

Stock Market Update

Equity

Kyiv-listed stocks were under pressure last week, underperforming most of Ukraine's emerging market peers. Low liquidity and lack of upbeat corporate news made local investors inactive despite quite attractive pricing levels. The PFTS index lost 1.9% to close at 554 points. Raiffeisen Bank Aval (BAVL) fell 3.2% to 30 kopecks on the nose, continuing to correct after the passage of the ex-rights date of May 23 for the stocks's hefty dividend of 5.79 kopecks from FY18 profit. CentrEnergO (CEEN) dropped by 1.7% to UAH 11.80 after the Kyiv district court issued a ruling which temporarily blocks the State Property Fund from selling the state's stake of 78% in the company. The court case was initiated by UkrDonInvest, which was one of two bidders for CentrEnergO at the cancelled auction in December 2018. The State Property Fund has filed an appeal on the court ruling, with the hearing scheduled for Jun 13.

UkrNafta (UNAF) rose by 2.5% to UAH 164 per share, and has now increased by 22% since the start of the year.

In London trading, Ferrexpo (FXPO) jumped by 8.3% to GBp 249 per share while MHP (MHPC) fell 3.8% to USD 10.00.

Warsaw-listed Kernel (KER) was turbulent, bouncing back after losses and climbing by 4.3% to PLN 48.80. The company reported that its management acquired additional shares after the stock approached PLN 46.00 level. Agroton (AGT) shed 1.8% to PLN 3.80 while Astarta (AST) gained 2.1% to PLN 24.10.

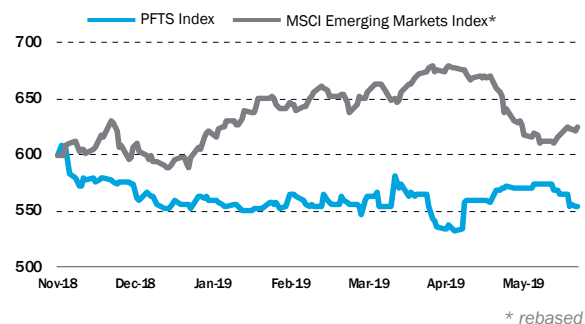
On the interbank market, the hryvnia gained 1.4% against the dollar to 26.50 UAH/USD after the National Bank left its key rate unchanged at 17.50% at the monetary policy meeting on June 5. The NBU's big drop in foreign currency reserves of USD 1.12bn to USD 19.4bn in May did not affect the market, with expectations having previously priced it in.

Highlights

POLITICS AND ECONOMICS

- > Opposition Bloc Re-Unites as Zelenskiy's Party Leads Race
- > MinFin Targets Reduction of Debt-to- GDP from 52% to 47% by End-2020

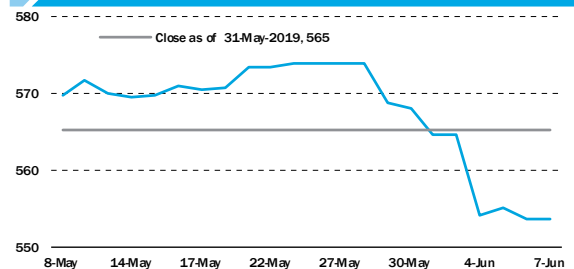
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	554	-1.9%	-1.0%
RTS	1332	3.5%	24.6%
WIG20	2285	2.1%	-0.7%
MSCI EM	1007	0.9%	4.3%
S&P 500	2883	4.8%	15.0%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	-0.0 p.p.	-0.5 p.p.
Ukraine-2024	9.2%	-0.2 p.p.	-1.3 p.p.
Ukraine-2032	8.9%	-0.4 p.p.	-1.2 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	26.50	-1.4%	-4.3%
EUR	29.93	0.1%	-5.6%

Opposition Bloc Re-Unites as Zelenskiy's Party Leads Race

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

NEWS

Ukraine's two largest Russian-oriented political parties, the Opposition Bloc and the Platform For Life, said on Friday (Jun 7) that they would re-join forces for the parliamentary election scheduled for Jul 21. The parties, which are the successors to ex-President Yanukovich's Party of Regions, were formerly a single entity under the OppoBloc brand, but had split into two factions last autumn after they were unable to agree on a single presidential candidate. They will also be joined by the Renaissance faction, a grouping of mostly Eastern Ukrainian MPs who were elected from geographic districts. The Platform For Life is the largest faction of the three and is led by energy industrialist Yuriy Boyko and pro-Russian politician Victor Medvedchuk, while the OppoBloc (the reduced version) represents the interests of steel & coal magnate Rinat Akhmetov and is fronted by his long-time ally Alexander Vilkul. Recent polling has given the Platform for Life alone near 11% support nationally, with the OppoBloc at 3-4%. Overall, new President Zelenskiy's Sluha Naroda (Service to the People) party is well out in front of all others, with the most recent polling giving SN somewhere in the range of 40% support in the party list competition, while Petro Poroshenko's European Solidarity and Yulia Tymoshenko's Batkivschyna are in the high single digits and Sviatoslav Vakarchuk's Holos (Voice) is near the 5% minimum barrier. The election was moved forward by 3 months after Zelenskiy dismissed Parliament on the day of his inauguration.

COMMENTARY

Zelenskiy's dissolution of Parliament was clearly unconstitutional, and his attempt to justify the move on the grounds that it has popular support sounds quite poor to us; we are concerned that disregard for the rule of law in this manner could eventually come back to bite Ukraine. The idea was clearly to hold the election quickly before Zelenskiy's support starts to decline as he is forced to begin making concrete policy choices. Most observers expect the vote to go forward next month despite a pending Constitutional Court challenge. So far we see that Zelenskiy is working hard to keep as much of Ukraine's patriotic pro-Western electorate on his side as possible by saying all right things in regard to Russia, the European Union, and geopolitical issues. However, Zelenskiy also needs to avoid losing too much of his support among his core base of Russophile Ukrainians, and we detect something of a "wink-and-nod" strategy toward this electorate implying that once the vote has passed, Zelenskiy will become one of theirs again. Zelenskiy's parliamentary campaign is unfolding much like his presidential campaign: with a lot of pleasant-sounding generalizations. Thus far he is yet to be tested on where he really stands, and in our view, he still seems to resemble his imaginary television presidential persona more than a real-life politician.

MinFin Targets Reduction of Debt-to-GDP from 52% to 47% by End-2020

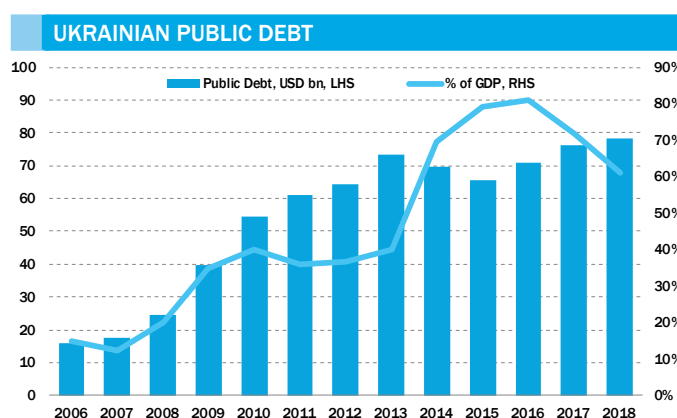
by Dmitry Churin
d.churin@eavex.com.ua

NEWS

The Finance Ministry aims to reduce the country's government debt-to-GDP ratio from the current level of near 52% to 47% by the end of 2020, according to the Medium Term Strategy for State Debt Management for 2019-2022 approved by the Cabinet on June 5.

The Strategy includes the following steps:

- Increasing the proportion of the state debt in the domestic currency.
- Attracting foreign investors into domestic government bonds denominated in the local currency.
- Extending the average term length of government securities and ensuring a uniform schedule of repayment of the state debt.
- Implementing operations for active state debt management in order to reduce the peak load on the budget and stimulate demand for government securities.
- Ensuring full access of Ukraine to the international capital market.
- Increasing long-term privileged financing by expanding cooperation with international financial institutions (in particular, the World Bank, IMF, EBRD, EIB) and partner countries.



Source: MinFin

COMMENTARY

We were somewhat confused by the fact that MinFin has not included the state guaranteed debt of USD 11.1bn into its calculation of the debt to GDP ratio. If included, then the current level of public debt to GDP stands at 60%. Government Debt to GDP in Ukraine averaged 42% from 1997 until 2018, reaching an all time high of 81% in 2016 and a record low of 12% percent in 2007. The overall Ukrainian public debt was reported at USD 78.3bn at the beginning of this year. The share of internal debt was 35.6% and the external debt share was 64.4%. In the structure of the USD 67.2bn state debt, domestic hryvnia-denominated debt accounted for 33%, followed by Eurobonds (33%), debt to IFIs (22%), domestic forex-denominated debt (8%) and 'other debt' (3%). The country's debt redemption and servicing payments are estimated at UAH 390bn (USD 14.5bn) in the next 12-month period. MinFin is due to pay UAH 243bn (USD 9.1bn) to cover the country's internal debt and USD 5.4bn for the external obligations in the period.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	48.8	82.0	68%	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	10.0	16.5	65%	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 47% YoY to near 93,000 tonnes in 1Q19, accounting for 56% of total sales volume, up from a share of 47% a year before.
Astarta	AST PW	24.1	-	-	U/R	The company's net debt to EBITDA ratio surged from 1.1x at the end of FY17 to 5.2x as of end-2018. We assume that the elevated debt burden now represents a major risk for the company.
Agroton	AGT PW	3.80	12.0	216%	BUY	Agroton unveiled a strategy to increase its land bank from 122,000 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.
AvangardCo	AVGR LI	0.3	0.3	20%	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.
Iron Ore						
Ferrexpo	FXPO LN	249	250	0%	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.
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	164	270	65%	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	42.0	-	-	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	41.1	-	-	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	28.8	33.5	17%	U/R	DonbasEnerg set the ex-rights date for its UAH 1.32 dividend payout on May 28. The actual dividend payment will be made during 3 months starting in late June. The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnerg	CEEN	11.80	25.60	117%	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 12 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.
Banks						
Raiffeisen Bank Aval	BAVL	0.300	0.47	57%	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 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

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	554	-1.9%	-1.0%								
Iron Ore Mining												
Ferrexpo	FXPO	249	8.3%	27.9%	1,866	2,205	24.0%	5.6	4.5	4.4	3.5	1.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	13.0	0.0%	23.8%	56	24	5.0%	3.1	11.4	1.2	2.3	0.1
Specialized Machinery												
Turboatom	TATM	11.8	0.0%	-14.2%	187	178	3.8%	6.7	6.8	4.4	4.3	1.9
Motor Sich	MSICH	5,390	0.0%	0.0%	422	433	24.0%	9.2	8.0	4.5	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	164	2.5%	21.9%	335	329	3.0%	1.4	0.6	0.9	0.4	0.1
Regal Petroleum	RPT	42.0	5.3%	-33.3%	171	131	21.6%	4.1	17.1	2.4	6.0	2.6
JKX Oil	JKX	41.1	-13.5%	4.1%	90	198	50.4%	5.9	4.9	6.4	5.8	1.8
Power Utilities												
Centrenergo	CEEN	11.80	-1.7%	-12.6%	164	153	21.7%	9.0	6.5	4.0	3.9	0.3
Donbasenergo	DOEN	28.75	-3.4%	-9.9%	26	32	14.2%	6.7	10.0	1.4	1.7	0.1
Consumer												
MHP	MHPC	10.00	-3.8%	-7.4%	1,057	2,223	34.1%	8.3	4.2	4.9	4.5	1.2
Kernel	KER	48.80	4.3%	-2.8%	1,023	1,645	61.8%	19.6	4.9	7.4	5.3	0.5
Astarta	AST	24.10	2.1%	2.6%	159	454	37.0%	-6.6	4.6	7.0	5.3	0.8
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	-3.2	8.0	23.2	20.4	2.6
Agroton	AGT	3.80	-1.8%	-5.0%	22	5	25.0%	1.6	2.3	0.3	0.4	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.300	-3.2%	-11.8%	696		1.8%	3.7	3.2	1.7	1.6	0.29

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	94	37	40	41	42.6%	43.1%	43.6%	26	28	28	29.9%	29.9%	29.2%
Motor Sich	MSICH	436	450	387	156	96	100	35.8%	21.2%	25.8%	117	46	53	26.7%	10.2%	13.6%
Oil & Gas																
Ukrnafta	UNAF	1,011	1,328	2,534	67	350	894	6.6%	26.4%	35.3%	4	237	565	0.4%	17.8%	22.3%
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																
Centrenergo	CEEN	412	533	570	104	38	39	25.2%	7.1%	6.9%	71	18	25	17.3%	3.4%	4.5%
Donbasenergo	DOEN	147	224	225	8	23	19	5.8%	10.2%	8.4%	2	4	3	1.4%	1.7%	1.1%
Consumer																
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	424	551	134	65	86	26.1%	15.3%	15.5%	69	-24	34	13.5%	-5.7%	6.2%
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	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
UAH denominated Bonds									
UA4000195580			19.50%	18.00%	n/a	n/a	S/A	04 Sept 2019	n/a
UA4000196620			19.50%	18.00%	n/a	n/a	S/A	15 Jan 2020	n/a
UA4000200174			19.50%	18.30%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			7.50%	5.15%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

Eavex Capital

7 Klovsky 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