

An aerial, black and white photograph of a city, likely New York City, showing a wide river (the Hudson River) and a large bridge (the George Washington Bridge) crossing it. The city is densely packed with buildings, and a plume of smoke is visible in the distance. The text is overlaid on a semi-transparent dark band across the middle of the image.

Investor Survey: Russia Outlook 2015

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Russia is arguably facing its most challenging times in modern history. For the country, 2014 was marked by tensions in Ukraine, sanctions, plummeting oil prices, change in ownership of Crimea, currency devaluation and economic recession. Needless to say, this did not go well with investors. By the end of the year, the market capitalization of the entire Russian stock market was less than that of one single corporation – Apple.

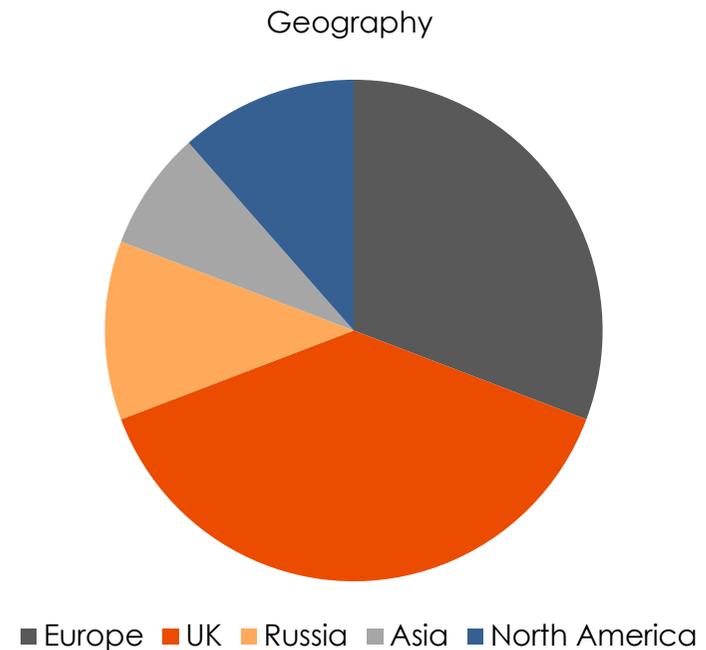
As an independent international financial and corporate communications firm, headquartered in Moscow, it made perfect sense for us to measure and make sense of the new investor sentiment towards Russia. We interviewed some of the most prominent members of the investment community about Russia's short and long-term perspectives, current level of attractiveness among investors, and asked for their views on when the economy would rebound, how the stock market would perform, their main concerns about the country, to name a few.

Almost a third of the respondents showed great optimism and expect to see double-digit growth from the Russian stock market in 2015. That's despite the fact that none of them forecast economic growth in 2015. It seems that Russia defaulting is also out of the question, with only 8% saying they are very worried about it. Despite underlining the concern about how dependent Russia remains on oil prices, which plummeted massively in 2014, almost half of the investors named the oil and gas sector as the most attractive industry.

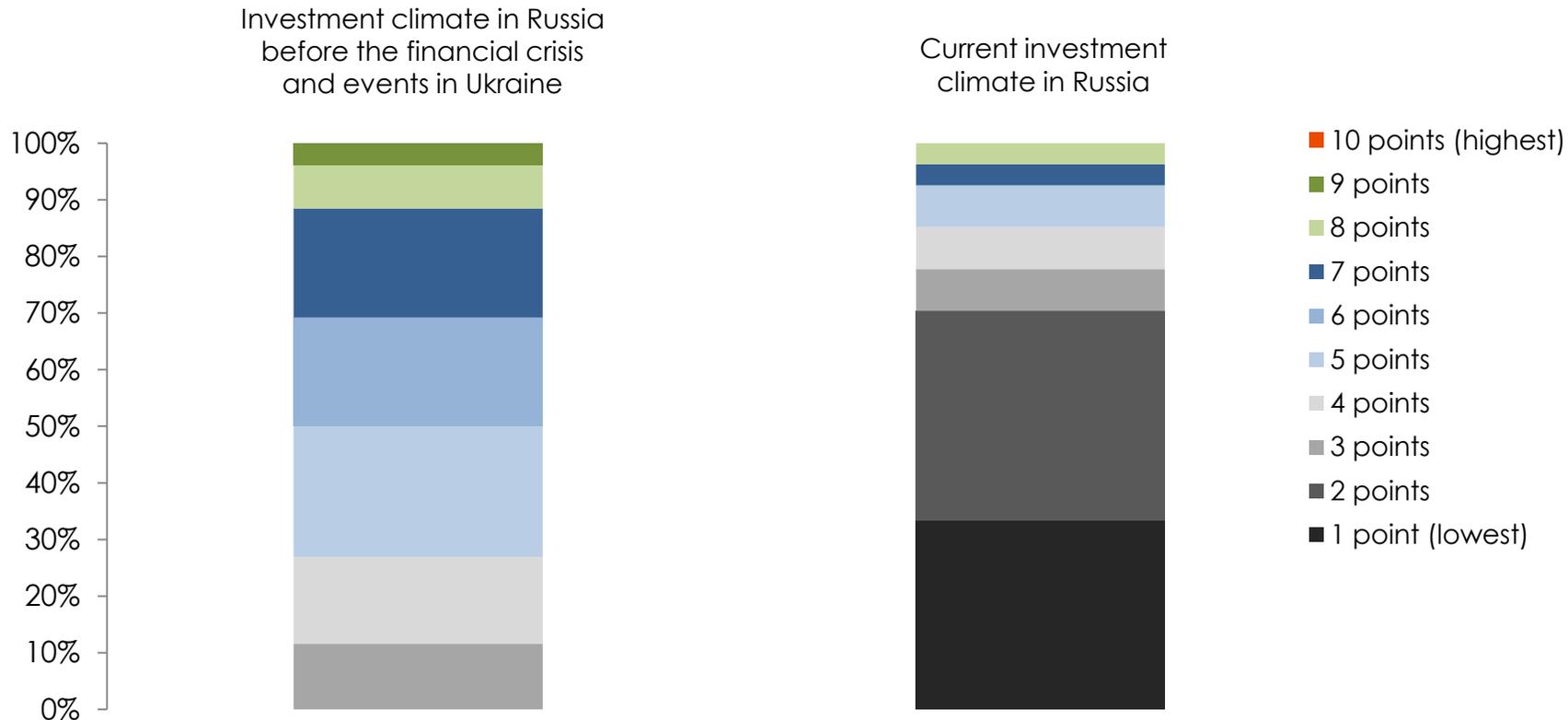
Introduction

In an attempt to gauge investor sentiment towards Russia we talked to portfolio managers and analysts from some of the most prominent investment banks, asset management firms and hedge funds. A total of 26 participants were interviewed, a figure sufficient to obtain an accurate picture and the standard amount when conducting a perception study.

Of the total number of respondents, 38% are located in the UK, 31% in Europe, 12% each for Russia and North America, and 8% in Asia. All of the participants that stated Russia as their location are either foreign nationals or working for foreign investment funds.



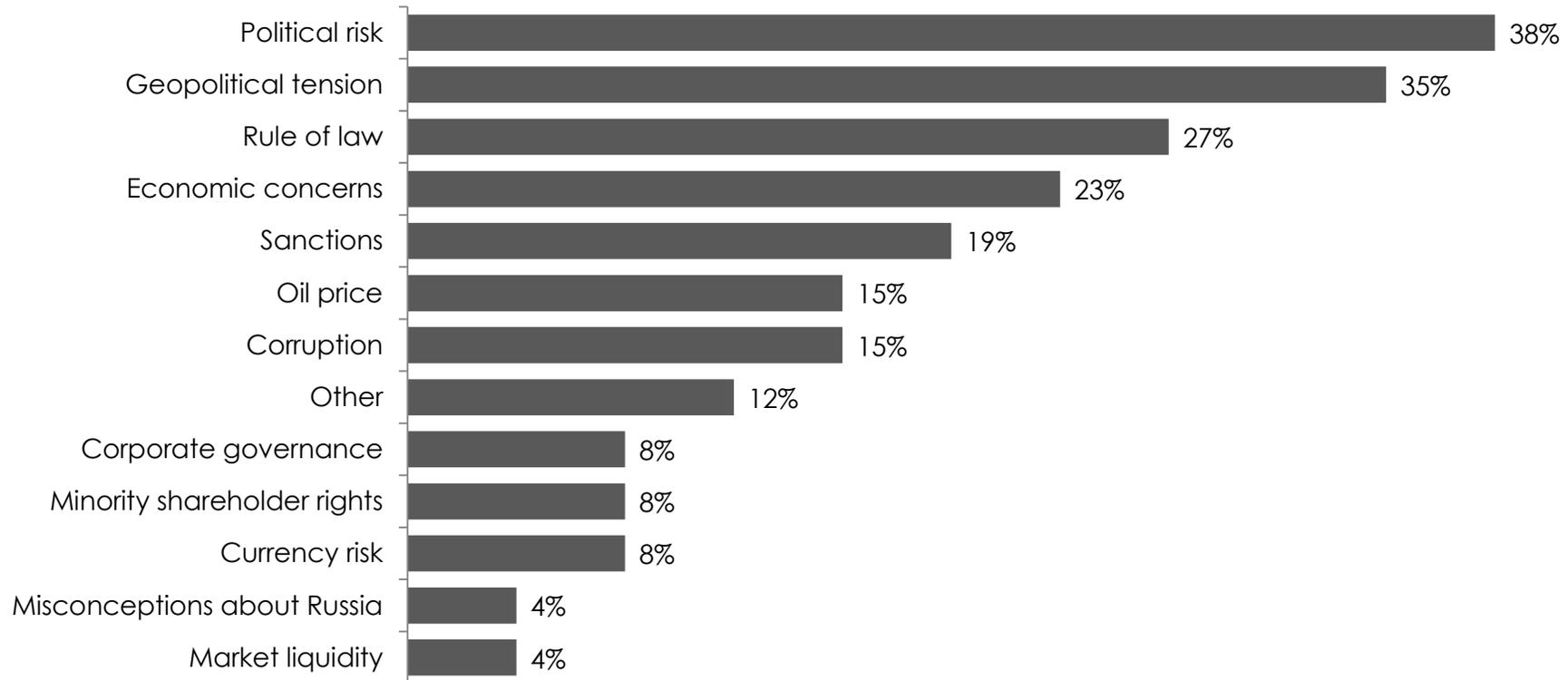
Investment Climate



Before the crisis in Ukraine, events in Crimea, sanctions, devaluation of the Russian ruble and economic recession, investors gave Russia an average score of 5.6 for its investment climate.

However, after the subsequent events, the average score more than halved and is now equal to 2.5. Around 70% of the investors gave Russia two of the lowest possible scores.

Investor Concerns



Political risk and geopolitical tension are among two of the biggest concerns investors have about Russia. They're at the top of the list with 38% and 35%, respectively.

They have squeezed out more traditional issues, such as corruption and rule of law. Next are some of the opinions that the participants of the survey shared with us.

Investor Concerns

“Sanctions and the economic outlook due to over-reliance on oil and gas exports.
At the moment, government policies have increased Russia’s risk profile”

—

“Non-existent reform of the economy”

—

“Risk of full capital control would be devastating. In general, the risk of state intervention in new areas. For example, like what happened in Sistema.”

—

“Capital controls, government budget deficits, expropriation, corruption, lack of interest in companies being commercial”

—

“Oil price and geopolitical risk”

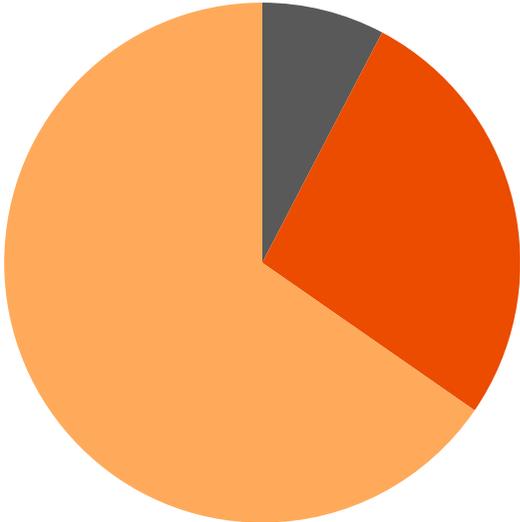
—

“Misconceptions about the country and corporate governance”

—

“Outright war in Ukraine, confrontation with west and further sanctions”

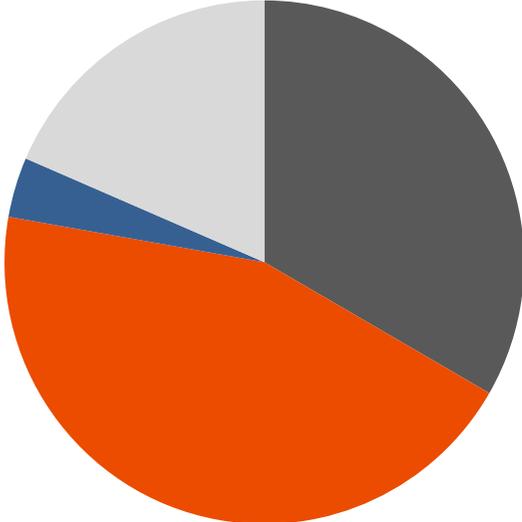
How worried are you about Russia defaulting?



■ Very Worried ■ Slightly Worried ■ Not Worried ■ Can't say

92% of the investors are either completely not worried or have slight concerns about Russia defaulting. None of the respondents expect to see growth from the Russian economy in 2015. Most of them are prone to believe it will happen in 2017 (44%).

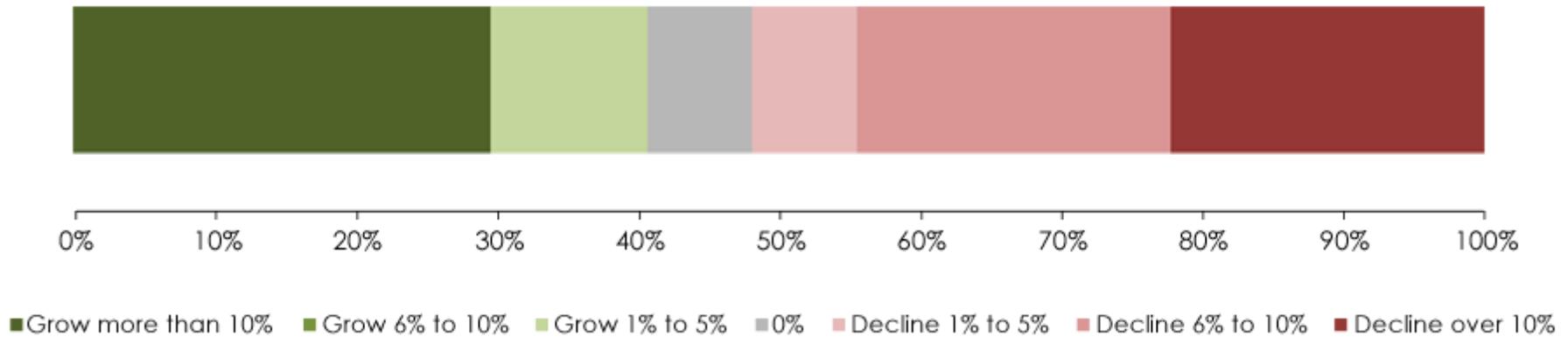
When will the Russian economy resume growth?



■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 or later

A third of the investors are slightly more optimistic and believe that 2016 will be a positive year for the Russian economy. This is in line with the World Bank's forecast that the Russian economy will grow 0.1% in 2016 and 1.1% in 2017. However, 19% are very pessimistic, saying that it will happen only in five years' time.

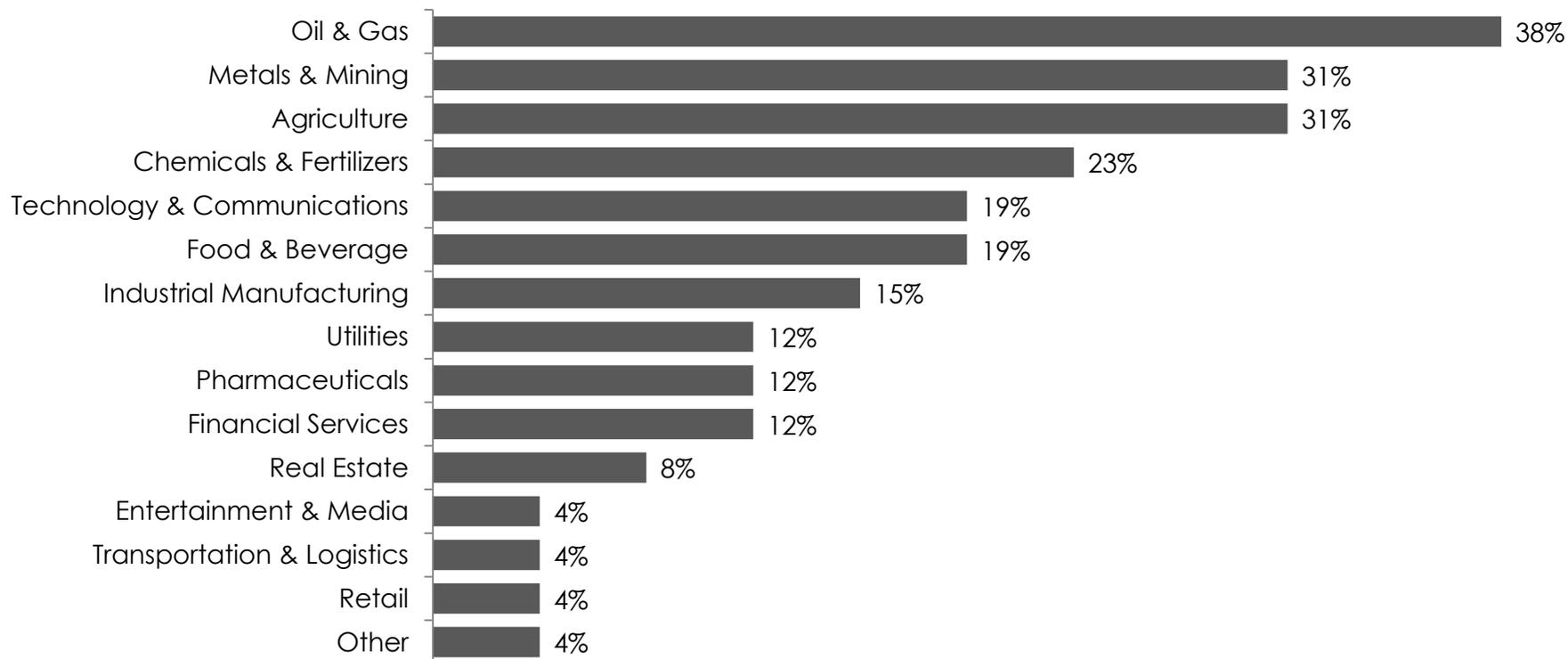
Stock Market



Investors were split between whether or not the Russian stock market will grow. However, the most popular

answer with 30% of the votes is that there will be a strong rebound and double-digit growth in 2015.

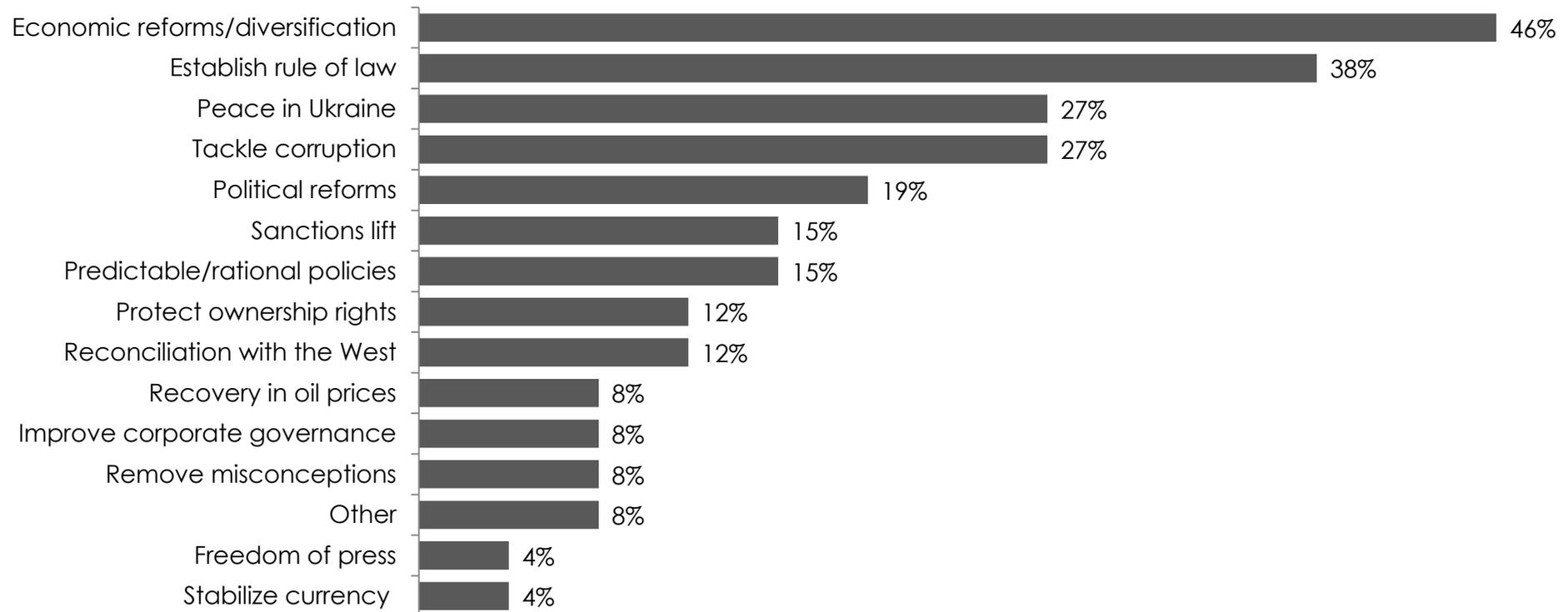
Attractive Industries



The oil and gas sector is the industry of choice for 38% of investors. This is due to the fact that these companies benefit from a weaker ruble, most of their revenue is in foreign currency, they're the least likely to default and offer good dividends. Unsurprisingly, industries least impacted by the economic downturn ended up as the top picks.

Metals and mining, also benefitting from a lower ruble, and agriculture, after the implementation of the food import ban, tied for second place with 31% each. Chemicals and fertilizers, with 23% of the votes, are also in favor as most of their goods are exported and their revenue is in dollars, while costs are in rubles.

How to Make Russia More Attractive



The first thing that needs to be done to make Russia more attractive is to carry out economic reforms and diversify the economy. This is something that almost half of the investors agree on and is nothing new. However, sanctions, a plunging oil price and recession

have given resolving this issue a sense of urgency. To investors tackling corruption is just as important as peace in Ukraine, with each issue receiving 27% of the votes. Next are some of the opinions that the participants of the survey shared with us.

How to Make Russia More Attractive

“Go ahead with structural reform that will enhance the damaged reputation Russia has suffered as a result of corruption, as well as the widespread perception that, historically, the country has been a challenging place in which to do business.”

—

“Making some sort of peace in Ukraine, sufficient to see some sanctions repealed.”

—

“Law and order in terms of a predictable legal system and ownership rights, serious attention to corruption, diversify the economy from oil and gas to other sectors”

—

“Reforms to make Russia less bureaucratic and more business-friendly (ease of doing business).
Trend change towards opening up to rest of the world rather than turn its back”

—

“Improve corporate governance and government transparency”

—

“Address perceptions regarding corruption, rule of law, oil dependency”

Detail Communications is a dynamic international financial and corporate communications firm offering fresh solutions and modern-day advice in a rapidly-changing environment

Passion

We love what we do and are fascinated by how rapidly corporate communications is evolving. We strive to grow and change with the industry always challenging the status quo.

Global Reach

We serve our clients both through our offices as well as strategic partnerships in key locations in Russia & the CIS, the United Kingdom, the United States, Hong Kong and Nigeria.

Experience

Our team consists of experienced multilingual consultants that come from a variety of backgrounds, including in-house IR and PR, communications agencies, journalism, investment banking and corporate finance.

Flexibility

We don't have an inflated workforce or complex organizational structure which means that our clients are not overcharged, we make decisions quickly and can get to work immediately.

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