

Stock Market Update

Equity

Kyiv-listed Ukrainian stocks finished mostly higher last week, demonstrating some recovery after persistent selling pressure observed since late October. However, the PFTS index edged down by 0.1% to 510 points.

UkrNafta (UNAF) gained 1.4% to UAH 142 per share despite negative reports that the company's LPG facility has excessive inventories due to the company's inability to effectively sell the product. CentrEnerg (CEEN) returned back above the UAH 9 level, advancing by 2.2% to UAH 9.10 per share. Low-liquidity Krukiv Wagon (KVBZ) tumbled by 5.1% to UAH 15.60.

In London trading, Ferrexpo (FXPO) dropped by 3.9% to GBp 142 per share as risks of a higher production tax for iron ore in Ukraine become more visible. MHP (MHPC) once again tested the USD 9 line, closing at USD 8.94 on a 1.6% gain for the week. Regal Petroleum (RPT) fell 4.8% to GBp 23.80 as the company is unlikely to deliver a strong profit this year amid declining natural gas prices.

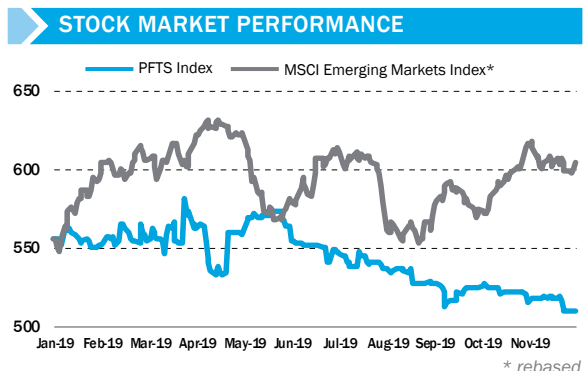
Warsaw-listed Kernel (KER) shed 1.1% to PLN 41.20 and Astarta (AST) declined by 1.5% to PLN 16.10 amid a broad correction on European bourses. Sporadically-traded Agroton (AGT) gained 4.0% to PLN 3.68.

The hryvnia rose by 1.1% against the dollar over the week to close at 23.70 UAH/USD, another fresh 3-year high. Meanwhile, the Executive Council of the National Bank has called the central bank's formation and implementation of exchange rate policy in 2019 ineffective and not in line with the challenges of the development of Ukraine. The hryvnia has strengthened by 14% year-to-date, hurting the competitiveness of Ukrainian exports.

Highlights

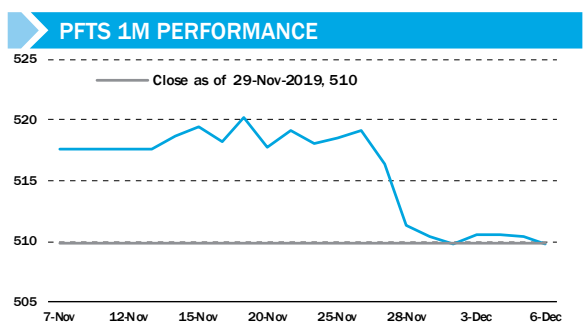
POLITICS AND ECONOMICS

- > IMF Floats USD 5.5bn for Kyiv Ahead of Zelenskiy-Putin Meeting
- > NBU Reserves Near USD 22bn, Highest Level Since July 2013



MARKET INDEXES

	Last	1W ch	YTD
PFTS	510	-0.1%	-8.9%
RTS	1449	0.1%	35.6%
WIG20	2060	-4.5%	-10.5%
MSCI EM	1049	0.9%	8.6%
S&P 500	3145	0.1%	25.5%



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
Ukraine-2024	7.3%	1.0 p.p.	-3.2 p.p.
Ukraine-2028	7.5%	0.0 p.p.	-3.3 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	23.70	-1.1%	-14.4%
EUR	26.25	-0.5%	-17.2%

IMF Floats USD 5.5bn for Kyiv Ahead of Zelenskiy-Putin Meeting

by Will Ritter
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NEWS

International Monetary Fund managing director Kristalina Georgieva announced on Saturday (Dec 7) that the IMF has reached a preliminary agreement with Ukraine's government on a new USD 5.5bn loan program for the country. Georgieva said she had spoken personally with Zelenskiy and had "commended him for impressive progress in advancing reforms". The new deal, which is subject to approval by the IMF's executive board, will replace Kyiv's existing USD 3.9bn "standby arrangement" with the IMF that has been partially disbursed. Georgieva did not specify when Ukraine could receive the first installment of the new loan, which will be subject to periodic progress reviews according to standard IMF practice. The announcement comes as Zelenskiy is due to meet Russian President Putin later today (Dec 9) in Paris along with French President Macron and German Chancellor Merkel in a so-called "Normandy Four" summit aimed at resolving the Donbass conflict in Eastern Ukraine. A crowd of several thousand nationalist protesters, including former President Poroshenko, gathered on Independence Square in Kyiv on Sunday (Dec 8) to demand that Zelenskiy not cross "red lines" in the talks with Putin.

COMMENTARY

The IMF's announcement of a new deal right before the Normandy Four summit is clearly not accidental and is intended to demonstrate support for Zelenskiy and Ukraine at a key moment. Industrialist and former Zelenskiy political patron Igor Kolomoyskiy has been trying to derail Kyiv's IMF cooperation by harassing the National Bank (NBU) with paid protests and court cases in recent months; a key requirement for the new IMF loan is that Zelenskiy hold Kolomoyskiy accountable for billions of dollars in losses accrued in the government's 2016 bailout of the country's largest bank. Zelenskiy has thus far remained publicly passive in regard to Kolomoyskiy's attacks against the NBU, perhaps wishing to avoid further inflaming the situation. In terms of the nationalist "red lines" protest, we see Zelenskiy now facing the same quagmire that dogged Poroshenko's efforts to manage the Donbass negotiations, i.e. the compromises required from Kyiv to implement the Minsk peace agreements are unacceptable to a very politically active and aggressive minority of citizens. The key compromise needed to bring the DNR and LNR back into Ukraine is a so-called "special status" for these territories which would amount to regional autonomy outside of Ukraine's current Constitution; in return, Russia would withdraw its military forces back behind the pre-2014 Ukrainian-Russian border. In our view, the fundamental underlying issue is that there is no realistic scenario for Ukraine to regain control over the occupied Donbass territories, but it is politically impossible for Zelenskiy (or any other politician) to state this openly. The difference here between Zelenskiy and Poroshenko is that unlike Poroshenko, Zelenskiy has a large Russian-speaking electorate to keep satisfied, and so he needs to come out of today's summit with some kind of demonstrable result. We believe that the Kremlin is pursuing a deliberate strategy of trying to encourage nationalist anger at Zelenskiy, thus depriving him of support from the pro-Western spectrum of Ukrainian politics and making him totally dependent on the backing of the southeastern electorate.

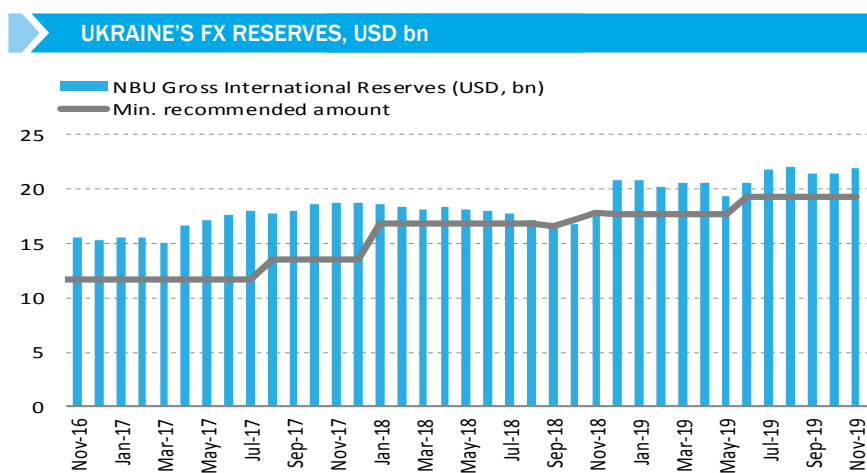
**NBU Reserves Near USD 22bn,
Highest Level Since July 2013**

by Dmitry Churin
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NEWS

Ukraine's foreign currency reserves increased by USD 530mn (+2.5% MoM) to USD 21.93bn in November, the National Bank of Ukraine said on Dec 6. The November increase brought the reserves up by 5.4% year-to-date. The NBU said November's rise occurred thanks to net forex purchases of USD 898mn on the interbank market amid a steady supply of foreign currencies. The regulator did not intervene the market with any forex sales last month.

In terms of outflows, the NBU transferred USD 645mn to the government for servicing foreign-currency denominated debt, and MinFin redeemed EUR 426mn of domestic EUR-bonds. Also there was a USD 84mn interest payment to the IMF in November.



Source: National Bank of Ukraine

COMMENTARY

Ukraine's forex reserves at the end of November represent the highest level since July 2013. A generally favorable situation on the interbank market driven by inflows of hard currency from offshore investors buying Ukrainian high-yield UAH domestic bonds were the primary reason for the National Bank's ability to replenish the reserves.

Although the hryvnia performed strongly last week, we believe that the problems which Ukrainian steelmakers are now facing on global markets will spark a reduction in the export proceeds which have been helping to boost the hryvnia this year. We expect a notable hryvnia retreat before the end of the year of 5-7%, back to the 25-25.50 UAH/USD range where it had spent most of 2019.

The latest NBU figures indicate that Ukraine's currency reserves now roughly cover the equivalent of 3.4 months of merchandise imports, which is above the minimum 3 months safe level to maintain trouble-free foreign trade.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	41.2	82.0	99%	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	84%	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	16.1	32.0	99%	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	3.68	12.0	226%	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.
Iron Ore						
Ferrexpo	FXPO LN	142	250	76%	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.
Specialized Machinery						
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.
Oil & Gas						
UkrNafta	UNAF	142	270	90%	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	23.8	--	--	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	25.1	--	--	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.
Power Utilities						
DonbasEnerg	DOEN	25.4	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	9.10	25.60	181%	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.
Banks						
Raiffeisen Bank Aval	BAVL	0.309	0.47	52%	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%	-8.9%								
Iron Ore Mining												
Ferrexpo	FXPO	142	-3.9%	-26.9%	1,099	1,381	24.0%	3.3	2.6	2.7	2.2	0.9
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	15.6	-5.1%	48.6%	75	44	5.0%	4.2	15.4	2.1	4.1	0.2
Specialized Machinery												
Turboatom	TATM	10.6	-1.2%	-22.6%	189	186	3.8%	6.7	6.2	4.6	4.1	1.8
Motor Sich	MSICH	5,390	0.0%	0.0%	473	501	24.0%	10.3	-35.1	5.2	27.1	1.4
Oil & Gas												
UkrNafta	UNAF	142	1.4%	5.6%	325	318	3.0%	1.4	11.3	0.9	3.0	0.2
Regal Petroleum	RPT	23.8	-4.8%	-62.2%	100	60	21.6%	2.4	10.0	1.1	2.7	1.2
JKX Oil	JKX	25.1	6.8%	-36.5%	57	165	50.4%	3.7	3.1	5.4	4.9	1.5
Power Utilities												
Centrenergy	CEEN	9.10	2.2%	-32.6%	142	121	21.7%	7.7	neg	3.2	-4	0.2
Donbasenergy	DOEN	25.44	2.6%	-20.3%	25	24	14.2%	6.6	neg	1.0	3.5	0.1
Consumer												
MHP	MHPC	8.98	1.6%	-16.9%	949	2,242	34.1%	7.4	3.1	5.0	4.7	1.1
Kernel	KER	41.20	-1.1%	-17.9%	851	1,545	61.8%	4.5	3.7	4.5	3.8	0.3
Astarta	AST	16.10	-1.5%	-31.5%	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	3.68	4.0%	-8.0%	21	30	25.0%	1.5	2.2	2.1	2.3	0.5
Banks												
Raiffeisen Bank Aval	BAVL	0.309	0.4%	-9.1%	802		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
Iron Ore Mining																
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%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	141	200	220	14	20	11	9.9%	10.2%	4.9%	12	18	5	8.6%	9.0%	2.2%
Specialized Machinery																
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%
Oil & Gas																
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%
Electric Utilities																
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%
Consumer																
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%
Banks																
		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
UAH denominated Bonds									
UA4000202469			16.00%	14.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			15.75%	14.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			15.75%	14.00%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			15.50%	13.75%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			15.50%	13.75%	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000201743			4.75%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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