

Stock Market Update

Equity

Local Ukrainian stocks were higher last week, with the UX index gaining 1.0% to close at 1291 points on the back of a technical rebound in the beaten-down CentrEnerg and UkrNafta names. CentrEnerg (CEEN) edged up by 2.2% to UAH 4.60, barely putting a dent in the issue's 50% plunge seen since the start of the year. Information that the company sold its fourth-quarter electricity output in advance at a cut-rate price has not affected the stock yet. On the positive side, the forward sale of electricity will give CentrEnerg much-needed funds for coal purchases. UkrNafta (UNAF) rose 0.8% to UAH 123 per share after the company somewhat improved its oil auction procedures. The latest auction on Aug 18 was conducted at USD 37 per barrel, which was 8.3% higher than the starting price. UkrNafta sold 1.71mn bbl last week. In other blue-chip names, Raiffeisen Bank Aval (BAVL) picked up 2.4% to 42.00 kopecks and TurboAtom (TATM) edged up 1.2% to UAH 8.30 per share.

On the London Stock Exchange, Ferrexpo (FXPO) lost 6.5% to GBp 185 despite benchmark iron ore prices soaring to another new local maximum of USD 123 per tonne (+34% YtD). Poultry producer MHP (MHPC) recovered by 4.5% to USD 5.98 after two consecutive weeks of decline.

In Warsaw trading, both Kernel (KER) and Astarta (AST) were lower, with the former dropping 1.4% to PLN 39.10. On the upside, sporadically-traded Agroton (AGT) rose by 3.9% to PLN 3.99.

The hryvnia had a losing week against the dollar, falling from 27.34 UAH/USD to 27.46 UAH/USD, a decline of 0.4%. The National Bank reported that it continued to purchase hard currencies to add into its forex reserves at a rate of around USD 20mn per day.

Highlights

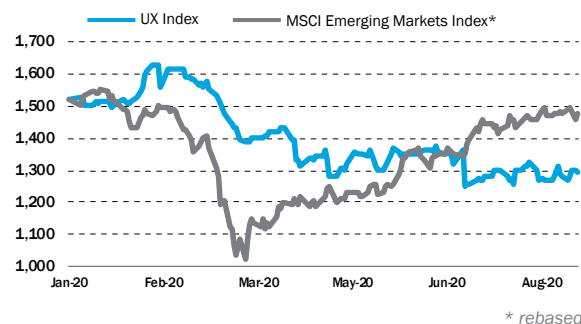
POLITICS AND ECONOMICS

- Top Prosecutor Kholodnitsky Quits 3 Months Before Expiration of His Term

STOCKS IN THE NEWS

- CentrEnerg Sells Electricity for 4Q at Below-Market Price; Kolomoyskiy Reported as Buyer

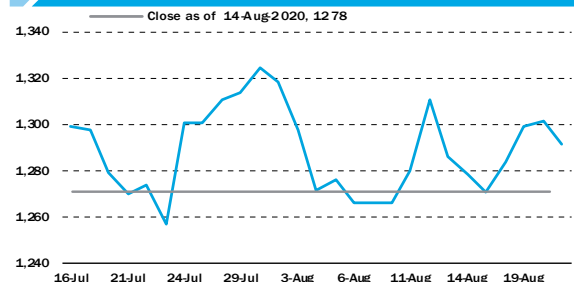
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1291	1.0%	-15.0%
RTS	1281	-3.2%	-17.3%
WIG20	1838	-1.0%	-14.5%
MSCI EM	1092	-0.1%	-2.0%
S&P 500	3425	1.6%	6.0%

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%	-0.2 p.p.	-0.1 p.p.
Ukraine-2025	7.4%	-0.5 p.p.	0.8 p.p.
Ukraine-2028	8.2%	-0.2 p.p.	1.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.46	0.4%	15.9%
EUR/UAH	32.28	-0.2%	22.2%

Source: Eavex Capital

Top Prosecutor Kholodnitsky Quits 3 Months Before Expiration of His Term

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NEWS

Nazar Kholodnitsky, the head of Ukraine's Specialized Anti-Corruption Prosecution office (SAP), announced his resignation on Friday (Aug 21). Kholodnitsky was appointed to the post for a 5-year term in November 2015 and had less than three months remaining in his tenure. The SAP, along with the NABU investigative body, was set up after the EuroMaidan revolution as a key demand of Western donor countries concerned about the ongoing high level of corruption in the country.

COMMENTARY

Kholodnitsky had previously hinted in public interviews that he was interested in receiving another term at SAP, but the Zelenskiy administration clearly had other ideas, and he decided to step down early. Kholodnitsky leaves the post without any signature achievements, as he failed to prosecute and jail any top officials despite a number of high-level corruption-related arrests, most notably that of State Fiscal Service chief Roman Nasirov back in 2017. Surveillance recordings made by NABU of Kholodnitsky's conversations showed that he allowed national security considerations to influence his prosecutorial decisions; he argued against prosecuting top officials in the city of Odessa, including mayor Gennadiy Truxanov, because he believed that the Truxanov clan was preventing pro-Russian instability from breaking out in the city. One point in Kholodnitsky's favor was that he was constantly at odds with the Prosecutor General's office, which is viewed as one of the biggest dens of corruption in the Ukrainian power structure, and he survived many attempts by the PGO to fire him. President Zelenskiy will have a delicate task in replacing Kholodnitsky, as anyone viewed as too close to the administration will draw protests from Western aid organizations, most importantly the IMF.

CentrEnergO Sells Electricity for 4Q at Below-Market Price; Kolomoyskiy Reported as Buyer

by Dmitry Churin
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CENTRENERGO (CEEN UK)

Price: UAH 4.60 Market Cap: USD 62mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.2	0.1	neg	neg	0.0%
2020E	0.2	0.1	neg	9.1	0.0%

NEWS

Majority-state-owned CentrEnergO, Ukraine's second-largest thermal electricity generation company, made a large advance sale of 4.6 TWh of electricity for delivery in 4Q20 at a weighted-average price of UAH 1.07 per kWh, according to auction results reported on the Ukrainian Energy Exchange. Total proceeds from the sale are estimated at UAH 4.97bn. Ukrainian investigative media reported that CentrEnergO's electricity was sold to entities affiliated with the Privat Group of industrialist Igor Kolomoyskiy.

COMMENTARY

There are a couple of key questions regarding the reported auction sale. The first one is that the volume of the sale exceeds CentrEnergO's usual quarterly output. This implies either that the company is planning to boost its electricity production, or more likely, that it intends to play an intermediary role by purchasing cheap nuclear electricity, and then supplying it under the contract. The second key question is why CentrEnergO accepted such a low price for its electricity, as the company recently cited a primary cost of UAH 1.62 per kWh for producing electricity at its coal-fired thermal power units. Unfortunately, it appears that the auction was a scheme to siphon money out of the company, with Kolomoyskiy's influence over the state company's management having been an issue of concern ever since President Zelenskiy took office. Privat Group has often been associated with predatory business practices in its relations with state assets, including CentrEnergO.

In other news regarding CentrEnergO, state-owned OschadBank declined the company's application for a UAH 1.3bn loan for coal purchases. CentrEnergO said it has a lack of working capital, as the state wholesale electricity operator EnergoRynok has not paid UAH 1.4bn to the company for supplied electricity. CentrEnergO has filed a lawsuit aiming to recover UAH 1.7bn from EnergoRynok, including penalties.

The CEEN stock remained under pressure as the news flow around the company has been mostly negative. Although the State Property Fund once again confirmed its intention to announce privatization of the 78% government stake in the company and to hold the privatization auction next year, the same promise has been made by successive governments in each of the last 10 years, and we see a low probability that CentrEnergO can attract a suitable investor. However, the idea to privatize state coal mines in one package with CentrEnergO could help to increase the company's potential value.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	39.1	65.0	66%	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	6.0	11.5	92%	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	16.4	27.0	65%	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-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	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	--	--	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	123	270	120%	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	17.1	--	--	U/R	
JKX Oil & Gas	JKX LN	18.3	--	--	U/R	
Power Utilities						
DonbasEnergO	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>
CenterEnergO	CEEN	4.60	15.00	226%	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 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	0.420	--	--	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	1291	1.0%	-15.0%								
Iron Ore Mining												
Ferrexpo	FXPO	185	-6.5%	16.6%	1430	1604	24.0%	3.5	3.4	2.7	2.8	1.1
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	8.3	1.2%	-21.6%	128	125	3.8%	10.5	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	123	0.8%	-14.9%	244	240	3.0%	neg	13.4	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	17.1	-5.5%	-22.0%	72	32	21.6%	7.2	9.0	1.4	1.7	0.6
JKX Oil	JKX	18.3	1.4%	-22.8%	41	150	50.4%	1.9	13.7	3.5	5.3	2.0
Power Utilities												
Centrenergy	CEEN	4.60	2.2%	-50.3%	62	60	21.7%	neg	-14	neg	9.2	0.1
Donbasenergy	DOEN	20.00	0.0%	-20.9%	17	16	14.2%	neg	7.2	2.1	1.7	0.1
Consumer												
MHP	MHPC	5.98	4.5%	-34.3%	632	1850	34.1%	2.9	-4.2	4.9	4.5	0.9
Kernel	KER	39.10	-1.4%	-18.5%	833	2167	61.8%	4.4	4.9	6.3	5.3	0.5
Astarta	AST	16.40	-2.4%	2.5%	110	386	37.0%	58.4	14.0	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	3.99	3.9%	7.8%	23	11	25.0%	4.5	5.8	5.0	1.0	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.420	2.4%	36.5%	943		1.8%	5.1	5.6	1.7	1.8	0.26

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			10.5%	9.0%	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%	10.2%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.2%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.0%	10.5%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			13.0%	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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