

Russian Equities Weekly

July 6 – 10, 2020

	Week	YTD
RTS Total return (TR) in USD	1.9%	-17.5%
MSCI EM index TR in USD	3.7%	-2.6%
MOEX index TR in RUB		
Composite	1.0%	-5.7%
Blue chip	1.1%	-8.5%
Small and mid-cap	-0.6%	-0.9%
MOEX sector indices TR in RUB		
Financial Services	2.9%	-1.2%
Consumer Goods	1.5%	13.0%
Metals & Mining	1.3%	14.2%
Oil & Gas	0.2%	-18.1%
Power Utilities	0.0%	13.1%
FX		
RUB/USD	0.9%	-12.3%
RUB/EUR	0.0%	-13.2%

Data as of July 10, 2020

TKB Investment Partners (JSC) calculations; Bloomberg

Lagging on ESG* issue for one company

Russian equity market dynamics

Last week, the Russian equity market rose, although by less than the broader emerging markets (EM) index. The RTS index gained 1.9%, while the MSCI EM index increased by 3.7% (all figures in USD terms). The major driver for the EM gains was the increased retail investor activity in China on the back of encouraging macroeconomic data. The Russian equity market came under pressure due to the index heavyweight, Norilsk Nickel, which received a USD 2 billion fine for the diesel spill in a Siberian river in May. Norilsk Nickel's share price lost 5% on the day of the announcement, resulting in a 3% contraction last week.

The financial services sector outperformed the broader market, mainly thanks to Moscow Exchange and TCS Group, whose share prices rose by 8.9% and 3.3%, respectively, in rouble terms. Increased risk appetite led to market participants investing in the sector, which had previously lagged the market. This supported both companies. In addition, Moscow Exchange enjoyed the spill-over effect of publishing a strong trading update the week before. The report stated that in June the company's trading volumes increased in all segments in month-on-month terms. In year-on-year terms, all segments except FX trading showed a volume increase.

The power utilities sector was the worst performer overall, mostly due to RusHydro and Rosseti, whose share prices declined by 1.1% and 1.0%, respectively, in rouble terms. Their prices contracted despite the lack of market-moving news.

*Environmental, Social and Governance

Main Russian news

Inflation in Russia increased to 3.2% YoY at the end of June from 3.0% YoY at the end of May, mainly due to higher food and non-food prices. Food inflation climbed to 3.9% YoY from 3.3% in May, while non-food inflation increased to 3.0% YoY from 2.8% YoY. According to the Ministry of Economic Development, the recovery of demand on the back of partially lifted coronavirus lockdown conditions played the key part in non-food segment inflation. Services inflation declined to 2.5 % YoY from 3.0% YoY in May.

Social support measures undertaken by the Russian government will have a significant positive effect on poverty rates according to the World Bank. In January, President Putin proposed implementing support measures, including an allowance for low-income families with children, expansion of maternity capital and social security contributions to small and medium-sized enterprises support programmes. According to the Ministry of Economic Development, these would cost RUB 300 billion (USD 4.2 billion) in 2020. Then during the March–June period, Putin further expanded the support programmes, increasing allowances for families with children under 16 years old, self-employed and people who lost jobs during the coronavirus outbreak. **Russia is spending the equivalent of approximately 3.2% of GDP on such programmes, which is higher in nominal terms than the world average of 1.6%.** The World Bank forecast that without these measures the consequences of the pandemic and the fall in oil prices would have increased poverty rates in Russia in 2020 up to 14.8% in a base case scenario and up to 16.3% in a pessimistic scenario. However, the actual poverty forecast is much less drastic due to the effect of the implemented support packages. **The World Bank expects a poverty rate of 12.2% in the base case scenario, which is approximately the pre-coronavirus level, and 13.4% in the pessimistic scenario.**

*Author: Aleksandra Kuznetsova,
Junior Investment Specialist*

To watch...

Rosstat is due to publish some of the key macroeconomic figures for June 2020, including industrial production data.

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

Quarterly results: actual vs. consensus for EPS (earnings per share), adjusted, (US dollars) *

Major RTS index constituents	Q2 '19	Q3 '19	Q4 '19	Q1 '20
Lukoil	32.4%	40.1%	-1.3%	-
Gazprom	2.3%	15.6%	18.0%	-
Sberbank	0.5%	-	17.1%	-9.4%
Novatek	-0.9%	-	-23.4%	-40.6%
Tatneft	-1.3%	24.3%	-	23.4%
Magnit	-	-48.5%	154.4%	-12.5%
MTS	-7.8%	6.8%	-12.8%	64.1%
Alrosa	-9.1%	24.3%	12.6%	-
Severstal	-11.2%	-11.5%	12.8%	-81.6%
NLMK	0.3%	-43.6%	-33.5%	46.4%
Moscow Exchange	12.8%	1.4%	14.3%	9.7%
Magnitogorsk Iron & Steel	-83.2%	-14.3%	-	-87.9%
Phosagro	22.3%	11.8%	0.1%	-33.6%

* 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 10 July 2020

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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

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