

Russian Equities Weekly

October 22-26, 2018

	Week	YTD
RTS Total return (TR) in USD	-2.5%	0.3%
MOEX index TR in RUB		
Composite	-2.2%	14.6%
Blue chip	-2.1%	18.3%
Small and mid-cap	-2.1%	-15.1%
MOEX sector indices TR in RUB		
Consumer Goods	0.7%	-14.7%
Oil & Gas	-2.1%	40.3%
Power Utilities	-3.5%	-5.9%
Metals & Mining	-3.7%	10.5%
Financial Services	-3.9%	-14.8%
FX		
RUB/USD	-0.8%	-12.6%
RUB/EUR	0.8%	-6.9%

Data as of October 26, 2018
TKB Investment Partners (JSC) calculations; Bloomberg

Uncertainties on a global scale

Russian equity market dynamics

Russian equities fell last week amid a global sell-off in stocks and a fall in oil prices. The MSCI Emerging Markets and MSCI World indices fell by 3.3% and 3.9%, respectively, in US dollar terms. Brent crude fell by 3.6% in US dollar terms. The Saudi Arabia governor working with OPEC warned of potential oversupply in the oil market by the end of this year, as demand seems to be weakening.

The Russian equity market outperformed its emerging market peers.

After a meeting with Vladimir Putin, US National Advisor John Bolton said that the US has not been considering any further sanctions against Russia. However, he was less clear on the topic of sanctions during the rest of his trip to other countries. In addition, the strong fundamentals of many Russian companies continued to support the market.

The consumer goods sector outperformed the market, mainly thanks to X5 Retail Group, whose stock price surged by 6.7% in rouble terms. The company reported better-than-expected financial results over the third quarter. Its revenues rose by 17% YoY, while its EBITDA surged by 23.7% YoY. X5 Group also held an investor day during which it shared its expectations that its revenues could rise by 15%-20% in 2019.

Companies in the financial services sector lagged the market due to Moscow Exchange and VTB, whose stock prices fell by 7.9% and 3.1%, respectively, in rouble terms over the week despite a lack of corporate news to justify the underperformance.

Main Russian news

The Central Bank of Russia (CBR) held its key rate at 7.5%. Inflation remains a concern for the regulator. It is gradually heading towards the CBR's long-term target of 4% (3.4% YoY in September). However, inflation expectations remain higher due to the risk of rouble depreciation and an expected increase in Value-Added Tax to 20% from the current 18%. The risks for the rouble include: further US interest rate rises, capital outflows from emerging markets and geopolitical risks. The CBR expects inflation to reach 4.2% by the end of 2018 and 5%-5.5% by the end of 2019. CBR thinks that inflation will return to 4% in 2020.

Moody's made several statements in respect of Russia:

- It may re-rate Russia at investment grade in 2019. Moody's is the only agency which still maintaining its Russia rating below investment grade. The decision could be backed by positive views on Russian corporate profits, a more transparent banking system and prudent budget policy. However, there is a possibility that there will be no rating upgrade by the agency should the US impose severe sanctions against Russia. If that happens, Moody's would pause to see how the Russian economy adapts to the changes.
- It lifted its outlook on Russia's banking sector to positive from stable. on the basis of an improvement in the quality of banks' assets. The analysts expect the share of non-performing loans to fall to 9.6% from 11%. New loans are undergoing a process of stricter due diligence before being granted. Meanwhile, the macroeconomic situation in Russia is supporting lending activity: the agency expects banks' credit portfolios to rise by 10% in 2018.

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To watch...

Yandex, RusHydro, Enel Russia and MMK are due to publish their financial results for Q3 2018.

Sources: Vedomosti, cbr.ru, VTB Capital, Interfax, TKB Investment Partners (JSC); as of October 2018

Quarterly results: Actual vs. consensus for EPS, adjusted (US dollars) *

Major RTS index constituents	Q1 '18	Q2 '18	Q3 '18
Lukoil	9%	1%	
Gazprom	9%	-12.3%	
Sberbank	12%	-4%	
Novatek	13%	6%	20.5%
Tatneft	8%	33.7%	
Magnit	-12%	-19%	
MTS	-8%	-8%	
VTB	170%	7%	
Arosa	64%	13%	
Severstal	-14%	14%	0.0%
NLMK	-4%	14%	19.8%
Moscow Exchange	-7%	-8%	
Inter RAO	53%	52%	
Magnitogorsk Iron & Steel	-22%	6%	
Phosagro	-31%	-45%	

* based on Bloomberg consensus

TBA – to be announced

	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 October 26, 2018

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