

Russian Equities Weekly

December 9–13, 2019

	Week	YTD
RTS Total return (TR) in USD	3.7%	50.1%
MOEX index TR in RUB		
Composite	2.3%	35.1%
Blue chip	2.0%	37.9%
Small and mid-cap	0.5%	14.0%
MOEX sector indices TR in RUB		
Metals & Mining	3.7%	18.7%
Power Utilities	2.7%	29.6%
Oil & Gas	2.3%	32.4%
Financial Services	2.2%	33.4%
Consumer Goods	1.8%	13.2%
FX		
RUB/USD	1.3%	10.1%
RUB/EUR	0.7%	13.5%

Data as of December 13, 2019

TKB Investment Partners (JSC) calculations; Bloomberg

Another key rate cut and faster GDP growth

Russian equity market dynamics

Last week, the Russian equity market rose almost in line with the other emerging markets (EM). The RTS index gained 3.7%, while the MSCI EM index rose by 3.6% (all figures in USD terms). Reports that the US and China had reached an initial trade deal supported emerging markets, including Russia. Higher prices for Brent crude and the appreciation of the rouble further supported the Russian market.

The metals & mining sector outperformed the broader market, mainly driven by Norilsk Nickel and Alrosa, whose shares rose by 7.9% and 4.9%, in rouble terms, respectively. Norilsk Nickel rose on the back of rising palladium prices. Alrosa rose on its reporting strong sales growth of 6% YoY in November.

The consumer goods sector lagged the wider market. The worst performers were Lenta and Ros Agro, which underperformed despite the lack of any explanatory news

Main Russian news

The Central Bank of Russia (CBR) cut its key interest rate to 6.25%, the fifth time this year that it has done so. The 25bp cut was expected by the market. **The main reasons for the cut noted by the CBR were that inflation is still slowing and looks likely to remain low, that domestic and foreign demand is weak and that the rouble is stabilising.** The key interest rate has now been reduced by a cumulative 150bp from 7.75% at the beginning of the year. So far, the CBR's monetary policy has not led to an increase in credit activity, according to the Minister of Economic Development, M. Oreshkin. This means that inflation may fall even further at the beginning of 2020, possibly to 2.5% YoY.

Domestic investors have put almost USD 1 billion into Russian equities this year (from January to November), 51% more than during the equivalent period last year. Some 1.6 million new investors have opened broker accounts to trade on Moscow Exchange this year as lower rates on savings deposits force people to look for other options to grow their money. **Russia has been creating and a favourable environment for individual domestic investors.** In 2015, the authorities created a system of Individual Investment Accounts (IIA) of two types:

- Type A: allows investors to retrieve previously paid taxes (e.g. income tax). The amount is calculated as 13% of the sum allocated on IIA.
- Type B: allows investors to retain taxes from income generated via IIA. Investors have to hold their IIA assets for at least three years. Should they close the account before that, they will no longer receive tax deductions for the investment period and would have to return previously obtained deductions.

Rosstat confirmed the 1.7% YoY preliminary estimate of GDP growth for Q3 2019. The Russian economy thus accelerated from the 0.9% YoY growth posted in the second quarter, **supported by good results in the agricultural sector, industrial production and wholesale and retail sectors.** Agriculture showed 2.6% YoY growth vs. 0.1 YoY in the previous quarter. Industrial production was up 2.2% YoY vs. 1.6% YoY in Q2. The wholesale and retail trade sector rose by 2.2% YoY after falling by 0.6% YoY in Q2. The CBR expects full-year 2019 growth to be around 0.8%-1.3%, and predicts a 1.5%-2% GDP growth range for 2020.

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To watch...

Rosstat is due to publish key macroeconomic figures including the latest industrial production data.

Quarterly results: actual vs. consensus for EPS

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

Major RTS index constituents	Q4 '18	Q1 '19	Q2 '19	Q3 '19
Lukoil	18.8%	-9.6%	32.4%	40.1%
Gazprom	-	1.2%	2.3%	15.6%
Sberbank	14.1%	6.4%	0.5%	-
Novatek	-	-	-0.9%	-
Tatneft	-18.8%	2.0%	-1.3%	24.3%
Magnit	7.8%	-49.5%	-	-48.5%
MTS	-46.1%	21.3%	-7.8%	6.8%
Alrosa	-12.2%	14.3%	-9.1%	24.3%
Severstal	-10.7%	-1.9%	-11.2%	-11.5%
NLMK	-	238.9%	0.3%	-43.6%
Moscow Exchange	10.6%	0.0%	12.8%	1.4%
Magnitogorsk Iron & Steel	-20.0%	18.2%	-83.2%	-14.3%
Phosagro	-41.5%	-20.9%	22.3%	11.8%

* 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 13 December 2019

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