

Russian Equities Weekly

January 28 – February 1, 2019

	Week	YTD
RTS Total return (TR) in USD	1.6%	13.7%
MOEX index TR in RUB		
Composite	1.0%	6.7%
Blue chip	1.1%	7.8%
Small and mid-cap	-0.8%	5.1%
MOEX sector indices TR in RUB		
Financial Services	2.4%	11.3%
Metals & Mining	1.3%	2.7%
Oil & Gas	0.7%	3.7%
Power Utilities	0.1%	7.7%
Consumer Goods	-1.0%	5.9%
FX		
RUB/USD	1.0%	5.7%
RUB/EUR	0.0%	5.6%

Data as of February 1, 2019

TKB Investment Partners (JSC) calculations; Bloomberg

Sentiments remains positive

Russian equity market dynamics

The Russian equity market edged into the black last week. Global markets rose as well: the MSCI EM index gained 1.7% and the MSCI World rose by 1.4% in US dollar terms. The **partial recovery in crude oil prices and the official lifting of US sanctions on Russian public companies supported investor sentiment.** Brent crude rose by 2.3% in US dollars over the week on the news that Saudi Arabia's exports to the US had dropped to their lowest since 2010. Additionally, the US imposed sanctions on Venezuela's state oil company, which could disrupt supply. This should support oil prices. Meanwhile, the US Treasury officially lifted sanctions on publicly listed companies Rusal and EN+. **Please read our [flash note](#) for more insights.**

Companies in the financial services sector outperformed the market. Financial stocks had underperformed in 2018, but have been catching up with the market since the beginning of this year. VTB, Sberbank and Moscow Exchange were the leaders: their shares rose by 2.6%, 2.2% and 2.0%, respectively, in rouble terms.

The consumer goods sector lagged other sectoral indices. X5 Retail Group, Lenta and Magnit fell the most, by 3.9%, 2.8% and 1.4%, respectively. The stocks corrected somewhat after January's strong performance.

Main Russian news

Rosstat reported that the **Russian construction industry grew by 5.3% in 2018, marking** the fastest pace over the last 10 years. The news took analysts by surprise: **over January-November 2018, construction had grown by only 0.5% YoY.** According to a head of the construction statistics department, the acceleration was due to a revision of figures across several regions. Many companies were late to provide Rosstat with figures, while they also provided data with mistakes or did not share information at all. Overall, the revision was mainly due to Rosstat receiving updates from contractor companies working with Novatek (on the Yamal LNG project), Rosneft, Surgutneftegas and Gazprom. Nonetheless, **such a revision is atypical for Rosstat and the government plans to implement legislation which should introduce penalties for late or not fully disclosed information from the contractor companies.**

The CBR said that **GDP growth in 2018 could be close to 2%**, while its official forecast had ranged between 1.5% and 2%. The statement was made after Rosstat made adjustments in the construction segment, mentioned above. As such, the **Ministry of Economy also revised its figures: it expects GDP to have grown by 2% over 2018, while its previous forecast was for 1.8%.** The CBR had said in December that economic activity had decelerated: external demand and investment activity were weaker than in previous months, while consumer demand grew only modestly. **The regulator expects consumer activity to weaken in the first few months of 2019 due to the increase in VAT. This could result in slower-than-expected GDP growth in the first quarter.**

The central bank also reported the results of its work on illegal cash withdrawals and dubious transactions. **In 2018, the cashing in of money dropped to about USD 2.8 billion from USD 5.5 billion in 2017, while the volume of transit banking operations fell to USD 21 billion from USD 43 billion.** Since 2013, the CBR has been taking measures against dubious banking operations: it detected and closed numerous fly-by-night companies and withdrew licences of banks which were suspected of illegal transactions. Moreover, it became more difficult for Russian citizens to work with foreign banks. Eventually, **the volumes of dubious transactions accounted for USD 123 million over the first nine months of 2018 compared to USD 38.8 billion by the end of 2012.**

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To watch...

Rosstat is due to publish inflation figures for January 2019

Sources: Vedomosti, Kommersant, Bloomberg, TKB Investment Partners (JSC); January 2019

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%
Arosa	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

	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 February1, 2019

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