

## Stock Market Update

### Equity

Ukrainian locally-listed equities were mostly lower last week despite a generally neutral corporate news flow. The UX index decreased by 0.9% to 1278 points. Raiffeisen Bank Aval (BAVL) corrected by 3.7% to 39.50 kopecks, as some traders preferred to cash in their profit after the bank approved a 2019 dividend of 6.95 kopecks per share. The ex-rights date for the dividend will be determined by the bank's supervisory board, which is controlled by parent group Raiffeisen International. CentrErgo (CEEN) fell 4.0% to UAH 4.80 and UkrNafta (UNAF) was flat at UAH 118 per share.

London-listed Ferrexpo (FXPO) jumped 7.2% to GBp 202 per share after the company announced an interim dividend of 6.6 US cents per share. The special interim dividend will be paid out on Oct 8 to shareholders on the register at the close of business on Sept 25. This brings Ferrexpo's total dividend distributions this year to 19.8 US cents per share, up from 13.2 US cents in FY19. MHP (MHPC) remained in a downward trajectory, losing 4.4% to USD 5.20, as Ukraine's currency devaluation is hurting the company's bottom line.

Sugar producer Astarta (AST) was a clear winner for the week on the Warsaw Stock Exchange, with the AST stock jumping by 15% to PLN 18.00. Meanwhile, top liquid name Kernel (KER) edged up by only 0.4% to PLN 39.25.

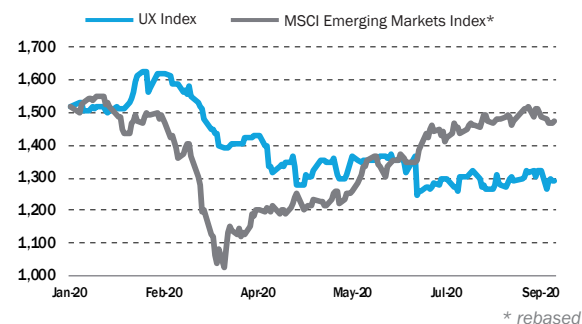
On the currency front, the hryvnia fell through the UAH 28 line against the dollar, declining by 0.9% to 28.20 UAH/USD after an IMF representative refused to name a possible date of the mission for the first revision of the current stand-by loan program. The revision is necessary before Kyiv can receive any additional IMF funds.

## Highlights

### POLITICS AND ECONOMICS

- > Calls to Scrap Ukraine's EU Visa-Free Travel over Zelenskiy Corruption Failures
- > NaftoGaz Transit Income Expectation for 2020 Falls to USD 2bn

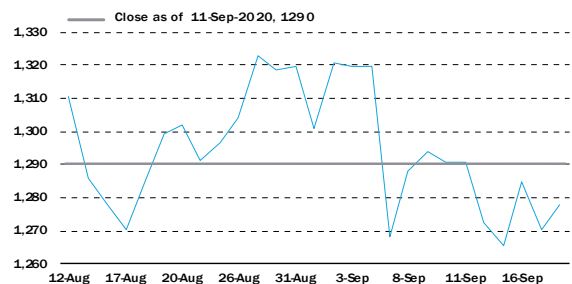
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
UX	1278	-0.9%	-15.8%
RTS	1199	-2.0%	-22.6%
WIG20	1704	-3.8%	-20.7%
MSCI EM	1108	1.6%	-0.6%
S&P 500	3319	-0.6%	2.7%

## 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%	0.0 p.p.	-1.1 p.p.
Ukraine-2025	6.6%	0.1 p.p.	0.0 p.p.
Ukraine-2028	7.5%	0.0 p.p.	0.5 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.20	0.9%	19.0%
EUR/UAH	33.28	0.5%	26.0%

Source: Eavex Capital

## Calls to Scrap Ukraine's EU Visa-Free Travel over Zelenskiy Corruption Failures

by Will Ritter  
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### NEWS

The EU ratcheted up pressure on the government of President Zelenskiy last week, with members of the European Parliament stating that Zelenskiy's failure to maintain the independence of the country's anti-corruption bodies could result in the cancellation of visa-free travel to Europe for Ukrainian passport holders. The visa-free regime was instituted in 2017 on the condition of Kyiv undertaking various reforms, including and especially to the country's judicial system. The EU is concerned that the search process to replace recently-resigned head of the Special Anti-Corruption office (SAP) Nazar Kholodnytskiy will ultimately lead to the appointment of a non-independent figure subordinate to the presidential administration. The IMF also weighed in on the situation, with a Fund spokesman refusing to name a date for a resumption of the review mission of Ukraine's loan program, without which Kyiv will not be able to obtain any new IMF financing.

### COMMENTARY

Zelenskiy attempted to blame the European Union's rebuke of his corruption-fighting record on maneuvering by former President Petro Poroshenko, an excuse which appears rather limp to us. Of particular concern to the IMF and Western governments here are two points: Zelenskiy's failure to take on the so-called "judicial mafia" in an influential Kyiv district court, and the sharp rise in physical attacks against top anti-corruption activists since Zelenskiy took office 16 months ago, none of which have been prosecuted. News on the domestic political front for Zelenskiy has not been encouraging of late, with the People's Servant party seeing its support sliding in favor of both Poroshenko's European Solidarity faction and the pro-Russian Opposition/For Life party of oligarch Victor Medvedchuk; People's Servant is facing the likelihood of embarrassing defeats in municipal elections next month in Ukraine's largest cities. Even Zelenskiy's personal approval rating, long seen to be immune from dissatisfaction with the general situation in the country among ordinary Ukrainians thanks to his celebrity persona, has now fallen below 50 percent. Overall, 16 months in, we see the Zelenskiy presidency unfolding in a rather expected manner; he increasingly appears to be a well-intentioned but ultimately weak and detached leader who is unable to stand up to the powerful oligarchic interests that continue to wield outsized influence in all areas of Ukraine's economy and society.

## NaftoGaz Transit Income Expectation for 2020 Falls to USD 2bn

by Dmitry Churin  
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### NEWS

Ukraine's state-owned natural gas giant NaftoGaz expects to receive around USD 2bn from Russia for gas transit services to Europe, NaftoGaz CEO Andriy Kobolev said in an interview last week. Kobolev said that the "take or pay" principle embedded in the transit contract for 2020-2024 was important for the country in terms of obtaining a guaranteed income from the Ukrainian gas pipeline system. The agreement between Naftogaz and Gazprom foresees that Russia will pump minimum transit volumes of 65bn cubic meters (cu-m) in 2020, and 40bn cu-m per year in 2021-2024.

### COMMENTARY

Previously the expectation was that Ukraine would receive USD 3bn per year for gas transit services, but it seems that the sharp drop in energy prices earlier this year has negatively affected NaftoGaz's transit business as well. Ukraine is entering the new heating season with 25bn cu-m of gas in underground gas storage facilities. In the Jan-Aug period, gas imports increased by 30% YoY to 12.5bn cu-m, a volume which is 63% above the average in 2016-2019. Imports from Slovakia surged by 35% YoY in the period to 8.0bn cu-m, from Hungary by 20% YoY to 3.2bn cu-m, and from Poland by 34% YoY to 1.4bn cu-m. These "European" gas imports are effectively re-imports of Russian gas that was exported to buyers in the mentioned EU countries. The current 25bn cu-m of gas in the country's storage facilities is well above the level of recent years. This implies that NaftoGaz will be prepared to ensure stable gas transit to Europe even in case of colder weather conditions this winter than in the past several years, with temperatures having been above the historical average since.

In other gas-related news, spot gas prices in Europe have already risen by 20% this month, and by 60% since mid-June, reaching USD 142 per thousand cu-m. This trend forced NaftoGaz to raise its gas tariff for the households by 45% to USD 165 per thousand cu-m. Only 3 months ago, Ukraine was able to import gas from Europe for USD 88 per thousand cu-m. However, as natural gas stocks in the EU reservoirs are at 80% capacity, which is a high indicator, we believe that this factor will hold down the prices at the level of current quotations for the next several months.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	39.3	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	5.2	11.5	121%	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	18.0	27.0	50%	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	3.96	12.0	203%	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	202	250	24%	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	14.7	--	--	U/R	
JKX Oil & Gas	JKX LN	17.5	--	--	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	4.80	15.00	213%	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	0.395	--	--	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%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	202	7.2%	26.8%	1531	1705	24.0%	3.8	3.6	2.9	3.0	1.2
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	16.6	0.0%	6.1%	67	41	5.0%	2.2	7.3	1.1	2.9	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	7.9	0.0%	-25.8%	118	115	3.8%	9.6	5.6	2.3	2.1	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	397	395	24.0%	neg	13	21	3.9	1.1
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	118	0.0%	-18.4%	227	223	3.0%	neg	12.5	3.2	2.6	0.2
Enwell Energy (ex-Regal)	ENW	14.7	-8.4%	-32.7%	61	21	21.6%	6.1	7.6	0.9	1.1	0.4
JKX Oil	JKX	17.5	-3.9%	-26.4%	39	147	50.4%	1.7	12.9	3.5	5.3	2.0
<b>Power Utilities</b>												
Centrenergy	CEEN	4.80	-4.0%	-48.2%	63	61	21.7%	neg	-14	neg	9.3	0.1
Donbasenergo	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.6	1.9	1.6	0.1
<b>Consumer</b>												
MHP	MHPC	5.20	-4.4%	-42.9%	549	1767	34.1%	2.6	-3.7	4.7	4.3	0.9
Kernel	KER	39.25	0.4%	-18.2%	834	2168	61.8%	4.4	4.9	6.3	5.3	0.5
Astarta	AST	18.00	15.8%	12.5%	120	396	37.0%	64.0	15.3	4.6	3.8	0.7
Avangardco	AVGR	0.01	0.0%	-95.0%	1	332	22.5%	0.3	0.2	20	17	2.8
Agroton	AGT	3.96	1.5%	7.0%	23	11	25.0%	4.4	5.7	4.9	1.0	0.2
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.395	-3.7%	28.4%	861		1.8%	4.7	5.1	1.6	1.6	0.24

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			9.5%	8.5%	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			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
<b>UAH denominated Bonds</b>									
UA4000204853			4.2%	3.2%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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