

# Russian Equities Weekly

## December 17–21, 2018

	Week	YTD
<b>RTS Total return (TR) in USD</b>	-3.1%	-1.1%
<b>MOEX index TR in RUB</b>		
Composite	-0.3%	17.9%
Blue chip	-0.6%	21.5%
Small and mid-cap	0.7%	-14.3%
<b>MOEX sector indices TR in RUB</b>		
Consumer Goods	3.2%	-9.7%
Metals & Mining	1.7%	19.3%
Power Utilities	-0.7%	-6.4%
Financial Services	-0.8%	-14.9%
Oil & Gas	-1.6%	39.3%
<b>FX</b>		
RUB/USD	-3.8%	-16.4%
RUB/EUR	-3.0%	-11.1%

Data as of December 21, 2018

TKB Investment Partners (JSC) calculations; Bloomberg

## Falling oil prices still pressuring equity market

### Russian equity market dynamics

**Global equity markets came under pressure again last week.** As a result, the MSCI World and MSCI EM indices fell by 5.5% and 1.5%, respectively, in US dollar terms.

**Russian equities in US dollar terms underperformed those of emerging markets.** Investors continued to take profits, mainly in oil and gas stocks, as the price for Brent crude oil fell by 11.2% in US dollar terms. On the other hand, **there was some positive news** that likely supported investor sentiment towards the Russian market. **The US Treasury department is due to terminate sanctions against Russian public companies** (please see next page for more details).

**The consumer goods sector outperformed other sectoral indices.** The growth leaders were X5 Retail Group, RusAgro and M.Video, whose shares rose by 10.1%, 4.2% and 3.9% in rouble terms. There were no particular stock-driven events for the stocks.

**Oil and gas companies lagged the market due to the correction in oil prices.** Gazprom stocks and the ordinary shares of Surgutneftegas and Tatneft were the worst performers. Their values fell by 2.8%, 4.1% and 2.3%, respectively, in rouble terms over the week.

## Main Russian news

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**The US Department of the Treasury's Office of Foreign Assets Control (OFAC) took several actions last week:**

- **It imposed [new sanctions](#) against a list of Russian individuals and entities.** The most of the individuals are GRU (military intelligence) officers, who are accused of interference in the 2016 US presidential elections and of involvement in cyberattacks on a number of international non-political organisations, such as World Anti-Doping Agency. The new companies named as coming under sanctions are news agencies related to Project Lakhta, which is also accused of interfering in political and electoral systems worldwide. **Given that these additional sanctions do not involve any public companies, there is unlikely to be any negative impact on the Russian equity market.**
- **OFAC is also due to [end sanctions](#) against Russian companies Rusal, EN+ and EuroSibEnergo (ESE).** These had been included on the special designated nationals (SDN) list in April 2018 because one SDN, Russian billionaire Oleg Deripaska, owned more than 50% of them either directly or indirectly. There were a number of conditions to be fulfilled before the sanctions could be lifted. In particular, Mr. Deripaska's stake in EN+ had to fall to 44.95% from 70%, and he can eventually only retain 35% of EN+ shares with voting rights. OFAC will closely monitor the companies' compliance with these commitments and can reimpose sanctions if any is breached. **The decision will come into effect in 30 days and marks the first time the US will have lifted sanctions against Russian companies. However, within these 30 days the US Congress can block the Treasury's decision.**

**Russia's macroeconomic indicators remained mixed in November.**

Industrial production slowed due to weaker manufacturing, where performance remains uneven. For example, the output of electronic goods, including computers, fell by 1.0% YoY after surging by 12% YoY in October. Meanwhile **the extraction of mineral resources continued to expand, mainly thanks to better production of coal and gas.** Retail sales accelerated in both the food and non-food segments, partly due to ongoing rise in real wages. However, consumers are anticipating the increase VAT in 2019, which likely explains the increase in early purchasing.

	November 2018, YoY	October 2018, YoY
<b>Industrial production</b>	<b>2.4%</b>	<b>3.7%</b>
Manufacturing	0.0%	2.7%
Extraction of mineral resources	7.8%	7.4%
<b>Retail sales</b>	<b>3.0%</b>	<b>2.0%*</b>
Food segment	1.6%	0.4%
Non-food segment	4.3%	3.4%
<b>Real wages*</b>	<b>4.6%</b>	<b>5.2%</b>

\*Data was revised by Rosstat

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## To watch...

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The week would likely be quite on corporate and macroeconomic events.

Sources: Rosstat, Vedomosti, Bloomberg, TKB Investment Partners (JSC); December 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%	12.4%
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

<span style="background-color: #92d050; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span>	Actual figure is better than consensus by more than 5%
<span style="background-color: #e67e22; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span>	Actual figure is worse than consensus by more than 5%
<span style="background-color: #f1c40f; border: 1px solid black; display: inline-block; width: 15px; height: 10px;"></span>	The deviation of actual results from consensus is between -5% and +5%

Source: Bloomberg, TKB Investment Partners; data as of December 14, 2018

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