Kyiv saw substantial traffic congestion for the first time since the start of the quarantine. Outdoor market food sales have also steadily begun to resume since the ban on them was lifted at the beginning of May. The current quarantine expiration is set for this Friday (May 22), but some restrictions will remain until July, Prime Minister Dennis Shmygal said in a national TV appearance on May 15. The most serious of these measures will involve keeping the state borders largely closed to both entry and exit, and prohibiting most domestic public transportation. Two major airlines, Wizz and UIA, were rebuked by government officials last week after they announced the sale of tickets on international flights which they scheduled before the end of May; it is unclear whether the flights will go ahead. Also, the mayors of Ukraine's two largest cities, Kyiv and Kharkiv, both called on the government last week to allow the re-opening of the cities' subway systems as of next Monday (May 25), a demand that Shmygal said is unlikely to be met. Deaths blamed on the COVID in Ukraine are officially listed at 535, a figure which represents well under 1% of the total number of deaths recorded in the country since the start of the COVID lockdown in mid-March.

### COMMENTARY

We expect the Zelenskiy government to follow the lead of the European Union, which is likely to re-open its external borders on Jun 15. This implies that regularly scheduled flights in and out of Ukraine could resume in the second half of next month, and we see that the airlines are already jockeying to get in as many profitable flights as they can prior to the full re-opening. We also see the aggressive calls by Vitaliy Klitschko and Gennadiy Kernes, the respective mayors of Kyiv and Kharkiv, as an attempt to score some political points against Zelenskiy amid the backdrop of municipal elections this autumn, in which both mayors will be facing off against as-yet unnamed candidates from Zelenskiy's People's Servant party. Although Zelenskiy remains personally popular, this popularity appears to be non-transferable to his associates, and Klitschko and Kernes look to be in a strong position to win re-election. A convincing re-election victory would establish Klitschko as the top national political rival to Zelenskiy, in our view. Overall we see that the value of Ukraine's sovereign Eurobonds has experienced a sharp double-digit rise of between 10-15% (depending on the issue) thus far in May, which indicates to us that investors are no longer concerned about a worsening impact of the COVID in Ukraine, although it remains unclear here - as everywhere else - what the time scale will be for the economy and employment to recover from the heavy hits of two months and counting of shutdown.

## Ukraine Comfortably Passes Banking Bill Required for IMF Program

by Dmitry Churin  
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### NEWS

The Ukrainian Parliament adopted the so-called “Banking bill” in the second and decisive reading on Wednesday (May 13) with 270 votes in favor out of 226 votes needed. The bill aims to improve banking regulation in the country by eliminating the power of Ukraine’s corruption-prone district courts to overrule the National Bank’s decisions on commercial bank insolvency. The bill is considered to be the key precondition for the government to obtain a new cooperation program with the IMF, which insists that Ukraine make a serious effort to recapture at least some money from banks which have been rescued in state bailouts. The IMF also wants to make sure that the 2016 nationalization of Ukraine’s largest lender, PrivatBank, will not be reversed. The IMF deal is expected to be USD 5.5bn worth of loans, conditional on lifting the ban on the sale of farmland and adopting the banking law. A law lifting the ban on selling farmland starting in the summer of 2021 was approved by Parliament and signed by President Zelenskiy earlier this year.

### COMMENTARY

Financial support from Western donors remains crucial for Kyiv, as the cost of borrowing on international markets (at least 8%) is currently too high for the country. The signing of the new IMF program should help the government to attract much-needed funds for external debt repayments and servicing. We estimate that the Finance Ministry needs to allocate USD 4.1bn in June-December for repaying and servicing the country’s external debt. Meanwhile, internal debt repayment and servicing for the same period is estimated at UAH 154bn (USD 5.8bn). Ukraine’s internal debt is mostly represented by UAH-denominated treasuries; it should be noted that some UAH 325bn in domestic bonds, or nearly 40% of all outstanding papers, are owned by the National Bank (NBU) and held in its securities portfolio. The NBU has been paying almost all of its annual profit in the form of a dividend to the national budget, with the budget having received UAH 42.7bn in this manner in April for the NBU’s FY19 dividend.

Medium-term Ukrainian Eurobonds with maturity in 2025 are trading on the secondary market at a yield of 7.9% amid their ongoing massive recovery from the bonds’ COVID-related collapse in value seen in March.

## UkrNafta Reports 1Q20 Net Loss of UAH 853mn after Failing to Sell Output

by Dmitry Churin  
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### UKRNAFTA (UNAF UK)

Price: UAH 130 Market Cap: USD 265mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019E	0.8	0.2	9.1	2.6	n/a
2020E	0.8	0.2	3.7	1.0	n/a

### NEWS

UkrNafta, Ukraine's largest oil producer, reported a net loss of UAH 853mn (USD 34mn at the average exchange rate for the period) compared to a net profit of UAH 296mn in 1Q19, according to the company's financial results published on its official website. UkrNafta's revenue fell 34% YoY to UAH 4.39bn in the quarter and the company had a negative EBITDA of UAH 896mn, with an operating loss amounting to UAH 1.15bn (after operating profit of UAH 420mn in 1Q19).

On the balance sheet side, UkrNafta reported that its total assets were at UAH 44.9bn as of 31 March 2020. The company has no outstanding bank loans, while its unpaid taxes amounted to UAH 10.9bn at the end of the quarter.

### UKRNAFTA FINANCIAL RESULTS

UAH mn	1Q20	1Q19	YoY
Net revenue	4,397	6,701	-34%
EBITDA	-896	759	+/-
EBITDA margin	-20.4%	11.3%	-31.7 p.p.
Net profit	-853	296	+/-
net margin	-19.4%	4.4%	-23.8 p.p.

Source: Company data.

### COMMENTARY

UkrNafta's poor financial results for 1Q20 were no surprise for the market, as the company sold only a tiny volume of its extracted oil in the period in what can only be described as poor business strategy. As for operational results, the company said that it had increased its daily average oil output by 1.5% QoQ to 30,700 barrels, producing 383,400 tonnes (2.8mn barrels) in the quarter. Meanwhile, the report said that UkrNafta had sold just 5,100 tonnes of oil (less than 2% of output) during the quarter. The company did sell its oil in April, but at a far lower achieved price compared to what it could have received in 1Q20. We therefore assume that UkrNafta's 2Q20 financial results will be also in the red. The company's petroleum retail operations, which brought in 78% of the revenue in 1Q20 but which have a low profitability margin, are likely taking a big hit amid low demand for fuel related to the ongoing COVID crisis.

The sporadically-traded UNAF stock listed in Kyiv showed no notable reaction to the 1Q20 financial results. We remain bullish on the stock despite the low crude price environment, as the company looks undervalued in term of its scale of business and its prospects to normalize its relationship with the Ukrainian government. UkrNafta expects to ultimately receive compensation for natural gas that the government confiscated from it over the years to finance cheap household heating tariffs, and this compensation may then be used to settle the situation with the outstanding tax obligations.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	38.5	82.0	113%	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	5.8	11.5	98%	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	13.8	32.0	132%	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	3.77	12.0	218%	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	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	15.0	--	--	U/R	
JKX Oil & Gas	JKX LN	17.7	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnerg	DOEN	19.8	--	--	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	-0.1%	-1.7%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	137	0.8%	-13.8%	976	1,257	24.0%	2.4	3.4	2.1	2.9	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	67	41	5.0%	2.2	7.3	1.1	2.9	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	9.0	0.0%	-14.9%	143	140	3.8%	11.7	4.2	2.8	2.5	1.1
Motor Sich	MSICH	5,390	0.0%	0.0%	421	438	24.0%	neg	45	23	9.7	1.6
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	130	0.0%	-10.1%	265	261	3.0%	9.1	3.7	2.6	1.0	0.2
Regal Petroleum	RPT	15.0	-7.7%	-31.4%	58	18	21.6%	5.8	7.3	0.8	1.0	0.3
JKX Oil	JKX	17.7	-1.7%	-25.3%	37	145	50.4%	2.0	2.3	4.3	3.8	1.2
<b>Power Utilities</b>												
Centrenergy	CEEN	7.50	0.0%	-19.0%	104	85	21.7%	neg	17	neg	3.4	0.1
Donbasenergy	DOEN	19.76	-0.7%	-21.8%	18	16	14.2%	neg	7.3	2.1	1.8	0.1
<b>Consumer</b>												
MHP	MHPC	5.80	-3.3%	-36.3%	613	1,753	34.1%	2.9	3.6	8.1	5.7	0.8
Kernel	KER	38.45	-1.2%	-19.9%	724	1,418	61.8%	3.8	3.1	4.1	3.5	0.3
Astarta	AST	13.80	17.9%	-13.8%	82	358	37.0%	43.5	10.4	4.1	3.4	0.6
Avangardco	AVGR	0.19	-5.0%	-5.0%	12	344	22.5%	6.1	4.0	20	18	2.9
Agroton	AGT	3.77	0.5%	1.9%	19	29	25.0%	2.0	2.8	2.2	2.6	0.5
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.310	0.0%	0.7%	716		1.8%	3.9	4.3	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	1,170	350	99	264	26.4%	8.6%	22.6%	237	29	72	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			12.0%	11.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			12.5%	11.5%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			12.5%	11.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			12.5%	11.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.5%	11.5%	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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