

Investors Hoping for Clarity After Election

By Catrina Stewart
Staff Writer

While the international community's attention was fixed on the State Duma elections this weekend, investors were eagerly awaiting the clarity they are expected to bring on President Vladimir Putin's plans for the next administration.

But Sunday's elections are important insofar as a high voter turnout will provide an air of legitimacy to Putin's efforts to carve out a role in the future administration, analysts said.

"What is important is that with the Duma elections behind us, we shall start focusing on the presidential campaign," said Alexei Zobotkin, chief strategist at Deutsche Bank. "We think that in the coming weeks, the visibility on the presidential succession will dramatically improve and that will have a very tangible impact on the market because investors are largely in limbo still."

There were few indications last week that investors had been deterred by a wave of negative news from Russia, namely the detention of opposition candidates and allegations that the vote was being manipulated.

The view from most investors does not appear to have substantially changed in recent weeks, with stability remaining uppermost in their minds.

"As an investor, predictability is what you care about. You do have predictability here, which most Westerners don't see," Peter Halloran, president of the Pharos Fund, said in a recent interview.

"It isn't Myanmar," he added.

While markets traded down at the beginning of last week, both the RTS and MICEX started to pick up Wednesday, buoyed in part by improving U.S. sentiment.

On a local level, Gazprom enjoyed an upswing as the Federal Tariffs Service nears a decision on whether to raise domestic gas tariffs. In a time of global upsets, Russian blue chips are benefiting from renewed investor interest.

But all eyes were on Norilsk Nickel, as speculation was ramped up this week regarding the prospect of a full-blown merger between Norilsk Nickel and RusAl if the aluminum giant succeeds in buying a 25 percent stake from Mikhail Prokhorov.

Immediately, that raised concerns regarding the terms the minority shareholders in Norilsk could hope to receive.

UralSib issued a note on the likelihood of a reverse takeover between RusAl and Norilsk, a scenario with negative implications for minority shareholders because of the danger of their shares being diluted. Additionally, the bank's analysts said, the proposed tie-up terms -- as far as they are known -- assume a generous valuation for RusAl and a rather less generous valuation for Norilsk.

While a merger between RusAl and Norilsk would create a diversified, global mining company, analysts say there is still uncertainty over the real intentions of billionaire Oleg Deripaska, the majority owner in RusAl.

"Not all the minority shareholders are bullish on this deal [between RusAl and Prokhorov]," said Valentina Bogomolova, a metals analyst at Alfa Bank. "Some think it is a first step ... to convert a private company into a state company."

Prokhorov has potentially added salt to the wound, saying he would block a much-anticipated spin-off of Norilsk's energy assets, thus supporting the likelihood of a sale to RusAl, at a Dec. 14 vote.

By close of business Friday, Norilsk was down 1.3 percent on the week.

The RTS finished the week up 3.17 percent to 2220.11 points, while MICEX gained 3.2 percent to close at 1850.64 points.
