

Stock Market Update

Equity

Ukrainian blue chips were mostly higher last week, with the recently-renewed UX index benchmark demonstrating a recovery of 2.0% to close at 1282 points on Jul 10 after a sharp drop seen over the preceding week. Quotes for CentrEnerg (CEEN) rebounded by 5.9% to UAH 5.40 on information that the country's largest coal producer DTEK has offered the state company a reasonable-looking base coal price of UAH 1650 per tonne (USD 61/tonne). However, the two sides are still in talks regarding terms of payment and potential supply volumes. Raiffeisen Aval (BAVL) rose 3.9% to 33.25 kopecks while UkrNafta (UNAF) slipped by 1.3% to UAH 118 per share.

Meanwhile, in fresh macro data, the Economics Ministry estimated that Ukraine's economy contracted by 5.9% in January-May due to the negative impact of the worldwide spread of COVID-19.

Ukrainian companies listed in London had a mixed performance, with Ferrexpo (FXPO) adding 6.5% to GBP 179 while MHP (MHPC) corrected by 1.5% to USD 6.54. Natural gas producer Enwell Energy (ENW), formerly Regal Petroleum, was unchanged at GBP 13.80 per share. The other traded private E&P company with assets in Ukraine, JKK Oil&Gas (JKX), fell 4.1% after releasing an unimpressive operational update. The company's overall gas extraction dropped by 10% QoQ to just below 10,000 barrel of oil equivalents per day in the second quarter of this year.

On the Warsaw Stock Exchange, Kernel (KER) edged up by 0.4% to PLN 41.35 while Astarta (AST) dropped by 3.9% to close at PLN 15.90.

On the currency front, the hryvnia stabilized at 27.00 UAH/USD on the nose, gaining 0.5% for the week while showing no immediate reaction to President Zelenskyy's statement that his government wants the hryvnia to be 10-12% weaker. The National Bank reported a massive increase in the country's foreign currency reserves of USD 3.1bn in June after the government received a USD 2.1bn loan installment from the IMF; the NBU said it also managed to purchase an enormous net volume of USD 1.16bn in forex from the interbank market during the month. The reserves now stand at USD 28.5bn, their highest level in more than 7 years.

Highlights

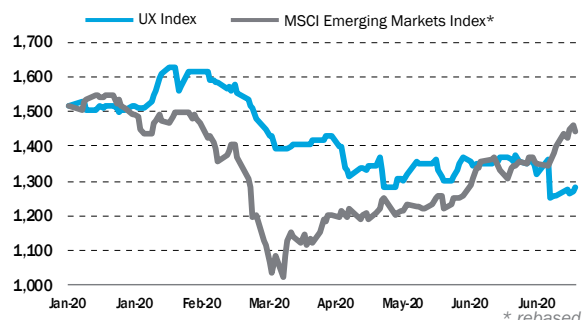
POLITICS AND ECONOMICS

- Zelenskyy Says Higher Inflation, Weaker Hryvnia Needed to Fulfill Budget
- Ukraine Inflation Stays Low but Rises to 2.4% YoY in June from 1.7% in May

STOCKS IN THE NEWS

- Ferrexpo Raises Iron Ore Output by 4.6% in 1H20 on Strong 2Q

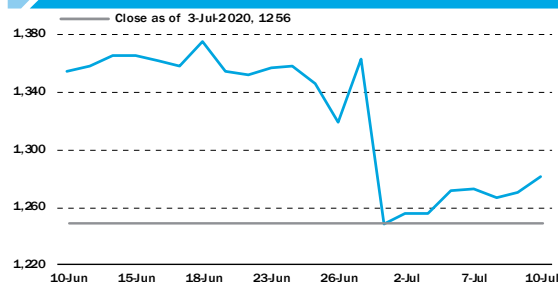
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1282	2.1%	-15.6%
RTS	1240	0.4%	-19.9%
WIG20	1807	0.4%	-15.9%
MSCI EM	1069	3.5%	-4.1%
S&P 500	3185	1.8%	-1.4%

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	13.0%/10.0%	+1.0 p.p.	+1.0 p.p.
Ukraine-2025	7.6%	0.5 p.p.	1.0 p.p.
Ukraine-2028	8.0%	0.8 p.p.	1.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.00	-0.5%	14.0%
EUR/UAH	30.65	0.6%	16.0%

Source: Eavex Capital

Zelenskiy Says Higher Inflation, Weaker Hryvnia Needed to Fulfill Budget

by Will Ritter
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NEWS

President Zelenskiy last week complained about what he called the high value of the hryvnia against the dollar last week at a public appearance in Chernivtsi province, stating that the national budget for 2020 is based on an exchange rate of 29.5 UAH/USD and inflation of 9%. Currently the UAH/USD rate is at 27.0, and 12-month consumer inflation is at 2.4%. At the beginning of this month, veteran National Bank governor Yakiv Smoliy resigned, citing political pressure from the Zelenskiy administration to soften the NBU's policy aimed at defending the value of Ukraine's national currency, which has been in place for the last 5 years.

COMMENTARY

Zelenskiy wants to initiate a policy of a weaker hryvnia and monetary stimulus so that he can quickly deliver on his promise of big economic growth exceeding 5% per year. The obvious problem here is that although Zelenskiy can force the NBU to pump liquidity into the banking system and to continue to lower its key policy rate (which has been slashed from 16% down to 6% in under 9 months), a weakening hryvnia and expectations of rising inflation will keep market interest rates in the real economy at high, practically unaffordable levels. This stimulus/quantitative easing policy will also undermine the value of all UAH-denominated fixed income securities, and first of all Ukrainian treasury bonds, which derive their value from investors' trust in a firm hryvnia - an achievement that was built by Smoliy and his predecessor at the NBU, Valeria Gontareva. History has shown that national leaders who usurp control of central banking policy to advance populist political interests have a poor economic record, and are generally unable to remain in power for an extended period of time without resorting to authoritarian measures. The difficulty for Zelenskiy - and Ukraine as a whole - is that the global economy is simply in poor condition, and there are only very limited quick-fix options in the NBU's arsenal for improving the domestic situation beyond maintaining macro stability, continuing with key structural reforms, and hoping for a fast global recovery from the COVID downturn.

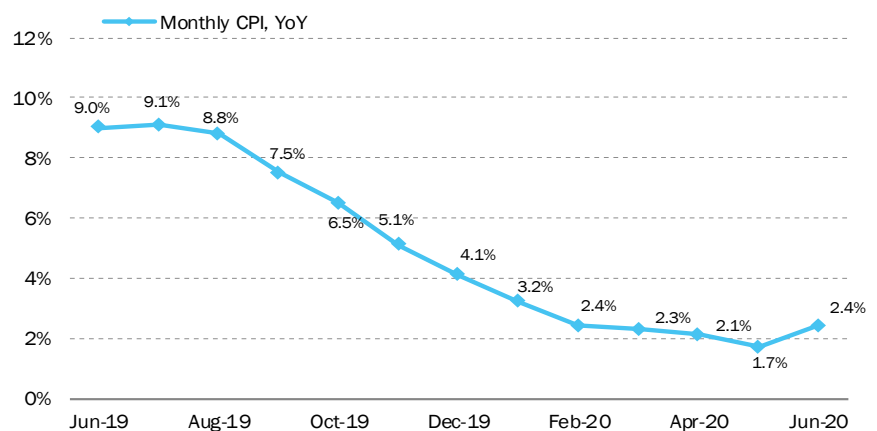
Ukraine Inflation Stays Low but Rises to 2.4% YoY in June from 1.7% in May

by Dmitry Churin
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NEWS

Ukraine's rolling 12-month "headline" inflation rose to 2.4% in June from 1.7% in May, according to State Statistics Committee data published last Thursday (Jul 9). On a month-on-month basis, the CPI edged up by 0.2% as the food category continued to demonstrate increasing prices. Meanwhile, deflation of 2.8% MoM was registered in clothing category and of 0.2% MoM in hotel & restaurant services. On the industrial goods side, UkrStat's aggregate Producer Price Index showed a year-on-year decline of 4.6% in June; on a monthly basis, the PPI decline from May was a very substantial 2.0%. In individual sectors, the coal industry saw its prices drop by 2.5% MoM in June, and the metallurgical sector price index fell by 3.1% MoM.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

The latest low inflation data indicates the ongoing demand shock to the economy of the COVID crisis. However, among major food basket categories, there was a notable price increase for imported fruits (+8.4% MoM and +50.4% YoY) which partly eroded the aggregate food price index in the reported period. As food expenses represent the lion's share of overall Ukrainian household expenses in summer, we assume that low energy prices will be unable to restrain a rise in consumer inflation, and we expect that price increases for food, including bread which saw price growth by 0.6% MoM and 5.0% YoY in June, will spur the CPI in coming months. Another factor behind expectations of higher inflation is a possible change in the National Bank's monetary policy after the recent resignation of central bank governor Yakiv Smoliy, who was focused on defending the value of the hryvnia. There could be a scenario of the National Bank providing cheap refinancing loans to state-owned banks in a goal to pump money into consumer lending and loans to small businesses. Although the idea for monetary stimulus for the economy looks justified in the current situation of economic contraction, Ukrainian commercial banks still charge enormous interest rates in a range of 30-40% for credit cards and 20% for small businesses. In other words, even with low inflation and the central bank key rate at 6.0%, there is no cheap hryvnia credit available in the financial system to drive economic growth. On the producer price side, there is a mixed picture, with energy-related prices on the decline while the food industry and pharmaceutical industries are seeing price appreciation for their products. UkrStat reported that overall nondurable goods grew in price by 6.2% YoY in June while the energy price index dropped by 8.7% YoY in the period.

Ferrexpo Raises Iron Ore Output by 4.6% in 1H20 on Strong 2Q

by Dmitry Churin
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FERREXPO (FXPO LN)

Price: GBp 179 Market Cap: USD 1,328mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	1.0	1.1	3.3	2.7	4.4%
2020E	0.9	1.2	4.6	3.7	4.4%

NEWS

Poltava-based, London-listed Ferrexpo increased its iron ore pellet output by 4.6% YoY to 5.59mn tonnes in 1H20, according to the company's operational update dated Jul 7. The output of top-value-added 65 percent Fe pellets rose by 7.1% in the period to 5.49mn tonnes, accounting for 98% of total production in 1H20. In a quarter-on-quarter basis, the company reported 5.4% growth in output to 2.87mn tonnes in 2Q20. Ferrexpo said that its facilities continued to run during 2Q with minimal impact on operations from the COVID-19 crisis that began in March.

FERREXPO PRODUCTION FIGURES

000' tonnes	2Q20	1Q20	Change QoQ	1H20	1H19	Change YoY
Total Pellets Produced	2,872	2,725	+5.4%	5,597	5,352	+4.6%
- 62% Fe pellets	25	73	-66%	98	215	-54%
- 65% Fe pellets	2,847	2,652	+7.4%	5,500	5,137	+7.1%

Source: Companies' data

COMMENTARY

Ferrexpo managed not only to increase its output, but more importantly, it also boosted its sales volumes by 21% YoY to 6.1mn tonnes in 1H20 on sales of inventories from previous periods. On the pricing side, the company enjoyed a rebound in the iron ore 62% Fe benchmark from a bottom of near USD 80 per tonne to a current level of USD 105 per tonne. Given the disruption of supplies from Brazil, we believe that international iron ore prices could hold above the USD 100 level for several more months. The rally in iron ore is being driven by China's attempts at economic stimulus, which includes creating new steel-intensive infrastructure projects. Despite the COVID slowdown, Chinese crude steel production could still end 2020 with a small year-on-year increase of around 1%, many analysts believe. For full-year 2019, Chinese crude steel output rose by 8.3% YoY to 996mn tonnes, accounting for 53% of global production, according to the World Steel Association.

In a separate press release, Ferrexpo announced that James North, the acting CEO of Ferrexpo in place of troubled majority owner Constantine Zhevago, has been appointed as an Executive Director of the company with immediate effect from Jul 6. North joined Ferrexpo in November 2014. Previously, he had held a variety of senior operational management roles at iron ore/commodities giants Rio Tinto and BHP Billiton.

The Ferrexpo stock listed in London has long faced a strong resistance line at GBp 200 from the technical analysis point of view. The stock has gained 12% so far this year to trade at GBp 179 per share. We continue to believe in the company's fundamental value and have a BUY rating on the FXPO stock with a target price of GBp 250, implying an upside of 40%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	41.4	65.0	57%	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	6.5	11.5	76%	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	27.0	70%	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	3.73	12.0	222%	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	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>
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	118	270	130%	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	16.9	--	--	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	5.40	15.00	178%	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	0.333	0.38	14%	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	1282	2.0%	-15.6%								
Iron Ore Mining												
Ferrexpo	FXPO	179	6.5%	12.6%	1331	1612	24.0%	3.3	4.6	2.8	3.7	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	66	40	5.0%	2.1	7.2	1.0	2.8	0.2
Specialized Machinery												
Turboatom	TATM	10.0	0.2%	-5.5%	156	153	3.8%	12.8	7.5	3.1	2.8	1.4
Motor Sich	MSICH	5390	0.0%	0.0%	414	431	24.0%	neg	44	23	9.5	1.6
Oil & Gas												
UkrNafta	UNAF	118	-1.3%	-18.7%	235	232	3.0%	24.2	12.5	3.3	2.6	0.2
Enwell Energy (ex-Regal)	ENW	13.8	0.0%	-37.1%	56	16	21.6%	5.6	7.0	0.7	0.8	0.3
JKX Oil	JKX	16.9	-4.1%	-28.8%	37	145	50.4%	2.0	2.3	4.3	3.8	1.2
Power Utilities												
Centrenergo	CEEN	5.40	5.9%	-41.7%	74	55	21.7%	neg	12	neg	2.2	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	6.54	-1.5%	-28.1%	691	1909	34.1%	3.2	5.3	5.1	4.6	0.8
Kernel	KER	41.35	0.4%	-13.9%	826	2160	61.8%	4.4	4.9	6.2	5.3	0.5
Astarta	AST	15.90	-3.9%	-0.6%	100	376	37.0%	53.1	12.7	4.3	3.6	0.7
Avangardco	AVGR	0.11	-42.1%	-45.0%	7	339	22.5%	3.5	2.3	20	18	2.8
Agroton	AGT	3.73	-4.8%	0.8%	20	30	25.0%	2.1	2.9	2.3	2.7	0.5
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.333	3.9%	8.1%	755		1.8%	4.1	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%
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									
UA4000200174			12.5%	9.5%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			13.0%	10.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			13.0%	10.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			13.0%	10.0%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			13.3%	10.3%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.5%	10.5%	n/a	n/a	S/A	26 Feb 2025	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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