

Stock Market Update

Equity

Ukrainian stocks saw a mixed performance last week amid a turbulent situation on global financial markets caused by the US-China trade conflict. In local economic news, Ukraine's GDP grew by 2.2% YoY in 1Q19 according to preliminary estimates. The growth remains considerably slower than most investors anticipated two or three years ago when the reform agenda should have been help to improve the business climate.

The PFTS index was little-changed, inching down by 0.2% to close at 571 points on Friday (May 17). CentrEnergO (CEEN) and Raiffeisen Bank Aval (BAVL) finished in negative territory, losing 3.5% and 1.3% respectively. CentrEnergO stock was hit by news that the company had a net loss of UAH 110mn in April amid low thermal electricity tariffs in the period. Meanwhile, UkrNafta (UNAF) supported the index, gaining 1.9% to UAH 160 per share. DonbasEnergO (DOEN) was unchanged at UAH 29.75 after the company 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.

In London trading, Ferrexpo (FXPO) bounced back by 4.2% to GBp 224 while MHP (MHPC) declined by 1.4% to USD 10.40 per share. Natural gas producer Regal Petroleum (RPT) dropped by 3.5% to GBp 38.50.

Warsaw-listed Kernel (KER) climbed 1.6% to PLN 50.60, moving back above the support line of PLN 50 per share. Astarta (AST) slumped by 5.6% to PLN 23.60 after reports that this year's sugar beet harvest is expected to be substantially lower this season. This is part of a normal multi-year cycle whereby domestic sugar output falls, eventually driving sugar prices higher in the following season, which benefits Astarta.

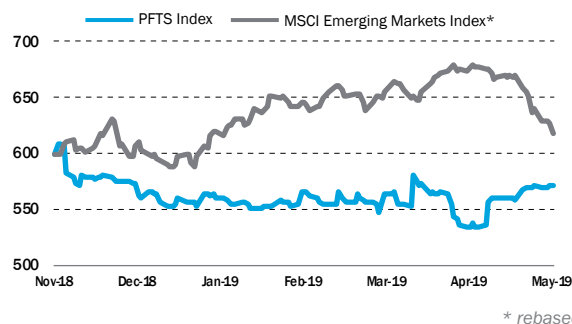
On the interbank market, the hryvnia lost its steam for appreciation, weakening by 0.8% against the dollar to 26.40 UAH/USD. The Ukrainian currency still holds a gain of 4.6% against the dollar since the start of the year.

Highlights

POLITICS AND ECONOMICS

- > Zelenskiy Dismisses Parliament Without Constitutional Basis
- > Ukraine's GDP Growth Estimated at 2.2% YoY in 1Q19

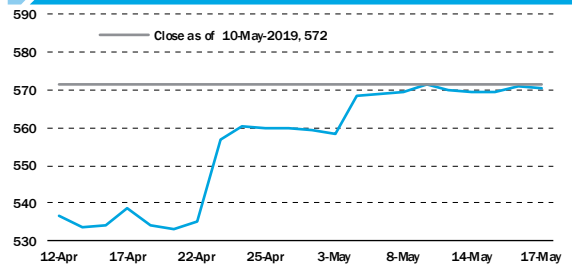
STOCK MARKET PERFORMANCE



MARKET INDEXES

	Last	1W ch	YTD
PFTS	571	-0.2%	2.1%
RTS	1257	3.6%	17.6%
WIG20	2177	-0.8%	-5.4%
MSCI EM	996	-3.6%	3.1%
S&P 500	2859	-0.8%	14.0%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.5%	-0.5 p.p.	-0.5 p.p.
Ukraine-2024	9.5%	0.1 p.p.	-1.0 p.p.
Ukraine-2032	9.3%	0.2 p.p.	-8 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	26.40	0.8%	-4.6%
EUR	29.49	0.1%	-7.0%

Zelenskiy Dismisses Parliament Without Constitutional Basis

by Will Ritter
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NEWS

Eastern Ukrainian actor and entertainment mogul Volodymyr Zelenskiy became Ukraine's 6th elected president (and 7th overall) at a swearing-in ceremony at Parliament on Monday morning (May 20). In attendance were diplomatic delegations from around the world and Ukraine's 6 prior presidents, barring only Victor Yanukovich, who is living in exile in Russia after being charged with state treason. After the swearing-in, Zelenskiy gave a speech in which he named stopping the war in the Donbass as his top priority. At the end of the speech, Zelenskiy announced that he is going to dissolve Ukraine's Parliament 5 months ahead of the scheduled October election, without providing a reason. Zelenskiy also called for the resignations of Defense Minister Stepan Poltorak, Security Service chief Vasyl Grytsak, and General Prosecutor Yuriy Lutsenko. The president has constitutional responsibility for appointments to all three posts. Poltorak and Grytsak resigned today but will continue working until their replacements are named by Zelenskiy and confirmed by Parliament; Lutsenko has not yet resigned.

COMMENTARY

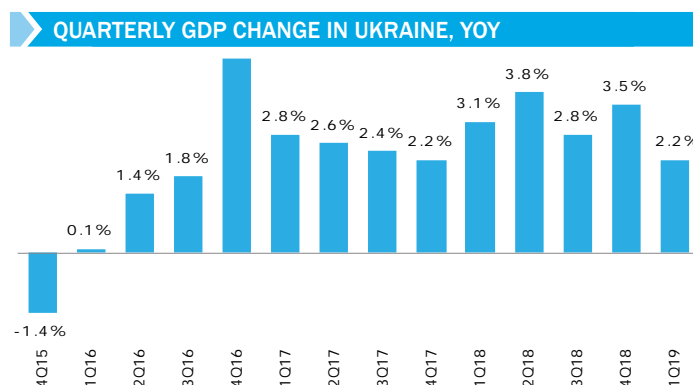
What disturbs us here is that Zelenskiy did not even try to present a constitutional basis for his early dismissal of Parliament. He could have made the legally dubious claim that no coalition in Parliament currently exists, but he did not even offer this justification. Under the Ukrainian Constitution, Zelenskiy clearly lacks the legal authority to take this step, which in our view sets a bad precedent in terms of what additional unconstitutional actions Zelenskiy might be tempted to take in the future. However, the ball is now in Parliament's court to fight the dismissal, and it appears that there is no real opposition among the main factions to stop the momentum of the newly elected president. Indeed, if the Poroshenko Bloc (the largest faction with around 130 MPs) had really wanted to prevent Zelenskiy from dismissing Parliament, they could have maneuvered to delay his inauguration date until early June. In this view, a pre-term national election is likely to take place on Jul 21, which is 14 weeks ahead of the scheduled Oct 27 date. Assuming that this is the case, the campaign effectively starts today, and we are looking at which high-profile figures Zelenskiy might move to poach from other parties in order to boost the performance of his own Servant of the People (SotP) grouping. We suspect that Zelenskiy is aiming to turn Servant of the People into a de-facto national unity party that could conceivably garner an absolute majority in Parliament by bringing Russophone voters in Eastern Ukraine together with more nationalist-oriented Central Ukrainian voters. In this scenario, Zelenskiy personally will need to continue to be all things to all people for the next 60 days, which explains the generalities and platitudes from his election campaign that he repeated today during his inauguration speech. Key specifics about the parliamentary vote will have to be decided quickly, including whether Parliament will continue to elect half (225) of MPs via local geographic districts, and if so, whether the 27 MP mandates from the occupied territories will remain vacant, effectively reducing the size of the chamber to 423 members. The effect of a late July election date on voter turnout should also be considered, as we believe that participation could fall by 10-15 percent from the traditional level of 60-70 percent for Ukrainian elections.

Ukraine's GDP Growth Estimated at 2.2% YoY in 1Q19

by Dmitry Churin
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NEWS

The Ukrainian economy grew by 2.2% YoY in 1Q19, according to the preliminary estimate from the State Statistics Committee released on May 15. The data also showed that the country's seasonally-adjusted GDP inched up by 0.2% on a quarterly basis in the period. The 1Q19 figure came in well below the growth of 3.5% in 4Q18 and 2.8% in 3Q18; full-year growth of 3.3% YoY was registered for 2018. The government built the national budget for 2019 on a forecast for a GDP rise of 3.0% and inflation of 7.4%.



COMMENTARY

The country's economic growth, which is in line with global trends, continues to rely mostly on improvement in consumer sentiments. UkrStat reported that retail sales grew by 7.4% YoY in 1Q19, driven by a very impressive increase in the nominal average wage in the country by 22% YoY in the period. Still, the nominal average monthly wage in Ukraine of UAH 10,240 (USD 390) remains one of the lowest in Europe along with Moldova. For this year, Ukraine's nominal GDP is forecasted at USD 137bn, which translates at GDP per capita of USD 3340, compared to USD 15,400 GDP per capita for neighboring Poland and USD 9,350 for Turkey.

The GDP growth of 2.2% YoY in 1Q19 was worse than initial expectations for the period, but the figure was not surprising after Ukraine's overall industrial production output contracted by 0.9% YoY in 1Q19. Nevertheless, in March alone the industrial production index demonstrated a rebound of 2.1% YoY, signaling that slow start of the year could be just an anomalous event.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	50.8	82.0	61%	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	10.4	16.5	59%	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	23.6	-	-	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	3.87	12.0	210%	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.
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	224	250	12%	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. Our base case scenario forecast for Motor Sich's net profit for FY18 is UAH 2.6bn, implying EPS of UAH 1.270.
Oil & Gas						
UkrNafta	UNAF	160	270	69%	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	38.5	-	-	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	53.0	-	-	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						
DonbasEnergO	DOEN	29.8	33.5	13%	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 UAH 33.63, 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.
CenterEnergO	CEEN	12.26	25.60	109%	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 CentrEnergO can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. 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.
Banks						
Raiffeisen Bank Aval	BAVL	0.354	0.47	33%	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	571	-0.2%	2.1%								
Iron Ore Mining												
Ferrexpo	FXPO	224	4.2%	15.1%	1,682	2,021	24.0%	5.0	4.0	4.0	3.2	1.3
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	13.0	0.0%	23.8%	56	25	5.0%	3.1	11.5	1.2	2.3	0.1
Specialized Machinery												
Turboatom	TATM	11.8	0.0%	-14.2%	188	179	3.8%	6.7	6.8	4.4	4.4	1.9
Motor Sich	MSICH	5,390	0.0%	0.0%	424	435	24.0%	9.2	8.0	4.6	4.4	1.1
Oil & Gas												
UkrNafta	UNAF	160	1.9%	19.0%	329	322	3.0%	1.4	0.6	0.9	0.4	0.1
Regal Petroleum	RPT	38.5	-3.5%	-38.9%	158	118	21.6%	3.8	15.8	2.2	5.3	2.4
JKX Oil	JKX	53.0	-0.9%	34.2%	116	224	50.4%	7.6	6.3	7.3	6.6	2.0
Power Utilities												
Centrenergy	CEEN	12.26	-3.5%	-9.2%	172	161	21.7%	9.3	6.7	4.2	4.1	0.3
Donbasenergy	DOEN	29.75	0.0%	-6.8%	27	33	14.2%	7.0	10.4	1.5	1.8	0.1
Consumer												
MHP	MHPC	10.40	-1.4%	-3.7%	1,099	2,265	34.1%	8.6	4.4	5.0	4.6	1.3
Kernel	KER	50.80	1.6%	1.2%	1,051	1,674	61.8%	20.2	5.0	7.5	5.4	0.5
Astarta	AST	23.60	-5.6%	0.4%	153	449	37.0%	-6.4	4.5	6.9	5.2	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	3.87	1.8%	-3.3%	22	5	25.0%	1.6	2.3	0.3	0.4	0.1
Banks												
Raiffeisen Bank Aval	BAVL	0.354	-1.3%	4.2%	825		1.8%	4.4	3.8	2.0	1.9	0.34

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																
Centrenergy	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

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