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Russian Stocks Seen Rising 25% by Mid-2020

The Russian stock market has outperformed many global rivals so far this year.

By Reuters

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The Russian market has a lot of potential in terms of nominal growth and dividend yields. **Sergei Fadeichev / TASS**

Russia's benchmark RTS stock index may rise by 25% by mid-2020 as the Russian market attracts new investors, the CEO of VTB Capital Investments, part Russia's second-largest state-run bank VTB, said.

The Russian stock market has outperformed many global rivals so far this year, buoyed by a recovery in the price of oil, Russia's key export, and fading fears of more Western sanctions against Moscow.

Vladimir Potapov, who oversees asset management, retail forex trading and brokerage

services at VTB Capital Investment, said in an interview the Russian market had a lot of potential in terms of nominal growth and dividend yields.

"At the moment, stocks are traded with a 50% discount to their emerging market peers based on the P/E ratio," Potapov said, referring to the price-to-earnings ratio that compares the current share price to earnings per share.

"Starting from today and on the time horizon of one year, the growth potential of the (Russian) stock market is around 25%," Potapov said, referring to the benchmark RTS index.

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Russian stock indexes achieved their biggest gains year-to-date in mid-July. The dollar-based RTS had risen nearly 33% back then and its rouble-based peer MOEX was up 21%.

Russia's largest gas producer Gazprom gained nearly 68% year-to-date earlier in July, while the country's biggest bank Sberbank had year-to-date gains of more than 34% in mid-June.

Since mid-July, stocks have given up some of these gains. On Wednesday, the RTS index was 26% higher compared with late 2018, and the MOEX was up 14% year-to-date.

MSCI'S All-Country World index of stocks is up 16.5% so far in 2019.

A Reuters poll on May 29 pointed to the Russian stock market hitting record highs towards the end of 2019, but the poll also found that global economic and trade woes, along with risks of more sanctions against Moscow, could trigger a moderate decline next year.

Expectations of an interest rate cut by the U.S. Fed has boosted emerging-market assets. But the Russian market remains vulnerable to risks of economic and financial sanctions from the West.

When asked about the main risks to his forecasts, Potapov said there were risks from global trade wars which represent "a totally unpredictable situation."

Historically, investors from the United States and Europe have played a key role in the Russian stock market. But now the investors base is becoming more diverse, Potapov said.

Investors from the Middle East prefer Russia's publicly listed companies, while Asian funds prefer direct investments, Potapov said.

"Russian stocks are also picked by Russian investors. Those who already hold shares reinvest their dividends," he said.

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