

# Gazprom Narrows Dividend Gap

By [The Moscow Times](#)

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Russian firms are at last sharing more profits with shareholders in a dividend policy shift that may well encourage foreign investors and finally narrow a valuation gap with emerging market peers.

Companies in Russia have historically been poor dividend payers, even by the standard of emerging markets — where the norm is to pay out less and invest more. At the huge state-run commodity firms in particular, capital spending has always trumped returning cash to investors.

But change may be afoot.

Russian dividend yields, the ratio of dividends to share prices, have in the past five years averaged 1.8 percent, roughly a quarter less than broader emerging markets. But in 2012 for the first time this will surpass the EM average, hitting 3.3 percent, Morgan Stanley predicts.

The yield at state-run Gazprom, Russia's biggest company, will be more than 5 percent after it announced a doubling of dividends late last year. That's higher than oil majors BP, Chevron and ExxonMobil and considerably above the near-zero yields available on Western government bonds.

Analysts point to the shift in policy at Gazprom as evidence of a change at the highest levels of Russian politics. An incipient mutiny among the urban electorate has added to pressure on Moscow to improve Russia's image overseas in order to boost investment and demonstrate its economic competence.

"Dividend payout ratios are improving in Russia, and there are good reasons to believe they will increase for the rest of this year," said Matthias Siller, who helps to manage \$3.9 billion in emerging European stocks at Baring Asset Management.

"The government is seeking to privatize large parts of the economy. How do you maximize the price you get for these privatizations? You show minority shareholders you will treat them fairly," Siller said.

At a recent presentation in London, Gazprom was at pains to stress its new dividend policy to investors, fund managers say.

Gazprom is not alone. Asset manager Allianz estimates that Russian firms' payouts to shareholders via dividends and buybacks rose 9 percent last year above the record set in 2008.

"We do expect that starting with a big player like Gazprom, others will follow," said Soren Beck-Petersen, investment director for emerging markets at HSBC Global Asset Management.

"We may see a lot of privatization initiatives after the election, and when this happens it will pressure them to raise dividend yields. [Yields] have been especially low for state-owned companies and this is a concern for foreign investors."

Russia is the biggest overweight in his EM portfolio.

Lack of dividends — along with poor corporate governance — has severely depressed Russian share valuations. Over the past 10 years, the market has traded at an average 25 percent discount to emerging markets on a price-to-earnings basis.

Political risks have pushed that gap to more than 40 percent.

"These [dividend] developments will have a tremendous impact on multiples," Siller of Baring predicted.

Others seem to share this view.

Moscow stocks have rallied 20 percent this year, with Russia-dedicated funds alone taking in \$830 million, fund tracker EPFR Global says.

But the scale of the outsize equity rally is still remarkable, especially after December's parliamentary vote led to widespread protests against Putin's 12-year rule and triggered

massive selling across Russia's financial markets.

"I do think that given the recent protests and their significance, the chances of reforms taking place have improved," said Jose Morales, who helps manage \$17 billion in emerging stocks at Mirae Asset Global Investment in New York.

He is overweight in Russia, noting dividend and governance initiatives will boost share price valuations in the long term.

Many are skeptical of the reform pledges, seeing Putin's threats of clampdowns at state-run firms as election posturing.

Also, Russian dividend yields still compare unfavorably with markets such as South Africa and the Czech Republic, where companies are seen yielding more than 4 percent to 6 percent in 2012, according to Morgan Stanley.

It notes, moreover, that Gazprom will pay 19 percent of its earnings as dividend versus payout ratios of 30 percent to 50 percent at South African firms. Like other state-run peers, capital expenditure is very high and dogged by allegations of waste and corruption.

John-Paul Smith, Deutsche Bank's head of emerging equity strategy, is one of those who think that the market has gone too far in discounting a post-election reform agenda.

"It's difficult to present a bear case for Russia at the moment, but I'd question how sustainable the rise in dividend yields will be," he said. "What we have seen is a high level of pro-cyclical investment in recent years, so now there's a lot of free cash-flow generation, but that could easily change."

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