TKB INVESTMENT PARTNERS

Russian Equities Weekly

January 14–18, 2019

	Week	YTD
RTS Total return (TR) in USD	2.4%	10.4%
MOEX index TR in RUB		
Composite	1.2%	4.7%
Blue chip	1.2%	5.4%
Small and mid-cap	1.3%	3.8%
MOEX sector indices TR in RUB		
Financial Services	4.2%	8.8%
Consumer Goods	3.0%	5.6%
Power Utilities	1.9%	5.2%
Oil & Gas	0.1%	2.1%
Metals & Mining	-1.0%	1.8%
FX		
RUB/USD	1.1%	4.6%
RUB/EUR	2.3%	5.6%

Data as of January 18, 2019
TKB Investment Partners (JSC) calculations; Bloomberg

Positive sentiment supports outperformance

Russian equity market dynamics

The Russian equity market remained in the black for third week in a row as global markets continued to recover: the MSCI EM and MSCI World indices rose by 1.7% and 2.3%, respectively, in US dollar terms. The Russian equity market continued to outperform other emerging markets thanks to rising oil prices and optimism over a possible easing of sanctions.
Brent crude gained 3.8% in US dollars last week. Market sentiment was supported by news including a Baker Hughes report saying the rig count in the US fell by 21 to 852 during the week. Meanwhile, OPEC released its monthly report for December, which indicated a cut in production by 0.75 million barrels per day thanks to lower output from Saudi Arabia, Iran, Libya and Venezuela.
The sanctions against public companies EN+ and Rusal could soon be excluded from the special designated (SDN) list. Last week, Democrats from the US Senate failed to block the decision of the US Treasury.

The stocks in the financial services sector outperformed thanks to the positive news on sanctions and a stronger rouble. As a result, Moscow Exchange, Sberbank and VTB Bank rose by 6.1%, 5.9% and 5.4% in rouble terms.

The metals and mining sector underperformed other sectors as the rouble gains did not support export-oriented stocks. Severstal, Polymetal and NLMK were the main detractors: their stocks fell by 1.8%, 2.0% and 1.5% respectively.

Main Russian news

The current account surplus for full-year 2018 came out at USD 114.9 billion, according to the central bank's (CBR) preliminary data. This is 3.5 times higher than the USD 33 billion surplus of 2017. The key developments which affected current account were the following:

- **The trade surplus was the key growth factor for the current account. Exports of fuel products increased by USD 68 billion**. The average price of a barrel of oil was USD 17 higher compared to 2017, while non-fuel exports increased by USD 22 billion over the year. At the same time, **imports of goods and services only grew by USD 17.6 billion**. Imports grew by only 5.4% in 2018 compared to 23% in 2017 due to the weaker rouble last year
- **The annual capital outflow of the private sector surged to USD 67.5 billion from USD 25.2 billion in 2017**. According to the CBR, there was a **reduction of banks' external liabilities together with increasing foreign assets.** Foreign currency accumulated in banks' accounts mainly due to significant profits from exports and the pause in currency purchases by the Ministry of Finance in the second half of 2018.

The current account surplus allowed international reserves to increase by USD 38.2 billion in 2018 after USD 22.6 billion in 2017.

S&P affirmed Russia's credit rating at BBB-, which is investment-grade, and its stable outlook. The agency noted that the government's solid balance sheet, the flexible exchange rate and prudent fiscal policy should absorb any shocks from possible new sanctions. Meanwhile, the likelihood of restrictions on sovereign Russian debt from the US remains rather uncertain. Nonetheless, should this or any other **material sanctions be imposed, the agency would downgrade Russia's rating**. At the same time, **the rating could be upgraded under one or more of the following conditions**:

- Growth of GDP per capita moving closer to the pace of comparable countries
- Rapid accumulation of financial reserves to offset the volatility of oil prices on the budget revenues
- The government taking effective measures to decrease the pressure of pension spending on the budget.

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To watch...

Rosstat is due to release macroeconomic figures for December and full-year 2018

Sources: cbr.ru, Vedomosti, Bloomberg, TKB Investment Partners (JSC); January 2019

Quarterly results: Actual vs. consensus for **EPS, adjusted (US dollars) ***

Major RTS index constituents	Q1 '18	Q2 '18	Q3 '18
Lukoil	9%	1%	22.3%
Gazprom	9%	-12.3%	29.2%
Sberbank	12%	-4%	4.5%
Novatek	13%	6%	20.5%
Tatneft	8%	33.7%	41.2%
Magnit	-12%	-19%	12.4%
MTS	-8%	-8%	13.6%
VTB	170%	7%	-90.7%
Alrosa	64%	13%	-10.9%
Severstal	-14%	14%	0.0%
NLMK	-4%	14%	12.3%
Moscow Exchange	-7%	-8%	4.2%
Magnitogorsk Iron & Steel	-22%	6%	0.0%
Phosagro	-31%	-45%	-8.0%

* based on Bloomberg consensus

(green)	Actual figure is better than consensus by more than 5%
(orange)	Actual figure is worse than consensus by more than 5%
(light yellow)	The deviation of actual results from consensus is between -5% and +5%

Source: Bloomberg, TKB Investment Partners; data as of January 15, 2019

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