

Stock Market Update

Equity

Kyiv-listed stocks rose last week, spurred by expectations of better liquidity on the market after the government became more active in its intention to attract foreign investments into the country. Meanwhile, on the macroeconomic side, the EBRD forecasted that Ukraine's GDP will drop by 5.5% YoY this year with a rebound of 3.0% YoY in 2021. Earlier in May, the EBRD had projected a GDP contraction of 4.5% YoY in 2020 with growth of 5.0% next year.

The UX index advanced by 3.2% for the week to close at 1330 points. UkrNafta (UNAF) added the most points to the gauge, rising 5.8% to UAH 127 per share. The UNAF stock saw speculative buying momentum ahead of voting in Parliament on the company's tax debt repayment scheme. On Sept 30, Parliament refused to consider the bill after preliminary voting fell short by only 2 votes on including the bill in the session agenda.

Raiffeisen Bank Aval (BAVL) picked up 1.2% to 42.00 kopecks and CentrErgo (CEEN) surged by 8.7% to UAH 5.00 as the company once again was included in the top-priority privatization list.

In London trading, Ferrexpo (FXPO) was rather inactive, edging down by 0.8% to GBp 172, while MHP (MHPC) added 3.0% to close at USD 5.48. On the Warsaw Stock Exchange, Kernel (KER) inched up by 0.4% to PLN 39.80 and Astarta (AST) gained 4.2% to PLN 17.25.

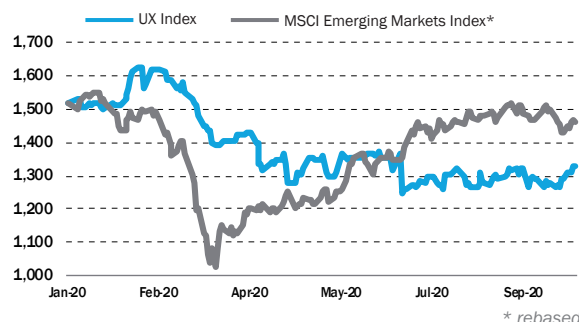
On the currency front, the hryvnia ended marginally lower against the dollar for the week, slipping 0.2% to 28.36 UAH/USD. We expect some support for the national currency from rising prices for grains, the country's major export category. Wheat prices have been rising steadily since August in the EU and the Black Sea as global buyers rush to the market amid this year's drought conditions in key regions. Ukraine's wheat was selling at USD 231 per tonne (FOB Black Sea) on Sept 30, up from USD 206/tonne on Aug 31, Platts commodity data showed. According to the US Department of Agriculture, EU and Ukrainian wheat production is estimated to be 12% and 7.4% lower, respectively, year on year.

Highlights

POLITICS AND ECONOMICS

- > Ukraine Joins EU Sanctions Against Belarus Police, Election Officials
- > Government Presents 60 Projects in 'UkraineInvest' Guide

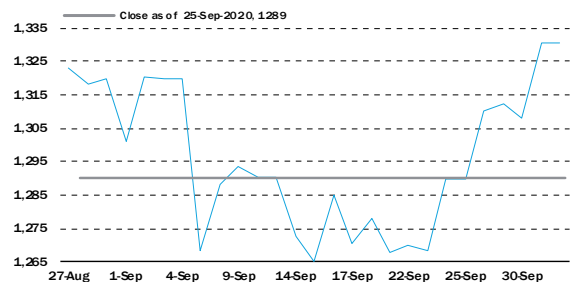
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
UX	1330	3.2%	-12.4%
RTS	1155	-0.8%	-25.4%
WIG20	1721	2.8%	-19.9%
MSCI EM	1081	2.1%	-3.0%
S&P 500	3348	1.5%	3.6%

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	10.7%/9.7%	+0.2 p.p.	-0.4 p.p.
Ukraine-2025	7.7%	1.1 p.p.	1.1 p.p.
Ukraine-2028	8.3%	0.8 p.p.	1.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.36	0.2%	19.7%
EUR/UAH	33.23	0.9%	25.8%

Source: Eavex Capital

Ukraine Joins EU Sanctions Against Belarus Police, Election Officials

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NEWS

Foreign Minister Dmytro Kuleba said on Friday (Oct 2) that Kyiv will be joining the asset freezes and travel bans imposed by the European Union against some 40 officials in the Belarusian government of President Aleksandr Lukashenko, in comments made to the BBC. The targeted officials, mainly from the country's national election commission and interior ministry, have been found to have been involved in falsifying Belarus's Aug 9 presidential vote and in organizing violence against civilian protesters. Like the EU, Ukraine has also declined to recognize Lukashenko's Sept 23 inauguration for what would be his 6th term in office. Meanwhile on Sunday (Oct 4), Minsk saw its 57th day of post-election protests, with police using water cannons to break up opposition rallies that were estimated in the range of 100,000 people. Lukashenko has received increasingly firm backing from Russia in recent weeks in his efforts to maintain his hold on power.

COMMENTARY

It looks like President Zelenskiy is taking this opportunity to increase his solidarity with the EU by following along with the bloc's coordinated Belarus policy. Lukashenko had reportedly angered Zelenskiy in August by refusing to hand over some 15 apprehended members of Russia's so-called "Wagner" mercenaries who had previously fought against Ukraine in the Donbass conflict, instead sending them back to Russia. Overall, the situation in Belarus appears to have reached a stalemate, and it is difficult for us to see how the opposition could actually remove Lukashenko; the main opposition leader, Svetlana Tikhanovska, is not even in the country, but is in exile in Lithuania. Nonetheless, the ongoing large protests against his rule will continue to make Lukashenko uncomfortable and reliant on Kremlin support. The main concern for Kyiv here is that the Kremlin may use its leverage over Lukashenko to obtain new permanent military bases in Belarus, which would present a threat to Ukrainian security on a new front from the northwest. This situation puts Ukraine in a similar boat to the EU, with the Baltic countries and Poland also wary of increased proximity of the Russian military to their borders.

Government Presents 60 Projects in 'UkraineInvest' Guide

by Dmitry Churin
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NEWS

The UkraineInvest office, a government agency set up in cooperation with the Cabinet of Ministers, the Presidential administration, and the State Property Fund, last week presented a national investment guide featuring 60 elite projects, which were selected from an initial pool of more than 600.

The Guide has been published under the following link:

<https://ukraineinvest.gov.ua/uk/guide/>

The document was created specifically for foreign investors, and contains analysis and information on state-owned facilities in the fields of agriculture, heavy industry, energy, IT, manufacturing, real estate, and infrastructure.

COMMENTARY

We are pleased that the Ukrainian government is making a concerted effort to attract foreign investments to the country. Recent-year statistics show that direct foreign investments (FDI) in Ukraine amounted to less than 3.5% of GDP per year, which is an underwhelming figure that prevents fast economic growth.

Among various projects, the government once again emphasized the privatization of state-owned enterprises, estimating realistic proceeds from such asset sales at USD 400mn in 2021. Importantly, the sales of small-scale state objects are conducted via an electronic auction system, which helps to ensure transparent and fair access of all interested investors to the privatization process. In particular objects for privatization, the state says it intends to de-monopolize the alcoholic beverage industry by divesting 12 distillers from the 100% state-owned UkrSpirt Holding.

The bottom line of the investment guide initiative is that the government is trying to improve its communication with foreign businesses. We believe that a lot of progress needs to be made in this regard, especially ahead of the long-awaited creation of the farmland market in Ukraine, which is set for next July.

Meanwhile, CentrEnergO (CEEN) was once again included in the top-priority privatization list. The State Property Fund has a goal to sell its entire 78.3% stake in the company, but yet another obstacle appeared after CentrEnergO's EBITDA plunged from USD 102mn achieved in 2017 to a negative EBITDA of USD -69mn for 2019. This year CentrEnergO has continued to report very poor financial results, raising a reasonable question about whether fair value for the asset could be received in such circumstances.

Other large-scale energy objects for privatization are the following provincial electricity distribution networks: KharkivOblEnergO (65% for sale), ZaporizhyOblEnergO (60% for sale), Khmel'nitskyOblEnergO (70% for sale), MykolaivOblEnergO (70% for sale) and TernopilOblEnergO (51% for sale).

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	39.8	65.0	63%	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	5.5	11.5	110%	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	17.3	27.0	57%	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>
Iron Ore						
Ferrexpo	FXPO LN	172	250	45%	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	127	270	113%	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>
Enwell Energy (ex-Regal)	ENW LN	14.4	--	--	U/R	
JKX Oil & Gas	JKX LN	16.8	--	--	U/R	
Power Utilities						
DonbasEnerg	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>
CenterEnerg	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 CentrEnerg 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 CentrEnerg 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	1330	3.2%	-12.4%								
Iron Ore Mining												
Ferrexpo	FXPO	172	-0.8%	8.2%	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	0.0%	-22.5%	122	119	3.8%	10.0	5.9	2.4	2.1	1.1
Motor Sich	MSICH	5390	0.0%	0.0%	395	393	24.0%	neg	13	21	3.9	1.1
Oil & Gas												
UkrNafta	UNAF	127	5.8%	-12.2%	243	239	3.0%	neg	13.4	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	14.4	3.1%	-34.0%	60	20	21.6%	6.0	7.5	0.9	1.0	0.4
JKX Oil	JKX	16.8	0.9%	-29.3%	37	145	50.4%	1.7	12.4	3.4	5.2	2.0
Power Utilities												
Centrenergo	CEEN	5.00	8.7%	-46.0%	65	63	21.7%	neg	-15	neg	9.6	0.1
Donbasenergo	DOEN	19.00	0.0%	-24.8%	16	14	14.2%	neg	6.6	1.9	1.6	0.1
Consumer												
MHP	MHPC	5.48	3.0%	-39.8%	579	1797	34.1%	2.7	-3.9	4.8	4.3	0.9
Kernel	KER	39.80	0.4%	-17.1%	811	2145	61.8%	4.3	4.8	6.2	5.2	0.5
Astarta	AST	17.25	4.2%	7.8%	110	386	37.0%	58.8	14.1	4.5	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	3.90	-3.2%	5.4%	22	10	25.0%	4.2	5.4	4.4	0.9	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.420	1.2%	36.5%	911		1.8%	4.9	5.4	1.7	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%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.7%	9.7%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.0%	9.7%	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			12.5%	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			4.2%	3.2%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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