

## Stock Market Update

### Equity

Ukrainian stocks traded in Kyiv were inactive last week, with only a few sparse corporate news items driving some minor movement. UkrNafta (UNAF) gained 3.2%, ignoring the company's poor operational results for May, which indicated that average daily oil output decreased by 1.4% YoY to 4,160 tonnes (30,400 barrels) in the reported period. Raiffeisen Bank Aval (BAVL) remained at 32.50 kopecks and CentrEnergy (CEEN) was also flat at UAH 6.90 per share.

On the data front, UkrStat said that the country's GDP declined by 1.3% YoY and 0.7% QoQ in 1Q20. The nominal value of Ukraine's GDP in the quarter was UAH 846bn (USD 33bn at the average exchange rate for the period).

London-listed Ferrexpo (FXPO) dropped by 4.3% to GBp 179 after the company reported that a district court in Kyiv has placed a new restriction covering 50.3% of the shares in Ferrexpo Poltava Mining (FPM) held by Ferrexpo's Swiss-based parent group. This restriction is tied to ongoing criminal charges in Ukraine involving Constantine Zhevago and his insolvent F&C Bank, which was declared insolvent in 2015. Ferrexpo said its operations remain unaffected, as the share freeze does not relate to ownership of the shares, but only prohibits their transfer. In a separate release, Ferrexpo provided the positive news that its board of directors has approved an interim 2020 dividend of 6.6 US cents per share, payable on Jul 3 to shareholders on the register as of Jun 19.

In Warsaw trading, Astarta (AST) corrected by a tiny 0.3% to PLN 18.25 after gaining a solid 11% over the preceding week. Kernel (KER) gave up 2.2% to end at PLN 41.85 and Agrotin (AGT) declined by 1.6% to PLN 3.77.

The hryvnia was stable for the week, inching up by 0.2% to close at 26.73 UAH/USD.

## Highlights

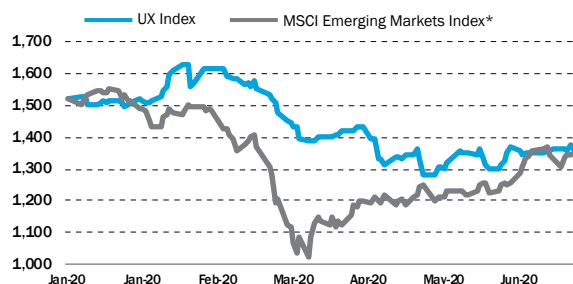
### POLITICS AND ECONOMICS

- US, EU Raise Pressure on Zelenskiy to Back Off Poroshenko Prosecutions

### STOCKS IN THE NEWS

- Kobolev Wants to Split UkrNafta Into Separate Oil & Gas Divisions

### STOCK MARKET PERFORMANCE

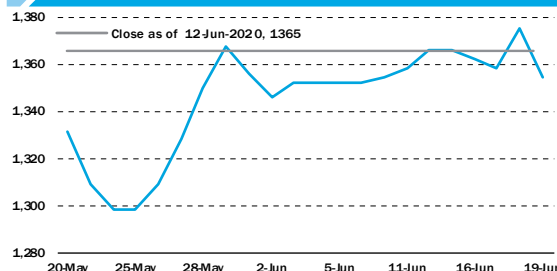


\* rebased

### MARKET INDEXES

	Last	1W ch	YTD
UX	1354	-0.9%	-10.8%
RTS	1242	2.2%	-19.8%
WIG20	1794	2.6%	-16.5%
MSCI EM	1001	1.4%	-10.2%
S&P 500	3097	1.8%	-4.1%

### UX 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.5%/9.5%	0.0 p.p.	-0.5 p.p.
Ukraine-2025	6.9%	-0.3 p.p.	0.3 p.p.
Ukraine-2028	7.4%	-0.3 p.p.	0.4 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.73	-0.2%	12.8%
EUR/UAH	29.91	-1.2%	13.2%

Source: Eavex Capital

## US, EU Raise Pressure on Zelenskiy to Back Off Poroshenko Prosecutions

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

### NEWS

The US Embassy in Ukraine criticized Ukraine's justice and law enforcement system in a statement last week, writing on its official social media page on Jun 18 that "The justice system should not be used for the purpose of settling political scores." In recent months, former President Petro Poroshenko has been facing various criminal investigations into his actions while he served as President during 2014-2019 by the Prosecutor General's office and the State Bureau of Investigations (DBR), both of which are controlled indirectly by President Zelenskiy via his power to appoint the heads of those agencies. The US statement, which did not mention Poroshenko by name, was less specific than one issued a day earlier on Jun 17 by former European Council chief Donald Tusk, who now heads the center-right European People's Party. Tusk wrote on social media that "the EPP is very concerned by political cases against former President Poroshenko. The charges should not resemble politically motivated persecution, nor be politically motivated against select political opponents". Meanwhile, Poroshenko himself used an internationally broadcast interview on Sunday (Jun 21) on the CNN television network to assert that the investigations into him by Ukrainian law enforcement bodies are related not to any accusations of corruption on his part, but to his official activities as president.

### COMMENTARY

While these statements coming from the West in defense of Poroshenko are not being directly addressed to Zelenskiy, their intended audience is clear. We suppose that Zelenskiy will try to deny responsibility for these clearly politically motivated cases against Poroshenko, and it remains to be seen what levers of influence Washington and Brussels might use if Zelenskiy is unwilling or unable to pull back on the prosecutions. Zelenskiy is currently enjoying a local peak in popularity thanks to his handling of the COVID situation, but various emerging political challenges are likely to make his life more uncomfortable in the coming months: his Servant of the People party continues to fragment amid its lack of unifying ideology, Poroshenko's support as the country's main pro-Western opposition leader remains firm, a new alliance of provincial capital city mayors has been formed to oppose Zelenskiy's penchant for centralization of authority, and a modernized pro-Russian opposition party led by Latvia-based emigre Anatoliy Shariy is beginning to eat into Zelenskiy's Russophone electoral base. Meanwhile, recent domestic political commentators have hypothesized that Zelenskiy has contracted out the country's law enforcement powers to forces associated with the regime of exiled former President Yanukovich. In particular, there have been references to Andrey Portnov, the deputy head of Yanukovich's administration, as currently being a "shadow Prosecutor General" whose hand is behind the investigations of pro-Western politicians. Portnov was a powerful ally of Yulia Tymoshenko during the latter's years as prime minister in 2007-2009, who then switched sides and joined the ruling Party of Regions when Yanukovich won the presidency in 2010; after the EuroMaidan uprising in early 2014, Portnov reportedly spent the period of Poroshenko's presidency in exile in Austria. What is certain is that if Zelenskiy continues to take a hands-off approach to Ukraine's top organs of state power, that vacuum will quickly be filled by self-interested actors.

## Kobolev Wants to Split UkrNafta Into Separate Oil & Gas Divisions

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

### UKRNAFTA (UNAF UK)

Price: UAH 130 Market Cap: USD 264mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019E	0.9	0.2	27.1	3.7	n/a
2020E	1.0	0.2	14.0	2.9	n/a

## NEWS

UkrNafta's majority shareholder, the state energy operator NaftoGaz, has floated the idea to split the country's largest oil producer into separate natural gas and oil divisions, NaftoGaz CEO Andriy Kobolev told the Interfax news agency on Jun 18.

Kobolev said he is hoping to start UkrNafta's restructuring by the end of this year, but that the timing depends on whether the complex deal between NaftoGaz and UkrNafta to compensate the latter for gas confiscated by the former during 2004-2010 can be completed. In its turn, UkrNafta needs to pay production tax debt to Ukraine's national budget of some UAH 12bn (USD 450mn). This debt was accrued during 2014-15 when the company, controlled by minority owner Igor Kolomoyskiy, refused to pay taxes to the government, which at the time was in a weak position on tax enforcement due to the hot period of the Donbass armed conflict in the east of the country.

## COMMENTARY

Kobolev's idea is not just to split UkrNafta into business segments, but also to fundamentally re-distribute the ownership of the company and thus to finally settle the decades-long non-transparent conflict over who actually owns this lucrative asset. Kolomoyskiy's Privat Group has historically had de-facto control over the company's day-to-day operations despite owning a smaller share than Naftogaz's 50%+1 stake.

We presume that Kobolev is proposing that the oil side of UkrNafta, where Kolomoyskiy has long been dominant, might in this way be formally handed to Privat, while Naftogaz could receive control over the smaller natural gas side of the business. However, although Kobolev as CEO of NaftoGaz is pressing for the split of UkrNafta, it is important to note the 3-sided nature of the conflict, with the key 3rd party being the Ukrainian government as separate from Naftogaz; the above-mentioned deal to settle the gas confiscation dispute between two companies cannot be completed without Cabinet of Ministers approval. NaftoGaz wants the government to finance the deal, which in theory would not place additional pressure on the national budget, as UkrNafta is obligated to use proceeds from the confiscation deal exclusively for paying off the tax debt. But there are no indications that the Cabinet is ready to make the political decision to allocate the compensation funds to NaftoGaz. The deal's settlement has already been postponed several times, with the latest deadline now at Aug 1. We see a rather low probability that the government and NaftoGaz will reach an agreement on the UkrNafta settlement before then, especially taking into account that the agreement was signed in 2019 when natural gas prices were much higher. Therefore, we assume that the long deadlock over UkrNafta's tax debt, as well the larger question of its ultimate ownership, is likely to continue. On the other hand, we do not rule out a scenario in which UkrNafta will find a different, less global, way to settle its tax debt, which ultimately should boost the company's valuation.

Eavex Capital has a BUY recommendation on the UNAF stock with a target price of UAH 250, implying an upside of 108%.

**EAVEX RECOMMENDATIONS**

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	41.9	82.0	96%	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	18.3	32.0	75%	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	179	250	40%	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>
Enwell Energy (ex-Regal)	ENW LN	16.0	--	--	U/R	
JKX Oil & Gas	JKX LN	20.0	--	--	U/R	
<b>Power Utilities</b>						
DonbasEnergo	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>
CenterEnergo	CEEN	6.90	25.60	271%	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 CentrEnergo 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 CentrEnergo more attractive for privatization.</p>
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.325	0.47	45%	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	
UX Index	UX	1354	-0.9%	-10.8%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	179	-4.3%	12.6%	1305	1586	24.0%	3.2	4.5	2.7	3.7	1.2
<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	10.0	0.1%	-5.7%	158	155	3.8%	12.9	7.6	3.1	2.8	1.4
Motor Sich	MSICH	5390	0.0%	0.0%	419	436	24.0%	neg	44	23	9.6	1.6
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	130	3.2%	-10.1%	264	260	3.0%	27.1	14.0	3.7	2.9	0.2
Enwell Energy (ex-Regal)	ENW	16.0	8.1%	-27.0%	63	23	21.6%	6.3	7.9	1.1	1.2	0.4
JKX Oil	JKX	20.0	10.2%	-15.8%	42	151	50.4%	2.3	2.7	4.4	4.0	1.3
<b>Power Utilities</b>												
Centrenergo	CEEN	6.90	0.0%	-25.5%	95	77	21.7%	neg	16	neg	3.0	0.1
Donbasenergo	DOEN	22.00	0.0%	-13.0%	19	18	14.2%	neg	8.1	2.4	2.0	0.1
<b>Consumer</b>												
MHP	MHPC	6.00	3.4%	-34.1%	634	1852	34.1%	2.9	4.9	4.9	4.5	0.8
Kernel	KER	41.85	-2.2%	-12.8%	836	2170	61.8%	4.4	4.9	6.3	5.3	0.5
Astarta	AST	18.25	-0.3%	14.1%	114	390	37.0%	61.0	14.6	4.5	3.7	0.7
Avangardco	AVGR	0.19	0.0%	-5.0%	12	344	22.5%	6.1	4.0	20	18	2.9
Agroton	AGT	3.77	-1.6%	1.9%	20	30	25.0%	2.2	2.9	2.3	2.7	0.5
<b>Banks</b>												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.325	0.0%	5.6%	748		1.8%	4.0	4.5	1.4	1.4	0.21

Source: UX. 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	1274	1507	1330	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	1328	1148	1170	350	70	89	26.4%	6.1%	7.6%	237	10	19	17.8%	0.8%	1.6%
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																
Centrenerg	CEEN	533	587	660	38	-38	25	7.1%	-6.4%	3.8%	18	-44	6	3.4%	-7.4%	0.9%
Donbasenerg	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	1556	2056	2250	450	376	414	28.9%	18.3%	18.4%	128	215	130	8.2%	10.5%	5.8%
Kernel (FY18, FY19, FY20E)	KER	2403	3992	4050	223	346	410	9.3%	8.7%	10.1%	52	189	170	2.2%	4.7%	4.2%
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	2647	3495	3623	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			10.0%	9.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			10.5%	9.5%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.5%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			10.5%	9.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.0%	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

## Eavex Capital

7 Klovisky 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