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Russian Lender Sberbank Overtakes Gazprom Capitalization

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Sberbank headquarters in Moscow **Vedomosti**

Sberbank's capitalization on the Moscow Stock Exchange reached 3.24 trillion rubles as of Friday, Aug. 26, while Gazprom's stood slightly lower at 3.19 trillion rubles. Rosneft remains Russia's most valuable company, with capitalization of 3.72 trillion rubles.

Sberbank's ordinary shares rose through trading by 1.69 percent to 145.25 rubles. Preferred shares were up 1.25 percent to 104.09 rubles, and the MICEX index rose by 0.39 percent.

"It seems Gazprom will have to live with this new reality," said BCS trading department chief Maxim Ryabov. He said Sberbank's financial results are outperforming all forecasts, increasing share value, whereas Gazprom has failed to keep pace. "Gazprom has yet to implement any structural changes, and until it does, the company will slowly fall behind," Ryabov said. The price of Sberbank ordinary shares has risen by 43.4 percent since

the start of the year, while preferred shares were up 36 percent. Gazprom securities grew by just 0.1 percent, while the MICEX index increased by 13.7 percent over that period.

Very little has improved at Gazprom, said Capital portfolio manager Vadim Bit-Avragim. "Internal efficiency has not improved, and the additional tax burden, low demand for gas, and strong competition from the European market are all negative factors," he said. The opposite is true of Sberbank, he argued: The state-owned bank is benefitting from the reduction in funding costs, and Sberbank gained new market share after the Central Bank conducted a "financial cleansing" of the banking sector.

Gazprom does not have a program in place for increasing capitalization, but "is taking steps" toward that end, said a company representative, who added that part of the bonus top managers receive is based on the stock price. Sberbank earned 263.1 billion rubles in the first six months of 2016, with Q2 earnings making up 145.4 billion rubles. That exceeds analysts' most optimistic expectations.

Analytical firms UBS and Citi were closest to the mark, predicting that Sberbank would earn 248.3 billion rubles for the first six months and 145.4 billion rubles in the second quarter. "The main factor influencing the price of Sberbank shares is the growth in profitability due to a recovery in net interest margins and a normalization of transfers to reserves," UBS analyst Mikhail Shlemov said.

Sberbank's capitalization first equaled that of Gazprom on Thursday, Aug. 25, on the heels of a positive company report and an announcement by Sberbank leaders that dividends might increase in the medium term, Bit-Avragim said. The Sberbank press service mentioned the same reasons for the increase in comments on Friday.

One owner of Sberbank shares said they make a good investment. "I plan to sell mine when the price reaches 150 rubles," he said. "According to my estimates that should happen in September or October, although, considering the latest reports, it could be even sooner."

From May 2015 to May 2016, Sberbank increased its share of foreign investors by 2.3 percent to 45.6 percent, while the share of Russian investors fell from 2.8 percent to only 1.3 percent, Sberbank deputy chairperson Bella Zlatkis said in May.

International investors might also keep demand for Sberbank shares high now — as opposed to Gazprom securities. And although Russian shares experienced an outflow of funds during the week of Aug. 24, fund managers at EMEA (Europe, Middle East, Africa) generally continue to hold a significant share of assets in financial sector securities, EPFR Global said in a report released on Friday. On average, that share is close to the record level seen at the end of Q4 2015. At the same time, fund managers reduced investments in shares of raw materials and energy companies in the region.

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