

Russian Equities Weekly

March 23 – 27, 2020

	Week	YTD
RTS Total return (TR) in USD	3.4%	-38.1%
MOEX index TR in RUB		
Composite	3.0%	-20.9%
Blue chip	3.0%	-23.6%
Small and mid-cap	2.3%	-18.1%
MOEX sector indices TR in RUB		
Metals & Mining	12.3%	0.6%
Power Utilities	4.4%	-11.7%
Oil & Gas	4.2%	-29.8%
Consumer Goods	2.6%	-10.8%
Financial Services	-4.0%	-25.9%
FX		
RUB/USD	1.2%	-21.4%
RUB/EUR	-2.6%	-20.8%

Data as of 27 March 2020

TKB Investment Partners (JSC) calculations; Bloomberg

Global markets bounce back

Russian equity market dynamics

Last week, the Russian equity market rose but underperformed the other emerging markets (EM). The RTS index gained 3.4%, while the MSCI EM index grew by 5.0% (all figures in USD terms). Global markets reacted positively to the US authorities' announcement of a USD 2 trillion economic stimulus package. The US Federal Reserve declared that it was prepared to buy an unlimited amount of Treasury bonds and mortgage-backed securities to support the smooth functioning of financial markets. G20 leaders claimed they would commit over USD 5 trillion in total to combat the negative economic impact of the Covid-19 outbreak. The Russian market rose by less than the EMs amid the 4.6% decline in oil prices, as Russia's budget rule no longer protects its economy from oil price volatility.

The metals & mining sector outperformed the broader market mainly thanks to gold producers, Polyus and Polymetal, whose shares rose by 27.4% and 21.8%, respectively, on higher gold prices. Another sector supporter was Norilsk Nickel, whose shares rose by 18%. The company benefited from higher palladium prices following the closure of a mine in South Africa.

The financial services sector was the worst performer overall, mostly due to TCS Group and Sberbank, whose share prices fell by 9.1% and 7.8%, respectively. The sector was primarily affected by the measures taken by the government to protect businesses from the impact of the coronavirus, e.g. a six-month moratorium on loan payments.

Main Russian news

President Vladimir Putin announced measures to slow the spread of the coronavirus and support the economy and businesses. He declared a paid week off for workers starting from 30 March, with the exception of those working in key businesses. The president outlined social support measures that include increasing unemployment benefit to a minimum wage level, additional payments to families which qualify for maternity benefits and have children aged under three, and prolonging current social payments for the next six months. Measures to support businesses include loans payments and tax deferrals (excluding VAT), bankruptcy protection and employer payroll costs cut to 15% on salaries that exceed the minimum wage. Loans will be deferred for households and SMEs whose income drops by more than 30%. Putin also proposed a 13% tax on interest earned from deposits worth more than RUB 1 million (USD 13 000) starting from 2021. In addition, the President said the withholding tax on dividend payments transferred abroad will be 15%.

Moscow imposed a lockdown starting from 30 March, except for essential workers. Moscow city and regional residents will be only allowed to leave their homes to buy food or medicines, get urgent medical treatment, walk the dog within 100 meters of home, or put their bins by the roadside. All other movements within the city will require a special permit.

Moody's downgraded its forecast of Russian GDP growth to 0.5% amid the global COVID-19 outbreak and the drop in oil prices. The agency expects a small deficit in the Russian budget in 2020. Previously it had forecast a budget surplus equivalent to 1.5% of GDP. Moody's predicts a greater slowdown in GDP growth amid weak external demand, lower purchasing power and monetary tightening in response to the weakening rouble.

The government of Russia has expanded the list of backbone companies – those deemed to be involved in activities critical to the economy – from 200 to 600 companies. The new list includes several airlines and airports, including Rossiya Airlines, Siberia Airlines, Utair, Domodedovo airport in Moscow and Pulkovo airport in St. Petersburg. The list also included agro-industrial complexes, food producers, food chains (VkusVill, Auchan) and non-food chains (M.Video, IKEA, Sportmaster). Backbone enterprises will receive additional government support, such as soft loans and state guarantees.

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To watch...

There is no significant news due this week.

Sources: Vedomosti, Bloomberg, TKB Investment Partners (JSC); March 2020

Quarterly results: actual vs. consensus for EPS

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

Major RTS index constituents	Q1 '19	Q2 '19	Q3 '19	Q4 '19
Lukoil	-9.6%	32.4%	40.1%	-
Gazprom	1.2%	2.3%	15.6%	-
Sberbank	6.4%	0.5%	-	17.1%
Novatek	-	-0.9%	-	-23.4%
Tatneft	2.0%	-1.3%	24.3%	-
Magnit	-49.5%	-	-48.5%	-
MTS	21.3%	-7.8%	6.8%	-12.8%
Alrosa	14.3%	-9.1%	24.3%	12.6%
Severstal	-1.9%	-11.2%	-11.5%	12.8%
NLMK	238.9%	0.3%	-43.6%	-33.5%
Moscow Exchange	0.0%	12.8%	1.4%	14.3%
Magnitogorsk Iron & Steel	18.2%	-83.2%	-14.3%	-
Phosagro	-20.9%	22.3%	11.8%	0.1%

* 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 27 March 2020

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