

RMG WEEKLY #724

The RTS Index was flat last week. The Index reached 1000 points early on Wednesday, but gains were reversed later on the same day after publication of US advance retail sales, which showed a decline in April.

Shares of VTB fell heavily in reaction to a remark by a member of the Bank's supervisory board, who said that VTB may not carry out a buy-back of minority shares.

NEWS & OUTLOOK	1
BUY RECOMMENDATION LIST	4
SELL RECOMMENDATION LIST	5
MACROECONOMIC INDICATORS	6
MARKET STATISTICS	7

INTERNATIONAL MACRO INDICATORS AND FINANCIAL MARKETS

by Sergei Perminov

▼ **US retail spending** US advance retail sales figure for April, published on Wednesday, were lower than forecast, showing that retail spending in the US declined m-o-m despite the Easter holiday. The news drove markets downwards.

Attn: PMI stats this Thursday Most notable statistics this week will be leading indicators for industrial production, scheduled on Thursday. These are PMIs for the Eurozone and (of lesser importance) the Philadelphia Fed Index.

RUSSIAN MACROECONOMICS

by Sergei Perminov

▼ **CBR further cuts interest rates** The CBR reduced interest rates by 0.5% last week. The refinance rate is now 12%. The news is negative for the ruble and, hence, for the Russian stock market.

Generally, we think that a second wave of ruble devaluation is likely if oil fails to maintain its price level of \$60 per barrel. We think that the current rise of oil prices is not sustainable, so now may be an excellent time to sell the ruble.

OIL & GAS

by Constantin Yuminov

As we had expected, Tatneft prefs declined by 10% w-o-w last week (based on MICEX quotations) after the cut-off date. The company's common shares rose by 15%. Tatneft is less transparent than main peers (Lukoil and Rosneft), so we see no drivers for the shares except oil price changes.

Surgutneftegaz also performed well last week (commons +11% w-o-w, prefs +9% w-o-w). Surgut's cut-off date fell on Friday, and the company also posted FY 2008 and 1Q 2009 financial results under RAS. Net income in 1Q 2009 climbed by 3.5 times y-o-y, despite a 30% revenue fall, due to gains from bank deposits and FX. However, net income gain has limited impact on the share price due to the company's very low transparency levels. We expect the shares to fall sharply this week due to passing of the cut-off date.

Attn: Swap Novatek on Gazprom Novatek published neutral 1Q 2009 IFRS financials on Friday. Revenue was 3% lower than Interfax consensus, but EBITDA and net income were 0.5% and 4% higher, respectively. We expect further information about operations to be given during a conference-call on Wednesday. Novatek has recently outperformed (the shares almost doubled on the LSE since the start of 2009, while Gazprom gained only 44%) and spread to Gazprom shares is now much higher than the historical average, so we expect Novatek shares to decline in the short-term. We recommend to swap Novatek shares on Gazprom stocks in the short term.

METALS & MINING

by Lenar Hafizov

Gains and losses balanced out in the metals & mining sector last week (the RTS metals & mining index rose by 0.7%). Top performers last week were shares of Magnitogorsk Steel, Evraz, TMK, VSMPO-Avisma and Polymetal, which added 6-8%. Biggest losers were Severstal (-5%), which posted negative 1Q 2009 financial results under IFRS, and coal mining companies, Raspadskaya (-4%) and Belon (-9%), due to profit taking after the recent price rally.

We still anticipate short-term price correction by shares of major steel producers and of Norilsk Nickel, though the long-term outlook remains positive.

▼ Yuzhuralnickel posts huge debt growth

We are pleased to see that shares of Yuzhuralnickel, to which we draw attention last week, have surged 15%. The price rally may come to a halt after the company posted weak 2008 and 1Q 2009 financial results under RAS (net debt totaled \$120m vs. net cash of \$31m as of end-2008, presumably financing Mechel this way).

FINANCIALS

by Sergei Perminov

▼ VTB turns down share buy-back

Last week Alexei Savatyugin, a member of the supervisory board of VTB, said that the Bank may not carry out its proposed buy-back of minority shares. VTB shares dropped after the news, though a final decision on the buy-back has still not been made public.

▲ RTS-MICEX merger still highly possible (RTSX: \$250 Spec BUY)

Also last week Vladimir Milovidov, head of the Federal Service for Financial Markets, said that merger of the two main Russian stock exchanges, the RTS and MICEX, remains a strong possibility. This is the first confirmation by a senior official since the crisis began that merger is still on the agenda, and we see it as very positive for shares of the RTS.

POWER UTILITIES

by Petr Oparin

▼ Compulsory capex commitments to be amended

The Ministry of Energy said that it plans to amend the rules for implementation by generators of compulsory capex. Regulators will create a new control system to ensure that such capex is carried out, replacing the present system of contracts. Details of the new system have not been disclosed. Generators will be given more freedom to adjust compulsory capex plans by timing and location, although they will not be allowed to reduce the programs.

The announcement by regulators supported a downward correction of OGKs last week (we had forecast a price decline). We expect prices to remain flat in the subsector this week, though positive financials should boost OGK-1.

There were several good performances by TGKs last week. TGK-5, TGK-6 and TGK-14 were above the market, as we had expected, with 10-15% return. We remain bullish on these stocks. We also note excellent performance of TGK-1 on increased hopes of an offer. We raise our recommendation from HOLD to Speculative BUY.

▲ TGK-11 Holding in focus

We also call attention to TGK-11 and TGK-11 Holding this week, after a statement by Inter RAO suggested resolution of a corporate conflict over the generator. The sole asset of the Holding is 16% of the generator, and discount of TGK-11 Holding to TGK-11 itself is over 65%, measured by previously approved coefficients. We expect the gap to reduce rapidly, as the road is now open for liquidation of the Holding and direct ownership of its shares in TGK-11.

Distributors (MRSKs) finally outperformed the market last week. We still see MRSKs as safe havens, since risks for generators are much larger.

TELECOMS & MEDIA

by Alexei Minaev

**Attn: MTS to report
1Q results on Friday**

We look forward to seeing 1Q US GAAP results from MTS, due this Friday. Our estimates for the stock are currently under revision, but we believe that y-o-y deterioration of financial results in the first quarter is inevitable, following trends in 4Q 2008 and further negative dynamics throughout the economy in the first three months this year. We expect both ARPU and MOU to remain weak and churn rate to rise as customers are seeking for economy on the mobile services. On the cost side, MTS may maintain operating margin unchanged y-o-y but is likely to show an increase of non-operating costs (e.g. interest expenses), lowering the bottom line. We remind investors of our idea to swap MTS shares for shares of AFK Sistema (the main shareholder of MTS), which we expect to perform better than MTS during the economic downturn.

CONSUMER & RETAIL

by Ekaterina Andreyanova

The consumer and retail sector was mainly uneventful last week, with no market-moving corporate news.

Shares of Dixy slid lower, probably reflecting investors disappointment that the company has still not revealed its unaudited IFRS for 2008. The slide may continue this week if the figures are not presented, despite the fact that Dixy is currently the most undervalued Russian retailer.

**▲ Retailers to
appreciate interest
from foreign majors**

There was no visible sign of rumored moves by Carrefour to acquire Seventh Continent last week, but reports resurfaced that Wal-Mart is interested in Lenta (a St. Petersburg retail chain). The latter news could provoke more optimism about publicly traded retailers and may help Dixy to realize some of its upside potential.

PHARMACEUTICALS

by Ekaterina Andreyanova

Action last week in the pharma sector was again concentrated in shares of Pharmacy Chain 36.6. Decline of the stock below \$8 per share (based on MICEX prices) was followed by recovery to more than \$10 the next day. It is interesting that price growth is usually on very high trading volumes, whereas declines are on much smaller volumes.

**▼ 36.6 to offer
restructuring plan
for bondholders
(APTK: \$1.00 SELL)**

36.6 released a note late on Friday with a plan for bond restructuring. According to the company, bondholders will receive a restructuring proposal in the near future and a meeting will be held with investors. The bonds mature on June 30, 2009. The action results from 36.6 postponing its SPO and sale of Veropharm – the two sources, which we expected to be used for bond financing. The news is very negative and will put shares of 36.6 under severe pressure.

ENGINEERING

by Lenar Hafizov

There was little activity in the engineering sector last week, but there were signs of a rally in third-tier (illiquid) companies, to which we called attention in the last Weekly. This reflects growing appetite for risk and investor focus on companies, which have not yet risen from low points.

	RTS ticker	Fair price, \$	Market bid-ask range, \$	Up / down, %	Reason to BUY
Blue chips					
Lukoil com	LKOH	64.3	46.8-47.2	37%	developed downstream; low debt; ConocoPhillips as strategic partner; strong corporate governance
Oil & Gas					
Gazprom Neft com	SIBN	4.20	2.60-3.50	38%	low multiples; focus on downstream; high expected dividends; Gazprom support; potential free-float growth
Power Utilities					
MRSK Holding com	MRKH	0.074	0.044-0.046	66%	a 40% discount to market some-of-parts value; planned introduction of RAB tariffication is not priced in
Telecoms					
Far-East Telecom com	ESPK	2.20	1.05-1.50	73%	low leverage; no foreign debt; leader in traditional telephony and Internet services in its region
Volga Telecom com	NNSI	1.88	0.925-0.999	95%	among least risky telecom stocks; mobile business may be sold off
Ural Svyazinform com	URSI	0.023	0.014-0.014	64%	among least risky telecom stocks; strongest market position in its region
Engineering					
RKK Energia com	RKKE	N/R	122-126	N/R	the only publicly traded company with exposure to the global space industry, low market cap
Consumer & Retail					
X5 Retail Group GDR	FIVE	19.7	14.8-14.8	33%	strong M&A track record; rapid growth; largest retailer; diversified by format; mostly operates in Moscow and St.Petersburg; included in government support list
Pharmaceuticals					
Veropharm com	VRPH	27.0	20.0-21.3	31%	well-diversified portfolio of high margin products; cash generator; one of the largest pharmaceutical producers; low debt level
Chemicals					
Acron com	AKRN	31.1	22.8-23.3	35%	strong business model; good prospects connected with potash and phosphate mining rights
Uralkali com	URKA	4.36	3.00-3.80	28%	high industry concentration; gradual price recovery; large benefits from ruble devaluation; low debt position; risk of high penalties is priced in
Construction & Development					
AFI Development GDR	AFID	4.30	1.65-1.65	161%	strong financing

Note: shares of Raspadskaya (RTS: RASP) are removed from the LIST due to low upside

	RTS ticker	Fair price, \$	Market bid-ask range, \$	Up / down, %	Reason to SELL
Blue Chips					
Norilsk Nickel com (new)	GMKN	90.4	96.5-98.5	-7%	low demand for nickel and PGM; corporate governance problem is still an issue; huge write-offs are likely
Power Utilities					
TGK-11 com	TGKK	0.0001	0.0002-0.0003	-62%	low margins due to dominance of gas in feedstocks, while local electricity prices are coal price dependent
Metals & Mining					
Evraz Group S.A. GDR (new)	EVR	12.0	17.2-17.2	-30%	one of the highest debt loads in Russian steel universe; recovery of steel market has slowed down in 2Q
TMK GDR (new)	TMKS	7.30	9.60-9.60	-24%	high debt load; low capacity utilization at North-American production sites; low demand for industrial pipes
Consumer & Retail					
Seventh Continent com (new)	SCON	6.80	9.00-12.0	-35%	overvalued due to speculations on Carrefour interest; price is not supported by operational; debt pressure remains high
Pharmaceuticals					
Pharmacy Chain 36.6 com (new)	APTK	1.00	8.00-12.0	-90%	no clear vision of company future; weak financials; troubles with financing its high debt; price growth was extremely speculative
Construction & Development					
Mostotrest com	MSTT	55.0	200-300	-78%	too high multiples compared with peers

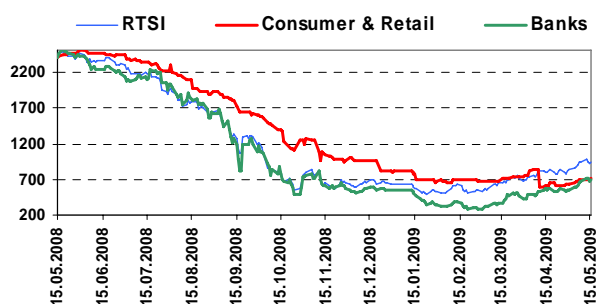
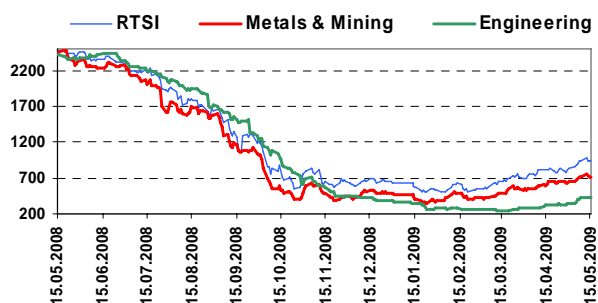
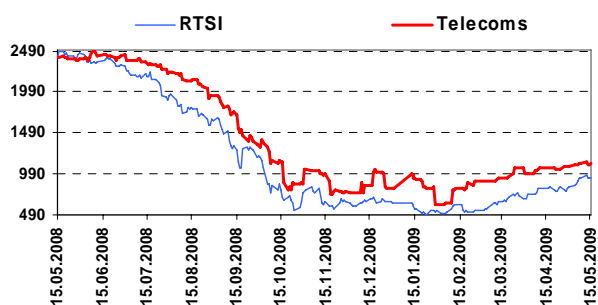
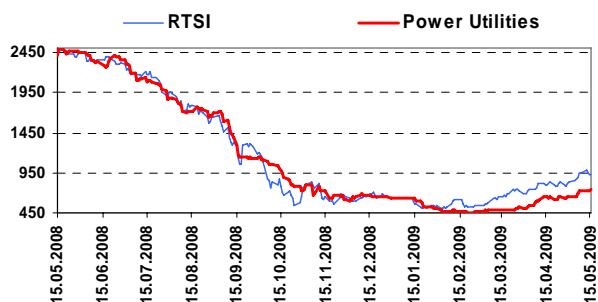
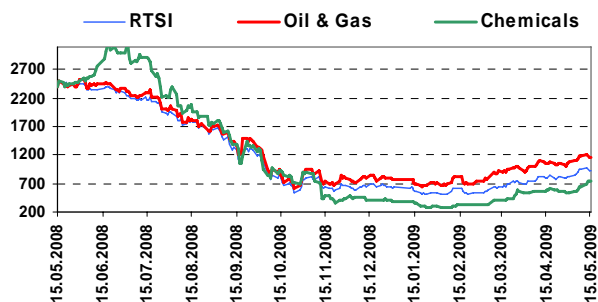
Note: no notes

Stocks	Value	-1W, %	-1M, %	-3M, %	-1Y, %
National					
RTS	936.3	-0.2%	16.2%	50.0%	-61.2%
Fair RTS (RMG estimate)	U/R				
MICEX	1 002.2	-2.6%	10.6%	36.9%	-47.1%
Europe					
FTSE 100	4 348.1	-2.6%	9.6%	3.8%	-30.5%
Xetra DAX 100	4 737.5	-3.6%	4.1%	7.3%	-33.1%
CAC 40	3 169.1	-4.3%	6.1%	5.7%	-37.3%
Asia Pacific & Australia					
ASX 100	3 097.5	-4.2%	0.4%	5.4%	-35.0%
Hang Seng	16 790.7	-3.4%	7.2%	23.9%	-34.2%
Nikkei 225	9 265.0	-1.8%	6.0%	19.1%	-35.0%
SENSEX	12 173.4	2.5%	7.9%	26.3%	-29.9%
Middle East					
ISE National 100	33 484.5	2.1%	18.2%	32.9%	-21.4%
Americas					
DJ Industrial	8 268.6	-3.6%	3.0%	5.3%	-36.4%
S&P 500	882.9	-5.0%	3.6%	6.8%	-38.0%
NASDAQ	1 680.1	-3.4%	3.3%	9.5%	-33.7%
BOVESPA	49 007.2	-4.6%	8.2%	17.6%	-31.5%
MERVAL	1 438.6	-4.1%	18.4%	26.8%	-32.2%
MSCI Indices					
Russia	573.9	-2.3%	15.0%	42.4%	-63.3%
EM Europe	321.9	-2.1%	13.8%	39.4%	-59.6%
EM Asia	295.6	-2.0%	9.5%	29.1%	-37.1%
EM Latin America	2 732.7	-4.0%	10.8%	23.3%	-45.6%
EM World	707.9	-2.4%	10.0%	27.7%	-42.0%
World	920.9	-3.4%	6.6%	10.0%	-40.4%
Commodities					
Brent (ICE futures), \$/b	56.0	-3.7%	8.1%	24.9%	-53.8%
Urals (MDT spot), \$/b	54.3	-4.0%	6.2%	26.6%	-53.4%
Gold (LME spot), \$/oz	931.8	1.7%	4.6%	-1.1%	5.7%
Silver (LME spot), \$/oz	14.0	-0.1%	9.4%	2.2%	-16.2%
Platinum (LME spot), \$/oz	1 105.0	-4.0%	-9.6%	3.8%	-47.0%
Palladium (LME spot), \$/oz	224.8	-6.9%	-5.4%	3.8%	-48.4%
Aluminum (LME spot), \$/mt	1 487.0	-1.4%	0.6%	10.8%	-49.9%
Copper (LME spot), \$/mt	4 447.0	-4.7%	-7.6%	31.1%	-47.2%
Lead (LME spot), \$/mt	1 474.0	1.3%	-5.0%	26.7%	-34.8%
Nickel (LME spot), \$/mt	12 385.0	-4.9%	-0.1%	20.8%	-52.6%
Tin (LME spot), \$/mt	13 919.0	-2.0%	21.5%	19.5%	-45.1%
Zinc (LME spot), \$/mt	1 467.2	-4.1%	-1.3%	30.0%	-36.0%
Steel HR Europe (spot), \$/mt	357.5	0.0%	2.1%	-13.9%	-63.1%
Steel CR Europe (spot), \$/mt	410.0	-3.5%	-3.5%	-8.9%	-62.0%
Currencies					
RUB/USD (spot)	32.13	-0.7%	-3.9%	-7.2%	34.5%
RUB/EUR (spot)	43.50	-0.8%	-1.6%	-2.3%	17.8%
EUR/USD (spot)	1.35	-1.0%	2.0%	4.9%	-12.6%
GBP/USD (spot)	1.52	-0.4%	1.2%	5.7%	-22.0%
USD/JPY (spot)	95.21	-3.3%	-4.2%	3.6%	-9.1%
Bonds					
US Treasuries 10 YTM, %	2.97	3.14	2.73	n/a	3.87
US Treasuries 30 YTM, %	4.07	4.26	3.69	n/a	4.54
Russia 10 YTM, %	3.92	4.20	4.28	5.12	5.46
Russia 30 YTM, %	7.41	7.38	7.72	9.26	5.27
EMBI+	431.5	-0.7%	2.7%	11.7%	-2.2%

Source: Bloomberg, RMG estimates

Russian Economy	Value	Date	-1Y
Money & Banking			
RTS total MCap, \$b	503	18.05.09	1 389.5
M0, \$b	96.5	Mar 09	148.0
M2, \$b	356.5	Mar 09	570.0
CBR refinancing rate, %	12.00	15.05.09	10.50
One-day MIACR, %	7.41	18.05.09	3.76
Cash of banks at the CBR, Rb	10.8	18.05.09	20.8
CBR reserves, \$b	385.2	08.05.09	548.1
GDP & Investments			
GDP chng (YoY), %	5.6%	FY08	8.1%
Fixed investments, \$b	9.9	Jan 09	14.5
Foreign investments, \$b	103.8	Dec 08	120.9
- FDI, \$b	27.0	Dec 08	27.8
Foreign Trade (monthly)			
Exports, \$b	21.2	Mar 09	40.0
Imports, \$b	14.4	Mar 09	23.4
Trade balance, \$b	6.8	Mar 09	16.6
Budget & Debt			
Stabilization Fund, \$b	157.6	Jan 08	99.9
CBR foreign debt, \$b	453.5	1Q 09	479.0
FM foreign debt, \$b	39.5	1Q 09	44.1
Budget revenues, \$b	67.0	Apr 09	127.7
Budget expenditures, \$b	78.2	Apr 09	79.6
Budget balance, \$b	-11.2	Apr 09	48.1
Inflation			
CPI (YTD), %	6.2%	Apr 09	6.3%
- food (MoM)	0.7%	Apr 09	2.2%
- non-food (MoM)	1.0%	Apr 09	0.9%
- services (MoM)	0.3%	Apr 09	1.0%
PPI (YTD), %	7.0%	Apr 09	7.7%
- mining (MoM)	15.3%	Apr 09	7.3%
- manufacturing (MoM)	0.2%	Apr 09	4.7%
- utilities (MoM)	-0.3%	Apr 09	-1.2%
Russia Credit Ratings			
Standard & Poors	BBB	08.12.08	
Fitch	BBB	04.02.09	
Moody's	Baa1	16.07.08	
US Economy			
M2, \$b	8 303.9	04.05.09	7 611.7
GDP chng (YoY), %	-6.1%	1Q 09	0.9%
Debt / GDP, %	80.1%	14.05.09	66.2%
IPI (MoM), %	-0.5%	Apr 09	-0.6
Trade balance, \$b	-27.6	Mar 09	-57.4
Budget balance, \$b	-20.9	Apr 09	159.3
Current Account balance, \$b	-132.8	4Q 08	-167.2
CPI (MoM), %	0.0%	Apr 09	0.2%
PPI (MoM), %	0.3%	Apr 09	0.2%
Michigan Index of Confidence	66.2	May 09	73.3
Leading Composite Indicator	98.1	Mar 09	102.0
ISM Manufacturing	40.1	Apr 09	48.6
Major Foreign Bank Rates			
USA, %	0.25%	15.05.09	2.00%
United Kingdom, %	0.50%	15.05.09	5.00%
European Community, %	1.00%	18.05.09	4.00%
Japan, %	0.10%	18.05.09	0.50%

SECTOR INDEXES VS. RTSI (1Y)



WINNERS (WoW)

Acron com	15.0%
Uralkali com	11.5%
Kazanorgsintez com	8.3%
Silvinit com	7.2%
Gazprom com	6.0%
YaroslavNOS pref	5.7%

TGK-6 com	41.7%
TGK-9 com	30.0%
TGK-1 com	26.5%
TGK-2 com	20.7%
OGK-3 com	18.8%
Urals MRSK com	12.0%

Volga Telecom pref	12.0%
Siberia Telecom com	11.1%
Volga Telecom com	6.3%
-	-
-	-
-	-

Electrozinc com	45.7%
Sinarsky Tube com	15.9%
GAZ com	9.9%
VSMPO-Avisma com	9.8%
Polymetal com	8.9%
Belon com	2.9%

Synergy com	21.6%
TSUM com	20.7%
Magnit com	8.2%
Wimm-Bill-Dann com	8.1%
Uralsib Bank com	3.5%
Sberbank com	3.1%

LOSERS (WoW)

Tatneft com	-26.3%
Lukoil com	-5.6%
Surgutneftegaz pref	-0.8%
NOVATEK com	-0.7%
-	-
-	-

OGK-5 com	-5.5%
INTER RAO UES com	-1.5%
RusHydro com	-0.2%
-	-
-	-
-	-

MTS com	-8.8%
MGTS pref	-1.6%
Center Telecom com	-0.7%
-	-
-	-
-	-

Chelyabinsk Tube com	-8.8%
Sollers com	-8.0%
Electrostal engine com	-7.4%
GMK Norilsk Nickel com	-1.4%
Chelyabinsk Zinc com	-1.1%
Severstal com	-0.9%

Kalina com	-23.8%
M-Video com	-12.4%
36.6 com	-5.9%
Magnit com	-5.6%
VTB com	-4.9%
Sberbank com	-3.4%

Note: winners and losers refer only to the RTS-Classic market

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