

Stock Market Update

Equity

Kyiv-listed stocks finished higher last week, with the UX index gaining 1.4% to close at 1318 points on Friday (Jul 31). Previously beaten-down CentrEnerg (CEEN) and TurboAtom (TATM) added the most points to the benchmark. CentrEnerg jumped by 16% to UAH 6.00 after the Anti-Monopoly Committee made an effort to improve competitiveness on the country's wholesale electricity market. An expected improvement in price transparency in the so-called direct contract electricity segment should eliminate speculative deals which often hurt CentrEnerg's ability to sell its energy output. TurboAtom (TATM) had a rebound of 17% to UAH 8.20 after tumbling by 30% to UAH 7.00 over preceding week. Meanwhile, UkrNafta (UNAF) lost 2.3% to close at UAH 122 per share. In second-tier stocks, Krukiv Wagon (KVBZ) rose 9.0% to UAH 17.00.

The National Bank published its quarterly economic review, stating that business activity in June started to recover. The NBU now forecasts that Ukraine's GDP will contract by 6.0% this year and that full-year consumer inflation will be at 4.7%.

In London trading, poultry producer MHP (MHPC) shed 1.9% to USD 6.24 after the company reported a 6% decline in sales volume in 2Q20. Ferrexpo (FXPO) fell 3.8% to GBp 178 per share and Enwell Energy (ENW), formerly Regal Petroleum, edged down by 1.8% to GBp 14.00.

Major Ukrainian equities listed on the Warsaw Stock Exchange finished mixed, with Astarta (AST) advancing by 3.8% to PLN 16.60 while Kernel (KER) and Agroton (AGT) dropped by 2.8% to PLN 39.35 and 7.0% to PLN 3.71 respectively.

On the currency front, the hryvnia gained 0.5% to 27.74 UAH/USD despite devaluation sentiments prevailing among the market players.

Highlights

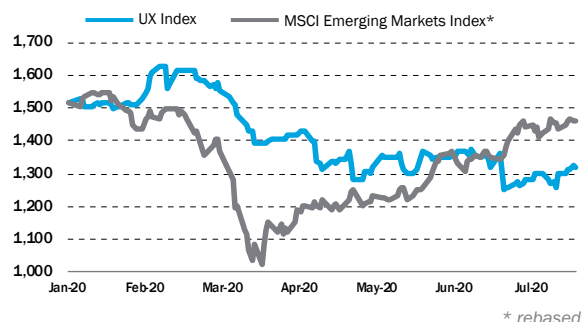
POLITICS AND ECONOMICS

- Kyiv Asks Belarus to Extradite Arrested Russian Mercenaries
- Ukrainian Government Targets 4.6% GDP Growth for 2021

STOCKS IN THE NEWS

- MHP's 2Q20 Poultry Pricing Slumps 15% YoY to UAH 34/kg, Sales Volume Down 6%

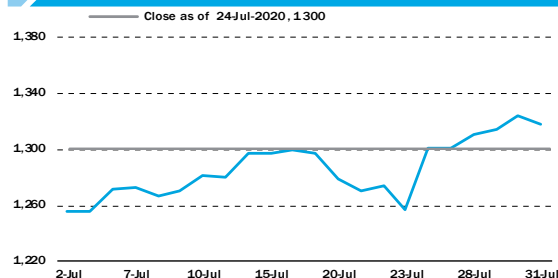
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1318	1.4%	-13.2%
RTS	1234	-1.8%	-20.3%
WIG20	1767	-2.4%	-17.8%
MSCI EM	1078	1.7%	-3.3%
S&P 500	3271	1.7%	1.2%

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	12.2%/10.2%	-0.8 p.p.	+0.7 p.p.
Ukraine-2025	7.6%	0.2 p.p.	1.0 p.p.
Ukraine-2028	8.0%	0.1 p.p.	1.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.74	-0.5%	17.1%
EUR/UAH	32.78	1.3%	24.1%

Source: Eavex Capital

Kyiv Asks Belarus to Extradite Arrested Russian Mercenaries

by Will Ritter
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NEWS

Ukraine's General Prosecutor's Office on Friday (Jul 31) asked the Belarusian government to extradite 9 members of the so-called "Wagner" Russian private military organization which it said had fought against Ukrainian forces in the Donbass war. Belarus President Aleksandr Lukashenko, who is up for re-election next Sunday (Aug 9), had announced the arrests of 33 such mercenaries earlier in the week, stating that they had been sent by Moscow in an effort to sow chaos and overthrow his rule. Lukashenko is facing the toughest challenge to his 26-year rule against 37-year-old outsider Svetlana Tsikhanouska amid opposition rallies which have gathered tens of thousands of participants, representing the largest political protests in the history of independent Belarus. Tsikhanouska is running on a platform of uniting all anti-Lukashenko forces to push him from power, after which she says she will step aside and organize new free elections. Lukashenko was first elected to lead Belarus on the same day as Leonid Kuchma in Ukraine in July 1994; that 1994 election is the only one of his five victories judged to have been generally free and fair.

COMMENTARY

The lack of any vocal support for the Belarus opposition from the Zelenskiy administration is a notable signal about Kyiv's ambivalence over the situation in Minsk. The PGO's call for extradition of the "Wagnerians" could even be construed as a signal of tacit support for Lukashenko, who has turned out to be a fairly reliable ally of Ukraine since the EuroMaidan revolution in early 2014, having mediated the key peace agreement in 2015 which greatly reduced military hostilities in the Donbass. Also conspicuously absent has been high-level engagement in Belarusian politics from the United States and the European Union, who also may view Lukashenko as a bulwark against Kremlin influence in Minsk; the once-ubiquitous criticisms of Lukashenko in Brussels and Washington as "Europe's last dictator" have been heard much less frequently in recent years. The current situation thus appears to make for some strange bedfellows, with liberal pro-democracy activists in the West apparently on the same side as the Putin regime in trying to bring about Lukashenko's defeat, while official Kyiv and the Western foreign policy establishment are neutral or favoring Lukashenko behind the scenes. There is no reliable polling in Belarus, making it anyone's guess what will happen next Sunday, but we are quite certain that instability and increased Russian influence in Minsk will not be to Ukraine's benefit; in the event of an end to the Lukashenko era, only a quick consolidation of power in the hands of forces favoring strong Belarusian sovereignty would represent a positive outcome.

Ukrainian Government Targets 4.6% GDP Growth for 2021

by Dmitry Churin
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NEWS

Ukraine's government has set a target to boost the country's GDP by 4.6% YoY in 2021, according to the latest macroeconomic forecast approved for 2021-2023. In absolute figures, GDP should reach UAH 4.5 trillion (USD 155bn at the forecasted average exchange rate of 29.10 UAH/USD for the period). Among other things, the document sets the minimum wage in Ukraine UAH 6,250 per month (USD 215), while the average monthly salary is expected at UAH 13,600 (USD 467), with an unemployment rate of 9.2% for 2021.

The government is planning to unveil the national budget parameters for the next year in September. The current estimate of the GDP performance in 2020 is a decline of 6%.

COMMENTARY

Although the presented economic forecast for 2021 looks realistic, it contains the assumption that the hryvnia will devalue by 4.8% from the current rate of 27.70 UAH/USD. Moreover, the Economics Ministry estimated that in case the national currency remains firm in the current 27 UAH/USD next year, this will eat away half a percentage point from GDP growth. Currently there is an expectation that Ukraine's exports will increase by 4.7% YoY to USD 60.2bn in 2021 while the trade deficit will still amount to USD 10.4bn, mainly due to energy imports. However, we forecast that Ukraine's current account deficit will not exceed USD 4bn, which would imply a manageable C/A deficit of 2.6% of GDP in relative terms. Regarding Ukraine's public debt, its level now stands at USD 85bn, implying that the government's estimate of the 2021 Debt-to-GDP ratio is 55%.

MHP's 2Q20 Poultry Pricing Slumps 15% YoY to UAH 34/kg, Sales Volume Down 6%

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 6.36 Market Cap: USD 672mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.5	0.9	3.1	5.0	4.4%
2020E	0.6	1.0	neg	4.6	0%

NEWS

MHP, Ukraine's largest poultry producer, reported that its poultry sales volume decreased by 6% YoY to 171,000 tonnes in 2Q20, according to the company's operational update published on Jul 27. MHP's domestic market sales declined by 2% to 82,400 tonnes and exports dropped by 9% YoY to 88,500 tonnes in the period. MHP reported that the average achieved price for its poultry slumped by 15% YoY to UAH 34.16 per kilogram in 2Q20. For 1H20, the sales volume decline was 5% YoY to 328,400 tonnes.

MHP also provided separate operational results for its plant in Slovenia. The plant increased sales volumes by 47% YoY to 31,000 tonnes of chicken and turkey meat in 1H20 while the average price declined by 4% to EUR 2.65 per kg (which is more than double the company's overall pricing average).

In other business segments, MHP's sunflower oil sales decreased by 12% YoY to 163,400 tonnes in 1H20 and soybean oil sales volume declined by 11% YoY to 21,600 tonnes. In the grain segment, MHP operates a land bank of 365,000 hectares in Ukraine with the winter crop harvest in line with the company's targets.

MHP OPERATIONAL UPDATE						
Poultry	2Q19	2Q20	Change	1H19	1H20	Change
Sales volume, tonnes	181,273	170,912	-6%	345,278	328,385	-5%
Price per 1 kg net VAT	40.06	34.16	-15%	39.63	34.30	-13%

Source: Companies' data

COMMENTARY

Although MHP's second-quarter operational results were quite poor, they were not a surprise for the market, as overall economic activity was subdued due to the COVID epidemic. In terms of production, MHP reported 2% YoY growth to 359,900 tonnes in 1H20, implying that the company is saving chicken meat inventories in hope of achieving higher prices for its exports in 3Q20. On the downside, the lower chicken price this year certainly represents a threat to MHP's profitability. The main reason behind the lower achieved price in 1H20 was a reduction of exports to the EU, which was partly compensated by higher sales to the Middle East markets.

MHP's worsening sales results coupled with the hryvnia devaluation, which puts pressure on the company's USD-denominated debt, are likely to lead to notable net losses for 2Q20. We now assume that the company will post a net loss of USD 190mn for 2Q20, with the largest part coming from forex translation losses. MHP is due to publish its financial results for 2Q20 on Sept 3. The operational update had no measurable impact on the sporadically-traded stock; London-listed MHPC shares traded at USD 6.24 last week. The stock lost 31% of its value since the start of the year.

Eavex Capital has a BUY rating for the MHPC stock with a target price of USD 11.50, which implies an 84% upside.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	39.4	65.0	65%	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	6.2	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	16.6	27.0	63%	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	3.71	12.0	223%	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	122	270	121%	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	14.0	--	--	U/R	
JKX Oil & Gas	JKX LN	18.0	--	--	U/R	
Power Utilities						
DonbasEnergo	DOEN	18.2	--	--	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	6.00	15.00	150%	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	0.355	0.38	7%	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	1.4%	-13.2%								
Iron Ore Mining												
Ferrexpo	FXPO	178	-3.8%	12.1%	1364	1645	24.0%	3.4	4.7	2.8	3.8	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	9.0%	9.0%	70	44	5.0%	2.3	7.6	1.2	3.1	0.2
Specialized Machinery												
Turboatom	TATM	8.2	17.1%	-22.5%	125	122	3.8%	10.2	6.0	2.5	2.2	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	404	421	24.0%	neg	43	23	9.3	1.5
Oil & Gas												
UkrNafta	UNAF	122	-2.3%	-15.6%	238	235	3.0%	neg	13.1	3.3	2.7	0.2
Enwell Energy (ex-Regal)	ENW	14.0	-1.8%	-35.9%	58	18	21.6%	5.8	7.3	0.8	1.0	0.3
JKX Oil	JKX	18.0	-6.8%	-24.3%	40	148	50.4%	2.2	2.5	4.4	3.9	1.2
Power Utilities												
Centrenergo	CEEN	6.00	16.5%	-35.2%	80	75	21.7%	neg	13	neg	3.0	0.1
Donbasenergo	DOEN	18.23	-7.5%	-27.9%	16	14	14.2%	neg	6.5	1.8	1.5	0.1
Consumer												
MHP	MHPC	6.24	-1.9%	-31.4%	659	1877	34.1%	3.1	-4.4	5.0	4.5	1.0
Kernel	KER	39.35	-2.8%	-18.0%	845	2179	61.8%	4.5	5.0	6.3	5.3	0.5
Astarta	AST	16.60	3.8%	3.8%	112	388	37.0%	59.6	14.3	4.5	3.7	0.7
Avangardco	AVGR	0.06	0.0%	-70.0%	4	335	22.5%	1.9	1.3	20	18	2.8
Agroton	AGT	3.71	-7.0%	0.3%	22	31	25.0%	2.3	3.1	2.4	2.8	0.6
Banks												
										Price/Book		Price/Assets
Raiffeisen Bank Aval	BAVL	0.355	6.0%	15.4%	787		1.8%	4.3	4.7	1.4	1.5	0.22

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	2019	2020E	2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2018	2019	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																
Centrenerg	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	1950	450	376	414	28.9%	18.3%	21.2%	128	215	-150	8.2%	10.5%	-7.7%
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			11.5%	10.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			12.2%	10.2%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			12.5%	10.5%	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			13.0%	11.3%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	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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