

Russian Equities Weekly

June 29 – July 3, 2020

	Week	YTD
RTS Total return (TR) in USD	-0.9%	-19.1%
MSCI EM index TR in USD	3.7%	-6.1%
MOEX index TR in RUB		
Composite	1.5%	-6.7%
Blue chip	1.4%	-9.5%
Small and mid-cap	1.2%	-0.2%
MOEX sector indices TR in RUB		
Power Utilities	2.6%	13.0%
Metals & Mining	2.3%	12.7%
Consumer Goods	1.9%	11.4%
Financial Services	1.7%	-4.0%
Oil & Gas	0.5%	-18.3%
FX		
RUB/USD	-2.3%	-13.2%
RUB/EUR	-2.4%	-13.3%

Data as of July 3, 2020

TKB Investment Partners (JSC) calculations; Bloomberg

Weaker rouble pressures Russian equities

Russian equity market dynamics

Last week, the Russian equity market declined, underperforming the broader emerging markets (EM) index. The RTS index lost 0.9%, while the MSCI EM index gained 3.7% (all figures in USD terms). While positive news on lower-than-expected unemployment figures in the US and China's apparently speedy economic recovery supported EM, the Russian market came under pressure from the rouble weakening due to several factors:

- Capital outflows amid dividends payments and profit-taking in OFZ – coupon-bearing federal government bonds. In June, the total sum of dividends paid was around USD 12 billion. The OFZ market has returned 6% in the year to date in rouble terms, outperforming equities by 12.7% and inflation by 3%. This triggered profit-taking.
- Lower export-oriented sales. Russian exports of oil, which account for 50% of total exports, fell by 15.3% in June, according to CDU TEK.
- The risk of potential sanctions. The *New York Times* reported that Russia offered Taliban-linked militants bounties to kill US troops in Afghanistan. The US officials claimed this information was not credible, but Trump's opponents demanded the imposition of sanctions on Russia. However, we continue to believe that the potential boomerang effect should dramatically limit the risk of material new sanctions as the Russian economy is deeply integrated into the global economy. Russia is the world's second largest net oil exporter and the largest external gas supplier to Europe. Any sanction that would limit Russia's ability to export oil and gas and other key commodities will likely have a devastating effect on commodity markets and the world economy.

The power utilities sector outperformed the broader market, mainly thanks to Unipro, RusHydro and InterRAO, whose share prices rose by 3.9%, 3.5% and 2.4%, respectively, in rouble terms. There were talks of possible acquisition of Unipro by InterRAO that caused shares price increase of the companies. RusHydro rose despite the lack of fundamental news.

The oil and gas sector was the worst performer overall, mostly due to Tatneft and Rosneft, whose shares declined by 0.8% and 0.5%, respectively, in rouble terms. Companies contracted despite the lack of market-moving news.

Main Russian news

Russia held a referendum on the constitutional reforms proposed by President Vladimir Putin in his address to the Federal Assembly in January. Voting, originally scheduled for 22 April but delayed due to the coronavirus pandemic, took place from 25 June to 1 July. **The main amendment to the constitution gives Vladimir Putin the right to participate in presidential elections two more times – in 2024 and in 2030.** Other important amendments include provisions for the Russian constitution to take over international law, the banning of foreign citizenship or residency to individuals occupying high government positions, and setting the minimum wage no lower than the subsistence minimum. **According to official results, 77.9% of voters supported the changes.** The referendum was not obligatory under Russian law but Vladimir Putin insisted that the changes must be accepted nationwide.

The rating agency Fitch lowered its forecast for Russian GDP for 2020. The agency expects Russian economic growth to fall by 5.8% in 2020. This was the third downgrade since April 2020. Previously, Fitch had forecast Russia's GDP to fall by 5%. **The International Monetary Fund expects the Russian economy to decline by 6.6% this year**, while the Central Bank of the Russia forecasts a 4%-6% fall in GDP by the end of the year, and the Ministry of Economic Development expects a fall of 5%.

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To watch...

Rosstat is due to publish inflation figures for June.

Sources: Vedomosti, Bloomberg, TKB Investment Partners (JSC); June 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 3 July 2020

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