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FUND VIEW Pharos says good time to buy Russian equities

By James Molony

Fund manager sees opportunity to buy oversold stocks as the market 'overreacts' to a series of unfortunate events.

LONDON (Thomson IM) - Now is a good time to buy Russian equities following a week in which a 'perfect storm' has prompted heavy selling in the market, according to Kevin Dougherty, portfolio manager of Pharos Financial Group.

In the past few weeks a raft of bad news, set against a backdrop of slowing global growth and weakening commodities prices, has sent panic through the Russian market. The RTS index has fallen 18.7 percent in the last month.

Fund managers though believe the market has overreacted and buying opportunities are emerging.

Fundamentals are seen as 'incredibly strong' with Russian companies trading on a PE of 8 times and forecast to deliver earnings growth of 50 percent this year.

Giving his view of the market, Pharos' Dougherty said: 'Sentiment had already been damaged because of weakening commodity prices and concerns of slowing global and, over the last few weeks, Chinese growth which is the lynchpin for commodities prices.'

Dougherty also believes the reaction to prime minister Vladimir Putin's criticism of Mechel was overdone.

'The current stock price is implying that profits are going to fall 90 percent and that's not going to happen.'

'It's a reflection of the nervousness of the market that Putin's remarks had such a dramatic impact on Mechel's share price,' he said.

Dougherty believes it's an attractive time to be buying Russian shares even though the market could fall another 10 percent before it bottoming out.

'We're looking at stocks which have been excessively oversold such as Uralkali, the potash miner, which one of the most profitable companies in Russia,' said Dougherty

The company recently announced plans to slash domestic prices prompting a 20 percent decline in the share price due to 'irrational' concerns it was under pressure from the government.

'The market will feel better when it sees July and August numbers and realise growth is not slowing down.'

'When commodity prices drop 20 percent in three weeks that has a negative impact,' he said.

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