

Stock Market Update

Equity

Kyiv-listed equities finished mixed over the week but the UX index gained 2.1% to 1318 points, driven by a 13% surge in CentrEnergO (CEEN). The stock got a boost to UAH 5.20 after news that the company repaid its debt to state-owned mines for previously-supplied coal. CentrEnergO's acting CEO Alexander Korchinsky made a detailed statement regarding unfair practices on the electricity market due to state producers CentrEnergO, EnergoAtom and UkrHydroEnergo being obligated to conduct auctions to sell electricity. Private electricity producers like DTEK and DonbasEnergo have an advantage on the open market, as they are able to pursue direct bilateral contracts with large industrial consumers. Also, CentrEnergO's acting CEO announced the intention to sell off the company's non-core assets, which currently generate about UAH 10mn in losses every month.

On the downside, TurboAtom (TATM) lost 6.0% to close at UAH 7.20 and Raiffeisen Bank Aval (BAVL) shed 1.2% to 41.50 kopecks per share. UkrNafta (UNAF) remained unchanged at UAH 123.

On the London Stock Exchange, Enwell Energy (ENW), formerly Regal Petroleum, soared by 30% to GBp 22.10 without any visible reason. We assume that some positive news regarding the company could appear soon. In particular, Enwell has legal proceedings relating to one of its exploration licenses in Ukraine. Ferrexpo (FXPO) edged down by 0.9% to GBp 184 and MHP (MHPC) decreased by 5.7% to USD 5.64.

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 3.9% to PLN 3.99.

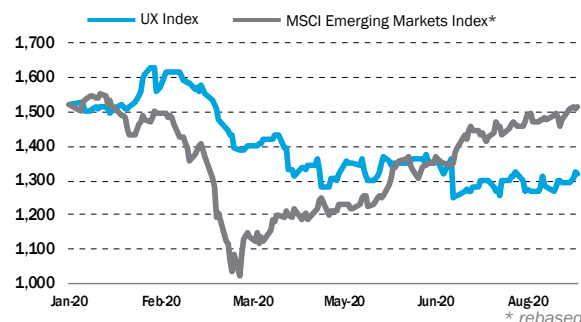
On the interbank currency market, the hryvnia had a quiet week, inching down by 0.1% against the dollar to close at 27.50 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- Ukraine Re-Imposes Border Closure to Most Foreigners in Quarantine Ramp-Up
- Industrial Output Down 4.2% YoY in July and 7.7% YoY for 7M20

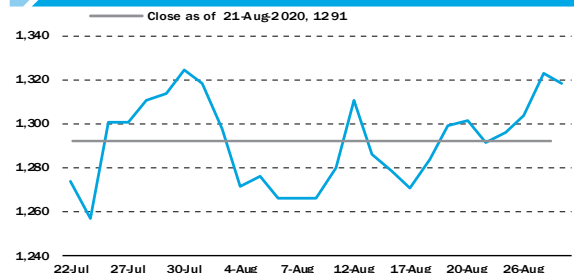
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1318	2.1%	-13.2%
RTS	1275	-0.5%	-17.7%
WIG20	1835	-0.2%	-14.6%
MSCI EM	1121	2.7%	0.6%
S&P 500	3508	2.4%	8.6%

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	10.5%/9.5%	-0.7 p.p.	-0.6 p.p.
Ukraine-2025	6.5%	0.1 p.p.	-0.1 p.p.
Ukraine-2028	7.5%	0.0 p.p.	0.5 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.50	0.1%	16.1%
EUR/UAH	32.67	1.2%	23.7%

Source: Eavex Capital

Ukraine Re-Imposes Border Closure to Most Foreigners in Quarantine Ramp-Up

by Will Ritter
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NEWS

The Cabinet of Ministers on Thursday (Aug 27) once again closed Ukraine's border to the entrance of foreign citizens due to the ongoing COVID-19 virus epidemic. The border was previously shut to foreigners from mid-March until late June, but re-opened for July and August. Only foreigners who hold Ukrainian legal residency permits and visitors in transit for under 48 hours will be allowed in at least through the end of September. The Cabinet, led by Prime Minister Dennis Shmygal, also ramped up the country's domestic quarantine, forcing the closure of entertainment venues until the end of October. However, schools are still expected to open on schedule this week. The incidence of COVID infections in Ukraine has risen above 2000 cases per day in recent weeks, which is substantially higher than during the peak of the epidemic in April and May.

COMMENTARY

The new quarantine measures and border closure reflect the general high uncertainty over how serious the so-called "second wave" of the COVID might become once Ukraine's outdoor weather season ends and the traditional influenza season begins in mid-October. The renewed border restrictions are bad news for businesses who depend on international clients, and first of all for the major airlines serving Ukraine's flagship airport at Boryspil in suburban Kyiv. Although the number of COVID cases is at a higher level than before, we would attribute this first of all to more expansive testing, and the numbers still look quite low in absolute terms, with the monthly infection rate for August coming in at less than 0.2% of the Ukrainian population. Overall, it is starting to look like the COVID situation is going to continue to be a drag on the global economy at least through the upcoming winter, and that the recovery bounce may not arrive as soon as previously hoped.

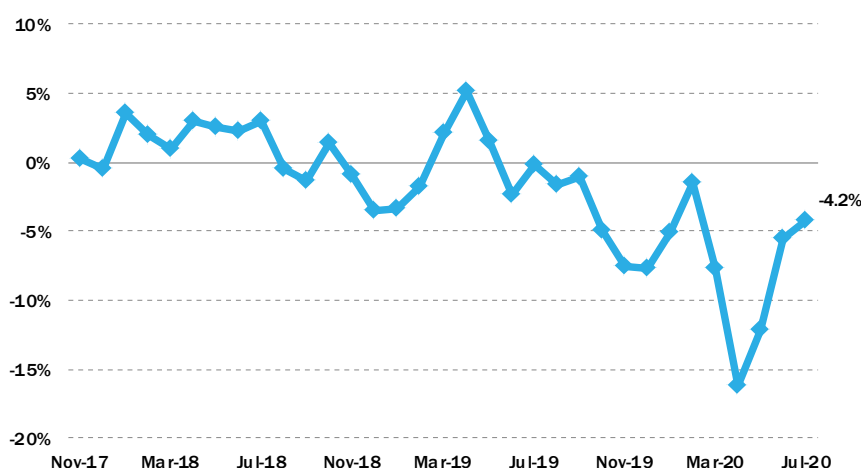
Industrial Output Down 4.2% YoY in July and 7.7% YoY for 7M20

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial production dropped by 4.2% YoY in July while the drop year-to-date through July was 7.7% YoY, the State Statistics Committee (UkrStat) reported last week. The month-on-month change in July (unadjusted for the different number of days) was a growth of 3.9%. In the manufacturing sector, the aggregate production drop was 6.6% YoY for the month. In the extraction sector, there was a decline of 0.7% YoY in July while the utility sector output rose by 0.7% YoY. For 7M20, UkrStat's industrial index is down by 7.7% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

It should be noted that Ukrainian industry is currently performing hardly any worse than it was before the start of the COVID crisis in March, as there were year-on-year declines in the 3-5% range during the November-February period. We take this as an indicator that the Ukrainian economy is weathering the COVID rather well so far.

There was a mixed picture in the extraction sector in July, with a widely-expected output rise in coal production (+4.7% YoY) combining with a surprising decrease in iron ore output (-5.1% YoY) amid rising global iron ore pricing. Ukraine's oil&gas extraction edged up by 0.7% YoY in July but still showed a decline of 2.1% YoY in 7M20. In the manufacturing category, the machinery sector remained the worst performer, demonstrating a 21.3% YoY slump in output in July and a 22.1% drop in 7M20. The pharmaceutical sector, which had been immune to the current economic slowdown in previous months, was hit with a 19.6% YoY drop in output in July. On a monthly basis, the drop was 11%, indicating that the pharmaceutical industry's output might be facing negative effects from overstocking distributors.

In other macroeconomic statistics, retail sales jumped by 8.5% YoY in July, which we believe was a result of the vacation period which saw more Ukrainians spending their money inside the country this year than usual. On a month-on-month basis, retail sales rose by 12.1% from June to July. For 7M20, the retail sales index is higher by 4.2% YoY.

In the agro sector, aggregate output in January-July fell 11.2% YoY. Unusually cold weather conditions during May followed by a rainfall deficit this summer have led to a lower harvest of all key crops.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	38.8	65.0	68%	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	5.6	11.5	104%	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	16.1	27.0	68%	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	4.00	12.0	200%	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	184	250	36%	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	22.1	--	--	U/R	
JKX Oil & Gas	JKX LN	18.9	--	--	U/R	
Power Utilities						
DonbasEnergO	DOEN	19.0	--	--	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	5.20	15.00	188%	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	0.415	--	--	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	1318	2.1%	-13.2%								
Iron Ore Mining												
Ferrexpo	FXPO	184	-0.9%	15.6%	1439	1613	24.0%	3.6	3.4	2.8	2.8	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	9.0%	71	44	5.0%	2.3	7.7	1.2	3.1	0.2
Specialized Machinery												
Turboatom	TATM	7.8	-6.0%	-26.3%	120	117	3.8%	9.8	5.7	2.4	2.1	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	407	405	24.0%	neg	13	22	4.0	1.2
Oil & Gas												
UkrNafta	UNAF	123	0.0%	-14.9%	243	239	3.0%	neg	13.3	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	22.1	29.6%	1.1%	94	54	21.6%	9.4	11.8	2.5	2.9	1.0
JKX Oil	JKX	18.9	3.3%	-20.3%	43	152	50.4%	1.9	14.4	3.6	5.4	2.1
Power Utilities												
Centrenergy	CEEN	5.20	13.0%	-43.8%	70	68	21.7%	neg	-16	neg	10.4	0.1
Donbasenergo	DOEN	19.00	-5.0%	-24.8%	16	15	14.2%	neg	6.8	2.0	1.6	0.1
Consumer												
MHP	MHPC	5.64	-5.7%	-38.0%	596	1814	34.1%	2.8	-4.0	4.8	4.4	0.9
Kernel	KER	38.75	-0.9%	-19.3%	826	2160	61.8%	4.4	4.9	6.2	5.3	0.5
Astarta	AST	16.10	-1.8%	0.6%	108	384	37.0%	57.4	13.7	4.4	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	4.00	0.3%	8.1%	23	11	25.0%	4.5	5.8	5.1	1.0	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.415	-1.2%	34.9%	928		1.8%	5.0	5.5	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			10.5%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.0%	10.0%	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			12.5%	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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