

Stock Market Update

Equity

Kyiv-listed equities ended mixed last week, with the most significant movement seen in quotes for Raiffeisen Bank Aval (BAVL), which soared by 16% to 41.00 kopecks after the bank announced its intention to pay out a 6.95 kopeck dividend from 2019 profit. The bank's annual shareholders meeting was delayed this year due to the COVID quarantine, but has been rescheduled for Sept 11 in a "virtual" format. The agenda contains a vote to approve a UAH 4.3bn dividend distribution from FY19 net profit of UAH 4.7bn. The proposed dividend payout of 90% exceeded the 70% payout expected by the market. Around 68% of the shares in the bank are held by majority owner Raiffeisen International. In other UX index components, low-liquidity DonbasEnergO (DOEN) gained 9.7% to UAH 20.00 per share, while UkrNafta (UNAF) was unchanged at UAH 122 despite the company announcing that it managed to recover some UAH 1bn in bad debts from Privat Group-affiliated entities for unpaid crude oil. On the downside, CentrEnergO (CEEN) tumbled by 11% to UAH 4.50 as there is still no indication about whether the company can lower its elevated coal costs. The UX index climbed by 0.9% for the week to close at 1278 points on Friday (Aug 14).

In regulatory news, President Zelenskiy signed a law on amendments to the country's law governing financial derivatives. In terms of financial infrastructure, the document regulates the creation of a trade database for the full functioning of derivatives markets and the introduction of a central counterparty for transaction settlements.

In London trading, Ferrexpo (FXPO) picked up 3.0% to GBP 198, swinging above and below the psychological line of GBP 200 per share. Natural gas producer JKN Oil&Gas (JKX) slumped by 14% to GBP 18.10 after the company said its achieved gas pricing in Ukraine plummeted from USD 247 per 1,000 cubic meters in 1H19 to USD 131 in 1H20. The company's net profit for the first half of this year was USD 1.5mn. MHP (MHPC) declined by 1.7% to USD 5.72.

On the Warsaw Stock Exchange, Astarta (AST) climbed by 0.6% to PLN 16.80 and Kernel (KER) added 1.0% to PLN 39.60.

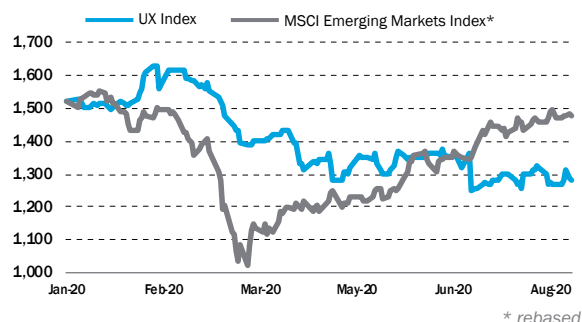
On the interbank market, the hryvnia gained 1.0% to 27.34 UAH/USD amid a broad weakness of the dollar against major currencies. The National Bank intervened on the market with the hard currency purchases to prevent further short-term hryvnia appreciation.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Denies Demanding Repeat Belarus Vote, Criticizes Lukashenko's Release of Russian Mercenaries
- > Ukraine Sees Deflation of 0.6% MoM in July; Headline CPI Stays at 2.4%

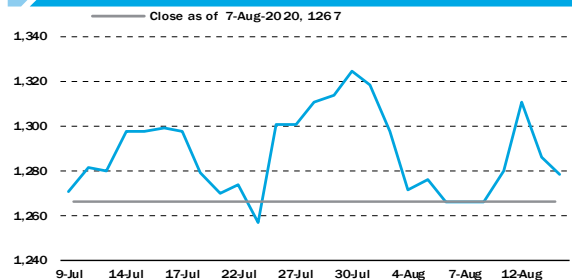
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1278	0.9%	-15.8%
RTS	1323	3.7%	-14.6%
WIG20	1856	2.2%	-13.6%
MSCI EM	1093	0.3%	-1.9%
S&P 500	3372	0.6%	4.4%

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	11.5%/10.0%	0.0 p.p.	+0.1 p.p.
Ukraine-2025	7.9%	0.3 p.p.	1.3 p.p.
Ukraine-2028	8.4%	0.4 p.p.	1.4 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.34	-1.0%	15.4%
EUR/UAH	32.35	-0.5%	22.4%

Source: Eavex Capital

Zelenskiy Denies Demanding Repeat Belarus Vote, Criticizes Lukashenko's Release of Russian Mercenaries

by Will Ritter
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NEWS

President Zelenskiy on Sunday denied an accusation from embattled Belarusian President Aleksandr Lukashenko that he had demanded a re-run of the Aug 9 presidential election in Belarus won by Lukashenko, calling the claim "incitement". In a statement released by his office, Zelenskiy also criticized Lukashenko for releasing 12 Russian mercenaries captured last month in Belarus who Ukrainian security agencies have charged with participating in hostilities in the Donbass conflict. Lukashenko apparently released the mercenaries as a concession to Russia after asking Moscow for assistance in supporting him against the large public demonstrations that have broken out against his rule in recent days. A protest on Sunday (Aug 16) in central Minsk drew an estimated 150,000-200,000 people calling for Lukashenko to step down.

COMMENTARY

Zelenskiy's administration has taken no official position on supporting or not supporting Lukashenko, and we are unsure what led the latter to make such an accusation against Kyiv. Unlike Belarus's EU-member neighbors Poland and Lithuania, Ukraine appeared to take a cautious approach in the run-up to the election, fearing exactly the kind of unstable scenario with the threat of Russian intervention which appears to be unfolding in Minsk now. Lukashenko is demonstrating that he is prepared to accept an expanded role of Russia in Belarusian affairs in order to hang on to power, but after yesterday's massive demonstrations, leaving the Lukashenko regime in place may no longer be an option for the Kremlin. Crucially and unlike Ukraine in 2013, the protests in Minsk are not explicitly pro-Western or anti-Russian. We think the optimal scenario for the Kremlin would be to keep Lukashenko in power in a much-weakened position, but that the idea of substituting a new pro-Russian regime may be gaining traction. We have thus far not been impressed with nominal opposition leader Svetlana Tikhanovska, the presidential candidate who immediately fled to Lithuania after last week's vote and who appears to have little intrinsic support inside the protest movement; she is clearly not a unifying or visionary force in the anti-Lukashenko ranks. As bad as the Lukashenko regime has been in terms of authoritarianism and corruption, a new un-free regime in Minsk under tighter Kremlin control would be a significant downgrade for Ukrainian interests, we believe.

Ukraine Sees Deflation of 0.6% MoM in July; Headline CPI Stays at 2.4%

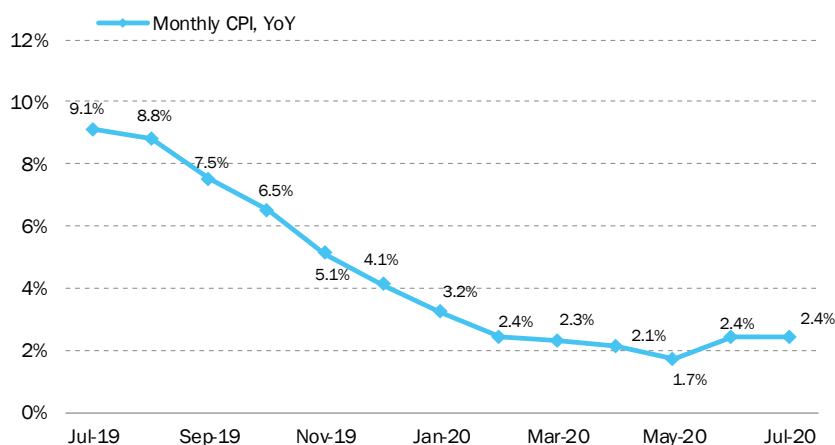
by Dmitry Churin
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NEWS

Ukraine saw consumer deflation of 0.6% MoM in July after inflation of 0.2% and 0.3% MoM in June and May respectively. Rolling 12-month “headline” inflation stayed unchanged at 2.4% in July, according to State Statistics Committee data published last week.

On the industrial goods side, UkrStat’s aggregate Producer Price Index showed a year-on-year drop of 7.5% in July after the 4.6% decline seen in June; on a monthly basis, the PPI increased by 0.4%. In a broad industry breakdown, UkrStat estimated that energy prices fell by 17.5% YoY in July and prices for the intermediate goods decreased by 8.0% YoY, while prices in the consumer non-durables category rose by 7.4% YoY in July.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

If there had not been a drop of 9.1% YoY in the housing, water, electricity, gas and fuel category, Ukraine’s consumer inflation would be much higher. Food prices grew by 3.6% YoY in July while healthcare services rose by 9.1% YoY. It is also quite surprising to see low inflation amid the 15% year-to-date hryvnia devaluation. However, the exchange rate factor did not have a significant impact on prices for medium-term consumer goods, as stores were well-stocked in previous periods. We expect inflation to accelerate in September according to the seasonal pattern, while the data for August might still indicate a slow CPI pace amid cheap agro products. The annual rate of consumer inflation continues to remain below the National Bank’s target range of 4-6%.

On the producer price side, UkrStat reported separately that Ukraine’s internal PPI fell by 9.0% while the PPI decline for Ukrainian exports was at 2.6% YoY in July. In the manufacturing sector, there was an estimated aggregate price increase of 1.3% YoY in July.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	39.7	65.0	64%	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 65.00 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	5.7	11.5	101%	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	16.8	27.0	61%	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	3.84	12.0	213%	BUY	<p>Agroton unveiled a strategy to increase its land bank from 119,000 ha to 200,000 ha by mid-2021 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 5.2mn (PLN 0.96 per share) in 2019. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 11.8mn. The company continues to invest in growth, spending USD 6.3mn on CapEx in FY19.</p>
Iron Ore						
Ferrexpo	FXPO LN	198	250	26%	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	--	--	U/R	<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	18.1	--	--	U/R	
JKX Oil & Gas	JKX LN	18.1	--	--	U/R	
Power Utilities						
DonbasEnerg	DOEN	20.0	--	--	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	4.50	15.00	233%	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 5 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	0.410	--	--	U/R	<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%. The bank has already announced intention to pay 6.95 kopecks in dividend per share from FY19 net profit.</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	1278	0.9%	-15.8%								
Iron Ore Mining												
Ferrexpo	FXPO	198	3.0%	24.7%	1522	1696	24.0%	3.8	3.6	2.9	3.0	1.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	9.0%	71	45	5.0%	2.3	7.7	1.2	3.2	0.2
Specialized Machinery												
Turboatom	TATM	8.2	0.0%	-22.5%	127	124	3.8%	10.4	6.1	2.5	2.2	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	409	407	24.0%	neg	13	22	4.1	1.2
Oil & Gas												
UkrNafta	UNAF	122	0.0%	-15.6%	242	238	3.0%	neg	13.3	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	18.1	22.8%	-17.4%	76	36	21.6%	7.6	9.4	1.6	1.9	0.6
JKX Oil	JKX	18.1	-14.0%	-23.8%	40	149	50.4%	1.8	13.5	3.5	5.3	2.0
Power Utilities												
Centrenergo	CEEN	4.50	-11.2%	-51.4%	61	59	21.7%	neg	-14	neg	9.0	0.1
Donbasenergo	DOEN	20.00	9.7%	-20.9%	17	16	14.2%	neg	7.2	2.1	1.7	0.1
Consumer												
MHP	MHPC	5.72	-1.7%	-37.1%	604	1822	34.1%	2.8	-4.0	4.8	4.4	0.9
Kernel	KER	39.65	1.0%	-17.4%	845	2179	61.8%	4.5	5.0	6.3	5.3	0.5
Astarta	AST	16.80	0.6%	5.0%	112	388	37.0%	59.9	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	3.84	1.9%	3.8%	22	10	25.0%	4.3	5.6	4.7	0.9	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.410	16.5%	33.2%	922		1.8%	5.0	5.5	1.7	1.8	0.25

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	1430	503	586	570	39.5%	38.9%	39.9%	335	403	420	26.3%	26.7%	29.4%
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	345	96	19	100	21.2%	5.2%	29.1%	46	-14	31	10.2%	-3.8%	8.9%
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	102	73	31	42	28	33.2%	41.6%	38.4%	15	22	3	16.5%	21.8%	4.1%
Electric Utilities																
Centrenergy	CEEN	533	589	684	38	-69	7	7.1%	-11.7%	1.0%	18	-77	-4	3.4%	-13.1%	-0.6%
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	54	55	14	2	11	24.7%	4.1%	20.0%	14	5	4	23.7%	9.5%	7.3%
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			11.0%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			11.5%	10.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.5%	10.2%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.0%	10.2%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.5%	11.0%	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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