

Russian Equities Weekly

December 2–6, 2019

	Week	YTD
RTS Total return (TR) in USD	0.7%	44.7%
MOEX index TR in RUB		
Composite	-0.2%	32.0%
Blue chip	-0.4%	35.2%
Small and mid-cap	1.1%	13.4%
MOEX sector indices TR in RUB		
Metals & Mining	1.5%	14.5%
Consumer Goods	0.9%	11.2%
Financial Services	-0.1%	30.5%
Oil & Gas	-0.2%	29.4%
Power Utilities	-0.5%	26.2%
FX		
RUB/USD	1.6%	8.7%
RUB/EUR	0.7%	12.7%

Data as of December 6, 2019

TKB Investment Partners (JSC) calculations; Bloomberg

Inflation slows again

Russian equity market dynamics

Last week, the Russian equity market rose, following the other emerging markets (EM). The RTS index gained 0.7%, while the MSCI EM index rose by 0.9% (all figures in USD terms). Strong economic data from the US and the EM increased investor appetite for risky investments which had a positive effect on the Russian market. Additionally, the Russian market was supported by the price of Brent crude rising by 6.7% last week in anticipation of the decision by the OPEC+ group to go for deeper production cuts.

The metals & mining sector outperformed the broader market, mainly driven by Norilsk Nickel and Polymetal, whose shares rose by 5.9% and 3.9%, in rouble terms, respectively. Norilsk Nickel was supported by strong Chinese PMI data. Polymetal rose despite the lack of fundamental news.

The power utilities sector lagged the wider market. The worst performers were Mosenergo and OGK-2. There was no news to justify poor performance of these stocks.

Main Russian news

Inflation in Russia continued to slow. Consumer price inflation (CPI) slipped to 3.5% YoY at the end of November from 3.8% at the end of October. Inflation slowed in both the food and non-food sectors. Food inflation slipped to 3.7% YoY from 4.2%, while non-food inflation contracted to 3.1% YoY vs. 3.2%. This was enough to offset the rise in services inflation to 3.9% YoY after 3.8%. **The Ministry of Economic Development expects December inflation to stay at the same level as in November. Moreover, the Ministry forecasts January 2020 inflation to slow to 2.5%-2.7% YoY** due to the high January 2019 inflation base. This may further support expectations of another key rate cut at the next Central Bank of Russia meeting in December.

OPEC+ members decided to cut daily oil production by 503 000 barrels on top of existing quotas. This makes daily oil output 1.7 million barrels lower than the October 2018 level. Russia's new quota is 10.3 million barrels per day (without condensate). Experts suggest that this move will enable the industry to **reduce excess supply and support oil price levels.** Analysts fear that there may still be excess supply in the first half of 2020 due to the continuing rise in production in the US. The next meeting on the oil cuts policy will be held in March 2020.

Last week saw the official opening of the gas transmission system, Power of Siberia, Gazprom's first export pipeline targeted at a new market: China. Power of Siberia is Gazprom's largest project by far. **The pipeline launch should help the company become less dependent on the European market.** In 2018, 201 billion cubic meters of gas (40% of Gazprom's output) went to Europe. At full capacity, Power of Siberia will provide Gazprom with 38 billion cubic meters of gas per annum for export. At the moment only one of two gas fields is connected to the pipeline. The other one – Kovyktinskoye – is planned for launch by 2025. The need for export route diversification has been growing. From January to September 2019, Gazprom's share of overall gas exports to Europe fell for the first time in a number of years.

This project takes Russia and China one step closer to the USD 200 bn bilateral trade goal set up by the two countries' governments.

*Author: Aleksandra Kuznetsova,
Junior Investment Specialist*

To watch...

Rosstat is due to publish preliminary GDP production estimates for Q3 2019. The Central Bank of Russia will hold a monetary policy meeting next week.

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%	
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 6 December 2019

These companies are mentioned for illustrative purpose only; this is not intended as a solicitation of the purchase of such securities. It does not constitute any investment advice or recommendation.

For more information:

TKB Investment Partners (JSC)
69/71, lit. A, Marata Street
Saint Petersburg, 191119, Russia

Tel: +7 812 332 73 32
Fax: +7 812 324 65 57

info@tkbip.ru
www.tkbip.com

This material is issued and has been prepared by TKB Investment Partners (JSC).

This material is produced for information purposes only and does not constitute:

1. an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or
2. any investment advice.

Opinions included in this material constitute the judgment of TKB Investment Partners (JSC) at the time specified and may be subject to change without notice. TKB Investment Partners (JSC) is not obliged to update or alter the information or opinions contained within this material. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the Financial Instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for a client or prospective client's investment portfolio.

Given the economic and market risks, there can be no assurance that any investment strategy or strategies mentioned herein will achieve its/their investment objectives.

This material shall not be considered as any kind of a guarantee or a promise of the future effectiveness (profitability or break-even) of investment activity. Results of investments in the past shall not be considered as a guarantee of such results in future. All past performance data have documental confirmation. There are no guarantees of profits or returns from financial instruments unless otherwise clearly indicated in respective prospectus or fund's legal documentation.

Returns may be affected by, amongst other things, investment strategies or objectives of the financial instrument(s) and material market and economic conditions, including interest rates, market terms and general market conditions. The different strategies applied to the financial instruments may have a significant effect on the results portrayed in this material. The value of an investment account may decline as well as rise.

Investors may not get back the amount they originally invested.

The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

TKB Investment Partners (JSC) is the legal entity registered under laws of Russian Federation with principal state registration number (ORGN) 1027809213596, having its registered address at: 69/71, lit. A, Marata street, Saint-Petersburg, 191119, Russia, holding the license issued by FFMS of Russia to carry out asset management of mutual funds & non-state pension funds Nr. 21-000-1-00069 as of 17 of June 2002 (validity of license – unlimited), and the license of FFMS of Russia of professional securities market participant to carry out the trust management activity Nr. 040-09042-001000 as of 11 April 2006 (validity of license – unlimited). Phone: +7 (812) 332-7332, fax: +7 (812) 346-6557.