

Stock Market Update

Equity

Locally-listed Ukrainian stocks edged higher last week, with investors cheered by a public comment from Prime Minister Dennis Shmygal calling for more active development of the domestic stock market. For the second time this month, the prime minister noted that the absence of a functioning stock market after almost 30 years of Ukraine's independence is a tragic circumstance, and that the benefits of a stock market can be seen in the example of neighboring countries. The UX index ended the week at 1289 points, a gain of 0.9%.

In individual UX index components, Raiffeisen Bank Aval (BAVL) bounced back to 41.50 kopecks (+5.1%) after the bank's supervisory board set Oct 9 as the ex-rights date for a 6.95 kopecks per share dividend from FY19 net profit. The dividend is expected to be paid out starting on Oct 26.

UkrNafta (UNAF) grew by 1.7% to UAH 120 despite the company reporting that its oil extraction declined by 2.5% YoY to 915,000 bbl in August. On the downside, CentrErgo (CEEN) lost 4.2% to UAH 4.60 per share.

In London trading, Ferrexpo (FXPO) suffered a large loss after failing to break through the GBp 200 resistance level, slumping 14% to GBp 173 per share. MHP (MHPC) climbed by 2.3% to USD 5.32.

On the Warsaw Stock Exchange, Kernel (KER) added 1.0% to PLN 39.65 while Astarta (AST) corrected by 8.1% to PLN 16.55 after its surge by 15% over the preceding week.

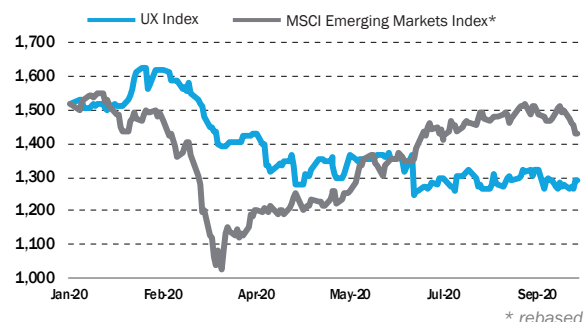
The hryvnia edged down by 0.4% to 28.31 UAH/USD amid the overall strength of the dollar against other world currencies. The US Dollar Index (DXY) gained 1.8% for the week. The index is used to measure the value of the dollar against a basket of six major currencies of the most significant US trading partners: the Euro, Swiss Franc, Japanese Yen, Canadian dollar, British pound, and Swedish krona.

Highlights

POLITICS AND ECONOMICS

- > Ukraine's New COVID Cases Rise Above 3000 Per Day
- > Ukrainian Industrial Decline at 5.3% YoY for August and 7.4% for 8M20

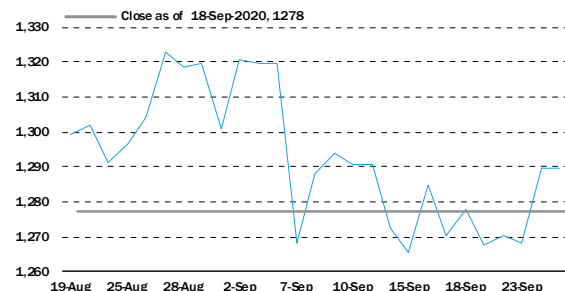
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1289	0.9%	-15.1%
RTS	1164	-2.9%	-24.8%
WIG20	1674	-1.8%	-22.1%
MSCI EM	1059	-4.4%	-5.0%
S&P 500	3298	-0.6%	2.1%

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%	+0.5 p.p.	-0.6 p.p.
Ukraine-2025	7.5%	0.9 p.p.	0.9 p.p.
Ukraine-2028	8.2%	0.7 p.p.	1.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.31	0.4%	19.5%
EUR/UAH	32.94	-1.0%	24.7%

Source: Eavex Capital

Ukraine's New COVID Cases Rise Above 3000 Per Day

by Will Ritter
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NEWS

Ukraine's government has been mostly silent about the sharp rise in new cases of the COVID-19 virus that began in August, with confirmed cases now consistently exceeding 3000 per day. The level seen during July had been below 1000 cases per day. Slightly under 4000 deaths in Ukraine have been blamed on the COVID since the start of the epidemic in April, a figure that is substantially less per capita than most of Europe. The country currently has a prohibition on the entry of most foreigners into the country which is set to expire at the end of this month, but could be extended until the end of October.

COMMENTARY

The criteria for a new lockdown in Ukraine appears to have shifted substantially since July, when it was rumored that a new case level of 1500 per day would trigger a re-implementation of the unpopular quarantine measures against businesses that were in place during April and May. The Zelenskiy administration seems to have recognized the Ukrainian public's growing tolerance of rising incidences of the virus; this is a trend seen generally across Europe, with most governments no longer willing to weigh down their economies with a return to the heavy-handed restrictions of the spring. Even in France, which is now seeing around 15,000 new COVID cases per day (about 4x higher per capita than Ukraine), the economy and society remain largely open. Last week, the government reported that retail sales in Ukraine in August rose at a galloping pace of 8.7% year-on-year, implying that not only has retail growth quickly returned to the pre-COVID level, but also that the COVID's negative effect on Ukrainians' overall purchasing power has been rather marginal. Of course, this could also be an indication that Ukraine's retail sales statistics are driven by relatively wealthy citizens whose disposable incomes are not vulnerable to the COVID economic decline. Importantly, despite the rising number of cases, the COVID story has lost much of its original resonance and no longer occupies the top headlines of the daily news. For this reason, we expect the Zelenskiy administration to continue its de-facto policy of trying to muddle through the epidemic without resorting to another full quarantine this winter.

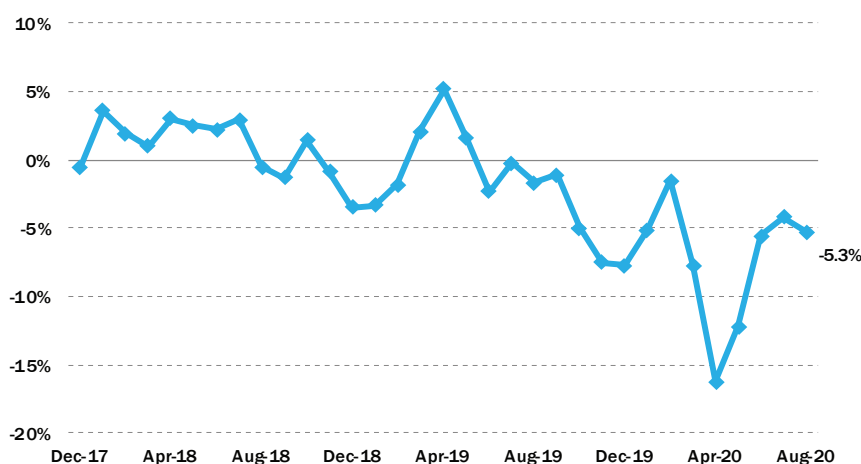
Ukrainian Industrial Decline at 5.3% YoY for August and 7.4% for 8M20

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial production decline was 5.3% YoY in August after the drop of 4.2% YoY seen in July, the State Statistics Committee (UkrStat) reported last week. The month-on-month change in output from July to August was a decrease of 3.5%. In the manufacturing sector, the aggregate production drop was 7.7% in August after the drop of 6.6% YoY in July. In the extraction sector, there was a decline of just 0.1% YoY in August, and utility sector output declined by 4.6% YoY. Year-to-date through August, UkrStat's industrial index is down by 7.4% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The decline in overall Ukrainian industry is currently no worse than the situation that was observed prior to the COVID-induced slump last winter, indicating that the COVID is probably not a large factor in the ongoing drop. UkrStat reported that durable goods production rose 5.0% YoY in August while consumer goods output fell 4.2% YoY. In our opinion, these figures reflect some improvement in long-term consumer confidence. However, the situation in the export-sensitive sectors like machinery and non-metallic mineral products remains weak. The aggregate machinery production index is down by 22% YoY both in August and year-to-date. Pharmaceutical industry output grew by 11% MoM in August, with year-on-year growth of 14% for the month and 2.3% YoY for the 8M20 period.

In other macroeconomic statistics, retail sales increased by a very impressive 8.7% YoY in August, indicating a near-complete rebound in retail activity from the COVID slump. The increase in sales from July to August was 2.2%, and for 8M20, the retail sales index is higher by 6.0% YoY.

In the agro sector, aggregate output in January-August dropped by 9.8% YoY, an improvement after the registered fall of 11.2% YoY in January-July. A rainfall deficit this summer has led to a lower harvest of all key crops in Ukraine. At the beginning of April, there was a forecast of 72mn tonnes for grains. Now, assuming that wheat and sunflower harvesting has been completed, and that corn harvesting begins, the forecasts will be lower by several million tonnes. The current expectation for the grain harvest in the country is 68mn tonnes, while the corn harvest should be at 33mn tonnes (-8% YoY).

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	5.3	11.5	116%	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	16.6	27.0	63%	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	4.03	12.0	198%	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	173	250	44%	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	120	270	125%	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	14.0	--	--	U/R	
JKX Oil & Gas	JKX LN	16.6	--	--	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	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	0.415	--	--	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	1289	0.9%	-15.1%								
Iron Ore Mining												
Ferrexpo	FXPO	173	-14.0%	9.0%	1306	1480	24.0%	3.2	3.1	2.5	2.6	1.0
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	16.6	0.0%	6.1%	67	41	5.0%	2.2	7.3	1.1	2.9	0.2
Specialized Machinery												
Turboatom	TATM	8.2	4.5%	-22.5%	122	119	3.8%	10.0	5.9	2.4	2.1	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	396	394	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	120	1.7%	-17.0%	230	226	3.0%	neg	12.7	3.2	2.6	0.2
Enwell Energy (ex-Regal)	ENW	14.0	-4.8%	-35.9%	57	17	21.6%	5.7	7.2	0.8	0.9	0.3
JKX Oil	JKX	16.6	-4.9%	-30.0%	36	145	50.4%	1.6	12.2	3.4	5.2	2.0
Power Utilities												
Centrenergy	CEEN	4.60	-4.2%	-50.3%	60	58	21.7%	neg	-14	neg	8.9	0.1
Donbasenergy	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.6	1.9	1.6	0.1
Consumer												
MHP	MHPC	5.32	2.3%	-41.5%	562	1780	34.1%	2.6	-3.7	4.7	4.3	0.9
Kernel	KER	39.65	1.0%	-17.4%	808	2142	61.8%	4.3	4.8	6.2	5.2	0.5
Astarta	AST	16.55	-8.1%	3.4%	106	382	37.0%	56.4	13.5	4.4	3.7	0.7
Avangardco	AVGR	0.01	0.0%	-95.0%	1	332	22.5%	0.3	0.2	20	17	2.8
Agroton	AGT	4.03	1.8%	8.9%	22	11	25.0%	4.3	5.6	4.7	1.0	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.415	5.1%	34.9%	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
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			9.5%	8.5%	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			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
UAH denominated Bonds									
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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