

Stock Market Update

Equity

Ukrainian equities listed in Kyiv continued to demonstrate a very mixed performance last week. Sporadically-traded UX index basket member TurboAtom (TATM) tumbled by 30% to UAH 7.00 without a visible reason. CentrEnergO (CEEN) declined by 6.4% to UAH 5.15 while Raiffeisen Bank Aval (BAVL) added 1.5% to 33.50 and UkrNafta (UNAF) was flat at UAH 125 per share. The UX index finished the week little unchanged at 1300 points.

In major economic news, Ukraine raised USD 2.0bn with a placement of 13-year Eurobonds at 7.25%. Part of the proceeds will be used to buy back outstanding Eurobonds, in particular USD 435mn of Ukraine-21s issue at 104.5% of par value and USD 371mn of Ukraine-22s at 105.5% of par value. Initially, the Finance Ministry planned USD 750mn as the indicative total volume of the buyback. There were USD 1.41bn and USD 1.38bn of outstanding 2021 and 2022 Eurobonds respectively prior to the buyback.

On the London Stock Exchange, the stocks of troubled shell egg producer Avangard (AVGR) plunged by 45% to just 6 cents from their previous indicative price of 11 cents. The new quote suggests that the company is valued, shockingly, at only USD 3.5mn compared to the market capitalization of USD 925mn that Avangard received at its IPO in 2010. Ferrexpo (FXPO) was inactive last week, remaining at GBp 185, and MHP (MHPC) shed 2.2% to USD 6.36.

In Warsaw trading, Kernel (KER) inched up by 0.4% to PLN 40.50, generally ignoring the company's upbeat operational results for the Apr-Jun quarter. Astarta (AST) climbed 0.6% to PLN 16.00 per share, although the company said its sugar sales dropped by 26% YoY to 74,000 tonnes in 2Q20.

On the interbank currency market, the hryvnia was under pressure, losing 1.5% against the dollar to close at 27.87 UAH/USD. The National Bank's decision to keep its key interest rate unchanged at 6.0% had a NEUTRAL impact on the currency market. The regulator intervened on the interbank market during the week, selling USD 350mn at 27.90 UAH/USD to slow the persistent hryvnia devaluation which started earlier this month after President Zelenskiy publicly stated that the hryvnia is too strong.

Highlights

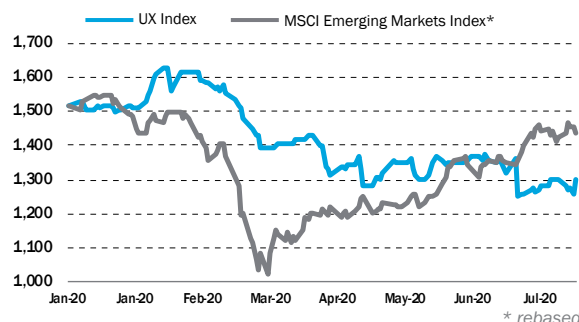
POLITICS AND ECONOMICS

- > Ukraine Quickly Returns to Eurobond Market after Smoliy Fiasco
- > Ukraine's Industrial Decline Slows to 6% YoY on the Back of Higher Steel Output

STOCKS IN THE NEWS

- > Kernel's Sunflower Oil Sales Volume Rises 10% YoY in Apr-Jun Quarter

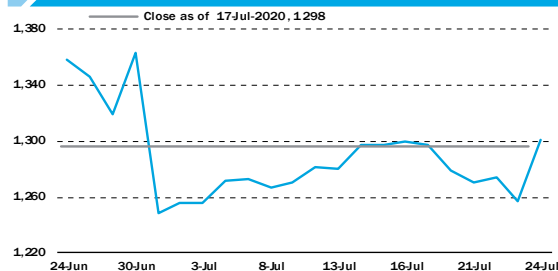
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1300	0.2%	-14.4%
RTS	1256	3.3%	-18.9%
WIG20	1810	0.1%	-15.8%
MSCI EM	1060	0.5%	-4.9%
S&P 500	3215	-0.3%	-0.5%

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%/11.0%	+0.5 p.p.	+1.5 p.p.
Ukraine-2025	7.4%	-0.5 p.p.	0.8 p.p.
Ukraine-2028	7.9%	-0.4 p.p.	0.9 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.87	1.5%	17.6%
EUR/UAH	32.36	2.6%	22.5%

Source: Eavex Capital

Ukraine Quickly Returns to Eurobond Market after Smoliy Fiasco

by Will Ritter
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NEWS

Ukraine's Finance Ministry last week issued a new Eurobond in the amount of USD 2.0bn due in 2033 at an interest rate of 7.253%, selling the bonds at par value. Reported subscriptions for the bond, which is now the country's longest, were in the range of USD 6bn, implying strong demand. A similarly-priced bond issue by MinFin collapsed at the beginning of July after National Bank of Ukraine governor Yakiv Smoliy quit his post, criticizing the Zelenskiy administration for applying pressure on the NBU to soften monetary policy. Zelenskiy had stated openly that he was dissatisfied with the hryvnia's exchange rate near 27 UAH/USD, which he said was too high. Investors initially reacted negatively to Smoliy's resignation, pulling their offers for the Eurobond. Veteran state bank CEO Kyril Shevchenko was tapped by Zelenskiy to replace Smoliy at the NBU. Around USD 800mn of the new issue will be used to buy back some of the country's outstanding 2021 and 2022 Eurobonds.

COMMENTARY

The quick return of Kyiv to the Eurobond market - in less than a month - after such a major fiasco validates Zelenskiy's interference in exchange rate policy and indicates that loud Western complaints about central bank independence were largely lip service. Investors showed that their main concern is not the independence of Ukraine's monetary policy from political considerations, but the hunt for high-yield securities in an environment of strong risk appetite where the market believes that many issues of emerging market and corporate debt will be backstopped by central banks regardless of their underlying quality. Importantly, however, the new bond issue also shows that Western investors have a certain level of trust in Zelenskiy, who showed proper judgement in picking the relatively uncontroversial Shevchenko over monetary dove Bogdan Danylishin. As head of the NBU council, Danylishin had been angling for the top job himself while harassing Smoliy over the past year.

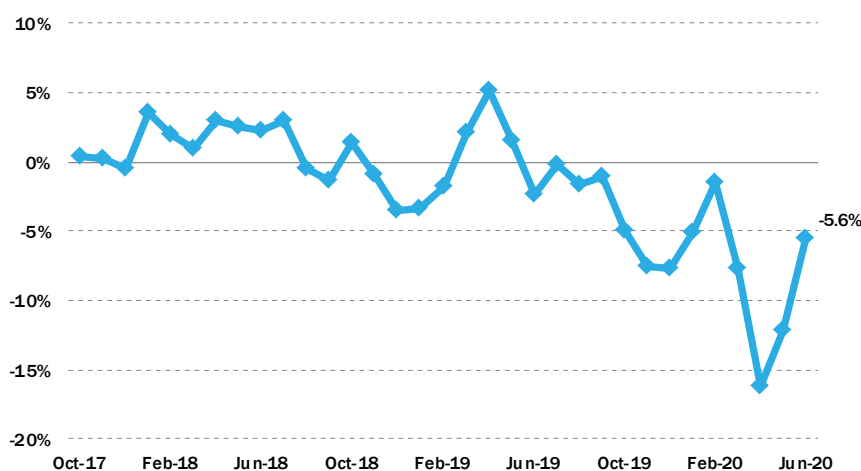
Ukraine's Industrial Decline Slows to 6% YoY on the Back of Higher Steel Output

by Dmitry Churin
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NEWS

The sharp contraction in Ukraine's nationwide industrial output slowed notably in June, with output declining by 5.6% YoY after the slumps of 12.2% YoY in May and 16.2% YoY in April, the State Statistics Committee (UkrStat) reported on Wednesday (Jul 22). The month-on-month change in June (unadjusted for the different number of days) was a growth of 4.1%. In the manufacturing sector, the aggregate production fall was 6.2% YoY in June after a drop of 15.6% YoY in May and 20.3% YoY in April. In the utility sector the output decrease was 4.0% YoY, and 4.9% YoY in the extraction industry. For 1H20, UkrStat's industrial index is down by 8.3% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The industrial output figures for June came in better than expected, as the country's steel sector demonstrated a 13% MoM increase in average daily production volumes. Ukraine's steel output was 1.8mn tonnes in June, although output for 1H20 is still down by 7.6% to 10.1mn tonnes. Current bullish forecasts expect full-year steel production at 20.5mn tonnes (-1.5% YoY). Ukraine is the 13th largest steel producing country.

In other industrial sectors, food & drink production grew by 0.8% YoY in June while for 1H20 there was a decline of 0.7% YoY. Low natural gas prices helped Ukraine's beaten-down chemical sector this year, which showed a solid 7.8% YoY growth in 1H20. On the deep downside, the machinery industry suffered a 22.5% YoY drop in June and a similar drop of 22.2% YoY for 1H20.

In other macroeconomic statistics for June, retail sales edged up by 1.4% YoY after a decline of 3.1% YoY in May. On a month-on-month basis, retail sales rose by 8.8%. For 1H20, the retail sales index remains higher by 3.0% YoY

In the agro sector, aggregate output in January-June dropped by 18.7% YoY, which looks statistically improbable after only a moderate decline of 2.0% YoY for January-May. This implies some sort of delay in data collection, or possibly in the start of the harvest campaign. Meanwhile, the Economics Ministry reported that Ukraine's current grain harvest has reached 13.9mn tonnes, with an average yield of 34,900 kg per hectare. The harvest campaign has been conducted on a land area of 4.0mn ha so far out of a total area of 15.1mn ha under grain crops.

Kernel's Sunflower Oil Sales Volume Rises 10% YoY in Apr-Jun Quarter

by Dmitry Churin
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KERNEL (KER PW)

Price: PLN 40.50 Market Cap: USD 861mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY19	0.6	0.5	4.6	6.3	2.4%
FY20E	0.6	0.5	5.1	5.4	2.4%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, reported an increase in its sunflower sales volume by 10% YoY to 489,000 tonnes in the Apr-Jun quarter (the company's 4Q20 in its July to June reporting calendar), according to an operational update published on Jul 20. The company's oilseeds processing grew by 2% YoY in the period, reaching 916,000 tonnes of seeds. Meanwhile, for full-year 2020 (which ended in June), Kernel saw a decline in sunflower oil sales volume by 6% YoY to 1.52mn tonnes despite a rise in processed seed volume by 9% YoY to 3.34mn tonnes of seeds. The seed-crushing volume was the highest full-year total in the company's history. In other key business segments, Kernel demonstrated solid grain export growth from Ukraine of 30% YoY to 7.9mn tonnes in full-year 2020, with a 30% YoY increase in exports to 1.86mn tonnes in 4Q20.

KERNEL OPERATIONAL UPDATE

Volume	4Q19	4Q20	Change	FY19	FY20	Change
Sunflower oil sales, tonnes	445,294	488,964	+10%	1,619,222	1,517,813	-6%
Oilseed crush, tonnes	896,225	916,007	+2%	3,163,524	3,436,377	+9%
Grain sales, tonnes	1,437,628	1,863,489	+30%	6,093,540	7,901,764	+30%
Export terminals throughput, tonnes	1,196,369	1,841,060	+54%	4,606,351	6,665,997	+45%

Source: Companies' data

COMMENTARY

Kernel's achieved operational results for the Apr-Jun quarter came roughly in line with expectations. However, the grain sales figures exclude physical trading volumes reported by Avere Commodities, a Swiss-based subsidiary of Kernel involved in physical and proprietary trading. In the 2019/20 agro-marketing year, Kernel strengthened its position as the largest grain exporter from Ukraine, handling some 13% of the country's total grain exports. On the sunflower processing side, the company met its previously-announced targets with its in-house crushing facilities running at 99% capacity utilization in the Apr-Jun quarter. Meanwhile, the high-margin bottled sunflower oil segment's sales accounted for 9% of total oil sales in FY20.

Kernel posted a net profit of USD 76mn for the 9-month June-March period (-60% YoY). We forecast that the company will report a net profit of USD 94mn for the April-June quarter, bringing its full-year bottom line to USD 170mn (-10% YoY). Kernel is due to report its full-year financial results for 2020 in mid-October.

We estimate that Kernel is now valued at trailing P/E of 5.1x. Eavex Capital has a BUY recommendation for the KER stock with a target price of PLN 65 per share, implying an upside of 60%. The publication of the Apr-Jun operating results had a NEUTRAL impact on Kernel's share price on the Warsaw Stock Exchange. The stock, which is the second-most liquid Ukrainian equity issue behind London-listed Ferrexpo, traded at PLN 40.50 on Friday (Jul 24).

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	40.5	65.0	60%	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	6.4	11.5	81%	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	16.0	27.0	69%	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	3.99	12.0	201%	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	185	250	35%	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	125	270	116%	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	14.3	--	--	U/R	
JKX Oil & Gas	JKX LN	19.3	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	19.7	--	--	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	5.15	15.00	191%	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	0.38	13%	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	1300	0.2%	-14.4%								
Iron Ore Mining												
Ferrexpo	FXPO	185	0.2%	16.5%	1390	1671	24.0%	3.4	4.8	2.9	3.9	1.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	0.0%	0.0%	64	38	5.0%	2.1	7.0	1.0	2.7	0.2
Specialized Machinery												
Turboatom	TATM	7.0	-30.0%	-33.8%	106	103	3.8%	8.7	5.1	2.1	1.9	0.9
Motor Sich	MSICH	5390	0.0%	0.0%	402	419	24.0%	neg	43	22	9.3	1.5
Oil & Gas												
UkrNafta	UNAF	125	-0.1%	-13.6%	243	240	3.0%	neg	13.4	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	14.3	-1.7%	-34.8%	58	18	21.6%	5.8	7.3	0.8	1.0	0.3
JKX Oil	JKX	19.3	11.3%	-18.8%	42	150	50.4%	2.3	2.6	4.4	4.0	1.3
Power Utilities												
Centrenergy	CEEN	5.15	-6.4%	-44.4%	68	64	21.7%	neg	11	neg	2.5	0.1
Donbasenergy	DOEN	19.70	0.0%	-22.1%	17	15	14.2%	neg	7.0	2.0	1.7	0.1
Consumer												
MHP	MHPC	6.36	-2.2%	-30.1%	672	1890	34.1%	3.1	5.2	5.0	4.6	0.8
Kernel	KER	40.50	0.4%	-15.6%	838	2172	61.8%	4.4	4.9	6.3	5.3	0.5
Astarta	AST	16.00	0.6%	0.0%	104	380	37.0%	55.4	13.3	4.4	3.6	0.7
Avangardco	AVGR	0.06	-45.5%	-70.0%	4	335	22.5%	1.9	1.3	20	18	2.8
Agroton	AGT	3.99	2.6%	7.8%	22	32	25.0%	2.4	3.2	2.5	2.9	0.6
Banks												
Raiffeisen Bank Aval	BAVL	0.335	1.5%	8.9%	739		1.8%	4.0	4.4	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	1097	1127	350	70	85	26.4%	6.4%	7.6%	237	-158	18	17.8%	-14.4%	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																
Centrenergy	CEEN	533	589	660	38	-69	25	7.1%	-11.7%	3.8%	18	-77	6	3.4%	-13.1%	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%	10.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			13.0%	11.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			13.0%	11.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			13.0%	11.0%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			13.3%	11.3%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.5%	11.5%	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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