

Stock Market Update

Equity

Local Ukrainian stocks were mixed last week, with the UX index inching up by 0.2% to 1320 points. The rebound of 9.0% to UAH 7.90 in TurboAtom (TATM) balanced a decline of 1.2% in more heavily weighted Raiffeisen Bank Aval (BAVL), which ended the week at 41.00 kopecks. Both CentrEnerg (CEEN) and UkrNafta (UNAF) were unchanged at UAH 5.20 and UAH 123 per share respectively. Motor Sich (MSICH) was back in the spotlight after the country's Anti-Monopoly Committee rejected the application filed by Chinese firm Skyrizon in partnership with Kharkiv-based oligarch Olexander Yaroslavskiy to acquire a controlling stake in the aviation engine producer. Yaroslavskiy complained about strong-arm political pressure concerning the Motor Sich deal after the United States publicly objected to China's participation in it. Yaroslavskiy appealed to President Zelenskiy to intervene in the situation, asking him to make a "statesman-like decision that will preserve Motor Sich for Ukraine and will meet the national interests of the state."

In London trading, Ukrainian shell egg producer Avangard (AVGR) lost almost all its remaining value, plummeting by 83% to just 1 cent per share; the stock had traded above USD 12 in the first year after its IPO in 2010. The company became a victim of the overly aggressive expansion strategy of its majority shareholder Oleg Bakmatyuk, who used nontransparent practices to finance its agriculture business. Ferrexpo (FXPO) declined by 3.6% to GBp 177 amid a broad correction on the main European bourses. MHP (MHPC) gave up 2.8% to USD 5.48, although the company reported better than expected financial results for 2Q20, with the earnings per share for the period amounting to USD 1.06.

In Warsaw trading, Kernel (KER) was little-changed at PLN 38.80 while Astarta (AST) tumbled by 10% to PLN 14.50.

The hryvnia was soft, losing a full 1% against the dollar over the week to close at 27.78 UAH/USD.

Highlights

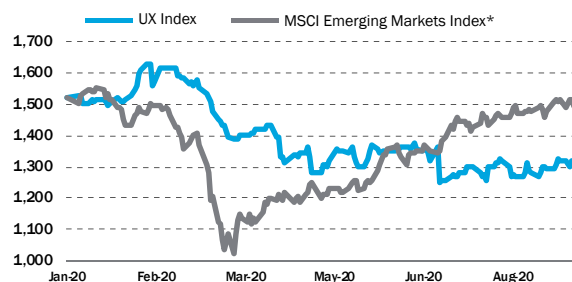
POLITICS AND ECONOMICS

- Zelenskiy Coming Under Fire for Ongoing Judicial Corruption

STOCKS IN THE NEWS

- MHP Sees Decline in Net Profit by 19% YoY to USD 112mn in 2Q20

STOCK MARKET PERFORMANCE

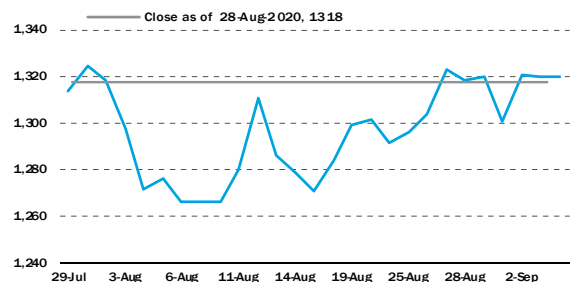


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1320	0.2%	-13.1%
RTS	1221	-4.2%	-21.2%
WIG20	1766	-3.8%	-17.8%
MSCI EM	1099	-2.0%	-1.4%
S&P 500	3426	-2.3%	6.0%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.5%/9.5%	0.0 p.p.	-0.6 p.p.
Ukraine-2025	6.3%	-0.2 p.p.	-0.3 p.p.
Ukraine-2028	7.3%	-0.2 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.78	1.0%	17.3%
EUR/UAH	32.88	0.6%	24.5%

Source: Eavex Capital

Zelenskiy Coming Under Fire for Ongoing Judicial Corruption

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

NEWS

Civil society activists and domestic media criticized President Zelenskiy last week for his silence on the increasingly brazen corruption in Ukraine's top judiciary bodies, after the High Council of Justice refused to remove a judge on the Kyiv Administrative Court, Pavel Vovk, who is alleged to be the ringleader of criminality in the justice system. Activists stated that the decision was proof that the High Council, an oversight body, has itself come under the control of the judicial mafia. The issue came to a head in August after the National Anti-Corruption Bureau (NABU) released audiotapes with conversations of judges discussing various illegal schemes, and a suspicious court ruling against PrivatBank forcing the state-owned institution to pay USD 350mn to wealthy oligarchs in connection with their losses during the bank's nationalization. Early last week, NABU director Artem Sytnik saw his 2015 appointment declared illegal by the Constitutional Court, and the Zelenskiy administration has declined to back Sytnik, now referring to him as "the NABU acting director".

COMMENTARY

At best, it appears that Zelenskiy is indifferent to high-level judicial corruption, and at worst, that he prefers to leave corrupt judges in place as part of a deal to exchange favors. Indeed, corruption in the judiciary via the sale of verdicts has always been one of the most serious problems undermining Ukrainian democracy and the rule of law. The natural check against Zelenskiy's neglect of this critical issue would normally be the IMF and Western governments, which have in the past held various levers of influence to force Ukraine's leadership to take specific actions against corruption. However, Zelenskiy seems to be calculating that the US and the European Union are now in too weak of a position vis-a-vis Ukraine to dictate which reforms his administration needs to prioritize. A test of this theory is likely to come if Sytnik, who has built a reputation as an aggressive, independent investigator, is ousted from NABU; the ball will be squarely in the IMF's court on whether or not to continue with the loan agreement which it finalized with Ukraine's Finance Ministry in May.

MHP Sees Decline in Net Profit by 19% YoY to USD 112mn in 2Q20

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

MHP (MHPC LI)

Price: USD 5.48 Market Cap: USD 579mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2019	0.5	0.9	2.7	4.8	5.1%
2020E	0.5	0.9	neg	4.3	0.0%

NEWS

Central-Ukraine-based, London-listed agro group MHP saw a decline in its net profit of 19% YoY to USD 112mn in 2Q20, which implies earnings per share of USD 1.06 in the period, according to financials released on Sept 4. Revenue decreased by 17% YoY to USD 425mn in the quarter and EBITDA (adjusted for forex gains/losses) dropped by 22% YoY to USD 129mn. For the first half (1H20), the company posted net revenue of USD 867mn (-8% YoY), EBITDA of USD 226mn (-9% YoY), and a net loss of USD 62mn, compared to a net profit of USD 171mn for 1H19. The company's export sales fell 18% YoY to USD 453mn in 1H20, accounting for 52% of total revenue in the period compared to a share of 58% a year ago.

In the second quarter, the effects of the COVID-19 epidemic and quarantine measures worldwide resulted in significant market disruption, in particular with the almost complete shutdown of the hotel-restaurant sector and a sharp decrease in demand for chicken breast fillet in the EU and MENA markets. MHP was able to substantially offset these reductions thanks to increased demand for poultry on the Ukrainian domestic market.

On the balance sheet side, MHP's total debt was USD 1.48bn as of 30 Jun 2020, with long-term debt representing 98% of the amount. Management said the weighted average interest rate on the debt is around 7%. This puts MHP's debt-to-EBITDA ratio at 3.7x as of 30 Jun 2020 compared to 2.9x as of 30 Jun 2019.

MHP FINANCIALS

USD mn	2Q19	2Q20	chg.	1H19	1H20	chg.
Net revenue	509	425	-17%	945	867	-8%
EBITDA	165	129	-22%	248	226	-9%
margin	32.4%	30.4%	-2.1 p.p.	26.2%	26.1%	-0.2 p.p.
Net Income	138	112	-19%	171	-62	+/-
net margin	27.1%	26.4%	-0.8 p.p.	18.1%	-7.2%	-25.2 p.p.

Source: Company data.

COMMENTARY

MHP's reported bottom line for 2Q20 was much better than our forecast of a net loss of USD 190mn for the period after the loss of USD 174mn seen in 1Q20. Nevertheless, it is too optimistic to hope that MHP could be profitable for the full year, as the hryvnia devaluation causes large foreign currency translation losses. We expect that MHP's net loss will be around USD 150mn for FY20.

MHP's Net Debt/EBITDA ratio of 3.7x represents a breach of the ceiling of 3.0x covenant embedded in MHP's Eurobonds. On the other hand, we think even a formal breach of the covenant at year-end is unlikely to motivate MHP's creditors to demand an early debt redemption, as the company's business model is resistant to economic downturns. In its outlook, MHP says it sees further opportunities for sales growth on key export markets as well as in Ukraine.

The London-listed MHPC stock remained under pressure as the company's worsening debt metric represents a threat to shareholder value. MHPC traded at USD 5.48 on Friday (Sept 4), which is roughly half its value compared to 2 years ago.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	38.8	65.0	68%	BUY	<p>The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. We maintain our BUY recommendation for Kernel with a target price of PLN 65.00 per share based on the group's expanded business operations, which have yet to be reflected in the share price.</p> <p>Kernel had revenue of USD 1.86bn (-17% YoY), EBITDA of USD 216mn (-6% YoY), and net profit of USD 100mn (-39% YoY) in July-December (the company's 1H20, as its financial year runs from July to June).</p> <p>The company aims to achieve EBITDA of USD 500mn by 2021.</p>
MHP	MHPC LI	5.5	11.5	110%	BUY	<p>For full-year 2019, MHP increased its top line revenue by 32% YoY to USD 2.06bn and boosted its net profit by 68% YoY to USD 215mn. Export revenue rose by 28% YoY to USD 1.19bn in the period, accounting for 58% of total revenue. The company has declared a strategy of shifting toward more value-added processed products for the domestic market with the aim of improving profit margins. In terms of operating targets, MHP aims to produce up to 880,000 tonnes of poultry meat by 2024, up from some 730,000 tonnes last year. In the grain growing segment, MHP harvested around 360,000 hectares of land in Ukraine and gathered 2.41mn tonnes of crops in 2019.</p>
Astarta	AST PW	14.5	27.0	86%	BUY	<p>The company secured USD 20mn financing from Deutsche Investitions und Entwicklungsgesellschaft (DEG) despite the company's high Net Debt-to-EBITDA ratio of 3.5x. The continuing high debt burden is one of the primary reasons of the AST stock's poor performance in recent years. However, the company claims that its adjusted net debt, which takes into account marketable inventories, is about half of the figure derived from standard accounting calculations, and therefore implies an adjusted Net Debt/EBITDA ratio of 1.7x as of Dec 31.</p>
Agroton	AGT PW	4.00	12.0	200%	BUY	<p>Agroton unveiled a strategy to increase its land bank from 119,000 ha to 200,000 ha by mid-2021 securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region.</p> <p>Agroton reported that its net profit was USD 5.2mn (PLN 0.96 per share) in 2019. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 11.8mn. The company continues to invest in growth, spending USD 6.3mn on CapEx in FY19.</p>
Iron Ore						
Ferrexpo	FXPO LN	177	250	41%	BUY	<p>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.</p>
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	<p>Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project.</p> <p>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.</p>
Oil & Gas						
UkrNafta	UNAF	123	270	120%	BUY	<p>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.</p>
Concern Galnaftogaz	GLNG	n/a	--	--	U/R	<p>Galnaftogaz is pursuing a plan to aggressively expand its filling station network.</p>
Enwell Energy (ex-Regal)	ENW LN	16.7	--	--	U/R	
JKX Oil & Gas	JKX LN	19.2	--	--	U/R	
Power Utilities						
DonbasEnero	DOEN	19.0	--	--	U/R	<p>The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.</p>
CenterEnero	CEEN	5.20	15.00	188%	BUY	<p>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 5 per share after yet another failed attempt to privatize the company. Persisting uncertainty about whether CentrEnero can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. In 2019 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 CentrEnero more attractive for privatization.</p>
Banks						
Raiffeisen Bank Aval	BAVL	0.410	--	--	U/R	<p>Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, earned UAH 4.7bn in net profit in FY19, which implied earnings per share of 7.72 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%. The bank has already announced intention to pay 6.95 kopecks in dividend per share from FY19 net profit.</p>

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 2020E
			1W	YtD				2019	2020E	2019	2020E	
UX Index	UX	1320	0.1%	-13.1%								
Iron Ore Mining												
Ferrexpo	FXPO	177	-3.6%	11.4%	1377	1551	24.0%	3.4	3.3	2.6	2.7	1.1
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	9.0%	70	44	5.0%	2.3	7.6	1.2	3.1	0.2
Specialized Machinery												
Turboatom	TATM	7.9	9.0%	-25.8%	119	116	3.8%	9.8	5.7	2.4	2.1	1.0
Motor Sich	MSICH	5390	0.0%	0.0%	403	402	24.0%	neg	13	22	4.0	1.2
Oil & Gas												
UkrNafta	UNAF	123	0.0%	-14.9%	240	236	3.0%	neg	13.2	3.4	2.8	0.2
Enwell Energy (ex-Regal)	ENW	16.7	-24.3%	-23.4%	71	31	21.6%	7.1	8.9	1.4	1.6	0.6
JKX Oil	JKX	19.2	1.3%	-19.2%	43	152	50.4%	2.0	14.5	3.6	5.4	2.1
Power Utilities												
Centrenergy	CEEN	5.20	0.0%	-43.8%	69	67	21.7%	neg	-16	neg	10.3	0.1
Donbasenergy	DOEN	19.00	0.0%	-24.8%	16	15	14.2%	neg	6.7	1.9	1.6	0.1
Consumer												
MHP	MHPC	5.48	-2.8%	-39.8%	579	1797	34.1%	2.7	-3.9	4.8	4.3	0.9
Kernel	KER	38.80	0.1%	-19.2%	827	2161	61.8%	4.4	4.9	6.2	5.3	0.5
Astarta	AST	14.50	-9.9%	-9.4%	97	373	37.0%	51.7	12.4	4.3	3.6	0.6
Avangardco	AVGR	0.01	-75.0%	-95.0%	1	332	22.5%	0.3	0.2	20	17	2.8
Agroton	AGT	4.00	0.0%	8.1%	23	11	25.0%	4.5	5.8	5.1	1.0	0.2
Banks												
Raiffeisen Bank Aval	BAVL	0.410	-1.2%	33.2%	908		1.8%	4.9	5.4	1.7	1.7	0.25

Source: UX. 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		
		2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2018	2019	2020E
Iron Ore Mining																
Ferrexpo	FXPO	1274	1507	1430	503	586	570	39.5%	38.9%	39.9%	335	403	420	26.3%	26.7%	29.4%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	200	292	240	20	38	14	10.2%	13.0%	5.9%	18	31	9	9.0%	10.5%	3.8%
Specialized Machinery																
Turboatom	TATM	94	110	113	40	49	56	43.1%	45.0%	49.1%	28	12	21	29.9%	11.1%	18.4%
Motor Sich	MSICH	450	358	345	96	19	100	21.2%	5.2%	29.1%	46	-14	31	10.2%	-3.8%	8.9%
Oil & Gas																
Ukrnafta	UNAF	1328	1097	1127	350	70	85	26.4%	6.4%	7.6%	237	-158	18	17.8%	-14.4%	1.6%
Regal Petroleum	RPT	60	50	55	54	22	19	90.0%	44.0%	34.5%	42	10	8	na	20.0%	14.5%
JKX Oil	JKX	93	102	73	31	42	28	33.2%	41.6%	38.4%	15	22	3	16.5%	21.8%	4.1%
Electric Utilities																
Centrenergy	CEEN	533	589	684	38	-69	7	7.1%	-11.7%	1.0%	18	-77	-4	3.4%	-13.1%	-0.6%
Donbasenergo	DOEN	224	249	276	23	8	9	10.2%	3.1%	3.3%	4	-3	2	1.7%	-1.1%	0.9%
Consumer																
MHP	MHPC	1556	2056	1950	450	376	414	28.9%	18.3%	21.2%	128	215	-150	8.2%	10.5%	-7.7%
Kernel (FY18, FY19, FY20E)	KER	2403	3992	4050	223	346	410	9.3%	8.7%	10.1%	52	189	170	2.2%	4.7%	4.2%
Astarta	AST	424	497	577	78	86	104	18.3%	17.4%	18.1%	-21	2	8	-4.9%	0.4%	1.4%
Avangardco	AVGR	127	135	120	15	17	19	11.8%	12.6%	15.8%	-5	2	3	-3.9%	1.5%	2.5%
Agroton	AGT	57	54	55	14	2	11	24.7%	4.1%	20.0%	14	5	4	23.7%	9.5%	7.3%
Banks																
		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	2647	3495	3623	420	550	524	239	280	292	187	185	168	44.6%	33.6%	32.0%

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									
UA4000200174			10.5%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.5%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.0%	10.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.2%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.0%	10.5%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			12.5%	10.5%	n/a	n/a	S/A	26 Feb 2025	n/a
UAH denominated Bonds									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

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