

Stock Market Update

Equity

Locally listed Ukrainian equities were mostly lower last week amid notably negative corporate news regarding two out of the six UX index blue chips. The index fell 2.7% to 1318 points. Partly state-owned UkrNafta (UNAF) once again made unpleasant headlines by selling its extracted crude oil at auction for just USD 18 per barrel, while the global benchmark price was roughly twice as high. We estimate that the company de-facto gave away USD 50mn in the deal. The UNAF stock dropped by 3.1% to UAH 126 per share after the auction price became public. Another majority state-owned company, CentrEnergO (CEEN), saw its stock decline by 7.2% to UAH 6.40 after the head of State Property Fund (SPF) Dmytro Sennichenko commented that CentrEnergO's coal-fired thermal power plants are loss-making at the moment. We view this statement as controversial due to the ongoing problems in the Ukrainian coal industry and the non-transparent coal purchasing procedures at CentrEnergO. There was also a report that the SPF discussed CentrEnergO at a meeting with the United Arab Emirates investment fund Mubadala, as the Ukrainian government has been trying for 10 years to unload the state's 78% stake in the company. On the upside, Raiffeisen Bank Aval (BAVL) stock rose 3.1% to 33.50 kopecks.

In London trading, Ferrexpo (FXPO) edged down by 0.6% to GBp 178 while MHP (MHPC) gained 4.3% to USD 6.26. Enwell Energy (ENW), formerly known as Regal Petroleum, plummeted by 21% to GBp 12.60 on fears that low natural gas prices would make the company's production plans unrealistic.

On the Warsaw Stock Exchange, sugar refiner Astarta (AST) had a volatile week, slumping 13% to PLN 15.90 after having impressively climbed up from the PLN 12 level at the start of May. Top liquid issue Kernel (KER) was essentially unchanged at PLN 41.80.

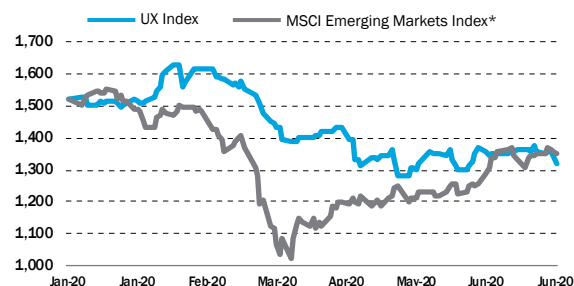
On the interbank currency market, the hryvnia continued to show stability, ticking up by 0.1% against the dollar to close at 26.71 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > COVID Fatality Rate Stays Low in Ukraine Despite Rise in Cases; Shmygal Focused on "Not Losing" Economy
- > Ukraine Industrial Decline Slows to 12% YoY in May After 16% Drop in April

STOCK MARKET PERFORMANCE

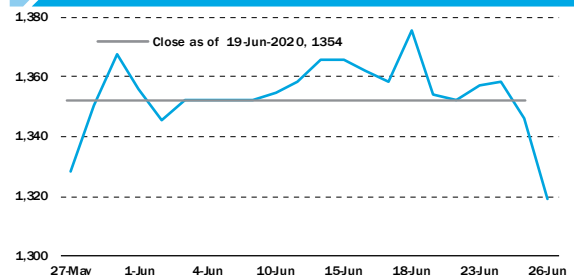


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1318	-2.7%	-13.2%
RTS	1231	-0.9%	-20.5%
WIG20	1757	-2.1%	-18.2%
MSCI EM	998	-0.3%	-10.5%
S&P 500	3009	-2.8%	-6.9%

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	7.4%	0.5 p.p.	0.8 p.p.
Ukraine-2028	7.8%	0.4 p.p.	0.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.71	-0.1%	12.7%
EUR/UAH	29.94	0.1%	13.3%

Source: Eavex Capital

COVID Fatality Rate Stays Low in Ukraine Despite Rise in Cases; Shmygal Focused on “Not Losing” Economy

by Will Ritter
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NEWS

Prime Minister Dennis Shmygal said that “Our task today is not to lose Ukraine’s economy while saving lives” in reference to the rising number of reported COVID-19 virus cases in the country in recent weeks. Around 700 new COVID cases were registered on Monday (Jun 29), a holiday for national Constitution Day. Shmygal, speaking in an interview with the Ukrayinska Pravda news site published today (Jun 30), said the government is focused on the number of hospital patients per 100,000 population, which he said is currently at 50. In terms of closing public transport, which re-opened across Ukraine in late May after a 2-month shutdown, Shmygal said such decisions should be left to local authorities, a departure from the policy seen in March when the national government stepped in to force local transport stoppages. Since the start of the epidemic, Ukraine has reported some 1160 COVID fatalities, or roughly 25 per 1 million population, which is far lower than the several hundred per 1 million population reported in the United States and most European Union countries.

COMMENTARY

Importantly, although there may indeed be a “second wave” of the COVID in Ukraine, we do not believe that there will be a second panic, as most citizens have now understood that the risk of becoming seriously ill from the disease is low, especially when basic social distancing precautions are taken. Shmygal’s soft position on renewing quarantine measures reflects the preferences of the Zelenskiy administration, which understands that an attempt to bring back the harsh restrictions of March and April will have negative consequences for the People’s Servant party in this autumn’s municipal elections. City leaders have already been scoring points against Zelenskiy in recent months by blaming the President for the negative effects of the lockdowns on local citizens’ livelihoods. The situation in Ukraine mirrors the larger debate in Western countries over the virus, with citizens unwilling to return to harsh lockdown regimes despite rising infection rates; the US federal government recently admitted that actual COVID infections could be 10 times higher than the official US count of 2.5mn. This implies that the true fatality rate of the COVID is much lower than generally claimed, and that Western countries are on the way to reaching an equilibrium state of “herd immunity”. However, we still believe that the fitful nature of economic re-opening will lead to GDP declines of 10% or more in many developed countries this year, with Ukraine managing to stay below that level in an optimistic scenario.

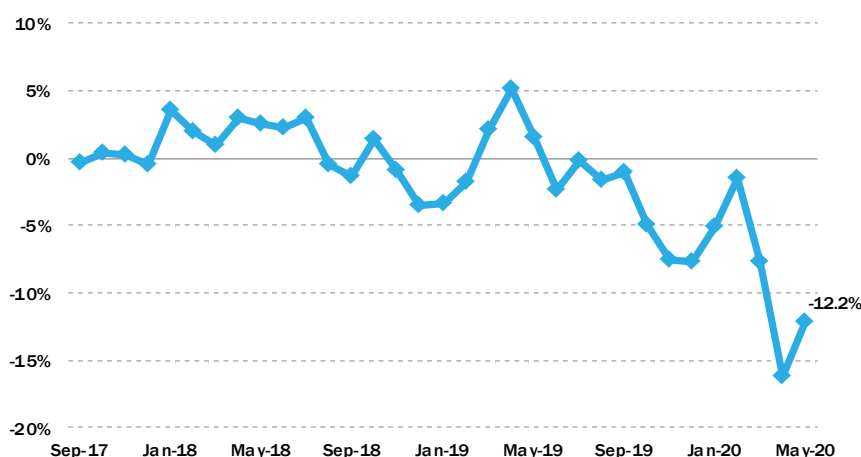
Ukraine Industrial Decline Slows to 12% YoY in May After 16% Drop in April

by Dmitry Churin
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NEWS

Ukraine’s nationwide industrial output was lower by 12.2% YoY in May, improving somewhat from the drop of 16.2% YoY registered in April, the State Statistics Committee (UkrStat) reported on Tuesday (Jun 23). 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 May (unadjusted for the different number of days) was a growth of 4.9%. In the manufacturing sector, the aggregate production fall was 15.6% YoY in May after a drop of 20.3% YoY in April. In the utility sector the output decrease was 1.9% YoY, and 8.9% YoY in the extraction industry. For 5M20, UkrStat’s industrial index is down by 8.7% YoY.

UKRAINE’S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

UkrStat does not adjust its index performance for different month lengths; taking into account one additional day in May compared to April, industrial production grew by 2.8%, with the main contribution coming from the utility sector, which saw a rise of 6.8% MoM.

Looking at particular industrial sectors, there was a very poor performance in coal extraction, which was down by a massive 45% YoY in May after the temporary closure of Ukraine’s largest thermal coal mine DTEK Pavlograd amid excessive inventories at major thermal power plants. Ukraine’s electricity sector is currently experiencing notable turbulence, with very high prices compared to natural gas energy, and with a large volume of unpaid accounts for electricity between market players.

In other macroeconomic statistics for May, retail sales declined by 3.1% YoY, a much-improved performance after tumbling by 15% YoY in April. On a month-on-month basis retail sales rose by 15%. For 5M20, the retail sales index remains higher by 3.1% YoY, beating our pessimistic expectation the retail segment would turn to negative territory after the May data.

In the agro sector, aggregate output in January-May declined by a moderate 2.0% YoY.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	41.8	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	6.3	11.5	84%	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	15.9	32.0	101%	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	178	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>
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	126	270	114%	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	12.6	--	--	U/R	
JKX Oil & Gas	JKX LN	17.8	--	--	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	6.40	25.60	300%	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	0.335	0.47	40%	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	1318	-2.7%	-13.2%								
Iron Ore Mining												
Ferrexpo	FXPO	178	-0.6%	11.9%	1298	1579	24.0%	3.2	4.5	2.7	3.7	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	67	41	5.0%	2.2	7.3	1.1	2.9	0.2
Specialized Machinery												
Turboatom	TATM	10.0	0.0%	-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	437	24.0%	neg	44	23	9.6	1.6
Oil & Gas												
UkrNafta	UNAF	126	-3.1%	-12.9%	256	253	3.0%	26.3	13.6	3.6	2.8	0.2
Enwell Energy (ex-Regal)	ENW	12.6	-21.0%	-42.3%	50	10	21.6%	5.0	6.3	0.5	0.5	0.2
JKX Oil	JKX	17.8	-11.0%	-25.1%	38	146	50.4%	2.1	2.4	4.3	3.8	1.2
Power Utilities												
Centrenergy	CEEN	6.40	-7.2%	-30.9%	89	70	21.7%	neg	15	neg	2.8	0.1
Donbasenergy	DOEN	22.00	0.0%	-13.0%	19	18	14.2%	neg	8.1	2.4	2.0	0.1
Consumer												
MHP	MHPC	6.26	4.3%	-31.2%	661	1879	34.1%	3.1	5.1	5.0	4.5	0.8
Kernel	KER	41.80	-0.1%	-12.9%	835	2169	61.8%	4.4	4.9	6.3	5.3	0.5
Astarta	AST	15.90	-12.9%	-0.6%	100	376	37.0%	53.1	12.7	4.3	3.6	0.7
Avangardco	AVGR	0.19	0.0%	-5.0%	12	344	22.5%	6.1	4.0	20	18	2.9
Agroton	AGT	3.79	0.5%	2.4%	21	30	25.0%	2.2	2.9	2.3	2.7	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.335	3.1%	8.9%	772		1.8%	4.2	4.6	1.4	1.5	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																
Centrenergo	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	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
UAH denominated Bonds									
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
UAH denominated Bonds									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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