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INDEPENDENT NEWS FROM RUSSIA

Big Money Managers Look to Profit from Russian Stock Market Dive

By The Moscow Times

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Rising tension between Russia and the West has rattled the country's stock and bond markets, but some big money managers see the turbulence as an opportunity.

Russia's equity market has plummeted 18 percent so far this year. Foreigners dumped the country's stocks, bonds and the ruble following the early March invasion of Crimea, a territory of Ukraine. It now faces economic sanctions that could worsen if the crisis escalates.

Investors have reacted with their feet. The ruble is down nearly 9 percent on the year, and investors have pulled about $4.4 billion from stocks and $4.1 billion from bonds between September 2013 to the middle of March, according to the latest data from EPFR Global.

"Russia's stock market right now is one of the cheapest in the world, and probably one of the most hated," said investor and commodities guru Jim Rogers, chairman of Rogers Holdings, in Singapore. "This is the time to buy Russia."

Those betting on Russia now should have a long-term horizon. After citizens in the Crimean peninsula voted for annexation by Russia, the U.S. and European Union reacted by issuing sanctions that, while limited in scope, could be broadened.

The Russian economy has weakened as inflation has risen and investments have stalled. IMF data shows the country's reserve assets declined to $493.3 billion in February from $509.6 billion in December as it has defended its currency. The Central Bank raised interest rates by 1.5 percentage points to stem the ruble's fall.

Rogers, who has been investing in Russia for the last 1 1/2 years, said he bought Russian stocks last week. He said if more sanctions are imposed and the equities market declines further, there would be more buying opportunities in Russia.

Rogers said he is looking for nonenergy companies, which is a tall order considering the RTS Index of 51 leading Russian companies is heavily skewed toward energy, at 58 percent of the index, and basic materials, at 13 percent.

Estimates from emerging and frontier market specialists FMG Funds, based in Malta, show that Russian stocks are trading at a price-earnings multiple of about four times 2014 earnings, with an annual dividend yield of 5 percent.

By comparison, the U.S. trades with a P/E ratio of nearly 16 times earnings and a dividend yield of just 2 percent, FMG data show.

FMG, which has $150 million in emerging and frontier market assets, is looking to scoop up more Russian stocks.

"We believe that Russian equities are at levels which make them a compelling buy and that patience will be rewarded," said FMG chief investment officer Joe Portelli.

The largest equities in the RTS Index are Gazprom and LUKoil, each of which make up about 13 percent of the index. Gazprom's forward price-to-earnings ratio is just 2.6, far lower than most other BRIC-nation energy companies, according to Thomson Reuters data.

"Russian stock prices could triple and they would still be at a valuation discount. But Russian companies are not nearing bankruptcy," said Chris Darbyshire, chief investment officer at Seven Investment Management in London, with overseas assets of about $10 billion.

"In fact, expectations for Russian earnings this year have remained relatively steady, whereas expectations for most developed markets, including the U.S., have fallen."

Seven Investment invests in a broad range of emerging market stock and bond benchmarks, in which Russia represents about 6 percent and 10 percent of the total indexes.

"We would add [to positions] at some point," Darbyshire said.

The wild card is whether the saber-rattling between Russia and Ukraine will intensify, and how much it hurts the Russian economy. Growth has slowed to less than 2 percent, inflation has risen and capital outflows have escalated.

Some investors are in a defensive mode. Standish Mellon Asset Management, which manages more than $180 billion in fixed income assets, pared its Russian dollar-denominated and local bond holdings during the recent crisis.

''We thought that whatever valuations we have in Russia, it Is better to exercise some caution,'' said Cathy Elmore, emerging market portfolio manager and senior sovereign debt analyst at Standish in Boston. ''We need to be aware of this political layer that has been driving valuations.''

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