

## Stock Market Update

### Equity

Kyiv-listed Ukrainian stocks were mixed last week, with the PFTS index closing virtually unchanged at 510 points on Friday (Dec 13). Political news flow from the Normandy summit in Paris on Dec 9, where Ukraine and Russia agreed on a new ceasefire and prisoner exchange, had no impact on the local stock market. As generally expected, no major breakthroughs were achieved between Kyiv and Moscow on resolving the Donbass conflict in Eastern Ukraine. The Normandy Format meetings address the Donbass situation but not Russia's annexation of Crimea, which is not recognized by most of the international community.

In individual stocks, UkrNafta (UNAF) rose 1.4% to UAH 144 per share after the government's failed attempt to increase the tax on LPG fuel. Although LPG is only a small part of UkrNafta's business, this was nonetheless a positive development for the company. In the utility sector, CentrEnergO (CEEN) climbed by 1.8% to UAH 9.26 while DonbasEnergO (DOEN) declined by 0.9% to UAH 25.22.

In London trading, Ferrexpo (FXPO) surged by 7.1% to GBp 152 after pausing its rebound a week earlier. The stock is down by 22% since the start of the year. MHP (MHPC) inched up by 0.2% to UAH 9.00. Regal Petroleum (RPT) was under pressure again, dropping by 5.9% to GBp 22.40. The other London-listed natural gas producer with assets in Ukraine, JX Oil&Gas, edged lower by 1.6% to GBp 24.70.

Warsaw-listed Kernel (KER) gained 1.6% to PLN 42.70 after the company's shareholders approved a USD 0.25 dividend per share. The ex-rights date for the payout is still to be determined. Astarta (AST) slipped by 0.6% to PLN 16.00 and Agroton (AGT) lost 8.2% to PLN 3.38.

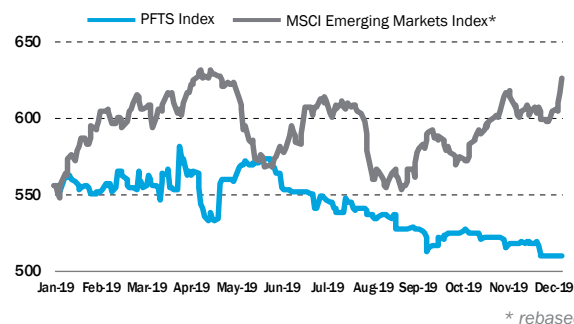
On the currency front, the hryvnia showed no negative reaction to the NBU's big interest rate cut of 200 bps, to 13.50%. The national currency rose by 0.9% against the dollar to 23.49 UAH/USD.

## Highlights

### POLITICS AND ECONOMICS

- > Zelenskiy Stands Firm in First Putin Encounter
- > Ukraine Central Bank Extends Easing Cycle with 200-point Cut to 13.50%
- > Ukraine's Headline Inflation Slows to 5-Year Low of 5.1% in November

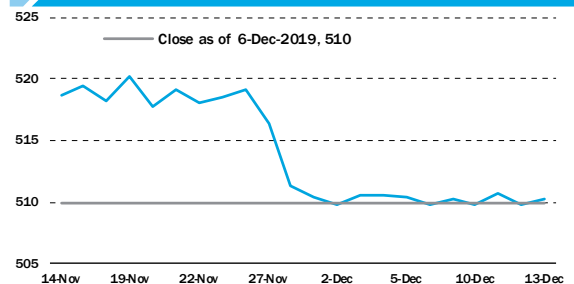
### STOCK MARKET PERFORMANCE



### MARKET INDEXES

	Last	1W ch	YTD
PFTS	510	0.1%	-8.8%
RTS	1512	4.3%	41.5%
WIG20	2118	2.8%	-8.0%
MSCI EM	1086	3.5%	12.5%
S&P 500	3168	0.7%	26.4%

### PFTS 1M PERFORMANCE



### FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	13.5%	-2.0 p.p.	-4.5 p.p.
Ukraine-2024	6.8%	-0.5 p.p.	-3.7 p.p.
Ukraine-2028	7.1%	-0.4 p.p.	-3.7 p.p.

### CURRENCY

	Last, UAH	1W ch	YTD
USD	23.49	-0.9%	-15.1%
EUR	26.14	-0.4%	-17.6%

## Zelenskiy Stands Firm in First Putin Encounter

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

President Zelenskiy came out of last week's Paris summit meeting with Russian President Putin with Kyiv's position on the Donbass conflict essentially unchanged, as no major new breakthroughs were announced. The two sides remained at a stalemate on the key issues of when Moscow will give Ukraine back control of the pre-2014 border, what kind of special self-governing status the Donbass occupied territories will receive, and when municipal and provincial elections in the territories (which are likely to give democratic legitimacy to openly pro-Russian forces) will finally be held. However, the summit did produce agreements on the second-tier issues of prisoner exchanges and a new sustainable ceasefire to stop the ongoing hostilities taking place across the contact line. And there was a commitment that the so-called "Normandy Format", which also includes French President Macron and German Chancellor Merkel, will convene again within 4 months.

### COMMENTARY

We were impressed by Zelenskiy's showing at the Paris meeting, where he took a tougher line on defending Ukraine's interests than many had expected in the weeks leading up to the summit. Zelenskiy even earned praise from his top political rival Petro Poroshenko, who admitted that "no red lines" had been crossed; indeed, Zelenskiy's positions on the Donbass appeared quite close to those maintained by Poroshenko during the latter's presidency. Fears that Zelenskiy would be overmatched by Putin in such a high-profile environment turned out to be unfounded. Perhaps most impressive is the bold political strategy that Zelenskiy revealed in declining to concede any ground on key points: he clearly believes that he can maintain the support of his core Russian-speaking electorate in southeastern Ukraine without adopting measures that would be seen by the pro-Western electorate as betraying Ukrainian national interests. The Paris summit brought the principal quandary facing Ukraine into sharper relief: the regional autonomy for the Donbass outlined in the Minsk agreements is simply a non-starter, as such autonomy would eventually have to be extended to all Ukrainian provinces (i.e. federalization), critically undermining the state as a whole. This implies that the price for reclaiming the occupied territories is simply too high for Kyiv, and that the only palatable option is an indefinite continuation of the status quo. Of course, whether Zelenskiy will be able to maintain his bold stance on the Donbass going forward remains to be seen, as domestic political developments in Ukraine could eventually soften his position. However, it looks positive to us that the initial attempt by the Kremlin to separate Zelenskiy from pro-Western political support has turned out to be a failure.

**Ukraine Central Bank Extends Easing Cycle with 200-point Cut to 13.50%**

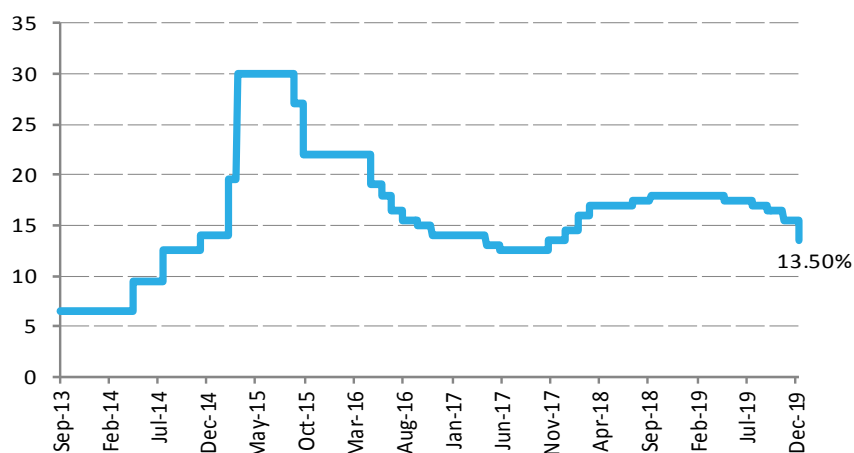
by Dmitry Churin  
d.churin@eavex.com.ua

**NEWS**

Ukraine’s National Bank slashed its main refinancing rate by 200 bps to 13.50% on Thursday (Dec 12), a 50 bps larger than expected cut, in its fifth consecutive policy easing this year. The rate, which is viewed as the country’s key benchmark, has now dropped from 18.00% at the start of the year to a current 13.50% amid slowing consumer inflation and a visible economic recovery in the period. Inflation has slowed due to both the stronger hryvnia and to an improvement in inflation expectations. The above factors neutralized the pressure on prices from robust consumer demand this year, with retail sales having risen by 10.2% YoY through the first 10 months of 2019. The hryvnia strengthened due to several reasons. In October-November, an ample supply of foreign currency was mainly driven by proceeds from Ukrainian exports, in particular thanks to a record harvest of grain and oil crops, and the sale of foreign currency inflows received via the borrowings of state-owned companies. Offshore entities continued to invest in hryvnia government bonds, but this did not have a major influence on the foreign exchange market, unlike in the past months. The National Bank actively purchased excess foreign currency to replenish international reserves. The NBU reports that its net foreign exchange purchases have totaled USD 5.5bn since the start of 2019.

The regulator also lowered its benchmark overnight deposit rate from 13.50% to 11.50%.

**UKRAINE’S KEY INEREST RATE**



Source: Finance Ministry of Ukraine

**COMMENTARY**

In our view, the NBU’s decision to perform a 200-point key rate cut is justified by the country’s economic situation. There has been considerable criticism of the National Bank for not moving earlier to aggressively lower the rate, as interest rates on the UAH-denominated bond market have been well below the key refinancing rate. Moreover, the hryvnia yield curve remains at an inverse shape, with 4-year domestic bonds recently placed at 11.70% (simple yield) while 1-year bonds were placed at 13.00% (simple yield) at the primary auction on Dec 10.

We project that the National Bank will continue its easing of monetary policy next year, with a further rate cut of 100 bps to 12.50% at the next board meeting on Jan 30.

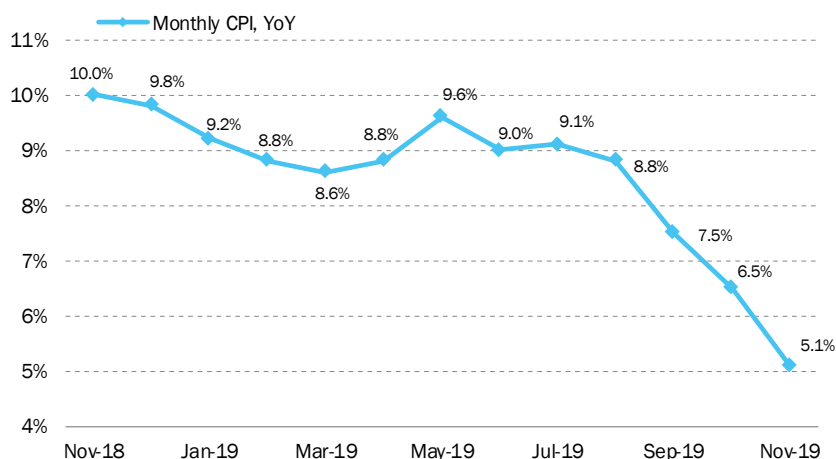
**Ukraine's Headline Inflation Slows to 5-Year Low of 5.1% in November**

by Dmitry Churin  
d.churin@eavex.com.ua

**NEWS**

Ukraine's State Statistics Committee (UkrStat) reported that rolling 12-month inflation slowed to 5.1% in November from 6.5% in October and 7.5% in September, according to data released on Dec 9. On a monthly basis, the consumer price index inched up by 0.1% while food prices declined by 0.2% amid a strengthening hryvnia in the period. For the 11M19 period (the average measurement of full-year inflation) the CPI index growth was at 8.3% YoY.

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



Source: State Statistics Committee

**COMMENTARY**

November's headline inflation figure was the lowest since March 2014, when the 12-month CPI growth was at 3.4% YoY. Among individual consumer price basket categories, there was a 6.8% YoY increase in food prices, while the utility service prices showed an aggregate growth of just 1.1% YoY. One of the major factors behind slow price growth in the utility sector was a notable 19.7% YoY drop in the household natural gas tariffs. On the other hand, the household gas price rose by 12.7% MoM in November due to the start of the heating season.

Industrial output prices in Ukraine in November decreased by 3.0% MoM, after falling by 1.2% MoM in October and 1.5% MoM in September. On a yearly basis, the industrial prices index have dropped by 4.5% amid a 17.2% slide in raw materials prices in Ukraine. In particular, coal prices were down by 21.7% YoY in November. The steel sector's aggregate price index decreased by 18.8% YoY in UAH terms in November, due both to lower global steel prices and revaluation of the hryvnia. Meanwhile, the largest price growth among individual sectors in November was registered in the pharmaceutical sector (+11.3% YoY).

## EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
<b>Agriculture</b>						
Kernel	KER PW	42.7	82.0	92%	BUY	With on-demand borrowing access, Kernel is well placed to further consolidate its position in the oilseed crushing industry. The company's sunflower oil sales grew by solid 40% YoY to 389,600 tonnes despite oilseeds processing increased by moderate 7.0% YoY in January-March 2019. Kernel's sunflower oil sales volume rose by 17.8% YoY to roughly 1.17mn tonnes for the 9 months ending Mar 31 (the company has a July-to-June reporting calendar). The company's grain trading volumes increased by 2.6x YoY to 7.97mn tonnes in the 9 months ending Mar 31 and export terminal throughput rose by 5.8% YoY to 4.71mn. The company aims to achieve EBITDA of USD 500mn by 2021.
MHP	MHPC LI	9.0	16.5	83%	BUY	London-listed agro group MHP increased its net profit by 38% YoY to USD 138mn in 2Q19, which implies earnings per share of USD 1.31 in the period. For the first half (1H19), the company posted net revenue of USD 946mn (+36% YoY), EBITDA of USD 247mn (-6% YoY), and net profit of USD 171mn (-10% YoY). The company's export sales rose 43% YoY to USD 552mn in 1H19, accounting for 58% of total revenue. MHP's reported USD 1.31 net profit per share for 2Q19 beat our forecast of USD 1.10 for the period, and we are raising our full-year projection for MHP's net profit from USD 170mn to USD 220mn, which would imply earnings per share of USD 2.08.
Astarta	AST PW	16.0	32.0	100%	BUY	The company secured USD 20mn financing from Deutsche Investitions und Entwicklungsgesellschaft (DEG) despite the company's high Net Debt-to-EBITDA ratio of 7.7x. Astarta had unexpectedly weak financial results for 3Q19. Astarta's net loss for the quarter amounted to EUR 26mn after a net profit of EUR 30mn posted for 1H19. However, we believe the company's financial results will improve in 4Q19.
Agroton	AGT PW	3.38	12.0	255%	BUY	Agroton unveiled a strategy to increase its land bank from 119,000 ha to 200,000 ha by mid-2020 securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region. Agroton reported that its net profit was USD 3.3mn (PLN 0.51 per share) in 1H19. In our view, Agroton currently has a fairly healthy financial position, with an estimated Net Debt/EBITDA ratio of 1.0x. The company continues to invest in growth, spending USD 2.2mn on CapEx in 1H19.
<b>Iron Ore</b>						
Ferrexpo	FXPO LN	152	250	64%	BUY	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. 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.
<b>Oil &amp; Gas</b>						
UkrNafta	UNAF	144	270	88%	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	22.4	--	--	U/R	Natgas extractor Regal Petroleum (RPT) got hammered, plunging 30% 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	24.7	--	--	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	25.2	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.26	25.60	176%	BUY	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 10 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. This year 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.
<b>Banks</b>						
Raiffeisen Bank Aval	BAVL	0.308	0.47	53%	BUY	Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, approved UAH 3.56bn in dividends from its full-year 2018 profit (5.79 kopecks per share). 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 4.8bn in net profit in FY19, which would imply earnings per share of 7.8 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

**QUOTES AND MULTIPLES**

Name	Ticker	Today, UAH*	Absolute performance		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales 2019E
			1W	YtD				2018	2019E	2018	2019E	
PFTS Index	UX	510	0.1%	-8.8%								
<b>Iron Ore Mining</b>												
Ferrexpo	FXPO	152	7.1%	-21.8%	1,198	1,480	24.0%	3.6	2.9	2.9	2.4	0.9
<b>Railcar Manufacturing</b>												
Kryukiv Wagon	KVBZ	15.6	0.0%	48.6%	76	44	5.0%	4.2	15.5	2.2	4.1	0.2
<b>Specialized Machinery</b>												
Turboatom	TATM	10.7	1.2%	-21.7%	193	190	3.8%	6.9	6.4	4.7	4.2	1.8
Motor Sich	MSICH	5,390	0.0%	0.0%	477	505	24.0%	10.4	-35.4	5.3	27.4	1.4
<b>Oil &amp; Gas</b>												
UkrNafta	UNAF	144	1.4%	7.1%	332	325	3.0%	1.4	11.5	0.9	3.1	0.2
Regal Petroleum	RPT	22.4	-5.9%	-64.4%	96	56	21.6%	2.3	9.6	1.0	2.5	1.1
JKX Oil	JKX	24.7	-1.6%	-37.5%	57	165	50.4%	3.7	3.1	5.4	4.9	1.5
<b>Power Utilities</b>												
Centrenergy	CEEN	9.26	1.8%	-31.4%	146	125	21.7%	7.9	neg	3.3	-4	0.2
Donbasenergy	DOEN	25.22	-0.9%	-21.0%	25	24	14.2%	6.6	neg	1.0	3.5	0.1
<b>Consumer</b>												
MHP	MHPC	9.00	0.2%	-16.7%	951	2,244	34.1%	7.4	3.1	5.0	4.7	1.1
Kernel	KER	42.70	3.6%	-14.9%	884	1,578	61.8%	4.7	3.8	4.6	3.9	0.3
Astarta	AST	16.00	-0.6%	-31.9%	104	361	37.0%	neg	4.6	5.6	3.8	0.7
Avangardco	AVGR	0.20	0.0%	-28.6%	13	344	22.5%	neg	6.4	23	20	2.6
Agroton	AGT	3.38	-8.2%	-15.5%	19	28	25.0%	1.4	2.0	2.0	2.2	0.5
<b>Banks</b>												
Raiffeisen Bank Aval	BAVL	0.308	-0.3%	-9.4%	806		1.8%	4.3	4.8	1.9	1.8	0.33

Source: 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		
		2017	2018	2019E	2017	2018	2019E	2017	2018	2019E	2017	2018	2019E	2017	2018	2019E
<b>Iron Ore Mining</b>																
Ferrexpo	FXPO	1,197	1,274	1,593	551	503	629	46.0%	39.5%	39.5%	394	335	419	32.9%	26.3%	26.3%
<b>Railcar Manufacturing</b>																
Kryukiv Wagon	KVBZ	141	200	220	14	20	11	9.9%	10.2%	4.9%	12	18	5	8.6%	9.0%	2.2%
<b>Specialized Machinery</b>																
Turboatom	TATM	87	94	104	37	40	45	42.6%	43.1%	43.6%	26	28	30	29.9%	29.9%	29.2%
Motor Sich	MSICH	436	450	354	156	96	18	35.8%	21.2%	5.2%	117	46	-13	26.8%	10.2%	-3.8%
<b>Oil &amp; Gas</b>																
Ukrnafta	UNAF	1,011	1,328	1,327	67	350	105	6.6%	26.4%	7.9%	4	237	29	0.4%	17.8%	2.2%
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	533	529	104	38	-34	25.2%	7.1%	-6.4%	71	18	-39	17.3%	3.4%	-7.4%
Donbasenergo	DOEN	147	224	225	8	23	7	5.8%	10.2%	3.1%	2	4	-3	1.4%	1.7%	-1.2%
<b>Consumer</b>																
MHP	MHPC	1,289	1,556	2,090	459	450	475	35.6%	28.9%	22.7%	230	128	310	17.8%	8.2%	14.8%
Kernel (FY18, FY19, FY20E)	KER	2,403	3,992	4,750	223	346	405	9.3%	8.7%	8.5%	52	189	230	2.2%	4.7%	4.8%
Astarta	AST	514	424	551	134	65	96	26.1%	15.3%	17.4%	69	-24	23	13.5%	-5.7%	4.1%
Avangardco	AVGR	130	127	135	12	15	17	9.1%	11.8%	12.6%	-8	-5	2	-5.8%	-3.9%	1.5%
Agroton	AGT	52	57	63	11	14	13	20.3%	24.7%	20.6%	8	14	9	16.1%	23.7%	15.1%
<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	437	234	239	253	169	187	168	41.8%	44.6%	38.5%

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>									
UA4000202469			14.70%	13.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			14.70%	13.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			14.55%	12.85%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			14.20%	–	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			14.10%	–	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
UA4000201743			4.75%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research



## Eavex Capital

7 Klovsyky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464  
E-mail: office@eavex.com.ua  
Web-page: www.eavex.com.ua

Yuriy Yakovenko  
**Chairman of the Board**  
yuriy.yakovenko@eavex.com.ua

### SALES & TRADING

Pavel Korovitskiy  
**Managing Director**  
**Equity and Fixed Income**  
p.korovitsky@eavex.com.ua

Alexander Klymchuk  
**Equity and Fixed Income**  
a.klymchuk@eavex.com.ua

Eugene Klymchuk  
**Fixed Income Sales and Trading**  
e.klymchuk@eavex.com.ua

### RESEARCH

Dmitry Churin  
**Head of Research**  
d.churin@eavex.com.ua

Will Ritter  
**Research editor**  
w.ritter@eavex.com.ua