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SECTOR REVIEW

MONTHLY MORNING MEETING MAY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

EMERGING MARKETS

RUSSIA – 4.0 STARS (VERY ATTRACTIVE)

- Consumer Prices gained 3.7% y-o-y in Mar 12, unchanged from the 3.7% in Feb 12
- Manufacturing PMI roughly unchanged at 50.8 in Mar 12 from 50.7 in Feb 12
- Services PMI fell from 55.5 in Feb 12 to 54.4 in Mar 12
- Industrial production expanded by 2.0% y-o-y in Mar 12, moderating from the 6.5% rate in Feb 12
- Retail Sales rose 7.3% y-o-y in Mar 12, down from an upward-revised 7.8% in Feb 12
- Real wages rose by 12.6% y-o-y in Mar 12, down from a downward-revised 12.1% in Feb 12
- Unemployment rate fell to 6.5% in Feb 12, down from 6.6% in Jan 12
- 4Q 11 GDP grew 4.8% y-o-y, down from an upward-revised 5.0% rate in 3Q 11
- 2011 Annual Real GDP grew 4.3% y-o-y

MARKET OUTLOOK

Russia had a good month in March, following a stable February, which saw political uncertainty dwindle, as has the numbers participating in the street protests against Putin's and Medvedev's rule. Purchasing manager indices continued to point to expansion in both sectors, with services indicating stronger growth in the near term, as compared to a more modest expansion in manufacturing.

Consumer demand remains strong. Retail sales rose by 7.3% in March on a year-on-year basis, after growing an upward-revised 7.80% in February. On a month-on-month basis, retail sales rebounded from a downward revised -0.80% contraction in February, growing by 6.90% in March. Enabling the growth in retail spending has been the increase in real wages, disposable income and low unemployment levels. Real wages grew by 12.60% in March, rising from a downward-revised 12.10% in February. Disposable income across Russia rose by 2.80% in March, sliding from a 3.10% rate in February. Unemployment levels in Russia have continued to remain low on a historical basis, with the level for March remaining at 6.50%, the same rate it was at in February. We continue to view the consumer sector in Russia as one of the more attractive sectors in the RTSI\$ index.

Russian 4Q 2011 GDP grew 4.80% on a year-on-year basis, slowing from 3Q 2011's upward revised 5.00% rate and missing the government's estimate of a 4.90% growth rate, as low levels of investment detracted from economic growth. According to Economy Minister Nabiullina's statement last week, GDP for 1Q 2012 grew 4.00% on a year-on-year basis, beating estimates of a 3.70% rate. However, the full year growth estimate for 2012 reduced by 30 percentage points to 3.40% from 3.70% as investments will be weaker than initially estimated.

As of 30 April 2012, the RTSI\$ index stood at 1593.97, losing -2.7% on a month-to-date basis (in local currency terms) as global emerging markets lagged the broader global equity market, volatile oil prices hampered the Russian equity market and renewed street protests cast doubts on political stability. Forward PE ratios of 5.4X and 5.2X for 2012 and 2013 respectively indicate potential upside of up to 45% by 2013, and we **maintain Russia at a "Very Attractive" rating of 4.0 stars.**