

Stock Market Update

Equity

Ukrainian stocks listed in Kyiv were broadly lower last week, continuing to suffer from low liquidity and expectedly poor macroeconomic statistics amid the ongoing COVID economic shutdown. It was announced that industrial production in the country dropped by 16% YoY in April. On the upside, the government finally reached a staff-level agreement with the IMF on a new 18-month assistance program of USD 5.0bn, but this news had already been previously priced in by traders. The agreement is subject to approval by the IMF Executive Board. Board consideration is expected within two weeks.

Thermal electricity producer CentrErgo (CEEN) plunged by 20% to UAH 6.00 after media reports that the company could report a full-year 2019 bottom line loss of as much as UAH 2.5bn (USD 97mn). Raiffeisen Bank Aval (BAVL) also had a rough week, sliding below the 30-kopeck support line on a 6.5% loss to 29 kopecks.

State-owned TurboAtom (TATM) gained 10% to UAH 9.90 after the government approved the company's financial plan that foresees a net profit of UAH 522mn for this year (implying EPS of UAH 1.24). TurboAtom's net sales are expected to reach UAH 2.83bn in full-year 2020.

In London trading, Ferrexpo (FXPO) shot up by 17% to GBp 161 per share on rising optimism regarding the global iron ore price outlook. Poultry producer MHP (MHPC) edged up by 1.7% to USD 5.90, with the stock remaining at a depressed level amid its year-to-date decline of 35%.

In Warsaw, sugar refiner Astarta (AST) gained 14% to PLN 15.70 after the company reported an impressive 72% increase in EBITDA to EUR 28mn in 1Q20. It was also important that the company's Net Debt/EBITDA ratio improved to 2.5x. Kernel (KER) climbed back above the PLN 40 line, adding a solid 7% for the week.

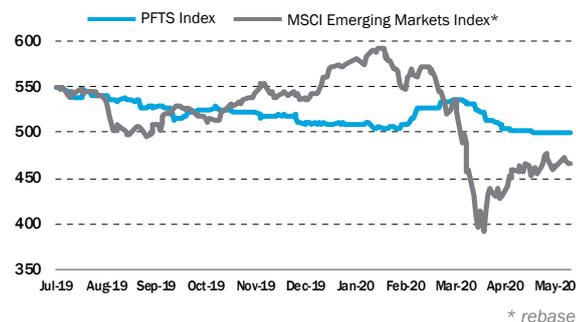
In interbank currency trading, the hryvnia gave up 1.0% against the dollar to close at 26.90 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Support Firm Amid COVID Bump After 1st Year in Office
- > Ukraine's Industrial Output Sinks 16% YoY in April Amid COVID-19

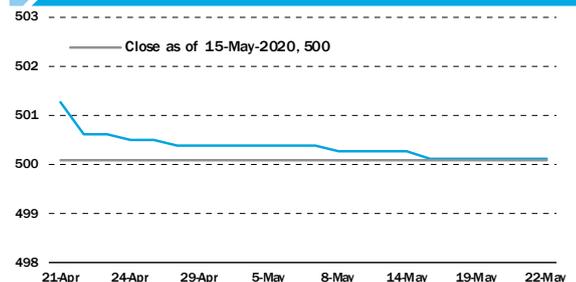
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	500	0.0%	-1.9%
RTS	1202	4.9%	-22.4%
WIG20	1637	2.6%	-23.8%
MSCI EM	905	0.4%	-18.8%
S&P 500	2955	3.2%	-8.5%

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%	0.0 p.p.	1.3 p.p.
Ukraine-2028	8.8%	0.1 p.p.	1.8 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	26.90	1.0%	13.6%
EUR	29.25	1.6%	10.7%

Zelenskiy Support Firm Amid COVID Bump After 1st Year in Office

by Will Ritter
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NEWS

President Zelenskiy held a 3-hour outdoor press conference in a central Kyiv park to mark his first year in office on Wednesday (May 20). The President spent much of the event deflecting questions from journalists about why he has been unable to keep his promises of quickly moving to eliminate corruption and improving Ukrainians' standard of living. Meanwhile, a mid-May poll released by the Rating Group (a top polling agency that is generally viewed to lean pro-Russian) reported that an impressive 68% percent of citizens polled said that Zelenskiy's job performance in his first year was satisfactory or better, implying that Zelenskiy's approval has risen by around 10 points since the start of the COVID crisis in mid-March. He was elected last May with 73% of the national vote, trouncing incumbent Petro Poroshenko.

COMMENTARY

In our view, Zelenskiy has thus far managed to maintain a high level of approval by holding on to his "TV president" image and even more importantly, by not antagonizing any large segments of the Ukrainian electorate with ideological statements or actions. The COVID crisis of the past two months has generally aided Zelenskiy by keeping potentially negative headlines about his administration buried in the domestic news cycle, and the re-opening of the country is now occurring in a timely manner without any major Ukrainian epidemic having occurred. We see that despite the ongoing high level of corruption and dirty dealing in Ukraine, voters are not holding Zelenskiy responsible for the situation as long as he is not personally seen to be involved in corrupt activities himself. In this way, Zelenskiy is benefiting from being held to a lower standard than his predecessor Poroshenko, whose popularity quickly declined in 2014-15 after it became apparent that he was unwilling or unable to launch a frontal assault on corruption. Ironically, Zelenskiy made perhaps the biggest public error of his presidency thus far at his anniversary press conference when he openly endorsed a criminal investigation into Poroshenko's 2016 recorded conversations with current US presidential candidate Joseph Biden regarding the conditions needed for Kyiv to receive a US loan guarantee. Zelenskiy has been heavily criticized both in Ukraine and in the US for taking this position, which grossly violates Zelenskiy's own stated policy of avoiding involvement in US politics, and he appears to have fallen into a trap set by pro-Russian actors; the Biden-Poroshenko recordings had been publicly released the day before Zelenskiy's press conference by MP Andrey Derkach, a longtime anti-Western politician with links to Russian security agencies. It is safe to assume that when the IMF and other Western aid agencies demand that Zelenskiy investigate large-scale corruption, they are referring to schemes involving actual theft, and not to blatant politically-motivated show prosecutions of political rivals.

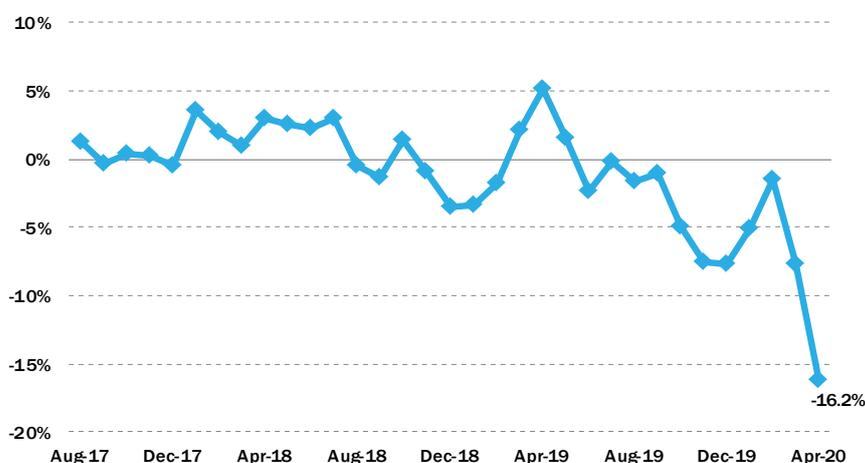
Ukraine's Industrial Output Sinks 16% YoY in April Amid COVID-19

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial output sank by 16.2% YoY in April amid the quarantine measures related to the COVID-19 outbreak, the State Statistics Committee (UkrStat) reported on Friday (May 22). Earlier this year, Ukraine's main industrial production index had dropped by 7.7% YoY in March and by 5.0% YoY (adjusted for the extra day compared to 2019) in February. The month-on-month change in April (unadjusted for the different number of days) was a drop of 12.8%. In the manufacturing sector, the aggregate production fall was 20.3% YoY, in the utility sector it was 7.2% YoY, and 11.2% YoY in the extraction industry. For 4M20, UkrStat's industrial index is down by 7.9% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The last time Ukrainian industry experienced such a sharp drop in production was in June 2015, when the Donbass military conflict with Russian-backed separatists shut down production at most factories in that part of the country and eventually removed them from Ukraine's industrial base altogether. Although the nature of the real sector's output slump today is very different, Ukrainian business certainly does have the benefit of experience in overcoming temporary crises.

Ukraine's small automobile industry was the worst hit in April, with output in the sector plunging by 51% YoY. The textile/light industry was also damaged badly, falling by 38% YoY last month. The only bright spots amid the overall contraction were the chemical and pharmaceutical industries, which saw growth of 6.5% YoY and 17% YoY respectively in the period.

In other macroeconomic statistics for April, retail sales tumbled by 15% YoY, ending a 4-year run of uninterrupted strong gains as most retail stores were closed. The monthly drop compared to March sales was 23%. For 4M20, the retail sales index remains higher by 3.2% YoY, but will likely turn to negative territory after the May data.

In the agro sector, aggregate output in January-April declined by a moderate 1.4% YoY.

For May, we expect a deeper contraction across all industrial sectors, with the first signs of recovery coming no earlier than in July.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	41.2	82.0	99%	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	15.7	32.0	104%	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	3.79	12.0	217%	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	161	250	55%	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	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	15.5	--	--	U/R	
JKX Oil & Gas	JKX LN	16.9	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	22.0	--	--	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	6.00	25.60	327%	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	0.290	0.47	62%	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%								
Iron Ore Mining												
Ferrexpo	FXPO	161	17.4%	1.3%	1,156	1,437	24.0%	2.9	4.0	2.5	3.3	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	67	40	5.0%	2.2	7.2	1.1	2.8	0.2
Specialized Machinery												
Turboatom	TATM	9.9	10.0%	-6.4%	155	152	3.8%	12.7	7.4	3.1	2.7	1.3
Motor Sich	MSICH	5,390	0.0%	0.0%	416	433	24.0%	neg	44	23	9.6	1.6
Oil & Gas												
UkrNafta	UNAF	130	0.0%	-10.1%	262	259	3.0%	9.0	3.7	2.6	1.0	0.2
Regal Petroleum	RPT	15.5	3.3%	-29.1%	61	21	21.6%	6.1	7.6	0.9	1.1	0.4
JKX Oil	JKX	16.9	-4.8%	-28.9%	35	144	50.4%	1.9	2.2	4.2	3.8	1.2
Power Utilities												
Centrenergy	CEEN	6.00	-20.0%	-35.2%	82	64	21.7%	neg	14	neg	2.5	0.1
Donbasenergy	DOEN	22.00	11.3%	-13.0%	19	18	14.2%	neg	8.1	2.3	2.0	0.1
Consumer												
MHP	MHPC	5.90	1.7%	-35.2%	623	1,763	34.1%	2.9	3.7	8.2	5.7	0.8
Kernel	KER	41.15	7.0%	-14.3%	792	1,486	61.8%	4.2	3.4	4.3	3.7	0.3
Astarta	AST	15.70	13.8%	-1.9%	95	371	37.0%	50.5	12.1	4.3	3.6	0.6
Avangardco	AVGR	0.19	0.0%	-5.0%	12	344	22.5%	6.1	4.0	20	18	2.9
Agroton	AGT	3.79	0.5%	2.4%	20	29	25.0%	2.1	2.8	2.3	2.7	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.290	-6.5%	-5.8%	663		1.8%	3.6	3.9	1.2	1.3	0.18

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	113	40	49	56	43.1%	45.0%	49.1%	28	12	21	29.9%	11.1%	18.4%
Motor Sich	MSICH	450	358	278	96	19	45	21.2%	5.2%	16.3%	46	-14	9	10.2%	-3.8%	3.4%
Oil & Gas																
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%
Electric Utilities																
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%
Consumer																
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%
Banks																
		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
UAH denominated Bonds									
UA4000202469			12.0%	11.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			12.0%	11.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			12.0%	11.0%	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
UAH denominated Bonds									
UA4000204853			5.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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