

CIS Region Equity Markets: Weekly Overview

January 16 – January 22, 2012

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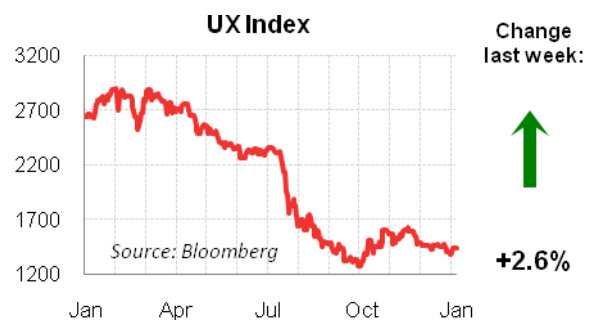
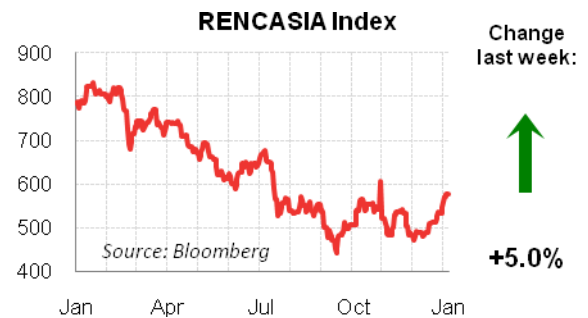
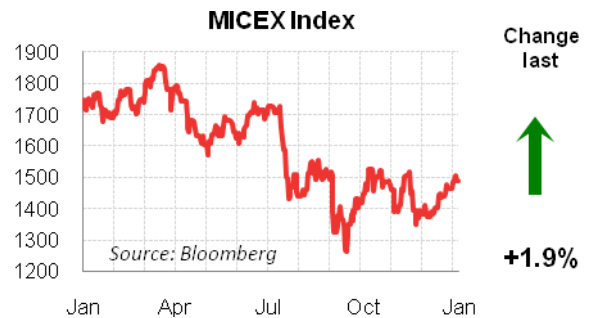
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- CIS equity markets end the week in the green zone
- Russia's banking sector loan portfolio projected to grow 20-25% in 2012, profits to drop
- Kazakhstan's Prime Minister Karim Massimov re-appointed
- Ukraine's industrial output drops by 0.5% y/y in December
- Chief of State Security Service of Ukraine heads the Finance Ministry
- Polymetal releases 4Q2011 operational results and 2012 guidance
- Centerra gold announces 4Q2011 output figures and 2012 CAPEX plans
- X5 Retail Group posts weak 4Q2011 operational results
- Motor Sich targets 6.7% order growth in 2012 to \$800m

Last week Russian and Central Asian markets extended their January gains amid relatively calm international news flow, perhaps only with exception of the US corporate earnings reports. RTS index gained 3.5% over the week, but still could not catch up with emerging markets universe represented by MSCI EM Index, which edged up by 4.4%. Depreciating rouble caused MICEX index to lag behind, recording a modest 1.9% rise. Meanwhile, Central Asian region was in focus as Rencasia Index grew by 5.0%. Elsewhere, Ukrainian equities broke recent downward trend, as local UX Index added 2.6%. Among the commodities, Brent gave up 0.5%, while base metals LMEX Index gained 3.2%. Precious metals had a good week on the back of robust performance from silver (+8.3%) and rising gold price (1.7%).



Macro news

Russia

Last week the Deputy Chairman of the Central Bank of Russia Alexei Simanovsky announced preliminary results of the country's banking sector for 2011. According to Mr Simanovsky, the loan portfolio growth outpaced expectations, as corporate loan portfolio rose by 26% and retail loans added 35.9%. Total assets of the Russian banking system expanded by 23.1% and deposits grew by 20.9%. Banking sector profits came generally in line with the previous guidance, standing at RUB 848 bn. As for the current year, Mr Simanovsky expects loan growth to slow down to 20-25% and profits of 2011 unlikely to be repeated. In our view, the announced results for 2011 are robust; however warning of lending activity slowdown in 2012 is a concern.

Central Asia

On Friday Karim Massimov was re-appointed as a Prime Minister of Kazakhstan, as the newly elected Parliament voted for his support. The composition of the Kazakh government did not change much, except for some minor adjustments. In particular, Serik Akhmetov, who previously served as a head of Karaganda region, was appointed as the First Deputy Prime Minister instead Umirzak Shukeev. In addition, Kairat Kelimbetov, the Minister of Economic Development and Trade, was appointed as a Deputy Prime Minister responsible for macroeconomic-related tasks including restructuring of the banking system. In our view, the news is positive for investor sentiment.

Ukraine

The State Statistic Committee (SSC) reported Ukraine's industrial output dropped by 0.5% y/y in December after a 3.8% y/y growth in November, bringing the full-year tally to 7.3%, as compared to 11.2% y/y in 2010. Monthly output of all Ukraine's major industries, except machinery (+4.5% y/y), recorded declines in December: metallurgy fell by 4.7% y/y, chemicals went down by 1.1% y/y and food processing dropped by 0.5% y/y. For the full year, metals output surged by 8.5% y/y, machinery boosted by 16.9% y/y, chemicals grew by 14.4% y/y, while food processing slid down by 0.7% y/y.

On Wednesday, January 18, Ukraine's president Viktor Yanukovich appointed State Security Service chief Valeriy Khoroshkovskiy as a new finance minister after the resignation of former minister Fedir Yaroshenko. The appointment of Mr. Khoroshkovskiy, who is rumored to have an affiliation with Dmytro Firtash, the owner of one of Ukraine's most powerful business groups and reportedly one of the major donors of Yanukovich's presidential campaign, could be viewed as the president's effort to gain more direct control over the budget policy ahead of the October parliamentary elections.

Corporate news

Metals & Mining

On Thursday Polymetal, the largest silver and fifth gold producer in Russia, released its operational figures for the fourth quarter and full 2011. According to the company's statement, gold output rose 10% q/q on the back of strong results from its flagship Dukat mine, however the total 2011 production stayed flat at 443k oz. More encouraging results were observed in silver production, which edged up by 21% from the previous quarter, resulting in 15% growth for full 2011 to 19.9 mn oz. As for the current year, Polymetal expects to produce 590k-640k oz of gold, 21-23 mn oz of silver and 6-7k tonnes of copper, targeting to increase total annual gold equivalent production to over 1 mn oz. In our view, the news is positive for Polymetal. The announced figures came in line with the company's guidance, while 2012 production targets are ambitious and achievable. Meanwhile, this Monday Polymetal announced that it intends to apply for cancellation of the listing of its global depository receipts from trading on the regulated market of London Stock Exchange from March 2012.

On Tuesday Centerra Gold, a gold mining and exploration company with operations in Kyrgyz Republic and Mongolia, announced 2011 operational update and production guidance for 2012. According to the release, consolidated gold output for the past year reached 642k oz, with 583k oz coming from its flagman Kumtor mine. During the fourth quarter, Centerra produced only 152k oz of gold, what represents a 39% drop in y/y terms. In 2012 the company expects gold output to stand at 635k-685k oz, and cash costs to vary in the range of USD 465-500 per oz. Total CAPEX for this year is expected to be USD 389 mn, including USD 49 mn of sustaining capital and USD 340 mn of growth capital. Exploration expenses are projected to reach USD 45 mn, or 13% increase from 2011 amount. All in all, we regard the news as negative, as despite the overall production matching the company's earlier guidance, the CAPEX budget turned out to be larger than expected.

On Wednesday Southgobi Resources, a coal mining company with operations in Mongolia, announced coal production and sales results for 2011. According to the release, the company sold 1.15 mn tones of coal during 4Q2011, resulting in full year 2011 sales of 4.02 mn tonnes against 2.54m tones sold in 2011, an impressive 58% increase. In line with sales, coal production for 4Q2011 printed at 1.34 m tonnes, what resulted in 2011 output of 4.57 mn tonnes, or 64% rise against 2010 figures. In our view, the reported results are good and come in line with market expectations.

Chemicals

Last Monday Uralkali announced production results for 2011. According to the release, the company produced 10.8 mn tonnes of potassium chloride in 2011, including 2.1 mn tonnes coming from Silvinit. The figure is 6% higher than the combined production in 2010, and slightly exceeds consensus estimates. According to Vladislav Baumgartner, Uralkali's CEO, the company increased its production capacity more than twice over the year, creating one of the world's largest potash producers by output and production capacity. In our view, the news is positive for Uralkali.

Consumer Retail

On Friday X5 Retail Group, Russia's largest retailer in terms of revenue, released weak operational results for 4Q2011 and full 2011. During the quarter consolidated net retail sales increased 16% y/y to RUB 123.3 bn, however like-for-like sales (LFL) dropped by 2% in y/y terms, broken down into 4% drop in traffic and 2% basket increase. Over the period, the company added 86,000 m² of selling space, including 217 stores, 198 soft discounters, 9 supermarkets, and 5 hypermarkets. On a full year basis, consolidated net retail sales added 32% reaching RUB 452.5 bn and LFL sales grew by 6%. The company added 172,000 m² of selling space and converted 616 Kopeyka stores, thereby completing the integration. In our view, the reported results fell short of consensus estimates and look disappointing in comparison to such peers as Magnit.

Machinery

Motor Sich, a leading producer of aircraft and helicopter engines in the CIS, announced that its order book for 2012 stands at USD 800 mn, implying a 6.7% rise on 2011. According to the undisclosed company's official, Motor Sich already has 95% of its order book filled for this year and plans to close the books by mid-February. Most of the contracts have 3-5 year terms that allow the company to plan its mid-term production, investment and marketing policy. Deliveries to Russian Helicopters in 2012 will provide up to USD 280 mn. Other key bookings include orders from Chinese and Indian customers.

Market performance

Best performers	1W return (USD)	YTD return (USD)
Frontier	37.0%	45.1%
Uranium One Inc	19.1%	29.1%
Petro Matad Ltd	10.8%	45.8%
United Co Ru-Rdr	9.5%	16.1%
Yasynivskiy Koks	8.8%	4.2%
Kazakhmys Plc	8.5%	21.4%
Dragon Oil	8.3%	9.5%
Idgc Holding	7.6%	12.1%
Tatneft-Cls	7.0%	13.6%
Surgutneftegas	6.9%	11.0%

Worst performers	1W return (USD)	YTD return (USD)
Tethys Petroleum	-3.1%	-9.4%
Centerra Gold In	-2.3%	-0.5%
Kazakhtelecom	-1.9%	7.5%
Rostelecom	-1.9%	-0.1%
Motor-Sich	-1.7%	-6.8%
Raiffeisen Bank	-0.4%	-1.6%
Zakhidenergo	-0.3%	1.5%
Zhaikmunai -Gdr	0.1%	1.0%
Ukrnafta	0.1%	-7.3%
Stirol Concern	0.2%	-9.5%

Name	Last value	1W	1M	3M	1Y	YTD
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EQUITY MARKETS

Russia (MICEX)	1,491.2	1.9%	7.6%	3.1%	-14.7%	6.3%
Russia (RTS)	1,496.4	3.5%	7.2%	2.7%	-20.6%	8.3%
Russia second tier (RTS 2)	1,547.1	1.4%	0.4%	-6.1%	-33.5%	1.3%
Russian Depository Receipts (RDX)	1,439.5	1.5%	10.1%	10.5%	-15.6%	10.0%
Central Asia (RENCASIA)*	577.3	5.0%	17.7%	13.7%	-26.5%	18.0%
Ukraine (UX)	1,438.5	2.6%	-1.9%	9.0%	-45.6%	-1.4%
MSCI Emerging Markets	995.1	4.4%	8.2%	8.2%	-12.5%	8.6%
US (S&P 500)	1,315.4	2.0%	4.9%	6.2%	2.5%	4.6%
Europe (Euro Stoxx 50)	2,427.0	3.8%	6.8%	3.8%	-18.3%	4.8%
MSCI World	1,235.6	2.9%	5.3%	3.5%	-5.1%	4.5%

COMMODITIES

Brent (NYMEX)	109.9	-0.5%	1.8%	0.3%	12.6%	2.3%
Coal (NYMEX)	59.4	-5.8%	-15.4%	-18.8%	-17.7%	-14.9%
Natural Gas (NYMEX)	2.3	-12.2%	-26.1%	-35.4%	-50.5%	-21.6%
Base metals (LME)	3,601.0	3.2%	9.4%	11.0%	-13.4%	8.9%
Aluminium (LME)	2,217.0	3.4%	9.8%	4.3%	-8.4%	9.8%
Copper (LME)	8,220.0	2.8%	9.0%	15.0%	-12.9%	8.2%
Nickel (LME)	20,450.0	4.3%	9.4%	8.8%	-21.8%	9.3%
Iron ore (SBB)	2.3	0.0%	-14.8%	-14.8%	10.3%	-14.8%
Seet billet (LME)	514.0	-3.3%	-6.5%	-2.7%	-16.9%	-3.3%
Gold	1,666.7	1.7%	3.8%	1.5%	24.1%	6.6%
Silver	32.2	8.3%	10.7%	2.5%	17.0%	15.6%
Wheat (CBT)	6.1	1.4%	-1.8%	-8.3%	-32.5%	-6.5%
Sugar (NYBOT)	0.2	4.4%	6.2%	-6.0%	0.4%	6.8%

CURENCIES

USD/RUB	31.3	-1.7%	-0.1%	0.7%	4.7%	-2.5%
USD/KZT	148.3	0.1%	0.1%	0.2%	0.9%	-0.1%
USD/UAH	8.0	0.3%	0.2%	0.4%	1.9%	0.0%
EUR/USD	1.3	2.0%	-0.9%	-6.9%	-5.1%	-0.2%
USD/GBP	0.6	-1.7%	0.7%	2.5%	2.7%	-0.2%
USD/CAD	1.0	-1.0%	-0.7%	0.7%	2.0%	-0.8%
USD/JPY	77.0	0.1%	-1.5%	0.9%	-6.7%	0.1%
USD/CHF	0.9	-1.9%	-0.2%	5.9%	-2.5%	-0.4%

All data are from Bloomberg, unless otherwise stated.

*Data from centralasia.rencap.com

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