

## CIS Region Equity Markets: Weekly Overview

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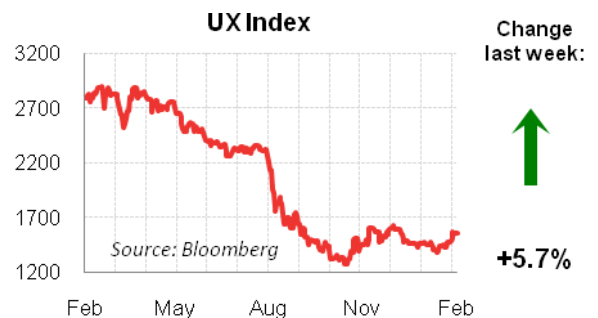
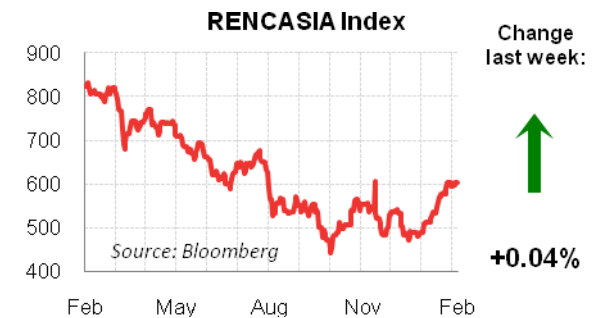
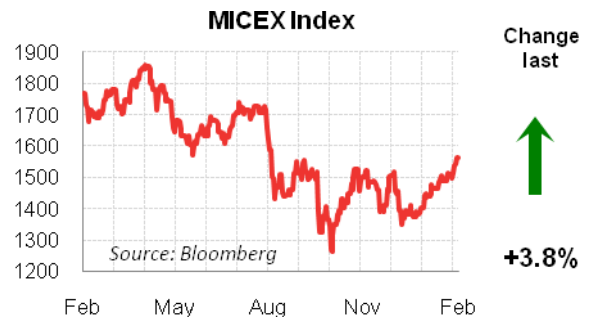
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- CIS equity markets extend their run of positive returns
- GDP growth in Russia hits 4.3% in 2011
- Kazakhstan's CPI rises 5.9% y/y in January, preliminary Q4 BoP figures exhibit slight deterioration
- Ukraine's metallurgical companies post January output figures
- Gazprom reports satisfactory 3Q2011 IFRS results
- Rosneft releases 4Q2011 US GAAP financials below market expectations
- Magnit posts strong FY2011 unaudited IFRS figures
- Polyus Gold International meets production target for 2011
- Centrengo and Donbasenergo to be privatized in June 2012
- Westa's sales up 18% y/y in 2011
- MHP reports strong 4Q11 and 2011FY operating results

CIS equity markets were blessed by another consecutive period of positive returns, as major regional indices finished in the green zone. The correction in the first day of the week quickly turned into robust growth, as encouraging ISM data and January job reports from the US catalyzed demand for risk assets. Russia RTS and MICEX indices ended the week on par returning 3.8%, thereby outpacing Emerging Markets peers within MSCI EM Index, which gained 3.1%. Central Asian Rencasia Index remained positively flat over the period, edging up by a modest 0.04%. Elsewhere, Ukrainian market demonstrated long awaited re-bounce, as local UX Index surged by 5.7%. Among the commodities, Brent added 2.8%, while both base metals LME Index and gold dropped by 0.3% and 0.7%, respectively.



### Macro news

#### Russia

Last week Rosstat released preliminary estimate for the GDP growth in Russia in 2011. According to the publication, the country's economy expanded by healthy 4.3% over the year. The pattern of growth was driven by strong consumer demand caused by recovering incomes and lending activities, while expansion in industrial value declined from 7.4% in 2010 to 4.0% in 2011. In our view, the news is positive for Russia's macroeconomic picture and comes slightly ahead of expectations.

#### Central Asia

On Wednesday Kazakhstan's Statistical Agency reported the country's inflation figures for January. According to the publication, CPI increase totaled 0.3% m/m (or 5.9% y/y), broken down into 0.5% m/m rise in food prices, 0.3% appreciation of non-food products and 0.1% increase in the price of services. In our view, the data demonstrates moderating inflation levels and should be supportive for the country's macroeconomic picture. However, we note that official numbers may well underestimate true level of inflation.

Last week the National Bank of Kazakhstan published preliminary estimate of the country's balance of payments over 4Q2011. The data suggests that current account surplus shrank from USD 3.78 bn to USD 2.31 bn over the period, including slight deterioration in the trade balance. The latter dropped from positive USD 12.5 bn in Q3 to USD 10.4 bn in Q4. Among other things, capital account deficit remained almost unchanged at USD 5.6 bn and foreign direct investments contracted from USD 3.27 bn to USD 1.15 bn. In our view, the statistics demonstrates some deterioration in the country's balance of payment, but the overall macroeconomic outlook looks stable.

## Ukraine

Ukraine's steel output rose by 2.2% m/m in January to 2.82m tonnes (-1.6% y/y). IUD-controlled Dzerzhynsky Steel and Metinvest-owned Yenakiyevo Steel reported double-digit m/m growth rates of 39.3% and 12.8%, respectively, in January, bouncing back from drastic declines recorded in previous month. Output at another two Metinvest's subsidiaries Azovstal and Mariupol Ilyich Steel remained flat m/m, while IUD's Alchevsk Steel posted a 2.1% m/m decline in steel production in January.

Coke production in Ukraine went up by 0.9% m/m to 1.64m tonnes last month (-1.5% y/y). Metinvest's Avdiyivsky Coke and Donetskstal group's Yasynivsky Coke both reported lower production in January (-1.8% m/m and -3.9% m/m respectively).

Ukraine's iron ore concentrate output decreased by 1.8% m/m in January to 5.54m tonnes, while iron ore pellets production fell by 6.5% m/m to 1.95m tonnes. Metinvest's Northern Ore Mining posted the highest increase in iron ore concentrate output (+3.7% m/m) and the biggest drop in iron ore pellet production (-8.9% m/m), while Ferrexpo's Poltava Ore Mining kept monthly iron ore concentrate output at December's level, but cut its pellet production by 5.7% m/m.

Pipe production in Ukraine surged by 8% m/m to 176.1ths tonnes in January, following an 11% m/m decline in December. Metinvest-owned Khartsyzsky Pipe posted a 15% m/m decline in production, mainly due to a high base from December, while Interpipe's key production assets, Interpipe Novomoskovsk and Interpipe NPR, recorded a 20% m/m boost in output each.

## Corporate news

### Energy

On Wednesday Gazprom published its IFRS financials for 3Q2011 and 9M2011. Sales rose by 21.9% y/y to RUB 949.6 bn over the quarter on the back of rising domestic gas production and higher realized gas prices in comparison to 3Q2010. Operating profit expanded by 66.5% y/y from RUB 197 bn to RUB 328 bn, as operating expenses were curtailed by one-off foreign exchange gains on operating items and increase in the balances of finished goods. At the same time, however, net profit for Q3 dropped by 3% y/y to RUB 155 bn due to finances expenses being negatively affected by RUB 145.7 bn foreign exchange losses. On the 9M2011 basis, Gazprom saw its free cash flow turning slightly negative, despite positive cash flows from operations of RUB 1,067 bn, as CAPEX grew by 64.5% y/y to RUB 1,066 bn. In our view, the reported figures are satisfactory and generally came in line with market expectations.

On Friday Rosneft reported its financial results for 4Q2011 in accordance with US GAAP. Revenues dropped by 3% q/q to USD 24 bn due to lower global crude oil and petroleum product prices and lower sales volumes. EBITDA figures turned out also weak, declining by 10% m/m to USD 4.8 bn on the back of lower realized price, the end of Vankor MET holidays and increase in exploration expenses. Net income added 7.7% q/q reaching USD 3 bn, as Rosneft recorded several positive one-off items. Cash flow from operations in Q4 was up 22%, totaling USD 3.5bn and reflecting reduction in accounts payable and lower income tax. In our view, the reported results are slightly negative and come below consensus estimates. Meanwhile, Rosneft also announced that it signed a tentative agreement on the acquisition of a 35.3 percent stake in Taas-Yuryakh Neftegazodobycha from Sberbank for a price of USD 444 mn. The deal is expected to strengthen the company's reserve base in East Siberia, as the field is estimated to contain 90.9 mn tonnes of C1 category recoverable oil reserves.

Last week Tethys Petroleum, an oil and gas exploration and production company focused on Central Asia, announced the official inauguration of Aral Oil Terminal - a new oil storage and rail loading facility for oil shipments from the company's Doris oilfield into the Kazakh rail system. According to the release, the opening of the terminal will allow the company to initially double production to approximately 4,000 barrels of oil per day, reduce transportation costs and will result in an increased realized oil price. In addition, Tethys Petroleum released that it has signed a Memorandum of Understanding with the Uzbek state oil and gas company Uzbekneftegaz to provide the framework for the negotiation process for an Exploration Agreement relating to exploration blocks in the North Ustyurt Basin of Uzbekistan. In our view, both news are positive for Tethys Petroleum.

### Metals & Mining

Polyus Gold International, the leading gold producer in Russia and Kazakhstan, last week published trading update for FY2011. According to the release, the company met its production target, increasing total refined gold production by 8% y/y to 1,497k oz. Reduction in average metal grades at Polyus core mine Olimpiada was offset by Blagodatnoe mine operating at designed efficiency and exceeding throughput capacity. Total cash costs are expected to rise to the level of USD 685-695 per oz, versus USD 554 a year ago. Thus preliminary estimates suggest EBITDA increase to USD 1.04-1.06 bn, as opposed to USD 717 mn in 2010. In addition, the company declared it expects to produce 1,600k oz in 2012, what is slightly less than previously announced figures. In our view, the results are marginally negative for Polyus Gold International.

### Consumer Retail

Last week Magnit, the Russian retail market leader by number of stores, released unaudited IFRS financial results for FY2011. Revenue growth in dollar terms amounted to 47% to USD 11.4 bn and gross margin stood at healthy 24.3%. Magnit increased net number of opened stores to 1,254 and boosted total selling space by 38.5% to 1,970k m<sup>2</sup>. Like-for-Like revenues expanded by 11.1%, driven by increases in the price average purchased basket. EBITDA reached USD 934 mn, growing by 47.9% against 2010 and implying EBITDA

margin of 8.2%. Net profit added 24.3%, resulting in FY2011 figure of USD 414.6 mn. In our view, the reported financials are strong and should be positive for Magnit.

### **Utilities**

State Property Fund of Ukraine (SPF) announced plans to privatize the state-owned controlling stakes in power generating companies Centrenergo and Donbasenergo in June 2012. Taking into account the previous statements by the SPF that the state plans to retain blocking stakes of 25% in the energy companies being privatized, the Fund will offer a 53.3% stake in Centrenergo and a 60.8% stake in Donbasenergo. We view the news as positive for Centrenergo and Donbasenergo. It is expected that the foreign investors will bid for the controlling stakes in the two companies.

### **Machinery**

Westa, a leading Ukrainian manufacturer of lead-acid batteries, reported its monthly production grew by 12% y/y to 0.63m conventional batteries, while its sales boosted by 21% y/y to 0.60m units in December. Therefore, for the full year the company's output and sales volumes recorded growth of 20% y/y and 18% y/y respectively, to 5.09m and 5.31m units. The reported annual sales volume is 2% less than the company's latest guidance of 5.19m conventional batteries and 22% below the originally targeted volume in its IPO prospect of 6.5m conventional units. While meeting with investors at a conference in Kyiv last week, Westa's IR-team revealed the company's revenue and EBITDA reached est. \$200m (+30% y/y) and \$45-55m (-18.6%-unch. y/y) in 2011, while its bottom line slipped to net losses of \$3m (vs. net income of \$34m in 2010), mainly affected by a significant decline in lead prices and depreciation of national currency in Russia, Westa's largest sales market. The revealed data imply the company now trades at est. 4.4-5.4x EV/EBITDA for 2011, what is a 26-39% discount to its foreign peers median of 7.3x.

### **Agriculture**

MHP, Ukraine's leading poultry producer, reported 4Q11 and 2011FY operating results, posting a 9% y/y increase in sales of chicken meat to 88.9ths tonnes in 4Q11 and 12% y/y over the full year to 370.9ths tonnes. The average selling price rose 18% y/y to UAH 17.0/kg (net of VAT) and 10% y/y to UAH 15.0/kg in 2011FY. According to the report, a 7% y/y growth in annual production volume, despite the company already operating at full capacity, was a result of more effective use of existing production facilities. Chicken exports increased by almost 80% y/y in 2011 and constituted close to 10% of total sales. MHP's sales of bulk sunflower oil grew by 4% y/y in 4Q11 to 48.2ths tonnes, but were down 11% y/y in 2011FY at 173.6ths tonnes due to partial purchase of sunflower meal at the market at lower price for in-house fodder production. However, the decrease was more than compensated by a 35% y/y surge of sunflower oil price in 2011. In the grain segment, the company's crop harvest grew by 88% y/y, mainly due to a 67% y/y increase in acreage cultivated. In our view, the reported numbers are strong and go in line with the market expectations.

## Market performance

Best performers	1W return (USD)	YTD return (USD)
Idgc Holding	13.8%	40.5%
Donbasenergo	12.7%	11.1%
Federal Grid	12.7%	31.4%
Chaarat Gold Hol	11.8%	5.5%
Mosenergo	9.8%	21.8%
Centrenergo	9.6%	8.0%
Stahanovskiy Vag	8.5%	28.7%
Magnitogorsk	7.6%	28.9%
Enakiyvckiy Meta	7.4%	4.0%
Azovstal	7.3%	9.5%

Worst performers	1W return (USD)	YTD return (USD)
Petro Matad Ltd	-6.3%	24.6%
Centerra Gold In	-5.0%	6.1%
Uranium One Inc	-4.6%	25.5%
United Co Ru-Rdr	-2.8%	26.2%
Kmg Ep-Gdr	-1.8%	4.0%
Ak Transneft-Prf	-1.6%	22.3%
Mobile Telesyst	-1.2%	24.3%
Zakhidenergo	-1.2%	0.3%
Gazprom Neft-Cls	-0.9%	7.2%
Frontier	-0.7%	39.1%

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

Russia (MICEX)	1,564.8	3.8%	8.6%	4.2%	-11.4%	11.6%
Russia (RTS)	1,625.6	3.8%	14.2%	5.4%	-15.7%	17.6%
Russia second tier (RTS 2)	1,660.9	3.4%	8.2%	-3.5%	-28.5%	8.7%
Russian Depository Receipts (RDX)	1,552.0	4.5%	12.4%	10.9%	-12.7%	18.6%
Central Asia (RENCASIA)	603.5	0.0%	17.6%	9.0%	-26.7%	23.3%
Ukraine (UX)	1,555.4	5.7%	6.9%	7.3%	-44.4%	6.6%
MSCI Emerging Markets	1,048.4	3.1%	13.1%	5.9%	-7.2%	14.4%
US (S&P 500)	1,344.9	2.2%	5.3%	7.3%	2.6%	6.9%
Europe (Euro Stoxx 50)	2,515.2	3.2%	9.4%	9.8%	-16.3%	8.6%
MSCI World	1,273.7	2.2%	6.9%	5.9%	-4.3%	7.7%

### COMMODITIES

Brent (NYMEX)	114.6	2.8%	1.3%	2.3%	14.8%	6.7%
Coal (NYMEX)	59.1	-3.9%	-14.1%	-19.9%	-19.6%	-15.3%
Natural Gas (NYMEX)	2.5	-6.7%	-18.4%	-33.9%	-42.0%	-16.4%
Base metals (LME)	3,740.5	-0.3%	12.7%	8.4%	-15.7%	13.1%
Aluminium (LME)	2,247.0	-0.8%	8.6%	5.0%	-11.6%	11.2%
Copper (LME)	8,565.0	0.5%	13.0%	8.8%	-14.8%	12.7%
Nickel (LME)	21,305.0	-1.8%	13.6%	12.7%	-24.9%	13.9%
Iron ore (SBB)	2.3	0.0%	-8.0%	-14.8%	10.3%	-14.8%
Seet billet (LME)	501.5	-1.5%	-4.7%	-4.8%	-17.4%	-5.7%
Gold	1,726.3	-0.7%	6.7%	-1.6%	28.0%	10.4%
Silver	33.7	-0.7%	17.0%	-1.4%	15.5%	20.9%
Wheat (CBT)	6.6	2.1%	5.8%	-0.6%	-30.7%	1.2%
Sugar (NYBOT)	0.2	-1.1%	2.8%	-6.4%	-4.0%	2.7%

### CURENCIES

USD/RUB	30.2	0.2%	-5.6%	-1.6%	2.7%	-6.1%
USD/KZT	148.7	0.2%	0.3%	0.5%	1.3%	0.2%
USD/UAH	8.0	0.4%	0.0%	0.3%	1.0%	0.0%
EUR/USD	1.3	-0.5%	3.5%	-4.6%	-3.1%	1.5%
USD/GBP	0.6	-0.6%	-2.5%	1.4%	1.9%	-1.7%
USD/CAD	1.0	-0.8%	-3.4%	-2.5%	0.6%	-2.7%
USD/JPY	76.6	-0.1%	-0.5%	-2.1%	-6.8%	-0.4%
USD/CHF	0.9	0.6%	-3.9%	3.8%	-3.9%	-2.1%

All data are from Bloomberg, unless otherwise stated.

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