

Time to pick up dividend stories



As the season of 12M11 reporting is approaching it is time to pick up attractive dividend stories among Russian stocks. Of all Russian names, we highlight fourteen stocks offering at least 5% dividend yield, and recommend to closely watch seven as they provide for double-digit return on the next three to five month horizon. Our absolute top pick is Mosenergosbyt, which offers estimated 26% yield to the current market price and has the record date in March. Preferred shares of Surgutneftegaz and Mechel yield 12-14%, according to our estimates. We also note preferred shares of Bank Saint-Petersburg, Bashneft, Dorogobuzh, and Nizhnekamskneftekhim.

Russian dividend top picks

Company	Ticker	Sector	Dividend period	Currency	DPS	Price*	Yield	Record date
Mosenergosbyt	MSSB RX	Utilities	2011	RUB	0.14	0.53	25.5%	March 2012
Surgutneftegaz pref.	SNGSP RX	Oil and gas	2011	RUB	2.50	18.13	13.8%	May 2012
Mechel pref.	MTL/P US	Metals and mining	2011	USD	0.54	4.52	12.0%	April 2012
Bank Saint-Petersburg pref.	BSPBP RX	Banking	2011	USD	0.41	3.54	11.6%	March 2012
Bashneft pref.	BANEP RX	Oil and gas	2011	RUB	130.0	1,179	11.0%	April-May 2012
Dorogobuzh pref.	DGBZP RX	Chemicals	2011	RUB	2.00	18.96	10.5%	May 2012
Nizhnekamskneftekhim pref.	NKNCP RX	Chemicals	2011	RUB	1.80	17.95	10.0%	March 2012
Bashneft	BANE RX	Oil and gas	2011	RUB	130.0	1,509	8.6%	April-May 2012
MTS common	MTSS RX	Telecoms	2011	RUB	17.04	216.5	7.9%	May 2012
Tatneft pref.	TATNP RX	Oil and gas	2011	RUB	7.70	99.07	7.8%	May 2012
Nizhnekamskneftekhim	NKNC RX	Chemicals	2011	RUB	1.80	24.74	7.3%	March 2012
MTS ADR	MBT US	Telecoms	2011	USD	1.08	16.69	6.5%	May 2012
Rostelecom pref.	RTKMP RX	Telecoms	2011	RUB	4.94	90.01	5.5%	May 2012
TNK-BP Holding pref.	TNBPP RX	Oil and gas	2H11	RUB	4.10	77.81	5.3%	May 2012

* As of January 27, 2012

Source: Gazprombank estimates, Bloomberg, companies

Oil & gas: Surgutneftegaz preferred (14% yield), Bashneft preferred and common (11% and 9% yield)

On the back of great oil price performance in 2011, we expect oil companies to report excellent financial results for 2011. Hence, we believe the majority of liquid dividend plays could be found in oil and gas shares.

Preferred shares of **Surgutneftegaz**, which may bring 13.8% dividend yield, are the No.1 dividend story to watch. On the back of 9M11 RAS net profit and our forecast for 4Q11, we estimate that the dividends for 2011 may be up to RUB 2.5 per preferred share. The good news is that the dividend formula for prefs is fixed in the company's charter, reducing the scope for negative surprises.

Bashneft is No.2 to look at, we think. The dividend yield on Bashneft prefs for 2011 may reach 11.0%, and 8.6% on common shares. We expect that the company may pay significantly lower dividends than a year ago, our forecast is RUB 130 per ordinary and preferred share. The final decision will be a trade-off between the requirements of the controlling shareholder (AFK Sistema) and Bashneft capital and the financial needs to develop Trebs and Titov fields and move forward on its development strategy.

Tatneft, which has historically paid out 30% of its RAS net profit, reported a 54% YoY increase in RAS profit before tax in 2011. Tatneft may pay up to RUB 7.7 per share for 2011, yielding 7.8% and 4.4% per preferred and ordinary share respectively.

Although **TNK-BP Holding** has already paid out 1H11 dividends, it may still provide attractive dividend payments for 2H11. We estimate that the company may pay out RUB 4.1 per share for 2H11, yielding respective 4.7% and 5.3% per ordinary and preferred share.

According to our estimates, in 2012 investors may receive unusually high dividend yields in the most liquid stocks of the sector - **Gazprom** (4.6%) and **Lukoil** (up to 4.5%).

Utilities: Mosenergosbyt (26% yield). Mosenergosbyt dividends may potentially yield 26% as its 9M11 net income under RAS totaled RUB 3.8 bln. In 2009 and 2010, the company distributed as interim dividends 71% and 100% of its profits. However, we note that after the change of the controlling shareholder (Inter RAO acquired a 50.9% stake from RusHydro in 2011) the dividend payout is not guaranteed. Based on the conservative assumption that 2011 net income will stay at 9M11 level (although historically 4Q is profitable for the company), the dividend amount per share could amount to RUB 0.14 in case of 100% payout ratio.

Metals and mining: Mechel preferred (12.0% yield). According to its charter, Mechel has to pay 20% of its US GAAP net income as dividends to preferred shareholders. Our base-case scenario envisages \$0.54/pref. DPS for 2011, which implies 12.0% dividend yield.

Banking: Bank Saint-Petersburg preferred (11.6% yield). Among banking names, we highlight Bank Saint-Petersburg (BSPB). BSPB preferred shares type A were issued in 2009 and are set to be converted into ordinaries starting in May 2013. Dividends on this type of shares are calculated strictly as 13.5% of the issuance price in dollars (\$3.056) and hence are equal to \$0.4125 (paid in ruble equivalent) with the current dividend yield of 11.6%. The ex-dividend date is normally in March.

Chemicals: preferred shares of Dorogobuzh and Nizhnekamskneftekhim (10.5% and 10.0% yield respectively). Dorogobuzh, whose charter assumes paying out 10% of RAS net profit to preferred shareholders, increased its 1H11 RAS net profit by 4.2x times. Even if we conservatively expect the 2011 dividends to double, they could still amount to at least RUB 2.0 per preferred share, yielding 10.5%. Nizhnekamskneftekhim (NKNC) usually pays out 30% of its RAS net profit as dividends. NKNC 9M11 net profit was up 108% YoY. We estimate that NKNC may pay RUB 1.8 per both ordinary and preferred share for 2011, which could provide respective yields of 7.3% and 10.0%.

Telecoms: MTS common and ADR (respective 7.9% and 6.5% yields). MTS has traditionally been the primary stock to consider dividend opportunities in the telecom sector. We expect the company to pay no less than 75% of its 2011 net income to shareholders, which would translate into \$1.08 dividend per ADR and RUB 17.0 per one common share. Hence, commons offer 7.9% while ADRs yield 6.5% to investors. We note that despite no changes in Rostelecom dividend policy, the company's preferred shares remain in the list of Russian dividend top picks with estimated yield of 5.5%.

Gazprombank

HQ: 16/1 Nametkina St., Moscow 117420, Russia
(Office: 63 Novochemushkinskaya St.)

Research Department

Andrei Bogdanov

Vice President - Head of Research

+7 (495) 988 23 44

Andrei.Bogdanov@gazprombank.ru

Equity Research

Equity Strategy

Andrei Bogdanov

Anna Bogdyukevich

+7 (495) 983 18 00 ext. 540 85

Metals & Mining

Natalia Sheveleva

+7 (495) 983 18 00, ext. 21448

Sergei Kanin

+7 (495) 988 24 06

Chemicals

Alexei Astapov

+7 (495) 428 49 33

Market and equity technical analysis

Vladimir Kravchuk

+7 (495) 983 18 00 ext. 21479

Production team

Mike Sidelev

+7 (495) 983 18 00, ext. 54084

Tatyana Andrievskaya

+7 (495) 287 62 78

Equity product department

Konstantin Shapsharov

Director

+7 (495) 983 18 11

Konstantin.Shapsharov@gazprombank.ru

Equity Sales & Trading

Sales

Maria Bratchikova

+7 (495) 988 24 03

Artyom Spasskiy

+7 (495) 989 91 20

Svetlana Golodinkina

+7 (495) 988 23 75

Equity Capital Markets

Alex Semenov, CFA

Director

+7 (495) 989 91 34

Trading

Alexander Pitaleff

+7 (495) 988 24 10

Denis Voynikonis

+7 (495) 983 74 19

Anton Zhukov

+7 (495) 988 24 11

Debt product department

Pavel Isaev

Head of DPD

+7 (495) 980 41 34

Pavel.Isaev@gazprombank.ru

Debt capital markets

Igor Eshkov

Head of DCM, ED

+7 (495) 913 74 44

Fixed Income Sales & Trading

Andrei Mironov

Head of FI S&T, ED

+7 (495) 428 23 66

Sales

Ilya Remizov

+7 (495) 983 18 80

Dmitry Kuznetsov

+7 (495) 428 49 80

Vera Yaryshkina

+7 (495) 980 41 82

Sebastien de Prinsac

+7 (495) 989 91 28

Roberto Pezzimenti

+7 (495) 989 91 27

Trading

Elena Kapitsa

+7 (495) 988 23 73

Dmitriy Ryabchuk

+7 (495) 719 17 74

Electronic trading department

Maxim Maletin

Head of Electronic trading

+7 (495) 983 18 59

broker@gazprombank.ru

Sales

Alexandr Lezhnin

+7 (495) 988 23 74

Anna Nifanova

+7 (495) 983 18 00 ext. 21455

Dmitry Lapin

+7 (495) 428 50 74

Alexander Pogodin

+7 (495) 989 91 35

Trading +7 (800) 200 70 88

Denis Philippov

+7 (495) 428 49 64

Damir Terentev

+7 (495) 983 18 89

Timur Zubairae, CFA

+7 (495) 913 78 57

Vladimir Krasov

+7 (495) 719 19 20

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