

## Stock Market Update

### Equity

Kyiv-listed Ukrainian stocks were mostly lower last week amid dry trading activity and a news flow dominated by political noise after incumbent President Petro Poroshenko and entertainment mogul Vladimir Zelenskiy entered the Apr 21 presidential election runoff. The hottest topic of the week was whether the two candidates would agree on televised debates, with one of the proposals being to hold the debates at the national Olimpiyskiy Stadium.

The PFTS index, which tracks seven Kyiv-listed stocks, shed 1.4% to end at 565 points. UkrNafta (UNAF) was little changed after a solid gain in the last week of March. The stock traded at USD 190 per share. Meanwhile, Raiffeisen Bank Aval (BAVL) continued to suffer after the bank proposed a smaller-than-expected dividend from its FY18 profit. The BAVL stock slumped 10% to 33.50 kopecks. Additional pressure on the stock came from a report that Raiffeisen Aval's net profit for February was sharply lower than in January. In the utility sector, CentrEnerg (CEEN) dipped by 10 kopecks to UAH 11.90.

On the London Stock Exchange, Ferrexpo (FXPO) gained 12.5% to GBP 277 per share after the price of iron ore burst above USD 90 per tonne, a jump of 7% in one week, on talk of a supply crunch after warnings of lower output from the industry's big three producers. Natural gas extractor Regal Petroleum (RPT) declined by 2.9% to GBP 42.55 while poultry producer MHP (MHPC) rose by 4.4% to USD 10.75.

In Warsaw trading, Kernel (KER) recovered the preceding week's decline, bouncing back by 6.2% to PLN 52.80. Crop grower Agrotro (AGT) added 3.6% to PLN 3.44 while Astarta (AST) fell 4.0% to PLN 26.10.

On the currency front, the hryvnia found itself in a good shape, gaining 2.2% to 26.70 UAH/USD. The National Bank reported that the country's foreign currency reserves increased by USD 400mn or 2.1% MoM to USD 20.6bn in March. The NBU said that its net purchases on the interbank market were USD 162mn over the month. Ukraine's foreign reserves now cover around 3.5 months of imports.

## Highlights

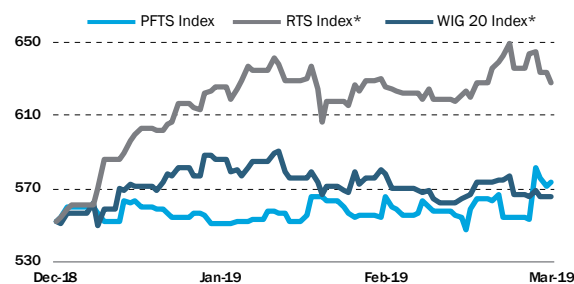
### POLITICS AND ECONOMICS

- Ukraine Awaiting Zelenskiy Response to Poroshenko's Debate Challenge

### STOCKS IN THE NEWS

- CentrEnerg Approves 68-Kopeck Dividend for FY18
- Ferrexpo's Pellet Output Slips 1.8% YoY in 1Q19

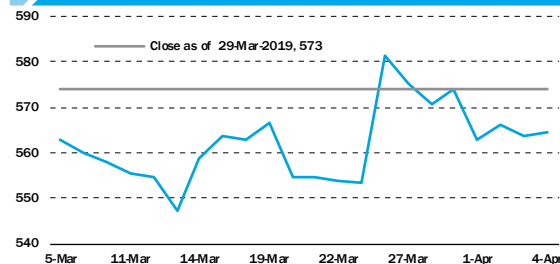
## STOCK MARKET PERFORMANCE



## MARKET INDEXES

	Last	1W ch	YTD
PFTS	565.7	-1.4%	1.1%
RTS	1225.2	2.3%	14.6%
WIG20	2351.3	1.7%	2.2%
S&P 500	2892.7	2.1%	15.4%

## PFTS 1M PERFORMANCE



## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	18.0%	0.0 p.p.	0.0 p.p.
Ukraine-2024	8.5%	-0.2 p.p.	-2.0 p.p.
Ukraine-2032	8.7%	-0.1 p.p.	-1.4 p.p.

## CURRENCY

	Last, UAH	1W ch	YTD
USD	26.70	-2.2%	-3.5%
EUR	29.97	-2.1%	-5.5%

## Ukraine Awaiting Zelenskiy Response to Poroshenko's Debate Challenge

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### NEWS

Incumbent President Petro Poroshenko challenged his opponent in the Apr 21 presidential election, East Ukrainian entertainment mogul Volodymyr Zelenskiy, to a debate at the national Olympic Stadium in Kyiv next Sunday (Apr 14). Poroshenko was agreeing to a previous demand by Zelenskiy that the debate be held at the national stadium. However, the details on the debate have not been set, with Zelenskiy thus far refusing to commit to participating and appearing to stall by negotiating over the debate format. Zelenskiy won the first round of the election on Mar 31 with 30% of the national vote. In other election news, 5th-place candidate Anatoliy Grytsenko, whose views on policy are rather close to Poroshenko's, nonetheless gave his conditional endorsement to Zelenskiy after holding a meeting with him over the weekend. Grytsenko said he came away from the meeting convinced that Zelenskiy, who is primarily a Russian speaker, would not "surrender Ukraine to the Putin regime" or "humiliate the Ukrainian language". Grytsenko received 7% of the vote in the opening round. Third-place finisher Yulia Tymoshenko previously stated that she would not support Poroshenko under any conditions but stopped short of endorsing Zelenskiy. The voters of fourth-place finisher Yuriy Boyko, who won 11% and whose power base is in the Donbass region of East Ukraine, are also expected to mostly support Zelenskiy.

### COMMENTARY

Having taken a paltry 16% of the national tally on Mar 31, Poroshenko's only chance to win the Apr 21 election is to flip a sizable chunk of the voters who chose Zelenskiy in the first round; not a single one of Poroshenko's rivals has endorsed him, and the situation with Grytsenko is a particularly hard blow. Poroshenko's ability to flip around one quarter (the minimum fraction we estimate he would need) of Zelenskiy's first-round voters would obviously depend on some type of game-changing event occurring in the next 12 days, and a nationally televised high-stakes debate would seem to be Poroshenko's best opportunity. We also note that Zelenskiy's insistence on drug testing last week appeared to be aimed at heading off rumors that he has been a regular narcotics user during his show business career, and if firm evidence on this subject were to appear, it could indeed improve Poroshenko's chances, due to most Ukrainians having conservative views on narcotics use. As in all of Ukraine's previous presidential elections, the winner will be chosen by the central provinces, as the Ukrainian-speaking west and the Russian-speaking southeast have always voted more or less as a bloc, leaving Central Ukraine (where Ukrainian and Russian speakers are nearly evenly split) as the decisive swing region. Based on this analysis, Poroshenko is obviously in deep trouble, having taken barely 10% in the provinces of Poltava, Sumy, and Cherkasy (against Zelenskiy's showing of 30% or more), all areas where he absolutely needs to win more than 50% in the runoff. Even in Kyiv city, considered a Poroshenko stronghold, the president took only 26% in the first round. Looking ahead to a possible Zelenskiy victory, we believe that this outcome would greatly raise the stakes for Ukraine's national parliamentary election in the autumn of this year, as the inexperienced Zelenskiy could well turn out to be a weak leader. Such a situation would result in key facets of Ukraine's state power being transferred (possibly via constitutional changes) from the presidency to the largest factions in Parliament, which appoints the prime minister and most of the Cabinet.

## CentrEnergO Approves 68-Kopeck Dividend for FY18

by Dmitry Churin  
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### CENTRENERGO (CEEN UK)

Price: UAH 11.90 Market Cap: USD 165mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018E	0.7	0.3	9.0	3.9	5.6%
2019E	0.7	0.3	6.5	3.8	7.7%

## NEWS

CentrEnergO, Ukraine's second largest thermal electricity generation company, will pay out 50% of its net profit of UAH 499mn for FY18 in dividends (68 kopecks per share), according to the company's shareholders' decision made on Apr 3 at the annual shareholders meeting. The ex-rights date for the dividend was not announced. CentrEnergO posted a net profit of UAH 499mn for full-year 2018 (USD 18.3mn at the average UAH/USD rate for the period), down from its record high net profit of UAH 1.89bn in FY17. The company's net revenue grew by 33% YoY to UAH 14.5bn in FY18 while EBITDA fell by 62% YoY to UAH 1.03bn, with the EBITDA margin shrinking from 25.2% in FY17 to just 7.1% in FY18. On the balance sheet side, CentrEnergO had no outstanding interest bearing debt as of end of last year and the company's net cash position was UAH 465mn.

### CENTRENERGO FINANCIAL RESULTS

UAH mn	2018	2017	YoY
Net revenue	14,509	10,919	+32.9%
EBITDA	1,036	2,748	-62.3%
margin	7.1%	25.2%	-18.0 p.p.
Net Income	499	1,891	-73.6%
net margin	3.4%	17.3%	-13.9 p.p.

Source: Company data.

## COMMENTARY

The dividend is not surprise for market participants as state-owned companies are obligated to have at least a 30% dividend payout ratio. The announced dividend implies a respectable yield of 5.6% at the current CEEN share price.

We forecast that CentrEnergO will earn UAH 725mn this year, representing EPS of UAH 1.96. The company has recently switched another one of its power units from expensive anthracite coal to cheaper steam coal, which should improve its electricity production profitability.

The CEEN stock had a muted reaction to the dividend news, continuing to trade near UAH 12.00 per share. In our opinion the stock price is far below fair value based on the company's installed generation capacity. Based on our forecast for FY19 profit, the current P/E level for CentrEnergO is around 6.5x.

## Ferrexpo's Pellet Output Slips 1.8% YoY in 1Q19

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### FERREXPO (FXPO LN)

Price: GBp 277 Market Cap: USD 2,128mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2018E	2.4	2.0	5.1	4.4	2.7%
2019E	1.5	1.6	4.1	3.5	2.7%

## NEWS

Ferrexpo, Ukraine's largest iron ore pellet producer, reduced its pellet output by 1.8% YoY to 2.54mn tonnes in 1Q19, according to the company's operational update dated Apr 5. The output of top-value-added 65 percent Fe pellets inched down by 0.2% YoY to 2.43mn tonnes, accounting for 96% of total production in the period. In a quarter-on-quarter basis, the company reported an 11.0% decline which it attributed to seasonal factors.

### FERREXPO PRODUCTION FIGURES

000' tonnes	1Q19	1Q18	Change YoY
Total Pellets Produces	2,538	2,585	-1.8%
- 62% Fe pellets	108	198	-28.3%
- 65% Fe pellets	2,431	2,653	-0.2%

Source: Companies' data

## COMMENTARY

It appears that Ferrexpo is continuing to shift away from production of 62 percent Fe pellets, with the output of that product dropping by 28% YoY to 107,500 tonnes in 1Q19. The flat performance in premium pellet production in the period should not raise any concerns about the company's ability to increase output later this year, especially taking into account a favorable price environment.

In full-year 2018, Ferrexpo increased its pellet output by 2% to 10.6mn tonnes, making it the third-largest global exporter of pellets to the international steel industry with a market share of about 8.5%.

The benchmark 62 percent Fe price rose last week above USD 90 per tonne after BHP Group followed rival Rio Tinto and cut production forecasts after a tropical storm hit the coast of Western Australia. Iron ore prices have jumped almost 30% since the start of the year. However, if prices continue to push toward USD 100 per tonne, this will probably trigger the restart of mothballed iron ore mines in Australia, Asia and the Middle East.

The Ferrexpo stock advanced by a solid 12% in London last week to GBp 277 per share after the news of the global supply tightening.

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	52.8	82.0	55%	BUY	With on-demand borrowing access, Kernel is well placed to further consolidate its position in the oilseed crushing industry. The company reported that its sunflower oil sales in bulk rose by 29.4% YoY to some 508,000 tonnes in July-December 2017. The company aims to achieve EBITDA of USD 500mn by 2021.
MHP	MHPC LI	10.8	16.5	53%	BUY	MHP could start process of deleveraging which in turn would boost the company's MCap. Also the company has a declared strategy to expand its presence on the MENA and EU markets. MHP continued to increase its export sales. MHP also reported that its poultry exports rose 16% YoY to near 221,000 tonnes in 2017, accounting for 41% of total sales volume, up from a share of 36% a year before.
Astarta	AST PW	26.1	70.0	168%	BUY	Astarta is focused on business diversification and cost optimization via improving its energy and operational efficiency. We expect the company to increase sales by 12% in FY18.
Agroton	AGT PW	3.44	12.0	249%	BUY	Agroton unveiled a strategy to increase its land bank from 122,000 ha to 200,000 ha by mid-2019 securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region.
IMC	IMC PW	14.0	13.0	-7%	HOLD	IMC's land bank is targeted to expand by 50% over 2015-20. A high standard of corporate governance makes the stock an attractive play in spite of its low liquidity.
AvangardCo	AVGR LI	0.3	0.3	0%	SELL	AvangardCo's revenue fell by 33% YoY in FY17 despite an increase in egg sales volume by 23% YoY. We attribute this negative development to weak results in the value-added egg powder segment. AvangardCo said that its egg product sales volume had plunged by 64% YoY to some 3300 tonnes, with the average pricing dropping by 23% YoY to USD 4.30/kg.
Ovostar Union	OVO PW	107.0	110.0	3%	HOLD	The company has a strong focus on domestic branded egg sales and successfully expands its export sales to mitigate negative effect from devaluation. Ovostar is in the midst of a long-term expansion that will ultimately see egg output triple over 2012-18E.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	245	230	-6%	HOLD	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.
<b>Specialized Machinery</b>						
Motor Sich	MSICH	5390	6750	25%	BUY	Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project. Our base case scenario forecast for Motor Sich's net profit for FY18 is UAH 2.6bn, implying EPS of UAH 1,270.
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	190	270	42%	BUY	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.
Concern Galnaftogaz	GLNG	0.27	0.33	22%	BUY	Galnaftogaz is pursuing a plan to aggressively expand its filling station network.
Regal Petroleum	RPT LN	42.5	-	-	U/R	Natgas extractor Regal Petroleum (RPT) got hammered, plunging 30% to GBP 38.00 per share after news that the Ukrainian State Geological Service issued an order to suspend production on one of Regal's licenses. The company said that it is seeking to obtain further information on the basis for the order, and is taking measures to protect its rights.
JKX Oil & Gas	JKX LN	53.5	-	-	U/R	The company's balance sheet looks healthy after it successfully restructured its Eurobonds. An overall demand for natural gas in Ukraine remains strong.
<b>Power Utilities</b>						
DonbasEnerg	DOEN	28.7	33.5	17%	SELL	We believe that the DOEN stock price will be supported until Apr 18, when the ex-rights date for participation in the company's shareholders meeting arrives. The agenda for the meeting contains an item for so called 'substantial deals' so shareholders who vote against this item would have an option to sell their shares to the company at estimated price of near UAH 33.50, which is the average DOEN price for the Dec 19 - Mar 19 3-month period. This period determines the buyback price in this case, according to Ukrainian legislation.
CenterEnerg	CEEN	11.90	25.60	115%	BUY	The CEEN stock has been in a downward trend since October, falling from a level of UAH 18 to the current level of UAH 13 per share after yet another failed attempt to privatize the company in early December. 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. We forecast that CentrEnerg will earn UAH 725mn this year, representing EPS of UAH 1.96. The company has recently switched another one of its power units from expensive anthracite coal to cheaper steam coal, which should improve its electricity production profitability.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.335	0.47	40%	BUY	Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, proposed its shareholders to approve UAH 3.56bn in dividends from its full-year 2018 profit (5.79 kopecks per share). The ex-rights date for the dividend was not announced. Raiffeisen Aval posted a net profit of UAH 5.09bn for FY18 (USD 187mn at the average UAH/USD rate for the period), which was 14% YoY higher compared FY17. We forecast that the bank will earn UAH 6.2bn in net profit in FY19, which would imply earnings per share of 10 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%.

Source: Eavex Research

**MAIN FINANCIAL FORECASTS, USD mn**

Name	Ticker	Net Sales			EBITDA			EBITDA margin			Net Profit			Net Profit margin		
		2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1,197	1,257	1,571	551	579	723	46.0%	46.0%	46.0%	394	414	517	32.9%	32.9%	32.9%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	141	81	89	14	9	10	9.9%	10.7%	11.4%	12	4	5	8.6%	5.0%	5.5%
<b>Specialized Machinery</b>																
Turboatom	TATM	87	94	94	37	40	41	42.6%	43.1%	43.6%	26	28	28	29.9%	29.9%	29.2%
Motor Sich	MSICH	436	388	333	156	88	92	35.8%	22.7%	27.7%	117	51	59	26.7%	13.3%	17.7%
<b>Oil &amp; Gas</b>																
Ukrnafta	UNAF	1,011	1,326	2,531	65	333	866	6.5%	25.1%	34.2%	17	244	581	1.7%	18.4%	23.0%
Regal Petroleum	RPT	35	60	50	17	54	22	49.8%	90.0%	44.0%	2	42	10	na	70.0%	20.0%
JKX Oil	JKX	82	93	111	9	31	34	11.5%	33.2%	30.5%	-12	15	18	-14.6%	16.5%	16.5%
<b>Electric Utilities</b>																
Centrenergy	CEEN	412	551	589	104	42	38	25.2%	7.6%	6.5%	71	18	25	17.3%	3.3%	4.3%
Donbasenergo	DOEN	147	224	225	8	23	19	5.8%	10.2%	8.4%	2	4	3	1.4%	1.7%	1.1%
<b>Consumer</b>																
MHP	MHPC	1,289	1,556	1,789	459	450	490	35.6%	28.9%	27.4%	230	128	250	17.8%	8.2%	13.9%
Kernel	KER	2,169	2,403	3,364	319	223	310	14.7%	9.3%	9.2%	176	52	210	8.1%	2.2%	6.2%
Astarta	AST	514	445	578	134	160	165	26.1%	35.9%	28.5%	69	74	100	13.5%	16.7%	17.3%
Avangardco	AVGR	130	127	135	12	15	17	9.1%	11.8%	12.6%	-8	-5	2	-5.8%	-3.9%	1.5%
Ovostar	OVO	80	126	139	15	23	25	19.2%	18.3%	18.3%	10	18	20	12.5%	14.6%	14.6%
<b>Banks</b>																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2,455	2,491	2,415	404	420	433	234	239	253	169	187	218	41.8%	44.6%	50.2%

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>									
UA4000195580			19.75%	18.25%	n/a	n/a	S/A	04 Sept 2019	n/a
UA4000196620			19.75%	18.25%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			19.75%	18.00%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>VAT Bonds</b>									
UA4000185151			19.75%	18.25%	n/a	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			19.75%	18.25%	n/a	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			19.75%	18.25%	n/a	9.50%	S/A	20 Aug 2019	955

Source: TR Data, Eavex Research

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