

Stock Market Update

Equity

Kyiv-listed stocks ended somewhat higher amid a politically active week in Ukraine that saw the newly elected Parliament convene to approve the new government. A total of 281 MPs voted in favor of the proposed Cabinet of Ministers on Aug 29 out of 226 needed votes. Incoming Prime Minister Oleksiy Honcharuk has already announced that an IMF mission is expected to arrive in a few weeks for discussion of a new 3-4 year support program.

The PFTS index edged up by 0.1% to 527 points, with UkrNafta once again being the most volatile blue chip. The UNAF stock quotes advanced by 3.6% to UAH 145 after a sharp drop a week earlier. TurboAtom (TATM) was on the rise, adding 2.2% to UAH 11.90 after the company signed a 5-year UAH 6.0bn deal with Ukrainian state-run nuclear operator EnergoAtom for power unit modernization. Raiffeisen Bank Aval (BAVL) gained 3.3% to 31.00 kopecks per share.

In London trading, Ferrexpo (FXPO) remained weak, slipping 1.0% to GBp 202 per share. Poultry producer MHP (MHPC), which has been suffering from political fallout following the election of Vladimir Zelenskiy to the presidency, lost 2.9% to USD 9.50 after domestic media outlets reported that the EBRD could block a EUR 100mn loan that had been previously agreed with the company. The EBRD board is expected to consider the loan approval to MHP in late October.

Warsaw-listed Ukrainian agro stocks recovered part of their losses amid improved global sentiments. Top liquid name Kernel (KER) climbed 0.9% to PLN 45.10 while Agrotion (AGT) advanced by 4.7% to PLN 3.12.

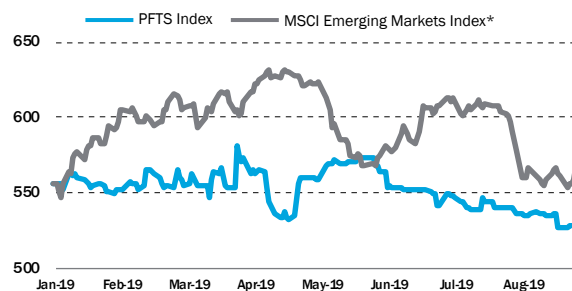
On the interbank currency market, the hryvnia finished essentially unchanged at 25.16 UAH/USD.

Highlights

POLITICS AND ECONOMICS

- > Honcharuk Named PM, Avakov Keeps Job at Interior, Zelenskiy Threatens New Parliament with Dismissal After 1 Year
- > Industry Under-Performs Ukraine GDP Growth, Down 0.2% YoY in July

STOCK MARKET PERFORMANCE

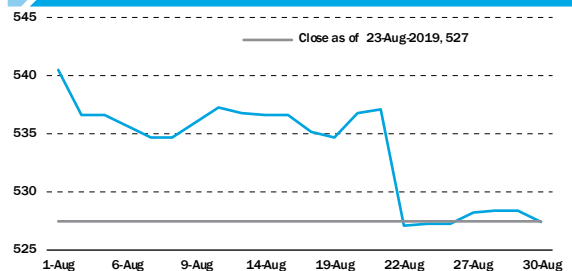


* rebased

MARKET INDEXES

	Last	1W ch	YTD
PFTS	527	0.1%	-5.7%
RTS	1293	2.5%	21.0%
WIG20	2140	1.8%	-7.0%
MSCI EM	984	2.5%	1.9%
S&P 500	2926	1.7%	16.7%

PFTS 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	17.0%	0.0 p.p.	-1.0 p.p.
Ukraine-2024	6.8%	-0.1 p.p.	-3.7 p.p.
Ukraine-2028	8.0%	-0.2 p.p.	-2.8 p.p.

CURRENCY

	Last, UAH	1W ch	YTD
USD	25.16	0.2%	-9.1%
EUR	27.79	-0.8%	-12.4%

Honcharuk Named PM, Avakov Keeps Job at Interior, Zelenskiy Threatens New Parliament with Dismissal After 1 Year

by Will Ritter
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NEWS

Ukraine's newly-elected Parliament convened for the first time on Thursday (Aug 29) and voted in the country's new Cabinet of Ministers, which will be led by 35-year-old lawyer Oleksiy Honcharuk. The Cabinet was approved by 281 MPs (President Zelenskiy's 254 SN faction members plus 27 additional MPs). Other key appointments were Dmytro Kuleba as Deputy Prime Minister for European Integration, holdovers from the previous Cabinet Arseniy Avakov and Oxana Markarova at the Interior and Finance ministries respectively, Vadim Prystaiyko as Foreign Minister, and Ruslan Ryaboshapko as General Prosecutor. Notable parliamentary committee heads are former investment banker Andriy Gerus at the Energy committee, Anastasia Krasnocilska at the Anti-Corruption committee, and Ivanna Klympush-Tsintsadze (the European Integration Minister in the previous Cabinet) at the European Integration committee. Speaking to the convocation, President Zelenskiy said he is giving Parliament a 1-year trial period to institute the needed reform measures, and that he is ready to dismiss the legislature and call a new election if it fails (Zelenskiy would have the constitutional authority to take this step, assuming that he could convince a relatively small number of the MPs from his SN faction to break up their own ruling coalition).

COMMENTARY

As we stated in early August, Honcharuk was the front-runner and obvious choice for the PM's chair once the short-list of candidates was announced, as he is a political novice who will be entirely dependent on the Zelenskiy administration for support. We think that Naftgaz CEO Andriy Kobolev, who was also on the short-list, was never really a serious candidate for the position, as he would have represented too much of an independent power center for Zelenskiy. In terms of individual appointments, we see Kuleba, a widely respected former Foreign Ministry spokesman who did an admirable job fighting Russian propaganda, as a home run for the new government who will be welcomed by the Western community, and Markarova was also obviously kept on at MinFin for similar reasons. However, the same cannot be said for Avakov, and despite a promise from SN faction head David Arakhamia that Avakov will only serve in a transitional role for 6 months, suspicions will persist that a backroom deal was made not to encroach on the territory of the powerful "cilovik". Avakov has been in charge of Ukraine's police ever since the EuroMaidan revolution in early 2014, and he was allied with industrialist Igor Kolomoyskiy in providing valuable help in Zelenskiy's campaign this winter/spring to unseat Petro Poroshenko. Finally, we view Zelenskiy's threat to dissolve Parliament as a sign that he may have less control over his own faction than is generally assumed, and that this is likely to become an issue sooner rather than later in his presidency.

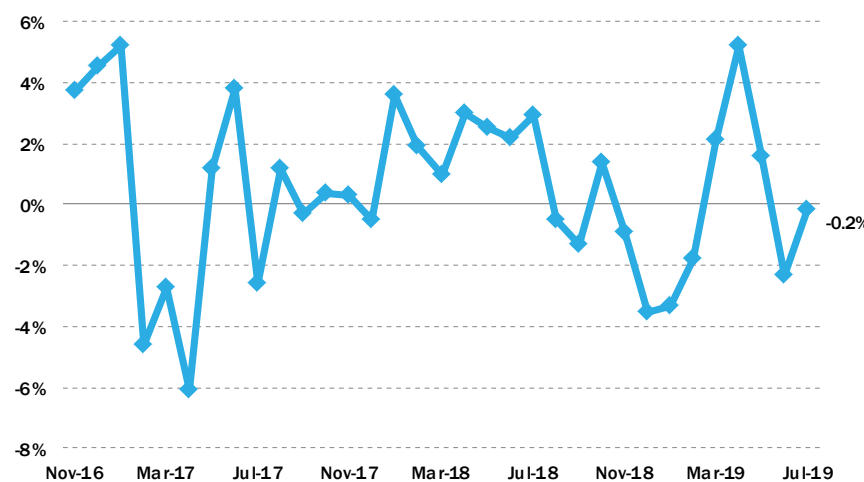
Industry Under-Performs Ukraine GDP Growth, Down 0.2% YoY in July

by Dmitry Churin
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NEWS

Ukraine's nationwide industrial production inched down by 0.2% YoY in July after a larger drop of 2.3% YoY in June (+1.5% YoY in May), according to data from the State Statistics Committee. In the extraction sector, the output was up by only 0.1% YoY in July despite a solid 6.8% YoY gain in coal extraction; iron ore and hydrocarbons extraction declined by 1.2% and 0.3% YoY respectively. The manufacturing sector index rose by 0.3% YoY and the utility sector had a drop in output of 3.6% YoY. Year-to-date through July, overall industrial production in Ukraine grew by a lethargic 0.4% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The overall decline in industrial production in July was a disappointing fact, especially taking into account that the country's economic growth accelerated to 4.6% YoY in 2Q19. In particular manufacturing sub-sectors, UkrStat reported a 3.2% YoY decrease in steel production in July, although steel sector output remains higher by 1.0% YoY for 7M19. A worse situation was observed in the machinery sector, with a 1.0% decline in output in July and a decrease in output by 3.9% YoY for 7M19. Meanwhile, food production in Ukraine grew by 4.4% YoY in July and by 3.1% YoY for 7M19.

In other macroeconomic data, UkrStat said that the agricultural production index is up by an impressive 12.0% YoY for 7M19 amid an early start to the grain harvest campaign.

The construction industry, consistently the top performing sector of the economy, jumped by 15.2% YoY in July with growth of 21.8% YoY for 7M19.

Retail sales continue to look strong, rising 9.0% YoY in July and by 10.1% YoY through the first 7 months of 2019.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	45.1	82.0	82%	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	9.5	16.5	74%	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	23.0	42.0	83%	BUY	With the appearance of the 1H19 financial results, we are raising our forecast for Astarta's full-year 2019 net profit from EUR 30mn to EUR 45mn. Astarta's revenue rose by 30% YoY to EUR 228mn in 1H19 and EBITDA increased by 5.9% YoY to EUR 64mn. Meanwhile, the company's net profit declined by 19% YoY to EUR 30.3mn in 1H19, implying PLN 5.39 earnings per share.
Agroton	AGT PW	3.12	12.0	285%	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.
Iron Ore						
Ferrexpo	FXPO LN	202	250	24%	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	145	270	86%	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	32.4	--	--	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	30.5	--	--	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.
Power Utilities						
DonbasEnerg	DOEN	24.1	--	--	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	10.86	25.60	136%	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 11 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. 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	0.310	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 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
			1W	YtD				2018	2019E	2018	2019E	2019E
PFTS Index	UX	527	0.1%	-5.7%								
Iron Ore Mining												
Ferrexpo	FXPO	202	-1.0%	3.8%	1,457	1,739	24.0%	4.3	3.5	3.5	2.8	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	14.5	0.0%	38.1%	66	34	5.0%	3.7	13.5	1.7	3.2	0.2
Specialized Machinery												
Turboatom	TATM	11.9	2.2%	-13.5%	199	190	3.8%	7.1	7.2	4.7	4.6	2.0
Motor Sich	MSICH	5,390	0.0%	0.0%	446	457	24.0%	9.7	8.5	4.8	4.6	1.2
Oil & Gas												
UkrNafta	UNAF	145	3.6%	7.8%	313	306	3.0%	1.3	0.6	0.9	0.3	0.1
Regal Petroleum	RPT	32.4	-1.8%	-48.6%	127	87	21.6%	3.0	12.7	1.6	4.0	1.7
JKX Oil	JKX	30.5	-9.0%	-22.8%	64	173	50.4%	4.2	3.5	5.6	5.1	1.5
Power Utilities												
Centrenergo	CEEN	10.86	0.4%	-19.6%	160	140	21.7%	8.7	neg	3.7	57	0.2
Donbasenergo	DOEN	24.07	0.6%	-24.6%	23	25	14.2%	5.9	neg	1.1	3.6	0.1
Consumer												
MHP	MHPC	9.50	-2.9%	-12.0%	1,004	2,525	34.1%	7.8	5.9	5.6	5.3	1.3
Kernel	KER	45.10	0.9%	-10.2%	905	1,685	61.8%	17.4	3.8	7.6	5.4	0.4
Astarta	AST	23.00	2.7%	-2.1%	145	402	37.0%	neg	2.8	6.2	3.0	0.7
Avangardco	AVGR	0.25	0.0%	-10.7%	16	347	22.5%	neg	8.0	23	20	2.6
Agroton	AGT	3.12	4.7%	-22.0%	17	0	25.0%	1.3	1.8	n/a	n/a	n/a
Banks												
Raiffeisen Bank Aval	BAVL	0.310	3.3%	-8.8%	759		1.8%	4.1	3.5	1.8	1.6	0.31

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	26.8%	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	2	25.2%	7.1%	0.4%	71	18	-18	17.3%	3.4%	-3.2%
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	1,945	459	450	475	35.6%	28.9%	24.4%	230	128	170	17.8%	8.2%	8.7%
Kernel	KER	2,169	2,403	3,965	319	223	310	14.7%	9.3%	7.8%	176	52	240	8.1%	2.2%	6.1%
Astarta	AST	514	424	551	134	65	133	26.1%	15.3%	24.2%	69	-24	51	13.5%	-5.7%	9.3%
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	485	234	239	253	169	187	218	41.8%	44.6%	44.8%

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			17.50%	16.00%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000196620			17.60%	16.45%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.70%	16.35%	n/a	n/a	S/A	20 Jan 2021	n/a
UAH denominated Bonds									
UA4000201743			6.25%	4.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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