TKB INVESTMENT PARTNERS

Russian Equities Weekly
November 26–30, 2018

	Week	YTD
RTS Total return (TR) in USD	1.1%	2.9%
MOEX index TR in RUB		
Composite	2.1%	19.6%
Blue chip	2.5%	23.2%
Small and mid-cap	1.2%	-11.8%
MOEX sector indices TR in RUB		
Consumer Goods	3.5%	-10.0%
Oil & Gas	2.5%	41.5%
Metals & Mining	0.4%	17.7%
Power Utilities	0.4%	-3.9%
Financial Services	-0.3%	-10.7%
FX		
RUB/USD	-1.3%	-13.6%
RUB/EUR	-0.8%	-8.3%

Data as of November 30, 2018
TKB Investment Partners (JSC) calculations; Bloomberg

Kerch's anchor

Russian equity market dynamics

The Russian equity market rose last week, but lagged its peers: The MSCI Emerging Markets and MSCI World indices rose by 2.7% and 3.4% respectively in US dollar terms. There was s**ome pressure at the start of the week from the geopolitical incident** involving Ukrainian military ships in the Kerch Strait. Investors likely had concerns that this could result in new sanctions against Russia. However, **the reaction of the US and Europe was limited to discussion and there was no mention of imposing new sanctions against the country**. When investor concerns eased, the Russian equity market rebounded.

The consumer sector index outperformed other indices. The leaders were X5 Retail group, M.Video and Detsky Mir, as their share prices rose by 7.4%, 5.0% and 4.7%, respectively, in rouble terms. X5 Group's share price rose despite the absence of any news events. In contrast, the stocks of other two retailers benefited from what was seen as positive corporate news, that the main shareholder of M.Video, Mikhail Gutseriyev, might purchase a controlling stake in Detskiy Mir.

The financial services sector underperformed. Sberbank was the main detractor. The stock fell by 1.7% in rouble terms likely due to investor fears of possible sanctions on the back of the Kerch Strait incident.

Main Russian news

VTB Capital hosted an annual investment conference "Russia calling". There were 2500 guests, among which 500 delegates from 63 countries. More than 900 business meetings were held between investors and Russian companies' representatives. The macroeconomic session included speeches from Elvira Nabiullina (Head of the Central Bank of Russia (CBR)), Maxim Oreshkin (Head of the Ministry of Economic development) and Anton Siluanov (Ministry of Finance). The key takeaways:

- **Ms. Nabiullina said that the CBR is aiming to make the Russian rouble attractive for payments.** This would require the accommodation of a low level of inflation to ensure the rouble maintains its purchasing power. In its turn, the bank's relatively tight monetary policy would help to hold inflation down and support the Russian currency. Amid the current risks and higher inflation expectations, the CBR is not likely to cut its rate before the second half of 2019.

- **Maxim Oreshkin said the government will implement key performance indicators (KPI) for ministers in the regions.** The aim is to motivate them to monitor investment in various sectors of the economy. Investment needs to grow by 6%-7% a year to provide economic growth of more than 3% in the country. However, some sectors need to increase investment by 8%-10%, which is difficult to accomplish. The implementation of KPIs will allow progress and delays to be tracked.

- **Anton Siluanov said Russia could cope with an absence of international investors should sanctions be imposed on government debt.** Firstly, Russia has a budget surplus and a low level of debt, and could manage the sanctions impact in the worst-case scenario. Secondly, there is demand from local investors who, for example, have been supporting the government bond market following the decline of international investors' share of Russian debt to 25% from 34.5% since the beginning of April.

Author: Maria Rybina, investment specialist

To watch...

Rosstat is due to publish inflation figures for November. OPEC+ will hold a meeting in Vienna.

Sources: Vedomosti, rbc.ru, Bloomberg, TKB Investment Partners (JSC); November 2018

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

Major RTS index constituents	Q1 '18	Q2 '18	Q3 '18
Lukoil	9%	1%	22.3%
Gazprom	9%	-12.3%	29.2%
Sberbank	12%	-4%	4.5%
Novatek	13%	6%	20.5%
Tatneft	8%	33.7%	41.2%
Magnit	-12%	-19%	
MTS	-8%	-8%	13.6%
VTB	170%	7%	-90.7%
Alrosa	64%	13%	-10.9%
Severstal	-14%	14%	0.0%
NLMK	-4%	14%	12.3%
Moscow Exchange	-7%	-8%	4.2%
Magnitogorsk Iron & Steel	-22%	6%	0.0%
Phosagro	-31%	-45%	-8.0%

* based on Bloomberg consensus

(green)	Actual figure is better than consensus by more than 5%
(red)	Actual figure is worse than consensus by more than 5%
(beige)	The deviation of actual results from consensus is between -5% and +5%

Source: Bloomberg, TKB Investment Partners; data as of November 30, 2018

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