

## Stock Market Update

### Equity

Kyiv-listed equities finished lower last week, with the UX index losing 2.3% to close at 1290 points. UkrNafta (UNAF) dropped by 4.1% to UAH 118 per share amid a lack of public information about whether state-owned NaftoGaz has paid the agreed sum of UAH 30bn to UkrNafta as a part of a complex deal to resolve UkrNafta's tax debt and related accrued penalties. The deadline for this payment was supposed to be the end of August. CentrErgo (CEEN) fell 3.8% to UAH 5.00 and DonbassErgo (DOEN) was unchanged at UAH 19.00. In second-tier stocks, railcar maker Kruviv Wagon (KVBZ) slipped by 2.6% to UAH 16.55.

In technical matters, the UX Index Committee made a decision to keep the gauge basket structure unchanged. The regular quarterly rebalancing of the stocks' weight in the index will be conducted on Sept 16.

In economic-related news, the government announced that it is targeting a national budget deficit of 6% of GDP in 2021 after the expected deficit of 7.5% this year. The Finance Ministry is in the process of preparing the budget for presentation to Parliament.

In London trading, Ferrexpo (FXPO) advanced by 6.1% to GBP 188 while MHP (MHPC) edged down by 0.7% to USD 5.44. On the Warsaw Stock Exchange, Kernel (KER) picked up 0.8% to PLN 39.10 and Astarta (AST) rebounded by 7.2% to PLN 15.55 after the stock had tumbled by 10% over the preceding week.

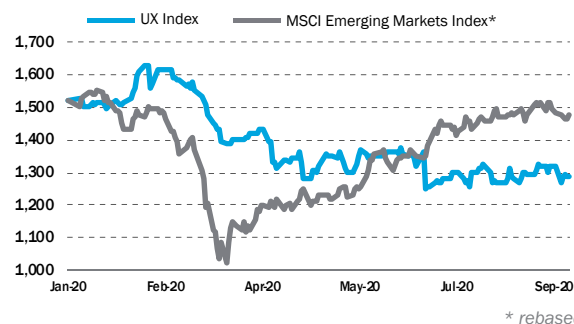
On the interbank currency market, the hryvnia edged down by 0.6% to 27.96 UAH/USD. The National Bank reported that its foreign currency reserves had increased by about USD 250mn to reach USD 29.1bn as of 1 Sept 2020.

## Highlights

### POLITICS AND ECONOMICS

- > Poland Leading Opposition to Nord Stream after Navalny Poisoning
- > Ukraine Headline Inflation Stays Near All-Time Low at 2.5% in August

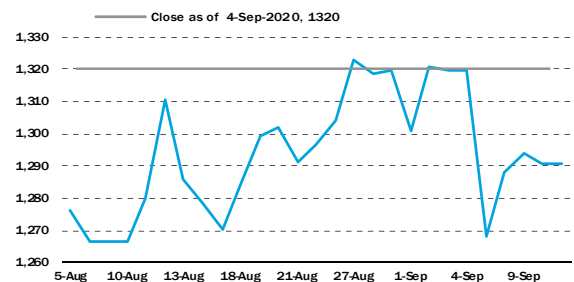
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
UX	1290	-2.3%	-15.1%
RTS	1223	0.2%	-21.0%
WIG20	1772	0.3%	-17.5%
MSCI EM	1091	-0.7%	-2.1%
S&P 500	3340	-2.5%	3.4%

## 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	10.0%/9.0%	-0.5 p.p.	-1.1 p.p.
Ukraine-2025	6.5%	0.2 p.p.	-0.1 p.p.
Ukraine-2028	7.5%	0.2 p.p.	0.5 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.96	0.6%	18.0%
EUR/UAH	33.10	0.7%	25.3%

Source: Eavex Capital

## Poland Leading Opposition to Nord Stream after Navalny Poisoning

by Will Ritter  
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### NEWS

The Polish government has ramped up its efforts to stop the commissioning of Russia's new Nord Stream natural gas pipeline under the Baltic Sea in the aftermath of the poisoning of Russian opposition politician Alexey Navalny last month. A laboratory in Germany, where Navalny is being treated, confirmed that he had been poisoned with a military-grade nerve agent on Aug 20. The Kremlin has denied poisoning Navalny and is claiming that the incident is a Western plot to stop the Nord Stream pipeline, which is set to add 55 billion cu-m to Russia's gas export capacity to Europe. The Deutsche Welle German state-funded news outlet reported that Poland's deputy Foreign Minister Pawel Jablonski said last week that "We have been indicating that this is not only an economic project, it's mostly a political project, and it can also be used as a military tool, as warfare, in case Putin would decide to stop the gas flowing through Ukraine." The Trump administration has also been an opponent of Nord Stream, placing US financial sanctions on companies involved in the project, amid US efforts to increase its own exports of liquefied natural gas to Europe.

### COMMENTARY

Our view is that the Navalny poisoning, while increasing tensions between Moscow and Europe, is unlikely to derail the Nord Stream project, which will ultimately come down to a national interest political decision by Germany; we suppose that Poland will have little to no influence on the outcome. We also find the silence on Nord Stream of the Zelenskiy administration in Kyiv rather telling, as Zelenskiy probably sees the pipeline as a fait accompli and is not placing it as a high foreign policy priority. As for Navalny, he seems likely to eventually recover; we suspect that the Putin regime poisoned him with the so-called "Novichok" agent and allowed him to receive treatment in Germany in order to make the case as high-profile as possible and thus advertise its ability to assassinate any domestic Russian actors who are in public opposition to the Kremlin. Domestic opposition is likely an increasingly sensitive point for the Kremlin given the ongoing large-scale unrest in neighboring Belarus, a country whose population was previously viewed as too politically apathetic to rise up against the long-time authoritarian regime of Alexander Lukashenko; the undercurrent here is that what is possible in Minsk is also possible in Moscow.

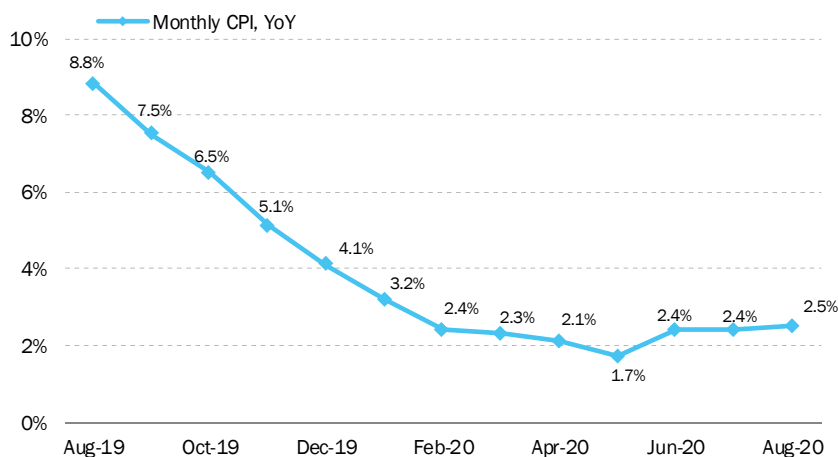
**Ukraine Headline Inflation Stays Near All-Time Low at 2.5% in August**

by Dmitry Churin  
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**NEWS**

Ukraine’s rolling 12-month “headline” consumer inflation inched up to 2.5% in August from 2.4% in July, according to State Statistics Committee data published on Sept 9. In August alone there was a deflation of 0.2% MoM after deflation of 0.6% in July and inflation of 0.2% and 0.3% MoM in June and May respectively.

**UKRAINE'S ROLLING 12-MONTH CPI**



Source: State Statistics Committee

**COMMENTARY**

There was a traditional seasonal monthly deflation seen in both August and July due to lower prices for agricultural produce food staples. The aggregate food price index declined by 1.5% MoM in August while on a yearly basis it was up by 2.3%. One support factor for low consumer prices last month was stable hryvnia in the period, as the national currency strengthened by 0.5% against the dollar to 27.55 UAH/USD. Pessimistic forecasts that the exchange rate could jump to 30 UAH/USD by the year-end have thus far failed to materialize. Currently, our expectation is that the hryvnia will finish the year at 28.50 UAH/USD, as the country has enough foreign reserves (USD 29.1bn as of Sept 1) to overcome potential short-term speculative turbulence on the currency market. The National Bank bought a total of USD 460mn last month on the interbank currency market and did not intervene to sell foreign currency. The country’s forex reserves now cover 4.8 months of future imports - sufficient for the government and the National Bank to conduct all necessary transactions, including those relating to foreign debt servicing.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
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	5.4	11.5	111%	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	15.6	27.0	74%	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	3.90	12.0	208%	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>
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	188	250	33%	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>
<b>Specialized Machinery</b>						
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>
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	118	270	129%	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	16.1	--	--	U/R	
JKX Oil & Gas	JKX LN	18.2	--	--	U/R	
<b>Power Utilities</b>						
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	5.00	15.00	200%	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>
<b>Banks</b>						
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	1290	-2.3%	-15.1%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	188	6.1%	18.2%	1416	1590	24.0%	3.5	3.4	2.7	2.8	1.1
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	16.6	-2.6%	6.1%	68	41	5.0%	2.2	7.4	1.1	2.9	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	7.9	0.0%	-25.8%	119	116	3.8%	9.7	5.7	2.3	2.1	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	401	399	24.0%	neg	13	21	4.0	1.2
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	118	-4.1%	-18.4%	229	225	3.0%	neg	12.6	3.2	2.6	0.2
Enwell Energy (ex-Regal)	ENW	16.1	-4.1%	-26.5%	66	26	21.6%	6.6	8.2	1.2	1.4	0.5
JKX Oil	JKX	18.2	-5.2%	-23.4%	40	148	50.4%	1.8	13.3	3.5	5.3	2.0
<b>Power Utilities</b>												
Centrenergy	CEEN	5.00	-3.8%	-46.0%	66	64	21.7%	neg	-15	neg	9.8	0.1
Donbasenergy	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.7	1.9	1.6	0.1
<b>Consumer</b>												
MHP	MHPC	5.44	-0.7%	-40.2%	575	1793	34.1%	2.7	-3.8	4.8	4.3	0.9
Kernel	KER	39.10	0.8%	-18.5%	831	2165	61.8%	4.4	4.9	6.3	5.3	0.5
Astarta	AST	15.55	7.2%	-2.8%	104	380	37.0%	55.3	13.2	4.4	3.6	0.7
Avangardco	AVGR	0.01	0.0%	-95.0%	1	332	22.5%	0.3	0.2	20	17	2.8
Agroton	AGT	3.90	-2.5%	5.4%	23	11	25.0%	4.3	5.6	4.8	1.0	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.410	0.0%	33.2%	902		1.8%	4.9	5.4	1.6	1.7	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
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1274	1507	1430	503	586	570	39.5%	38.9%	39.9%	335	403	420	26.3%	26.7%	29.4%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	31	9	9.0%	10.5%	3.8%
<b>Specialized Machinery</b>																
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%
<b>Oil &amp; Gas</b>																
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%
<b>Electric Utilities</b>																
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%
<b>Consumer</b>																
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%
<b>Banks</b>																
		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
<b>UAH denominated Bonds</b>									
UA4000200174			10.0%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.0%	9.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			10.5%	9.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			10.5%	10.0%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			11.5%	10.0%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			12.0%	10.5%	n/a	n/a	S/A	26 Feb 2025	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			4.5%	3.0%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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