Analyst comments related to COVID-19 in this file include:

Kenya Power warns of lower YoY profit – negative
Ticker: KPLL KN
Rating: **HOLD**
Target price: KES1.80
Current price: KES2.37

Kenya Power issued a profit warning today (16 June) stating that, "The COVID-19 pandemic has adversely affected our business operations leading to slow growth in electricity sales and an increase in financing costs, resulting in reduced earnings". The company expects earnings for the financial year ending 30 June (FY20) to be lower than the previous year (FY19).

Our view: We view the news as negative for the company and expect its share price to fall as a result. Kenya Power's stock has increased 21% over the past month with no particular news flow (though it is still -16 % YtD). The company issued a profit warning for FY19 as well, which resulted in a significant share correction as a result. Last year profit was only KES262mn (KES3.27bn in FY18), while its 1H20 profit was KES623mn. The current profit warning means that the company is likely to be loss-making in 2H20, which is much worse than our expectations (we expect a KES716mn profit for FY20). The main reason for such a performance is likely to be a significant decline in Kenya's electricity consumption from April 2020. We note that January-March was solid in Kenya in terms of electricity demand; but electricity consumption declined almost 15% MoM and 12.3% YoY in April, and continues to be subdued in May and June. This, in our view, could result in a weak 2H20 and has resulted in Kenya Power's current profit warning.

Sergey Beiden
Telephone: +7 (499) 956-4205
Mikhail Arbuzov
Telephone: +7 (499) 956-4594

Teaser: Could Trump delay the election / Real story: India's big problem with the virus

A conspiracy theorist might argue that the best way to delay the US elections would be to ease lockdown in May, see cases rise in June and July, then reluctantly re-impose lockdown in August until at least September, leaving too little time to hold elections in early November. Democrats would be asked whether the lives of voters are more important than a short delay in the election. The decision to hold Burundi's elections on time in May ended up with the outgoing president dying (he tested positive with the coronavirus). Poland and France have delayed elections already, and Georgia is considering the same. Clearly I've been working too long in emerging and Frontier markets where a conspiracy theory is often the preferred explanation for most events. It would be bizarre to argue that the US could re-open for business in May but not for democracy in November.

But re-imposition of lockdown is a threat to markets – and **the focus should** not be so much on South Carolina, Arizona etc, as we flagged last week (although they require watching – see bottom of email) – nor China, but should **be on South Asia**.

Stories about overwhelmed hospitals are now a focus in **Pakistan** and **India** and last night Pakistan decided to adopt "smart" lockdown – ie shutting down hotspot areas. This is Korea style. We think low income countries should adopt this model, because full lockdown seems to be unaffordable. I think this is effectively what Nigeria was doing anyway with its Lagos/Abuja lockdowns. Pakistan's move supports our base case scenario.

My base case is we will not see full lockdowns re-imposed anywhere at a country level – although Panama, China, Korea etc all do re-impose lockdown at a regional or very local level. Azerbaijan is the only contradiction so far and what's odd about that is it did it when active cases were about 10 times lower than Armenia per capita. Clearly some countries just will act uniquely.

However … if we estimate that 15-20% of people have had the virus in NY or London – and put that onto India, we are talking about 250 million people getting it in India. Maybe 8m a week, not 80,000 a week (see chart below), although perhaps only 1 in 10 or 1 in 100 might get tested. To put that into context, the global total last night of confirmed cases crossed 8m. I don't believe the world or markets have yet internalised this. Some in south Asia suggest the virus will peak in July/August – I can't see why.

As Dan Salter told me this morning, MSCI EM has risen 7% over the last month while India is up 6%. Our concerns from last month are being ignored. It's like the market has decided that successfully shutting down the virus in east Asia (2/3 of EM) or as we pointed out on 11 May in central Europe (up 18-22% in the past month, 3 of the top 4 performers in EM), then this means that the virus does not matter for a favoured market like India either.

But what if India is recording, let's say, a million cases a week, or Nigeria 100,000 a week (it has done less than 100k tests so far this year). I'm still not sure how that plays out.

Do people just stop going out – like in medieval Europe when, meaning economies are effectively shut down anyway? So retail looks like it is recovering in May/June but then suffers again in 3Q.

Or because we are more knowledgeable than my ignorant medieval ancestors so we understand the disease better, do the elderly not go out in south Asia, the Middle East and Africa? The young (ie most people) keep shopping. Therefore the economic hit is just via the demand shock emanating out of the US and Europe. That latter view is my base case, and Pakistan's decision last night is supportive, but neither Pakistan or India yet have that many cases per capita (see graphs at the bottom of the email).

And do governments just stop reporting the data properly? The curve in Belarus and Russia looks different from what we've seen in Sweden or Brazil for example. The figures in Russia are not impossible (it did have a lockdown), but ..they are convenient. Enough cases are being reported that no-one will be surprised to know people getting the virus. But there is no worsening of the data, so less pressure for lockdown measures, so retail holds up better. Panic is avoided. As I said above, I've been working in EM/Frontier too long.

In Egypt, there are reports that cases and deaths are not being reported.

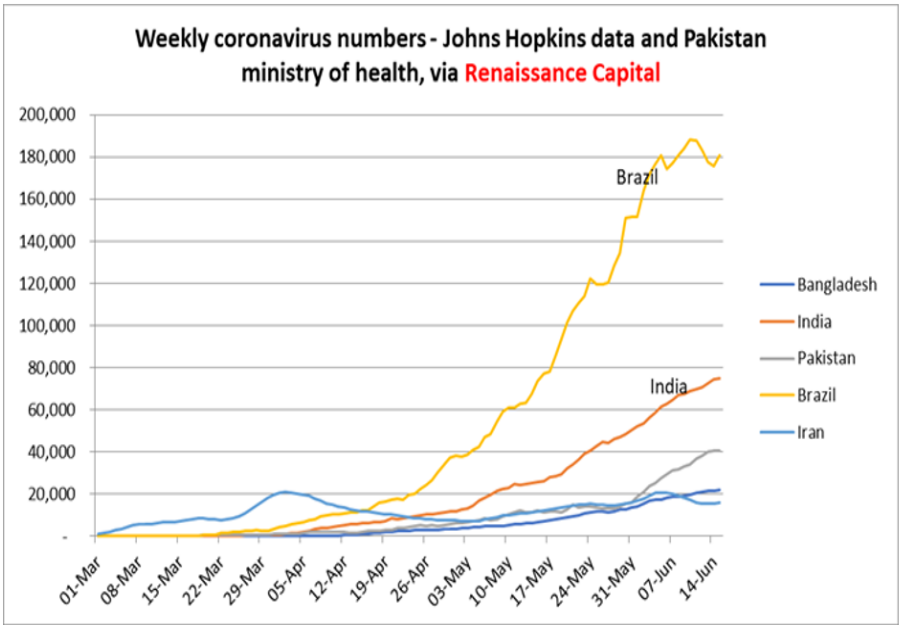
Tanzania stopped reporting data a month ago – but still recommends face masks while watching live football.

In Nigeria, there is talk of a new strain of malaria which produces a cough, and a high temperature and perhaps a loss of smell which has suddenly become a Google Trend in Nigeria. A friend with COVID-19 at the moment tells me it does indeed feel very much like malaria.

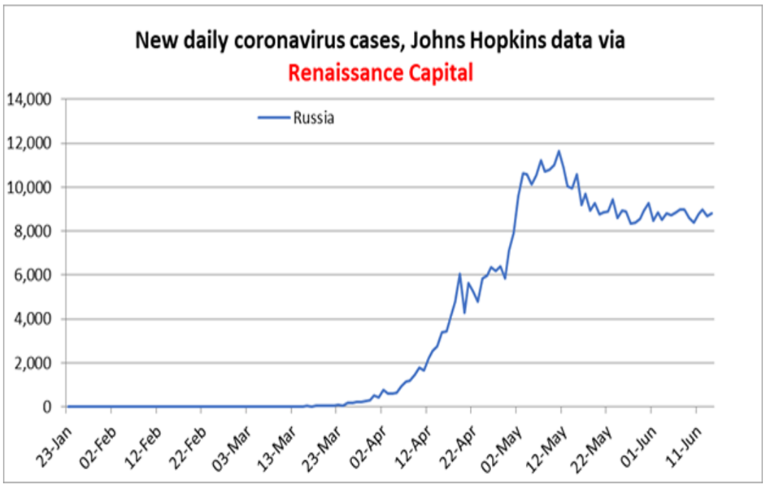
CONCLUSION: Base case is that we don't see lockdown re-imposed, and that lower income emerging markets just manage the virus, relying on their younger populations to ensure the death toll remains well below that of other diseases in 2020. Having said that, I do worry that the market is not differentiating enough between markets where the virus is rising rapidly and those where it has been beaten. Curiously one of the worst hit EM's, Brazil is up 32% in a month, the most of any EM, so maybe the virus and deaths just don't matter to markets. But Brazil had sold off massively first. India is the EM that worries me the most.

PS on the US. There are now 12 US states where the % of new cases is up vs the cumulative testing share (this way of analysing the data lessens the impact of "we're just testing more" although it can't be ignored altogether). It was about 6 US states a week or so ago.

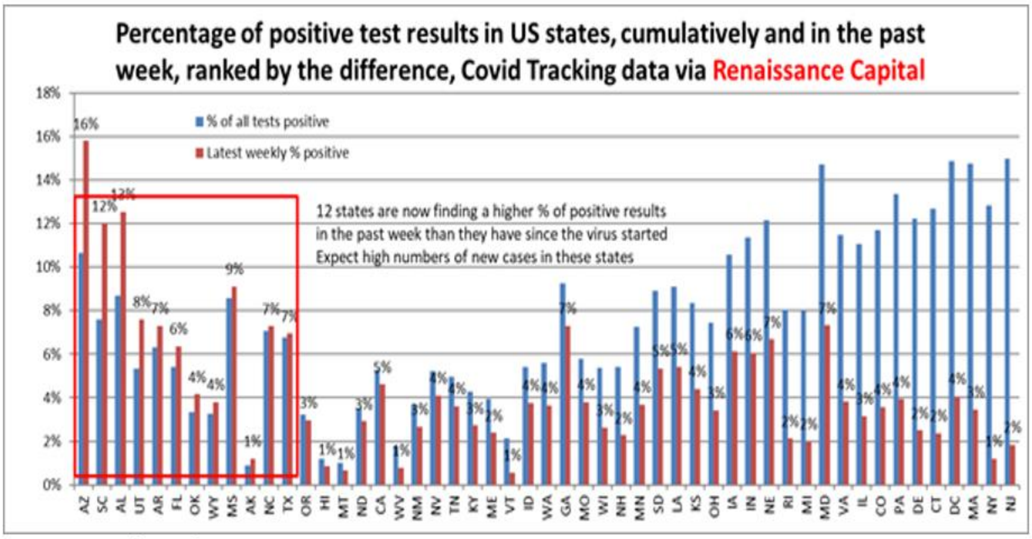
Some US states are talking about pausing the easing of lockdown – but none are yet talking about re-imposing it, although a Republican congressman in hotspot Arizona got a lot of attention saying his state was not doing enough to combat the first wave surge. The Republican governor has said Arizona needs to learn to live with the virus, Sweden/Brazil/Belarus style. US states releasing weekend data are as usual showing better figures (people tend not to get registered with the virus, or die of the disease so much at the weekend – Sweden and the UK are the same).



Source: Johns Hopkins, Pakistan and India ministries of health

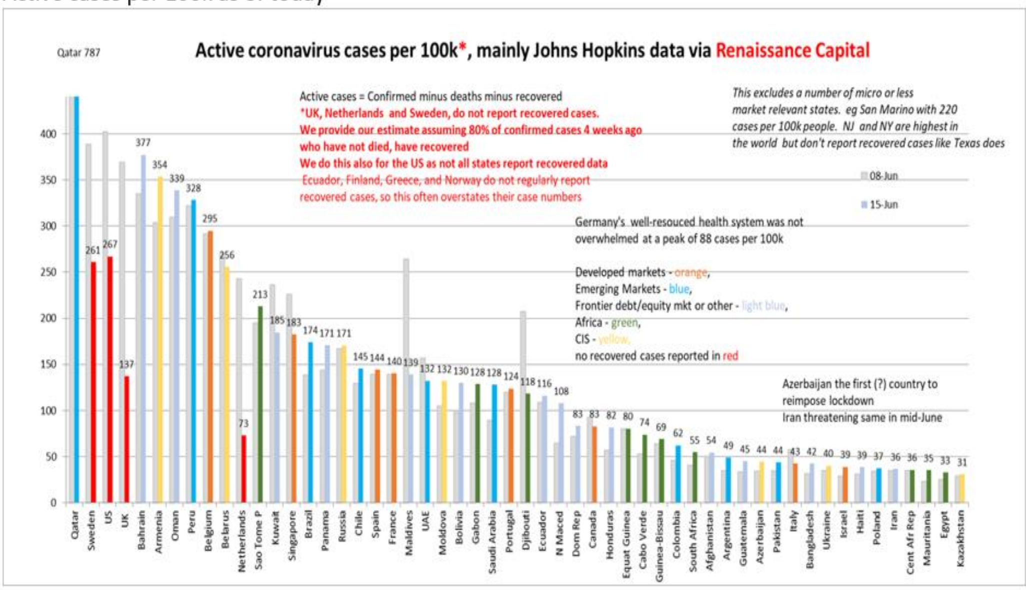


Source: Johns Hopkins



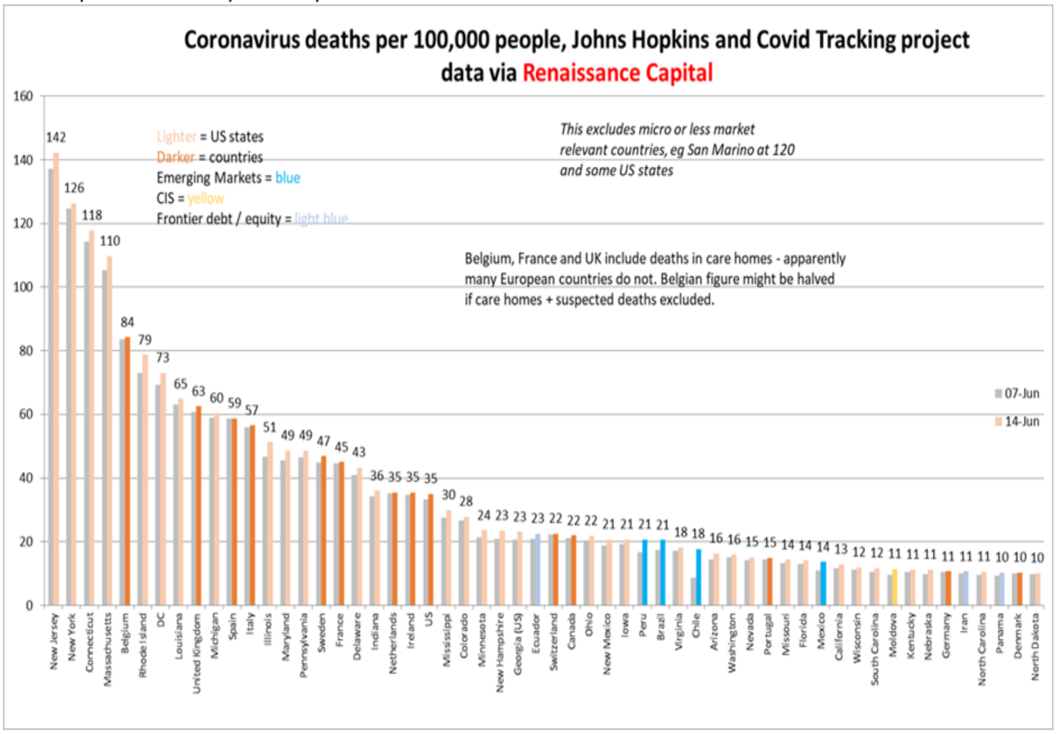
Source: Covid Tracking

Active cases per 100k as of today



Source: Johns Hopkins, IMF, Renaissance Capital

Deaths per 100k as of yesterday



Source: Johns Hopkins, Covid Tracking

Charles Robertson
Telephone: +44 (207) 005 7835

Detsky Mir – Offering of 118mn shares by Sistema and RCIF

Ticker: DSKY RX
Rating: **BUY**
Target price: RUB120.0/share
Current price: RUB96.8/share

Sistema and Russia China Investment Fund (RCIF) announced the launch of offering of 118mn shares in DSKY. The market value of offered shares based on RUB96.8 closing share price of Detsky Mir on 16 June is RUB11.4bn.

- Last year's placement in November-2019 led to a material improvement in liquidity, which drove new interest in the stock and has been positive for the share price despite the overhang. Average daily trading volume was at $4.5mn in the last 3 months vs ~$500-600k prior to last year's placement. Following today's sale, free float will go up from 59% to 75%.
- Lock-up is 90 days. With the previous lockup having expired only a month ago, Sistema's / RCIF's intentions seem quite clear and further placements are likely, in our view.
- Fundamentally, we continue to like DSKY's investment case. We think the current issues related to COVID-19 should not be overplayed – the children's goods market should be relatively resilient to a weaker consumer environment, while DSKY is likely to gain further market share from direct peers and be more geared into a market recovery. Moreover, the trends have been encouraging over the past month, with sales growth reacceleration happening ahead of our expectations, and we see scope for 2020 consensus upgrades.
- DSKY shares offer an 11% dividend yield in 2021, on our estimates. The stock trades on 8.5x PE 2021, a 30% / 40% discount to Magnit/X5.

Here are links to our recent report on *Russian non-food retailers* focusing primarily on DSKY as well as *Key questions to management* published during the previous placement, with most themes still relevant.

EEMEA retailers valuation multiples

Company	Currency	Share	YTD, %	Market cap	EV/EBITDA			PE			EV/Sales		
EEMEA		Price		$mn	2020Y	2021Y	2022Y	2020Y	2021Y	2022Y	2020Y	2021Y	2022Y
Russian retailers													
Detsky Mir	RUB	98.1	-1.9	1,041	6.8	5.6	5.1	11.0	8.5	7.5	0.7	0.6	0.5
Obuv Rossii	RUB	33.8	-21.5	55	6.8	4.5	3.7	9.9	3.9	3.2	1.1	0.8	0.7
Magnit	USD	12.6	4.4	6,410	6.6	5.8	5.2	15.7	11.9	9.9	0.4	0.4	0.4
Okey	USD	0.8	-37.5	215	4.8	5.1	4.9	22.9	10.1	n.m.	0.2	0.2	0.4
X5	USD	33.2	-3.8	9,016	6.6	6.3	5.9	18.7	14.3	12.4	0.5	0.4	0.4
Lenta	USD	2.4	-18.4	1,171	4.4	4.0	3.6	9.2	8.2	7.4	0.4	0.3	0.3
Average					**6.0**	**5.2**	**4.7**	**13.2**	**9.5**	**8.1**	**0.5**	**0.5**	**0.5**
Global children's goods and apparel retailers													
Carter's Inc	USD	84.5	-22.7	3,686	13.4	8.8	8.5	29.4	15.6	13.0	1.3	1.2	1.1
Children's Place	USD	45.9	-26.6	669	8.5	5.2	5.2	44.6	12.5	12.5	0.5	0.5	na
Jumbo	EUR	15.5	-16.4	2,392	6.7	5.7	5.5	12.7	11.2	10.5	1.9	1.7	1.5
Mothercare	GBp	8.4	-51.2	40	na	na	na	na	na	na	na	na	na
Baby Bunting	AUD	3.0	-9.8	268	11.9	10.0	na	21.1	17.8	na	1.0	0.9	na
CCC	PLN	60.7	-44.8	854	15.0	6.4	5.5	na	44.1	16.8	1.1	0.8	0.8
Clicks	ZAr	22,083.0	-13.9	3,216	14.0	12.9	na	29.5	26.8	na	1.6	1.4	na
LPP	PLN	6,910.0	-21.7	3,281	14.3	9.8	7.6	na	34.5	21.9	1.6	1.4	1.2
Lojas Renner	BRL	42.1	-25.0	6,501	25.0	13.0	10.3	42.6	27.5	23.3	4.3	3.3	2.9
Average					**13.6**	**9.0**	**7.1**	**30.0**	**23.7**	**16.3**	**1.7**	**1.4**	**1.5**

Source: Bloomberg, Renaissance Capital estimates for Detsky Mir, Obuv Rossii, Magnit, X5, Lenta; current prices

Panarin Kirill
Telephone: +7 (499) 956-4216
Maryana Lazaricheva
Telephone: +7 (499) 956-4217