

Russian Equities Weekly

June 17–21, 2019

	Week	YTD
RTS Total return (TR) in USD	3.1%	32.2%
MOEX index TR in RUB		
Composite	1.3%	19.6%
Blue chip	2.0%	22.9%
Small and mid-cap	2.0%	11.6%
MOEX sector indices TR in RUB		
Power Utilities	3.7%	28.3%
Metals & Mining	1.9%	9.3%
Oil & Gas	1.1%	12.8%
Financial Services	0.1%	20.6%
Consumer Goods	-0.1%	9.7%
FX		
RUB/USD	1.9%	9.5%
RUB/EUR	0.7%	11.1%

Data as of June 21, 2019

TKB Investment Partners (JSC) calculations; Bloomberg

Rising with the emerging markets

Russian equity market dynamics

Last week, the Russian equity market rose further in line with other emerging markets (EM). The RTS and the MSCI EM indices rose by 3.1% and 3.8%, respectively. Emerging markets reacted positively to comments from the US Federal Reserve hinting at possible key interest rate cuts later this year. Overall, investor interest in EM and Russia rose.

The power utilities sector outperformed the wider market. This was mainly due to Inter RAO, which increased by 10.4% in rouble terms amid market expectations that the company will raise its dividend pay-out. The company has a material capacity to do so: the expected sustainable free cash flow yield is 24% on average for the next three years, while the expected dividend yield for the same period is only 4%.

The consumer goods sector was the worst performer of the week. It was dragged down mainly by Lenta. The share is no longer supported by the purchase offer from the new majority shareholder. In May and early June, Severgroup had offered minority shareholders to buy their shares at relatively high prices.

Main Russian news

Key macroeconomic indicators mostly weakened in May. The slowdown in industrial production was mainly due to the fall in manufacturing. Rosstat revised up real wage growth for April from 1.6% to 3.1%, but wage growth slowed again in May. The only improvement was in retail sales, mainly because of higher food sales.

Indicator	Growth YoY	
	April 2019	May 2019
Industrial production	4.6%	0.9%
Manufacturing	4.7%	-1.0%
Extraction	4.2%	2.8%
Retail sales	1.2%	1.4%
Food	0.7%	1.7%
Non-food	1.8%	1.0%
Real wages	3.1%*	2.8%

* Figures revised by Rosstat

Rosstat confirmed its initial estimate of Russian GDP growth in Q1 2019 at 0.5% YoY and published details on the main components. The relatively weak performance can be explained by the agricultural, wholesale & retail and real estate sectors. Agriculture was down by 1.2% YoY compared to 2.3% YoY growth in Q4 2018. Wholesale & retail contracted by 3.0% YoY after 2.2% YoY growth in the previous quarter. Real estate was down by 3.5% YoY vs. 0.3% in Q4 2018. The mining and construction sector slowed. Mining saw 4.6% YoY growth after 7.7% in Q4 2018. The construction sector was flat after 4.9% YoY growth.

The Ministry of Economic Development said that the **weak Q1 performance was connected to the tightening of monetary policy, and particularly the rise in VAT.** It expects GDP growth of 1.3% in 2019.

The Ministry of Finance placed USD 2.5 billion of eurobonds after the Fed hinted at easing. Markets welcomed the Fed news on keeping its main interest rate at 2.25-2.50%. The Fed's indication that it may cut the rate due to economic uncertainty and weak inflation expectations sparked investor interest in EM debt. There is no strong need for debt issuance by the Russian state. However, this was a chance to refinance at the lower rate.

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To watch...

There are no significant news to follow this week.

Quarterly results: actual vs. consensus for EPS

(earnings per share), adjusted, (US dollars) *

Major RTS index constituents	Q2 '18	Q3 '18	Q4 '18	Q1 '19
Lukoil	1%	22.3%	18.8%	-9.6%
Gazprom	-12.3%	29.2%	-	1.2%
Sberbank	-4%	4.5%	14.1%	6.4%
Novatek	6%	20.5%	-	-
Tatneft	33.7%	41.2%	-18.8%	2.0%
Magnit	-19%	12.4%	7.8%	-49.5%
MTS	-8%	13.6%	-46.1%	21.3%
VTB	7%	-90.7%	0.0%	0.0%
Alosa	13%	-10.9%	-12.2%	14.3%
Severstal	14%	0.0%	-10.7%	-1.9%
NLMK	14%	12.3%	-	238.9%
Moscow Exchange	-8%	4.2%	10.6%	0.0%
Magnitogorsk Iron & Steel	6%	0.0%	-20.0%	18.2%
Phosagro	-45%	-8.0%	-41.5%	-20.9%

* based on Bloomberg consensus

	Actual figure is better than consensus by more than 5%
	Actual figure is worse than consensus by more than 5%
	The deviation of actual results from consensus is between -5% and +5%

Source: Bloomberg, TKB Investment Partners; data as of June 21, 2019

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