Russia
Screening the investable landscape

Report date:	5 July 2016
MICEX Index, last (04/07/2016)	1907,48
MICEX index, YTD	8,3%
GDP, RUB trln (2015)	80,804
Reserves, $bn (24/06/2016)	395
RUB/USD last	63.68
CPI, YoY (May)	7.3%
Population, mn	146.27

- **Russia's economy adapts to the new reality of a lower oil price and sanctions, according to policymakers.** The head of the Central Bank of Russia Elvira Nabiullina and President Vladimir Putin both made statements recently highlighting the stabilization in Russia's economy and the potential soon for a recovery to growth as the country adapts to the new external realities. There are no grounds to believe that sanctions will be lifted anytime soon or indeed that commodity prices will move higher, but the official view highlights a relatively stable economic environment in which to work in and to take advantage of the opportunities available. The challenging task of finding a new growth model will come under the supervision of ex-Finance Minister Alexei Kudrin.
- **Political risk and market turmoil in the aftermath of Brexit may restrain market growth, but Russia has already proved resilient.** Russia does not want to be isolated from the global economy and recent actions by Russian policymakers support our view that Russia is looking for a "difficult peace" rather than a "the good war". The global flight from risk assets following the outcome of the Brexit referendum is unlikely to work in favor of Russia and other emerging markets. Meanwhile, the risks facing the Russian market, including geopolitics and the oil price, are more apparent than some of the other market risks right now.
- **Screening Russian bonds and equities with 'low-risk profiles'.** We are targeting low net debt/EBITDA, low cash costs or high EBIT versus peers, high dividend yielding equities, US dollar Eurobond with yields above 3.5% and duration of 5.5 years and ruble bonds with yields above 8.5% and duration of 3.5 years. We believe that declining yields will be the trend in the Russian market through 2018 driven by efforts to improve the political and economic environment during the current political cycle.
- **Sanctions, low oil prices and ruble devaluation contributed not only to a weak macro backdrop, but also to the competitive costs of producers.** Our selected companies have sustainable financial performance, low debt and generous dividend politics. Selected stocks trade 10-70% discount to peers based on 1Y FWD P/E and EV/EBITDA.

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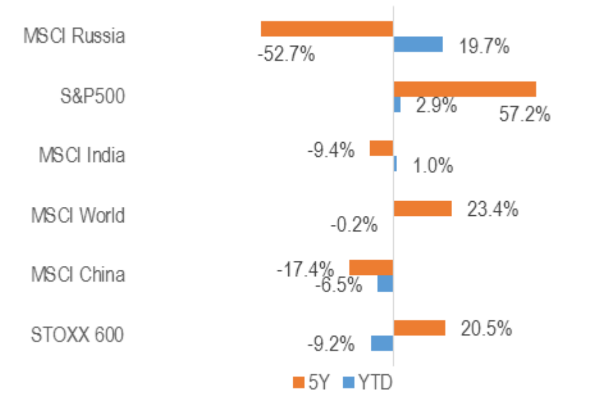
Figure 1: MSCI Russia, MSCI World and S&P500 5-year performance

Source: Capital IQ

Figure 2: Russia vs other BRICS and global markets performance



Source: Capital IQ

Summary

The Russian economy has been navigating through a deep recession caused by firstly by geopolitical events followed by a sharp slump in commodity prices. The export-orientated natural resource economic model was a snare for Russia when it found itself isolated as a result of the annexation of Crimea and the conflict that erupted in eastern Ukraine.

It took Russia's economy two years to adapt to the external shocks, and there is no consensus as to whether the turmoil is yet over. The sharp devaluation of the Russian ruble (see Figure 15 for a comparison with other countries) in 2014-15, the significant interest rate hike, the exclusion of the largest Russian banks from the global debt market and the isolation of the largest Russian corporates from modern technologies will all influence economic growth rates for the next several years and put downward pressure on long-term economic trends. The technological lag between Russia and the leading global economies, which are going through the fourth industrial revolution, might be a more serious issue for Russia's longer-term prospects than the oil-price dynamics. In the meantime, the Russian economy might demonstrate some signs of recovery from its low base on a 1-3 year horizon. In this report, we review some key economic parameters to understand the trends of the previous two-years and what scenarios are contributing to the future trends in the economy.

During the past two years the Russian economy has demonstrated all of the classic attributes of a resource-dependant economy in recession – 48% currency devaluation, inflation jumping from 6.1% YoY in January 2014 to 16.9% YoY in March 2015, GDP declining 3.7% YoY in 2015, and exports and imports plummeting by over 30-40% YoY in January-August 2015, according to Russian Federal State Statistics Service (GKS). Russia introduced counter-measures against certain Western countries following the introduction of the sanction regime and that also affected imports.

The political environment has changed dramatically since the integration of Crimea into Russia and the ensuing sanctions introduced against Russia. US sanctions are unlikely to be lifted without some serious political intent, whereas EU sanctions, particularly in light of the Brexit vote, might be lifted as early as 2017. The complex political game in relation to Ukraine and its two breakaway regions Lugansk and Donetsk, the involvement of the EU and US in peace negotiations in Ukraine, and Russian efforts to shore-up political stability in the Middle East, all combine to create a very complicated backdrop and seriously question the possibility of a near-term solution.

During the past two years the oil price has received several new price-setting inputs; these include the resumption of Iranian exports, the growing lack of consensus among OPEC members to find common ground in implementing price-setting measures, and the new cost curve which is affecting shale oil and gas producers in the US and their new role as regulators of the market.

Geopolitical events such as the Brexit vote and the upcoming US presidential election this autumn, as well as decisions on interest rates by central banks in the US and EU are creating volatility for emerging markets, which in turn influence Russia. The flight in favor of low risk assets by global investors to asset classes such as government bonds and gold (see figures xx and xx), create a weak backdrop for fund inflows into emerging markets, including Russia. The rebalancing of the Chinese economy, and the influence that has on key diversified metal prices, is the second-most important factor impacting Russian exports.

Thus, as it adapts to the new reality, Russia now faces an external resource-price environment which is not as lucrative as it once was. That creates the need to look for internal growth drivers, particularly when the potential to attract investment into the economy is low, not only because of liquidity concerns but also due to weak investor confidence. Russia needs to implement structural reforms for its state institutions and to offer incentives for local and foreign investors. Our main macro scenario assumes 1.5-2% GDP growth for 2017-18, assuming the oil price recovers above $50/bbl. However, while Brexit now creates many variables for the global economy, including downward pressure on the oil price, Russia is unlikely to succumb to that volatility.

Our conservative selection of securities is focused on companies with sustainable long-term fundamentals due to their unique products, their position in the market, and cost advantages. These are companies we believe are best placed to play on a recovery and to even survive in the event of a low cycle.

Trends and Challenges

Russia: political challenges

Despite the sanctions regime which has led to financial isolation, and political and economic tensions, Russia remains an essential player on the world stage, both economically and politically. High levels of political and economic risk leave Russia among the more vulnerable destinations for investors, albeit that is against the backdrop of an improving political environment for Russia in a global context and, thus, a less-risky investment story may emerge for Russia.

- **Tensions with NATO a key risk to Russia.** We note the political tension between Russia and NATO as a key risk; however, at the same time neither party is in a position to deteriorate that.

- **Russian authorities said for the first time that any recognition of independence** by Donetsk and Lugansk **would be counterproductive**. The integration of both regions back into Ukraine is now not a military question but a diplomatic one, which needs to be settled by Ukraine rather than by outside parties. Brexit may affect developments surrounding Ukraine but it is unlikely to move in a negative direction with regards Russia.

- **Asia pivot scaled back.** Efforts by Russian businesses and institutions to replace Western partners and finance sources in Asia have been scaled-back. Chinese banks and corporates are part of the global universe whose commercial interests dominate over politics; in particular, their interests in the West are weightier than what Russia could offer.

- **Russia's willingness to engage in cooperation with the West encouraging.** The readiness of Russian President Vladimir Putin to engage in cooperation with the EU and the US might also help to resolve the isolation and lead to the negotiation of new rules of engagement with Western partners. Brexit will encourage politicians to come to agreement sooner rather than later.

- **In its isolation, Russia is losing not only attractive sources of financing,** but also the benefits of technological cooperation, the flight of valuable human resources, investment and, subsequently, future prosperity. After two years of economic decline, the situation looks even worse on the inside, people are losing motivation, real disposable income is declining and consumer spending is no longer a driver for the economy. As a result, structural reforms are now required.

- **Sanctions mutually damaging to Russia and its Western partners.** Russia and indeed its trading partners have both suffered substantially since sanctions were introduced (EU companies lost EUR100 bn from the food embargo introduced by Russia, while Russia lost 0.8-1% of GDP per year, according to ex-Minister of Finance Alexei Kudrin). German, Italian, and French businesses and to a lesser extent the political establishments are in favor of lifting sanctions against Russia to boost mutual economic benefits. The lifting of sanction would be a strong driver for the market.

Russia: Economic trends

The current geopolitical and economic environment means that no country around the world can expect a return to the pre-crisis status quo of higher oil prices and economic stability. The situation is even more challenging for the Russian economy because of its resource-oriented model, low levels of business and consumer confidence, and the high share of state involvement in the economy.

- According to the Centre for Strategic Research (CSR), headed by ex-Vice President Alexei Kudrin, the **pre-crisis Russia economic growth model was predominantly based on consumer demand expansion driven by high oil revenues**, which is a factor that does not play an essential role any longer

- Figure 13 indicates the **decrease in real disposable income since 2014**. In May 2016, it contracted for the nineteenth consecutive month, dropping by 5.7% YoY (GKS). The negative demographic trend is another factor slowing economic growth.

- **Capital investments are decreasing** while capacity utilization remains high. **The deposit accounts of corporates are now comparable in volume to their annual capital investments.** Term deposits reached 17% of GDP as of end-2015 and exceeded 90% of nominal capital investments, partially due to currency devaluation, according to CSR and CBR statistics. Companies are taking a very cautious approach in relation to investments in the current environment.

- **The cost of imported equipment, materials and components increased** due to ruble devaluation.

- Some technologies are not available to Russian corporates and the technological lag to other countries is increasing. **Innovation is a weak factor in Russia and probably requires strong cooperation with other more advanced technology zones around the world.** Capital investment in Russia has been decelerating since 2013, driven in particular by cuts to budget expenditure. Foreign direct investments fell to a low comparable with 2002 – from c $75 bn in 2008 to less than $5 bn in 2015 (CSR).

- **Domestic competition decreased** due to trade barriers.

- **Access to cheap financing for Russian banks and corporates is restricted** due to sanctions – the three largest banks are on the sanctions list.

- Among other factors, high administration barriers and the low efficiency of state governance are restrictive for growth.

- The real ruble-US dollar exchange rate was growing prior to 2014 due to improving trade conditions and capital inflows, as well as improved labor productivity. According to the Centre for Strategic Research after the ruble devaluation **in 2014-15, the Russian economy returned to the real ruble rate fixed in 2004-05.**

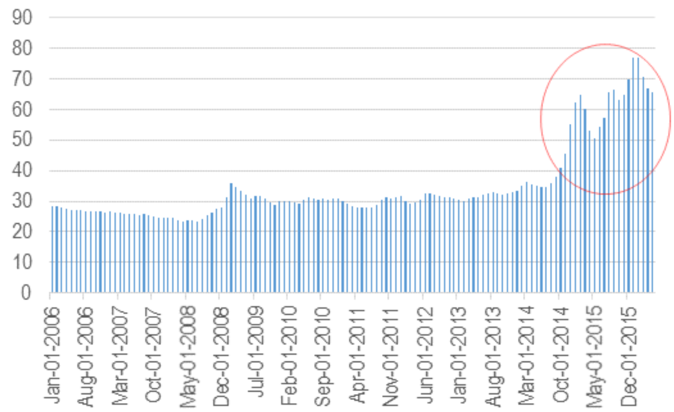
- According to Gaidar Institute estimate, **the structural part of economic growth has been falling since 2005, to less than 1%** in 2015, whereas foreign trade and conjuncture were negative in 2015, culminating in a 3.7% actual GDP contraction in 2015.

- The Central Bank of Russia lowered the key interest rate from 11% to 10.5% for the first time in 11 months in June 2016. The main reason for the move is the stabilization in the inflation rate at 7.3%; further potential improvements in inflation could see it reach the target level of 4% in 2017. **Russia's macroeconomic authorities are talking about the economy adapting to the new external realities, and even a possible recovery in the economy; however the drivers still look miserable.**

- The main variable in Russian monetary policy now, according to the head of Central Bank, is the budget deficit and tax policy. Budgetary policy should concentrate on new trading conditions to reduce the budget deficit to 1% of GDP in 3-4 years, from c 3.5% GDP in 2016 and a potential deficit of 4.5-5% in 2017-18. It is being widely discussed among government officials that RUB2.5-3 tn of Russia's reserve fund will be used to finance the budget deficit in 2016. Further budget deficit financing is a key question for the macroeconomic authorities over the medium term.

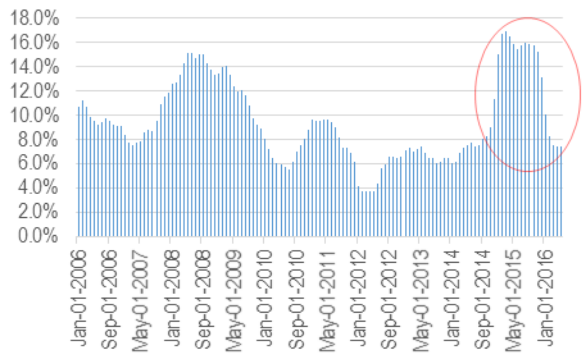
Figure 3-14 below demonstrates recent macro trends in the Russian economy.

Figure 3. Russian monthly exchange rate, RUB/US$



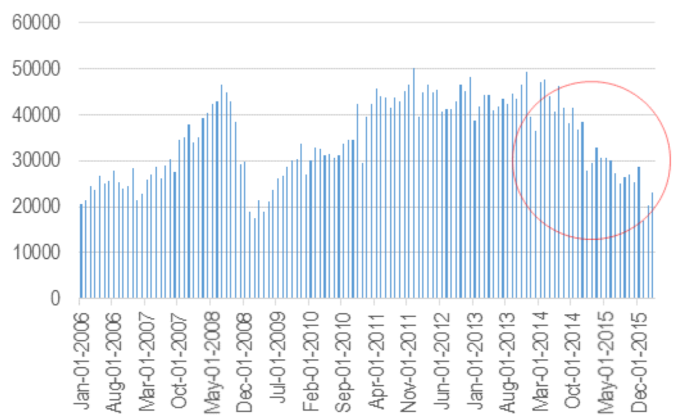
Source: Capital IQ, Russian Federal State Statistics Service

Figure 4. Russian CPI, YOY %



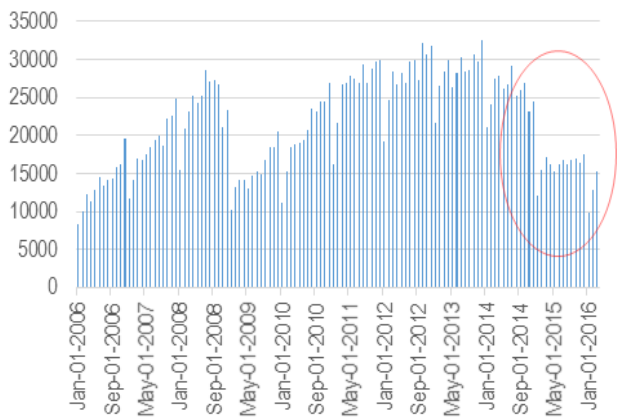
Source: Capital IQ, Russian Federal State Statistics Service

Figure 5. Russian exports, $ mn (decrease 18% since Dec 2014)



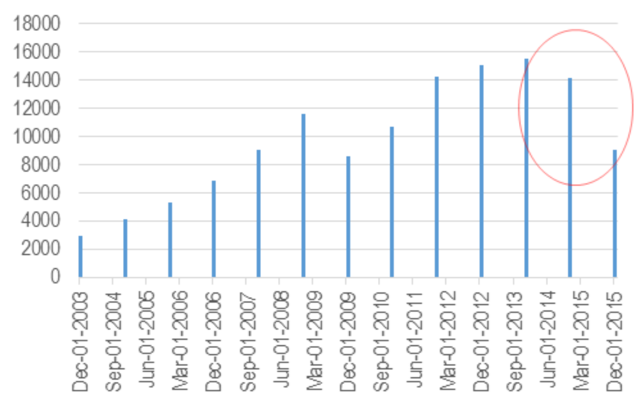
Source: Capital IQ, Russian Federal State Statistics Service

Figure 6. Russian imports, $mn



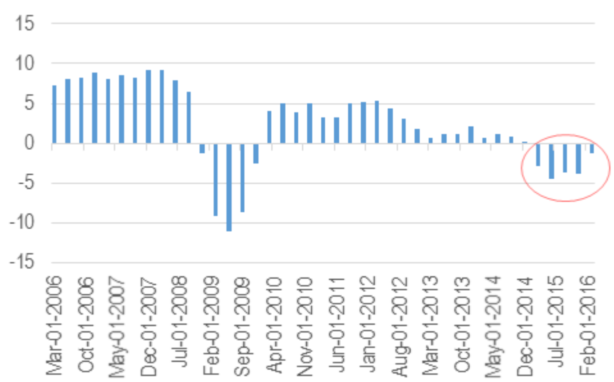
Source: Capital IQ, Russian Federal State Statistics Service

Figure 7. Russian GDP per capita, USD



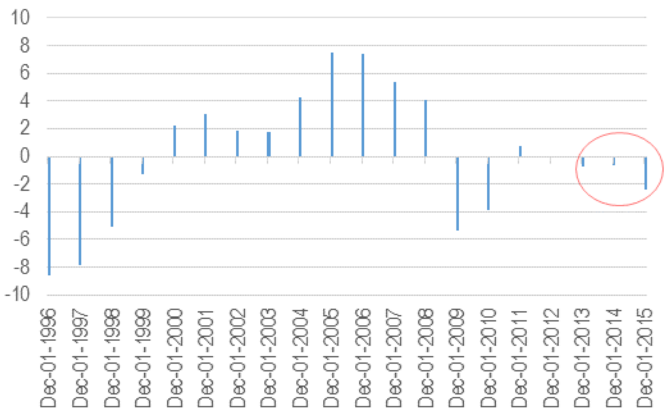
Source: Capital IQ, Russian Federal State Statistics Service

Figure 8. Russian GDP, % YOY



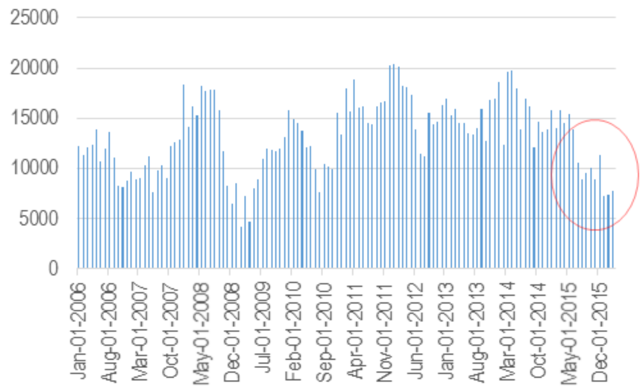
Source: Capital IQ, Russian Federal State Statistics Service

Figure 9. Russian fiscal balance, % of GDP



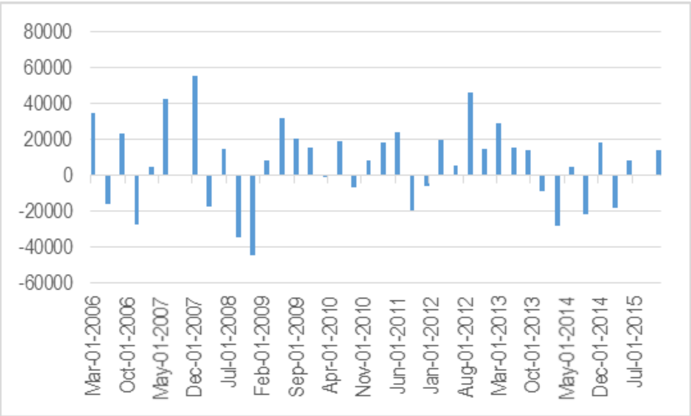
Source: Capital IQ, Russian Federal State Statistics Service

Figure 10. Russian trade balance, $mn



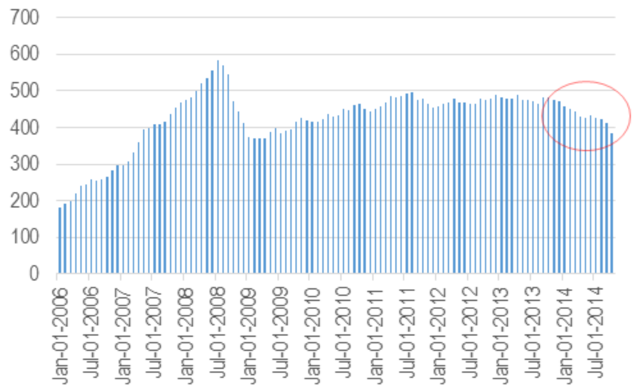
Source: Capital IQ, Russian Federal State Statistics Service

Figure 11. Russian portfolio investments net, US$ mn



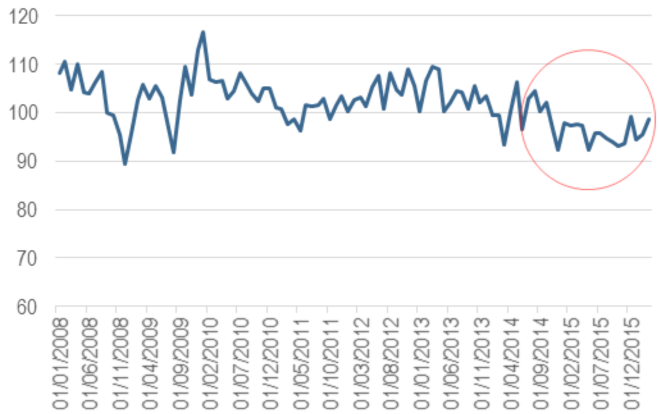
Source: Capital IQ, Russian Federal State Statistics Service

Figure 12. Russian reserves, $bn (reduction 18% since Dec-13)



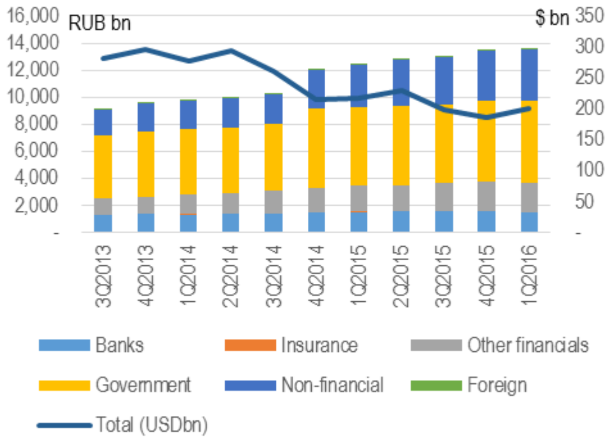
Source: Capital IQ, CBR

Figure 13. Russian real disposable income, YoY (falling since Nov-14)



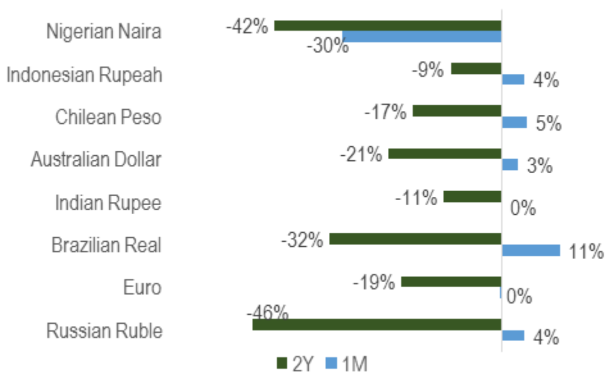
Source: Capital IQ, Russian Federal State Statistics Service

Figure 14. Domestic debt of Russian and foreign organizations



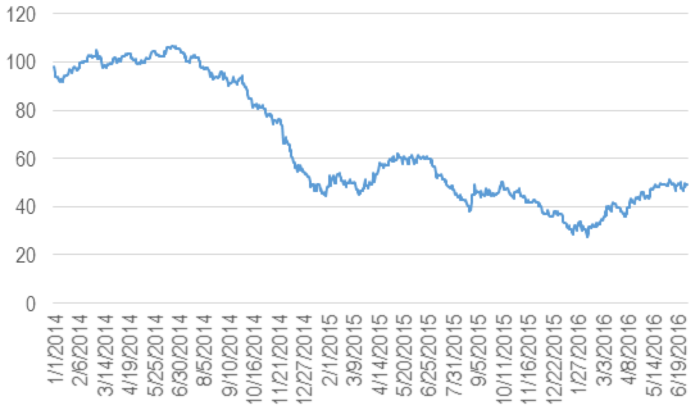
Source: Capital IQ, CBR

Figure 15. "Resource" countries currency devaluation vs USD



Source: Capital IQ, Hypothesis Research estimates

Figure 16. Crude Brent oil price, $/bbl



Source: Capital IQ

Recent trends in the Russian economy demonstrated several positive developments:

- Monthly inflation decelerated and stabilized at 7.3-7.4% YoY in April-May 2016.
- Exports started to recover in 1Q16 on the back of a 7% oil-price recovery (up by 25% in 2Q16), following the 57% drop during the past two years.
- Stabilization of the RUB/USD exchange rate at around 64-67 and, thus, the improving attitude of economic agents towards the local currency.
- Excess liquidity among the largest banks in the banking system.

Macroeconomic forecast

The recent decision by the Russian Central Bank to cut the key interest rate to 10.5% after an 11 month pause was supported by the increase in oil prices and the stabilization in inflation. What can be expected next from the authorities in the current macro environment?

- The inflation target of 4% announced by the Central Bank as achievable in 2017 would allow the key interest rate to be reduced to 6.5-7% and that in turn would imply a **real interest rate of 2.5-3% in line with the Central Bank's target.**
- **The government's main macro scenario assumes 2% GDP growth** in 2018. However, that is hardly possible without additional capital, labor resources and productivity growth, according to Alexei Kudrin, unless under an optimistic scenario for oil prices. A more conservative figure of 1.5-1.8% GDP growth might be achievable in 2018.
- **Budget policy and deficit financing are now the key variables regarding medium-term expectations.** There are three main scenarios currently being discussed by policy makers:

  (1) **The Central Bank buys reserve fund currency** by issuing RUB2.5-3 tn to help keep the rate high and it restricts support to banks with credits.

  (2) **The government increases borrowings on the market by RUB1 tn–RUB3.5-4 tn.** Domestic government debt in the form of longer-term fixed-income securities (OFZ) is less attractive for domestic investors than short-term debt (GKO) and the main Central Bank concern is that it is a risky strategy for the state.

(3) **Reduction of expenses and tax increases.** The potential "freeze" of wage and pension indexation as mentioned in statements by the head of the Economy Ministry Alexei Ulyukaev is more preferable than any changes to the taxation system.

We hold to conservative side and make the following assumptions in our macroeconomic forecast:

- Positive political trend formed by successful negotiations regarding Ukraine, supported by Russia and the EU. Brexit might push the parties towards more intensive negotiations.
- Sanctions against Russia to be lifted by the EU during 2017-18, meanwhile the US maintains its sanction beyond 2018.
- Stable resource environment, despite Brexit, with the oil price stabilizing above $50/bbl and Chinese GDP growth above 6.5% pa for the next 3-5 years.
- Russian GDP grows at 1-1.5% pa, and the inflation target of 4% is achieved by the end of 2018.
- The budget deficit is reduced via frozen indexation and financed through the internal debt market.

Figure 17. Macroeconomic forecast for Russia

	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Real GDP growth	5.2%	-7.0%	5.0%	4.3%	3.4%	1.3%	0.6%	-3.7%	-0.5%	1.3%	1.8%	2.2%
Industrial Growth	0.6%	-9.3%	8.2%	4.7%	2.6%	0.4%	1.5%	-3.4%	-0.6%	1.6%	1.9%	2.0%
Oil price, Urals	93.9	60.7	78.1	109.7	110.6	108.4	98.8	61.0	40.0	45.0	50.0	52.0
USD/RUB at the end of year	29.4	30.2	30.5	32.2	30.5	32.7	61.4	71.9	65.0	60.0	60.0	60.0
USD/RUB average	24.9	31.8	30.4	29.4	31.1	31.8	38.6	61.3	66.5	62.0	60.0	60.0
Consumer Prices Inflation, eop	13.3%	8.8%	8.8%	6.1%	6.6%	6.5%	11.4%	12.8%	6.0%	4.8%	4.2%	4.0%

Source: Capital IQ, Hypothesis Research estimates

Screening results

Russian fixed income and equity instruments: key drivers

- Actual negative interest rates globally (there were $11.7 tn worth of government securities traded with a negative yield after the Brexit vote, according to Fitch); **the Russian bond yield looks attractive for investors** and covers the Russian risk premium. We estimate that a yield of 3.0-3.5% might form a floor for US dollar-denominated fixed income securities.
- High levels of savings by the corporate sector of the economy, excess liquidity at state-controlled banks and a large proportion of foreign currency denominated savings among the population all resulted in a **rally in both government securities and corporate Eurobonds during the last 3-4 months** and the Russian corporate yield declined.
- We expect the current environment to be more advantageous for the **corporate and financial sectors to refinance debt**, including the repurchase of foreign currency-denominated bonds to replace ruble-denominated securities. The example of MTS shows that corporates are already on the way to make a swap.

Risks for the Russian fixed-income sector might result in essential changes to the Russian macro landscape and external shocks can be expected in the second half of this year.

- **The Brexit vote created serious uncertainty on the global markets**, affecting not only the UK but also the EU and countries beyond. The immediate reaction was a flight to government securities and gold, away from the cyclical assets after the UK voted to leave the EU. A low UK interest rate can be expected for the medium term as a result.
- **A potential increase in the US interest rate meanwhile, which had been anticipated for some time, may now be suspended in light of the Brexit outcome.** There would be a potential risk of a price correction for some negative yielding bonds in the EU if the Fed went ahead with a further rate hike.
- **The US presidential elections in 2016** and the anticipated changes to the political landscape are essential for the Russian politics and in some degree for major Russian corporates.
- **An oil price correction** might affect Russian bond yields and the performance of equities. The increase in Iranian oil exports and potential market weakness as a result of the uncertainty in the aftermath of the Brexit referendum as well as Chinese macro data all create downward pressure for resource prices.
- **We assume the Russian ruble has stabilized at current levels and do not expect any serious depreciation** based on fact that the currency reserves of the population are barely increasing, whereas corporate export and import flows are quite balanced. Moreover, the Central Bank maintains a healthy reserve position.

Screening results

In light of the limited availability of high-yield instruments, we believe that the selection of Russian securities meeting conservative portfolio criteria might be beneficial for investors.

1. We select Russian corporate fixed-income instruments denominated in US dollars with durations below 5.5 years and yields above 3.0%. We also look at ruble-denominated corporate bonds with durations below 3.5 years and yields above 8.5%. The instrument range includes only moderate net debt/EBITDA corporates with stable cash flows, strong market positions and sustainable business models.
2. We would focus on securities with stable and predictable cash flows, which the investor receives at least through dividend payouts, meeting following criteria:
   - Companies with cost advantage / high operating margin,
   - Companies maintaining modest debt level,
   - Companies with high dividend payouts,
   - Relatively inexpensive relative to peers.

Figure 18. Selection of USD nominated bonds of Russian corporates

Maturity Date	Issuer	Parent Name	Amount Outstanding $m	Coupon Rate (%)	Coupon Type	Offering Date	Duration	Price %	Yield to Worst (%)	Security Currency	Net debt / EBITDA
30/04/18	Uralkali Finance Limited	PJSC Uralkali	650	3.723	Fixed	23/04/13	1.73	100.00	3.72	US Dollar	3.0
23/04/19	Gaz Capital S.A.	PJSC Gazprom	2250	9.25	Fixed	22/04/09	2.47	115.38	3.44	US Dollar	1.1
23/04/19	Gaz Capital S.A.	PJSC Gazprom	2250	9.25	Fixed	22/04/09	2.47	115.38	3.44	US Dollar	1.1
17/05/19	Sistema Int Funding S.A.	Sistema JSFC	500	6.95	Fixed	16/05/12	2.59	107.02	4.33	US Dollar	2.7
17/05/19	Sistema Int Funding S.A.	Sistema JSFC	500	6.95	Fixed	16/05/12	2.58	107.02	4.32	US Dollar	2.7
05/11/19	LUKOIL Int Finance B.V.	PJSC OC LUKOIL	600	7.25	Fixed	29/10/09	2.96	111.98	3.42	US Dollar	0.8
05/11/19	LUKOIL Int Finance B.V.	PJSC OC LUKOIL	600	7.25	Fixed	29/10/09	2.96	111.98	3.42	US Dollar	0.8
06/02/20	Gaz Capital S.A.	PJSC Gazprom	800	3.85	Fixed	30/01/13	3.29	100.85	3.60	US Dollar	1.1
06/02/20	Gaz Capital S.A.	PJSC Gazprom	800	3.85	Fixed	30/01/13	3.27	100.85	3.60	US Dollar	1.1
06/02/20	Gaz Capital S.A.	PJSC Gazprom	800	3.85	Fixed	30/01/13	3.27	100.85	3.60	US Dollar	1.1
22/06/20	MTS Int Funding Limited	Sistema JSFC	307	8.625	Fixed	16/06/10	3.43	117.25	3.90	US Dollar	2.7
22/06/20	MTS Int Funding Limited	Sistema JSFC	307	8.625	Fixed	16/06/10	3.41	117.25	3.89	US Dollar	2.7
28/10/20	MMC Finance Ltd.	PJSC MMC Norilsk Nickel	1000	5.55	Fixed	23/10/13	3.81	106.12	4.00	US Dollar	1.0
28/10/20	MMC Finance Ltd.	PJSC MMC Norilsk Nickel	1000	5.55	Fixed	23/10/13	3.80	106.12	3.99	US Dollar	1.0
03/11/20	ALROSA Finance S.A.	PJSC ALROSA	1000	7.75	Fixed	03/11/10	3.70	113.90	4.21	US Dollar	1.4
03/11/20	ALROSA Finance S.A.	PJSC ALROSA	1000	7.75	Fixed	29/10/10	3.68	113.90	4.20	US Dollar	1.4
09/11/20	LUKOIL Int Finance B.V.	PJSC OC LUKOIL	1000	6.125	Fixed	29/10/10	3.81	109.01	3.86	US Dollar	0.8
09/11/20	LUKOIL Int Finance B.V.	PJSC OC LUKOIL	998	6.125	Fixed	29/10/10	3.80	109.01	3.85	US Dollar	0.8
23/01/21	Gaz Capital S.A.	PJSC Gazprom	600	5.999	Fixed	23/11/11	3.91	108.00	4.06	US Dollar	1.1
23/01/21	Gaz Capital S.A.	PJSC Gazprom	600	5.999	Fixed	16/11/11	3.89	108.00	4.06	US Dollar	1.1
03/02/21	Novatek Finance Limited	JSC NOVATEK	650	6.604	Fixed	27/01/11	3.87	109.77	4.23	US Dollar	1.6
07/03/22	Gaz Capital S.A.	PJSC Gazprom	1300	6.51	Fixed	06/03/07	4.69	109.27	4.64	US Dollar	1.1
07/03/22	Gaz Capital S.A.	PJSC Gazprom	1300	6.51	Fixed	01/03/07	4.68	109.27	4.63	US Dollar	1.1
05/04/22	RZD Capital PLC	OJSC Russian Railways	1000	5.7	Fixed	05/04/12	4.86	107.35	4.25	US Dollar	2.9
07/06/22	LUKOIL Int Finance B.V.	PJSC OC LUKOIL	500	6.656	Fixed	31/05/07	4.94	112.81	4.20	US Dollar	0.8
07/06/22	LUKOIL Int Finance B.V.	PJSC OC LUKOIL	500	6.656	Fixed	31/05/07	4.93	112.81	4.19	US Dollar	0.8
19/07/22	Gaz Capital S.A.	PJSC Gazprom	1000	4.95	Fixed	11/07/12	5.10	103.58	4.27	US Dollar	1.1
19/07/22	Gaz Capital S.A.	PJSC Gazprom	1000	4.95	Fixed	11/07/12	5.09	103.58	4.27	US Dollar	1.1
19/09/22	GPN Capital S.A.	PJSC Gazprom	1500	4.375	Fixed	13/09/12	5.32	98.70	4.62	US Dollar	1.1
19/09/22	GPN Capital S.A.	PJSC Gazprom	1500	4.375	Fixed	10/09/12	5.30	98.70	4.62	US Dollar	1.1
14/10/22	PJSC MMC Norilsk Nickel	PJSC MMC Norilsk Nickel	1000	6.625	Fixed	14/10/15	5.12	110.75	4.63	US Dollar	1.0
14/10/22	MMC Finance Ltd.	PJSC MMC Norilsk Nickel	1000	6.625	Fixed	14/10/15	5.11	110.75	4.63	US Dollar	1.0
17/10/22	Steel Capital S.A.	PAO Severstal	589	5.9	Fixed	17/10/12	5.21	107.31	4.55	US Dollar	0.4
17/10/22	Steel Capital S.A.	PAO Severstal	634	5.9	Fixed	17/10/12	5.20	107.31	4.55	US Dollar	0.4
13/12/22	Novatek Finance Limited	JSC NOVATEK	1000	4.422	Fixed	06/12/12	5.56	100.70	4.30	US Dollar	1.6
13/12/22	JSC NOVATEK	JSC NOVATEK	1000	4.422	Fixed	06/12/12	5.54	100.70	4.30	US Dollar	1.6

Source: Capital IQ

Figure 19. Selection of Russian corporate bonds RUB nominated (duration <3.5 years)

Maturity Date	Issuer	Ultimate Parent Name	Amount Outstanding, $m	Coupon Rate (%)	Coupon Type	Offering Date	Duration	Price	Yield to Worst (%)	Net debt / EBITDA
10/05/17	PJSC Magnit	PJSC Magnit	156	11.20	Fixed	11/11/15	0.78	100.50	10.53	0.8
05/06/17	OJSC Russian Railways	OJSC Russian Railways	234	7.90	Fixed	15/06/09	0.85	97.01	11.41	2.9
02/11/17	PJSC LDIT Rostelecom	PJSC LDIT Rostelecom	156	10.50	Fixed	08/11/12	0.98	100.05	10.42	2.0
07/11/17	Mobile TeleSystems PJSC	Sistema JSFC	156	8.70	Fixed	16/11/10	1.23	98.48	9.92	2.7
24/01/18	PJSC LDIT Rostelecom	PJSC LDIT Rostelecom	156	8.20	Fixed	30/01/13	1.45	97.32	10.09	2.0
22/02/18	OJSC RUSAL Bratsk	UC RUSAL Plc	234	12.00	Fixed	03/03/11	1.40	101.03	11.27	5.3
26/02/18	PJSC Magnit	PJSC Magnit	156	11.20	Fixed	29/02/16	1.43	101.67	10.06	0.8
06/03/18	PJSC LDIT Rostelecom	PJSC LDIT Rostelecom	156	10.50	Fixed	12/03/13	1.54	100.25	10.77	2.0
12/06/18	Mobile TeleSystems PJSC	Sistema JSFC	156	10.00	Fixed	24/06/08	1.72	100.88	9.49	2.7
16/07/18	OJSC Russian Railways	OJSC Russian Railways	234	11.60	Fixed	27/07/09	1.69	102.80	10.03	2.9
13/03/19	Federal Grid Finance Limited	Rosseti, PJSC	273	8.45	Fixed	13/12/12	2.29	96.45	9.97	2.2
02/04/19	RZD Capital PLC	OJSC Russian Railways	390	8.30	Fixed	02/04/12	2.34	96.47	9.79	2.9
09/04/19	PJSC Gazprom Neft	PJSC Gazprom	156	8.20	Fixed	21/04/09	2.37	97.38	9.29	1.1
16/05/19	OJSC Russian Railways	OJSC Russian Railways	234	8.45	Fixed	28/05/09	2.47	99.35	8.71	2.9
15/07/19	OJSC Russian Railways	OJSC Russian Railways	234	9.25	Fixed	27/07/09	2.48	99.77	9.34	2.9
15/09/20	OJSC "Federal Grid Company of UES"	Rosseti, PJSC	156	7.75	Fixed	28/09/10	3.39	92.70	9.91	2.2
15/09/20	OJSC "Federal Grid Company of UES"	Rosseti, PJSC	156	8.25	Fixed	28/09/10	3.35	92.52	10.49	2.2
03/11/20	Mobile TeleSystems PJSC	Sistema JSFC	234	10.75	Fixed	16/11/10	3.35	100.43	10.62	2.7
26/01/21	PJSC Gazprom Neft	PJSC Gazprom	156	8.90	Fixed	08/02/11	3.53	97.88	9.48	1.1

Source: Capital IQ

Figure 20. Selection of equities

Company Name	Exchange: Ticker	Industry	MktCap, $m	EV, $m	Net debt / EBITDA	TEV / Forward EBITDA	Forward P/E	EBIT Margin % (LTM)	Dividend payout (policy), % of NI	Free float, %
ALROSA	MISX:ALRS	Materials	7864	9919	1.3	4.34	5.16	45%	35% of IFRS Net income	23%
Bashneft	MISX:BANE	Energy	6536	7472	0.6	3.79	7.63	16%	50% IFRS net income in 2015 (RUB29bn)	12%
Gazprom	MISX:GAZP	Energy	50271	87664	0.7	4.23	4.46	22%	21% of IFRS Net income or 50% RAS Net income - 2015	46%
Magnit	MISX:MGNT	Consumer	13427	14898	0.6	8.37	13.59	9%	49.7% IFRS net income for 2015 (RUB29.4bn)	58%
MegaFon	LSE:MFON	Telecoms	6434	8957	1.1	4.46	9.84	24%	50% of Net income or 70% of Free cash flow	15%
Mobile TeleSystems	NYSE:MBT	Telecoms	8334	12026	1.5	4.38	9.43	21%	min RUB20 per share/year (over RUB50bn/year)	45%
Moscow Exchange MICEX-RTS	MISX:MOEX	Financials	3928			NM	10.49	75%	55% of IFRS Net income (58.2% for 2015, RUB7.11/share)	57%
Norilsk Nickel	LSE:MNOD	Materials	20818	25052	0.8	7.64	10.76	44%	60% (30%) EBITDA if Net debt/EBITDA<1.8 (>2.2)	30%
NOVATEK	LSE:NVTK	Energy	31065	34146	1.6	11.00	12.13	29%	30% of IFRS Net income (RUB41bn - 2015)	27%
PhosAgro	LSE:PHOR	Materials	5711	7086	0.8	6.13	7.96	38%	30-50% IFRS Net income (RUB21.8bn - 2015)	20%
Polymetal International Plc	LSE:POLY	Materials	5987	7154	1.9	9.67	15.48	33%	Semi-annual payout ratio of 30% of underlying net income under 1.75 Net debt/EBITDA ceiling	58%
Rosneft Oil Company	LSE:ROSN	Energy	55111	81576	1.4	4.69	8.45	13%	35% IFRS Net income for 2015	11%
Sberbank of Russia	MISX:SBER	Financials	45002			-	6.86		20% IFRS Net income (RUB44.6bn)	48%
Severstal	LSE:SVST	Materials	8795	9647	0.5	5.59	8.76	22%	50% [20%] IFRS Net income if Net debt/EBITDA<1 [>1.0]	18%
Surgutneftegas	MISX:SNGS	Energy	18377	8975	-1.5	2.00	8.90	25%	10% of consolidated Net income	25%

Source: Capital IQ, Hypothesis Research, Companies data

Figure 21. Metals and mining sector peers comparison

Company Name	Market Capitalization, $m	Enterprise Value $m	EV/Forward Revenue (Capital IQ)	EV/Forward EBITDA (Capital IQ)	Forward P/E (Capital IQ)	LTM EBITDA Margin %
Norilsk Nickel (LSE:MNOD)	**20818**	**25052**	**3.47**	**7.64**	**10.76**	**50%**
Rio Tinto Limited (ASX:RIO)	64511	85730	2.83	8.61	23.64	30%
BHP Billiton Limited (ASX:BHP)	77699	110061	3.46	8.64	44.23	38%
Average peers			*3.145*	*8.625*	*33.935*	*34%*
Premium (discount) to peers			*10%*	*-11%*	*-68%*	
Severstal (LSE:SVST)	**8795**	**9647**	**1.66**	**5.59**	**8.76**	**30%**
Magnitogorsk Iron & Steel Works (MISX:MAGN)	4225	4987	0.93	3.71	7.4	26%
Novolipetsk Steel (LSE:NLMK)	7791	8770	1.16	4.88	8.12	22%
Steel Dynamics Inc. (NasdaqGS:STLD)	6060	7672	0.94	6.46	11.09	9%
United States Steel Corp. (NYSE:X)	2675	5092	0.46	6.54	NM	-2%
ArcelorMittal (ENXTAM:MT)	14992	34129	0.57	6.44	NM	5%
Average peers			*0.812*	*5.606*	*8.87*	*1%*
Premium (discount) to peers			*104%*	*0%*	*-1%*	
PhosAgro (LSE:PHOR)	**5711**	**7086**	**2.44**	**6.13**	**7.96**	**43%**
CF Industries Holdings, Inc. (NYSE:CF)	5646	11648	2.73	7.02	12.16	36%
Potash Corporation of Saskatchewan Inc. (TSX:POT)	13655	18165	3.88	10.11	20.8	39%
The Mosaic Company (NYSE:MOS)	9295	12129	1.62	8.82	23.84	22%
Average peers			*2.74*	*8.65*	*18.93*	*30%*
Premium (discount) to peers			*-11%*	*-29%*	*-58%*	
Polymetal International Plc (LSE:POLY)	**5987**	**7154**	**4.61**	**9.67**	**15.48**	**44%**
Newmont Mining Corporation (NYSE:NEM)	21402	27522	3.36	9.19	26.94	37%
Randgold Resources Limited (LSE:RRS)	10897	10871	8.97	18.23	37.57	36%
Average peers			*6.17*	*13.71*	*32.26*	*37%*
Premium (discount) to peers			*-25%*	*-29%*	*-52%*	
ALROSA (MISX:ALRS)	**7864**	**9919**	**2.23**	**4.34**	**5.16**	**54%**
Dominion Diamond Corporation (TSX:DDC)	756	668	0.72	1.71	16.67	25%
Lucara Diamond Corp. (TSX:LUC)	1028	883	2.55	3.75	8.26	63%
Petra Diamonds Ltd. (LSE:PDL)	777	1164	2.47	5.69	-	26%
Lucapa Diamond Company Limited (ASX:LOM)	92	91	14.69	22.79	22.35	-
Gem Diamonds Limited (LSE:GEMD)	248	254	1.07	2.49	8.27	41%
Average peers			*4.30*	*7.29*	*13.89*	*41%*
Premium (discount) to peers			*-48%*	*-40%*	*-63%*	

Source: Capital IQ

Figure 22. Oil and gas sector peers comparison

Company Name	Market Capitalization $m	Enterprise Value $m	EV/Forward Revenue (Capital IQ)	EV/Forward EBITDA (Capital IQ)	Forward P/E (Capital IQ)	LTM EBITDA Margin %
Gazprom (MISX:GAZP)	**50271**	**87664**	**1.13**	**4.23**	**4.46**	**30%**
NOVATEK (LSE:NVTK)	**31065**	**34146**	**4.19**	**11**	**12.13**	**33%**
Rosneft Oil Company (LSE:ROSN)	**55111**	**81576**	**1.07**	**4.69**	**8.45**	**23%**
Bashneft (MISX:BANE)	**6536**	**7472**	**0.81**	**3.79**	**7.63**	**23%**
Surgutneftegas (MISX:SNGS)	**18377**	**8975**	**0.56**	**2**	**8.9**	**32%**
LUKOIL (MISX:LKOH)	30119	39201	0.48	3.48	8.2	15%
Russian peer average			*1.37*	*4.87*	*8.30*	*26%*
TOTAL S.A. (ENXTPA:FP)	116496	148840	1.25	6.49	13.97	15%
Eni SpA (BIT:ENI)	59474	73543	1.01	5.18	42.55	16%
Tatneft (MISX:TATN)	10985	10694	1.25	4.19	7.06	29%
Petróleo Brasileiro S.A. - Petrobras (BOVESPA:PETR4)	44607	159608	1.54	6.01	9.92	29%
Royal Dutch Shell plc (ENXTAM:RDSA)	223080	292892	1.17	6.98	23.97	8%
KazMunaiGas Exploration Production (LSE:KMG)	2990	49	0.02	0.11	21.44	-5%
China Petroleum & Chemical Corp. (SEHK:386)	86936	132028	0.43	5.46	14.3	9%
Statoil ASA (OB:STL)	56017	71097	1.32	3.92	23.79	31%
CNOOC Ltd. (SEHK:883)	56110	65795	2.95	5.66	NM	53%
Exxon Mobil Corporation (NYSE:XOM)	389118	433691	1.5	9.99	28.34	13%
BP p.l.c. (LSE:BP.)	110876	140413	0.69	6.31	24.25	2%
Average			*1.19*	*5.48*	*20.96*	*18%*

Source: Capital IQ

Figure 23. Financial sector peers comparison

Company Name	Market Capitalization $m	P/TangBV LTM - Latest	Forward P/E (Capital IQ)	LTM Net Income, 1 Yr Growth %
Sberbank of Russia (MISX:SBER)	**45002**	**1.2**	**6.9**	**25%**
VTB Bank (LSE:VTBR)	13359	0.7	20.3	
Bank of Montreal (TSX:BMO)	40853	1.9	11.3	7%
The Toronto-Dominion Bank (TSX:TD)	79666	2.3	11.4	8%
Banco Santander, S.A. (BME:SAN)	56191	0.9	8.2	-6%
Westpac Banking Corporation (ASX:WBC)	71767	2.1	11.9	7%
Credit Agricole S.A. (ENXTPA:ACA)	23894	0.5	8.0	25%
The Bank of Nova Scotia (TSX:BNS)	58996	2	10.6	-4%
Banco do Brasil S.A. (BOVESPA:BBAS3)	14672	0.7	4.7	-24%
Commonwealth Bank of Australia (ASX:CBA)	93443	2.5	13.1	2%
State Bank of India (NSEI:SBIN)	25321	0.9	11.5	-28%
Lloyds Banking Group plc (LSE:LLOY)	51335	0.9	7.5	-62%
Average		*1.5*	*9.8*	*-7%*
Moscow Exchange MICEX-RTS (MISX:MOEX)	**3928**	**2.9**	**10.5**	**38%**
BM&FBOVESPA S.A. (BOVESPA:BVMF3)	9853	9.2	15.7	126%
Dubai Financial Market, PJSC (DFM:DFM)	2787	4.0	36.6	-54%
Deutsche Boerse AG (XTRA:DB1)	15023	216.2	16.5	-14%
London Stock Exchange Group plc (LSE:LSE)	11709	NM	20.8	80%
JSE Limited (JSE:JSE)	1074	6.0	14.8	42%
Average		*47.7*	*19.1*	*36%*

Source: Capital IQ

Figure 24. Telecom sector peers comparison

Company Name	Market Capitalization $ m	Enterprise Value $ m	EV/Forward Revenue (Capital IQ)	EV/Forward EBITDA (Capital IQ)	Forward P/E (Capital IQ)	LTM EBITDA Margin %
Mobile TeleSystems (NYSE:MBT)	**8334**	**12026**	**1.7**	**4.38**	**9.43**	**35%**
MegaFon (LSE:MFON)	**6434**	**8957**	**1.81**	**4.46**	**9.84**	**41%**
VimpelCom Ltd. (NasdaqGS:VIP)	6664	13591	1.53	3.95	11.38	28%
Rostelecom (MISX:RTKM)	2984	5877	1.24	3.73	12.81	30%
Turkcell Iletisim Hizmetleri AS (IBSE:TCELL)	8101	8644	1.75	5.3	11.62	29%
Idea Cellular Ltd. (NSEI:IDEA)	5672	11517	1.94	5.37	22.64	31%
freenet AG (DB:FNTN)	3344	4976	1.33	10.87	12.18	10%
Millicom International Cellular SA (OTCPK:MIIC.F)	6331	10044	1.54	4.39	28.84	33%
Telephone & Data Systems Inc. (NYSE:TDS)	3253	5234	1.03	4.61	97.64	19%
Axiata Group Berhad (KLSE:AXIATA)	12382	15535	2.83	7.38	20.24	38%
Vodacom Group Limited (JSE:VOD)	16685	18044	3.11	8.11	16.98	36%
Average			*1.81*	*5.97*	*26.04*	*28%*

Source: Capital IQ

Figure 25. Retail sector peers comparison

Company Name	Market Capitalization $m	Total Enterprise Value $m	EV/Forward Total Revenue (Capital IQ)	EV/Forward EBITDA (Capital IQ)	Forward P/E (Capital IQ)	LTM EBITDA Margin %
Magnit (MISX:MGNT)	**13427**	**14898**	**0.85**	**8.37**	**13.59**	**11%**
J Sainsbury plc (LSE:SBRY)	6011	8992	0.29	5.57	11.68	5%
Tesco PLC (LSE:TSCO)	19073	29068	0.4	8.82	26.47	4%
Pick n Pay Stores Ltd. (JSE:PIK)	2385	2361	0.44	11.95	26.69	3%
Jeronimo Martins SGPS SA (ENXTLS:JMT)	9962	10515	0.64	10.72	22.59	6%
Grupo Comercial Chedraui, S.A.B. DE C.V. (BMV:CHDRAUI B)	2333	2623	0.57	8.65	20.74	6%
GSRetail Co., Ltd. (KOSE:A007070)	3570	4858	0.74	11.61	21.8	6%
BGFretail Co., Ltd. (KOSE:A027410)	4532	3956	0.85	13.41	26.7	6%
Eurocash SA (WSE:EUR)	1627	1704	0.31	12.58	22.98	2%
X5 Retail Group N.V. (LSE:FIVE)	5414	7567	0.47	6.57	13.3	7%
Wal-Mart Stores Inc. (NYSE:WMT)	226923	272450	0.56	8.44	16.98	7%
Average			*0.53*	*9.83*	*20.99*	*5%*

Source: Capital IQ

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