

Stock Market Update

Equity

Kyiv-listed equities fell sharply last week as both traders and long-term investors were disappointed by the politically motivated resignation of Ukraine's respected central bank governor Yakiv Smoliy on Jul 1. The move made major negative headlines, prompting fears that the country's new USD 5.0bn IMF program could be threatened if the National Bank's independence is not maintained. Another important resignation also took place at the Anti-Monopoly Committee, with head Yuriy Terentiev stepping down, also reportedly due to disagreements with President Zelensky.

The UX index declined by 4.7% to 1256 points during the holiday-shortened 4-session trading week that ended on Friday. The lion's share of the damage came from majority-state-owned CentrEnerg (CEEN), which plummeted by 20% to UAH 5.10 per share on rising concerns about the health of Ukraine's electricity sector. UkrNafta (UNAF) and Raiffeisen Aval (BAVL) were also substantial losers dropping by 5.6% to UAH 119 and by 4.5% to 32.00 kopecks, respectively.

London-listed Ferrexpo (FXPO) lost 5.7% to close at GBp 168 following a correction in benchmark iron ore prices on the global market, which now stand at USD 99 per tonne compared to USD 103 a week earlier. On the upside, poultry maker MHP (MHPC) gained 6.1% to USD 6.64, finally showing a rebound from the support USD 6.00 line.

On the Warsaw Stock Exchange, Ukrainian names were mixed, with Astarta (AST) picking up 4.1% to finish at PLN 16.55 while Kernel (KER) declined by 1.4% to PLN 41.20.

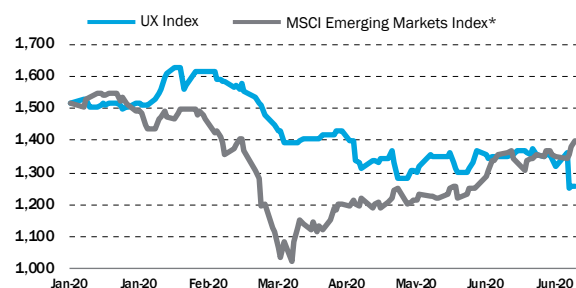
The hryvnia had a rough week amid the NBU turbulence, sliding by 1.6% to 27.13 UAH/USD and hitting an intraday low of 27.30 UAH/USD on Friday (Jul 3). Currency traders will be watching closely to see whether the Zelenskiy administration is able to find an appropriate successor to Smoliy for the National Bank governor's post, and failure to move quickly could lead to more volatility in the exchange rate.

Highlights

POLITICS AND ECONOMICS

- Ukraine's New Eurobond Issue Torpedoed by Smoliy Resignation
- Charges of Political Pressure on NBU Spark Harsh Reaction from Investors

STOCK MARKET PERFORMANCE

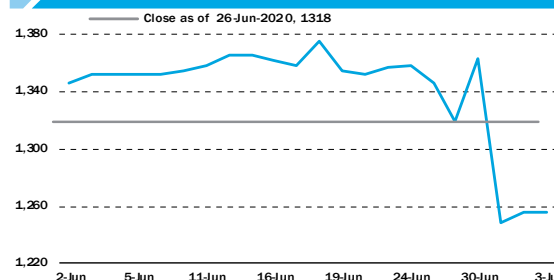


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1256	-4.7%	-17.3%
RTS	1235	0.3%	-20.3%
WIG20	1800	2.4%	-16.2%
MSCI EM	1033	3.5%	-7.3%
S&P 500	3130	4.0%	-3.1%

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	11.0%/10.0%	+0.5 p.p.	0.0 p.p.
Ukraine-2025	7.1%	-0.3 p.p.	0.5 p.p.
Ukraine-2028	7.2%	-0.6 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.13	1.6%	14.5%
EUR/UAH	30.48	1.8%	15.4%

Source: Eavex Capital

Ukraine's New Eurobond Issue Torpedoed by Smoliy Resignation

by Will Ritter
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NEWS

Plans by Ukraine's Finance Ministry to issue a new long-term (2032) Eurobond in the amount of USD 1.75bn collapsed on Wednesday (Jul 1) as news spread that National Bank Governor Yakiv Smoliy had quit his post due to what he called political pressure from the Zelenskiy administration on policy decisions. The new Eurobond had been expected to take advantage of positive global market sentiments to feature a yield in the range of 7%, but after the Smoliy resignation became public, investors reportedly demanded that the pricing be re-negotiated. Under pressure from the presidential administration, the NBU has sharply reduced its key bank refinancing rate in recent months by 750 basis points to the current 6%, which is the lowest level in Ukraine's history.

COMMENTARY

We suspect that Smoliy's resignation is not only about pressure from the Zelenskiy administration in regard to interest rates, as MinFin has been raising huge amounts of cash (approaching USD 1bn) at its recent weekly domestic Treasury auctions; the only investor with this kind of firepower to buy Ukrainian government bonds is the NBU, which implies that Zelenskiy has been pressuring the central bank to engage in quantitative easing in order to finance the national budget and inject money into the economy. The circumstances which forced out Smoliy revolve around two similarly-named but conflicting bodies: the NBU Board, which runs the central bank's day-to-day operations, and the NBU Council, which is a politically-based supervisory body consisting of 4 appointees from the President and 4 from Parliament. The NBU Council has been relentlessly criticizing the NBU Board's hawkish monetary policy (focused on maintaining hryvnia stability) since Zelenskiy took office last year. The most vocal advocate of easy money on the NBU Council is Bogdan Danylishyn, who was Ukraine's Economics Minister during the Yushenko/Tymoshenko era, and there has been some speculation that Danylishyn could be appointed as the new NBU head. However, judging by the quick ouster in March of Finance Minister Igor Umanskiy, who had been in the post 10 years earlier in the Tymoshenko government, the IMF and international investors are unwilling to countenance figures from the distant past being placed in key economic jobs. Still, in the bigger picture, the global rally in emerging market debt is being fueled by massive central bank support of all types of fixed income securities; in such an environment where investors believe that bond prices will be propped up regardless of underlying conditions, the quest for yield is likely to prevail, sooner rather than later, over concerns about Zelenskiy usurping control of monetary policy. If indeed Ukraine returns to the Eurobond market after a month or two, Zelenskiy is likely to interpret the current harsh reaction from Western investors as being mere lip service to the idealized principle of central bank independence, which he may conclude has little practical relevance amid the ongoing COVID-related global economic decline.

Charges of Political Pressure on NBU Spark Harsh Reaction from Investors

by Dmitry Churin
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NEWS

Ukraine's National Bank Governor Yakiv Smoliy submitted a letter of resignation on Wednesday (Jul 1), according to the NBU website statement. Smoliy blamed systematic political pressure as the reason for the move. Smoliy has headed the National Bank since March 2017, after previously serving as the NBU deputy head under Valeria Gontareva. President Zelensky accepted Smoliy's resignation and it was approved by Parliament on Friday (Jul 3).

The business and investment community showed a harsh reaction to the reports of political pressure on the independence of the National Bank, which has faced demands from the Zelenskiy administration to sharply reduce hryvnia interest rates in recent months. The US-Ukraine Business Council and The International Council of Business Associations and Chambers in Ukraine both voiced their respective deep concerns regarding the future role of the National Bank and the general political development of Ukraine.

COMMENTARY

There is a wide opinion that a strong and independent National Bank has been a fundamental achievement for Ukraine in recent years, and remains crucial to the country's future success. Over the past five years the National Bank has taken bold and much needed steps to ensure Ukraine's macro-financial stability and facilitate a sustainable economic recovery. Therefore, the apparent politically-motivated resignation of Smoliy is viewed as a real threat to the NBU's history of firm monetary policy. The hryvnia showed an immediate negative reaction to the development, devaluating by 2% to 27.15 UAH/USD in its first substantial move south in more than 3 months. Investors also expressed fears that an unpredictable and/or soft National Bank monetary policy placed under the de-facto control of the Zelenskiy administration could derail the country's brand-new IMF loan program. The top potential candidates to replace Smoliy are considered to be Kirill Shevchenko, the current CEO of state-owned UkrGazBank, and former Raiffeisen Bank Aval CEO Volodymir Lavrenchuk (who was Smoliy's main rival for the job in 2017). However, we do not rule out the appearance of surprise candidates for the post who are personally supported by President Zelenskiy.

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	6.6	11.5	73%	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	16.6	32.0	93%	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	3.92	12.0	206%	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	168	250	49%	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	119	270	127%	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	13.8	--	--	U/R	
JKX Oil & Gas	JKX LN	17.6	--	--	U/R	
Power Utilities						
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	5.10	25.60	402%	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>
Banks						
Raiffeisen Bank Aval	BAVL	0.320	0.47	47%	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	1256	-4.7%	-17.3%								
Iron Ore Mining												
Ferrexpo	FXPO	168	-5.7%	5.5%	1231	1512	24.0%	3.1	4.2	2.6	3.5	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	66	39	5.0%	2.1	7.2	1.0	2.8	0.2
Specialized Machinery												
Turboatom	TATM	10.0	0.0%	-5.7%	155	152	3.8%	12.7	7.4	3.1	2.7	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	412	430	24.0%	neg	44	23	9.5	1.5
Oil & Gas												
UkrNafta	UNAF	119	-5.6%	-17.7%	238	234	3.0%	24.4	12.6	3.3	2.6	0.2
Enwell Energy (ex-Regal)	ENW	13.8	9.1%	-37.1%	55	15	21.6%	5.5	6.9	0.7	0.8	0.3
JKX Oil	JKX	17.6	-0.8%	-25.7%	38	146	50.4%	2.0	2.4	4.3	3.8	1.2
Power Utilities												
Centrenergo	CEEN	5.10	-20.3%	-44.9%	69	51	21.7%	neg	12	neg	2.0	0.1
Donbasenergo	DOEN	22.00	0.0%	-13.0%	19	18	14.2%	neg	8.0	2.3	1.9	0.1
Consumer												
MHP	MHPC	6.64	6.1%	-27.0%	702	1920	34.1%	3.3	5.4	5.1	4.6	0.9
Kernel	KER	41.20	-1.4%	-14.2%	823	2157	61.8%	4.4	4.8	6.2	5.3	0.5
Astarta	AST	16.55	4.1%	3.4%	104	380	37.0%	55.3	13.2	4.4	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	3.92	3.4%	5.9%	21	31	25.0%	2.2	3.0	2.4	2.8	0.6
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.320	-4.5%	4.0%	725		1.8%	3.9	4.3	1.3	1.4	0.20

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%
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			10.5%	9.5%	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			11.0%	10.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.0%	10.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.0%	11.0%	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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