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

Thursday, 2 July 2020

Aeroflot – zero dividends for 2019, as expected – Artem Yamschikov
Too much news ... Brazil + Korea trade, flows into EM, Germany retail sales, Kazakhstan *light* lockdown etc – Charles Robertson
Halyk Bank: Latest lockdown gauged little risk for dividend; **BUY** – Ilan Stermer

Aeroflot – zero dividends for 2019, as expected
Ticker: AFLT RX
Rating: **SELL**
Target price: RUB51
Current price: RUB82

According to Interfax, the Russian government has recommended that its representatives in the BoD propose the non-payment of dividends for 2019. The BoD was scheduled for today (2 July) and the official decision is likely to be disclosed tomorrow. Zero dividends for 2019 are not a big surprise as AFLT is burning cash and withdrawing its credit lines at the moment.

Quarantine measures were gradually softened in Russia in June and domestic traffic saw some acceleration, driven also by aggressive pricing from the key players with yields at extremely low levels (overall pricing in the market was down 20-30% in June compared with the previous year). International air space remains closed without specific guidance from the regulators on the potential resumption dates and **today Rosaviatsia extended a ban on international flights until the 1st August.** Possibly we might see the resumption of international flights starting from August with CIS countries likely to be first. The EU has opened its air borders for some countries from 1 July, however, Russia has not been included on the list due to its higher level of COVID-19 cases.

With almost all of its fleet grounded, AFLT's monthly cash burn stood at around RUB18-20bn in April and May (although the company received a subsidy from the state of around RUB8bn in May). We do not expect this to significantly improve in the summer season, with yields and passenger load factor (PLF) under pressure amid fierce competition from Russian carriers. Aeroflot Russian Airlines (RA) PLF stood at around 50-60% in June, while it was notably higher for AFLT's LCC Pobeda (above 90% on some flights) driven by an aggressive pricing strategy while only a smaller part of its fleet operated in June.

So far there are no signs of possible bankruptcies in the industry with some support coming from subsidies (total of around RUB23bn for all Russia carriers) and with banks extending credit lines for the key players. However, the state's overall support for the industry remains insufficient and some players might leave the market followed by market consolidation.

AFLT continued to withdraw its credit lines to accumulate liquidity, with its cash position at c. RUB50bn at end-May, and c. RUB37bn in loans received from the Russian banks in April and May. The company did not provide any comment on speculation reported in a Reuters article of 17 June regarding the possibility of a capital injection from the state (RUB80bn as per the Reuters article) and nothing has been decided by the board of directors, with the AGM to held on 27 July. AFLT will be in the closed period in August ahead of its 2Q20 results at end-August so hypothetically we think a capital raise might happen in September at the earliest. We believe there is a possibility that AFLT will proceed with borrowing from the state and private banks with the provision of state guarantees if necessary. For instance, earlier this week AFLT concluded a five-year credit agreement with Sberbank for RUB31bn backed by the state's guarantee.

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Too much news ... Brazil + Korea trade, flows into EM, Germany retail sales, Kazakhstan *light* lockdown etc

How are markets doing today? Well ZAR is at 16.9/$ which tells me the world quite likes EM over the past 24 hours.

German retail sales – adjusted for everything (so very far from raw data) – shows a bigger rise in May than they fell in April. Unadjusted for everything, they were down 5.2% in April and up 4.6% in May. Still a lot of good news in a country that beat the virus effectively and is the world's 4th largest economy.

June trade figures were out last night for commodity exporter **Brazil.** It makes 2020 look a lot milder than 2015 or 2008/09 .. with June exports only down 3%. There was a super helpful calendar effect – without it, exports might have been down about 12%. But still that looks good. The only reason we can't call this V shaped is because exports never really fell due to the virus.

SA export figures for June won't be out for a month. Its exports plunged in April by 61% in $ terms (50% in ZAR) presumably because labour intensive gold / platinum mines were shut during lockdown (some coal mines still operated at 100%, open cast iron ore mines ran at 50% - thanks Johann Pretorius). Numbers improved in May (-24% in US$) and will presumably be better still in June.

Imports have been weak in both and will presumably stay weak despite interest rate cuts in the near-term. This should be supportive of the undervalued ZAR and BRL.

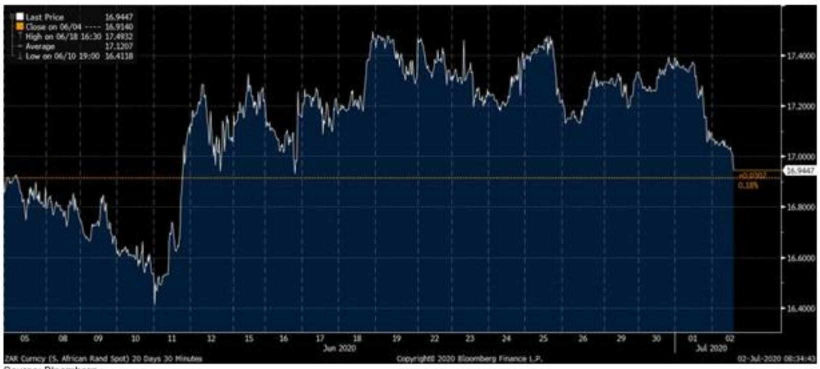
I don't see good news in the Korean trade data. Once we make our crude adjustment for working days, exports and imports look like they were down 23% YoY in June – which is about as bad as anything we saw in 2015, but better than the global financial crisis. The unadjusted data were stronger showing just an 11% fall but that is misleading. South Korea's trade figures are consistent with those weak China new export orders we saw in the PMI figures earlier this week.

Possibly the ZAR is stronger today because of the Brazil trade figures or because the IIF showed a record flow into EM assets in June. See Bloomberg report – I don't know how to copy that link

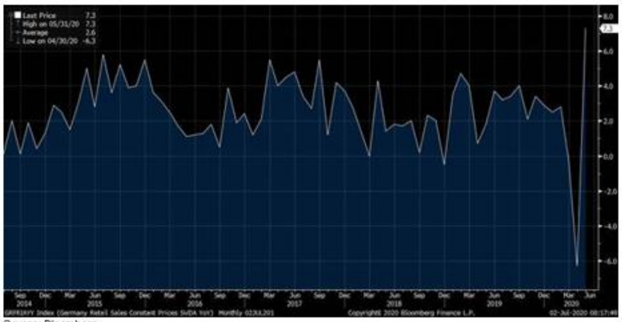
In **Kazakhstan** – the tightening of measures is not a full lockdown. People allowed outside in groups of 3, café terraces remain open .. gyms and hairdressers close again and 80% distance working for state bodies. Looks like an attempt to slow their virus surge – as in southern US states – not to suppress the virus as east Asia and Europe did.

Meanwhile the US saw record 51k new cases – no surprise to you of course – and people suspect retail will get hit after a May/June surge with some 3Q weakness – which is a point I've made with reference to low income countries like India or middle income countries like SA even if lockdown is eased, people may shop/spend less. Good unemployment figures were driven by new jobs in the retail sector – but while Disneyland Florida is due to reopen late next week – many expect jobs improvement to falter or even reverse in July.

Not sure I can draw out a whole conclusion from this disparate mess of data just yet.



Source: Bloomberg



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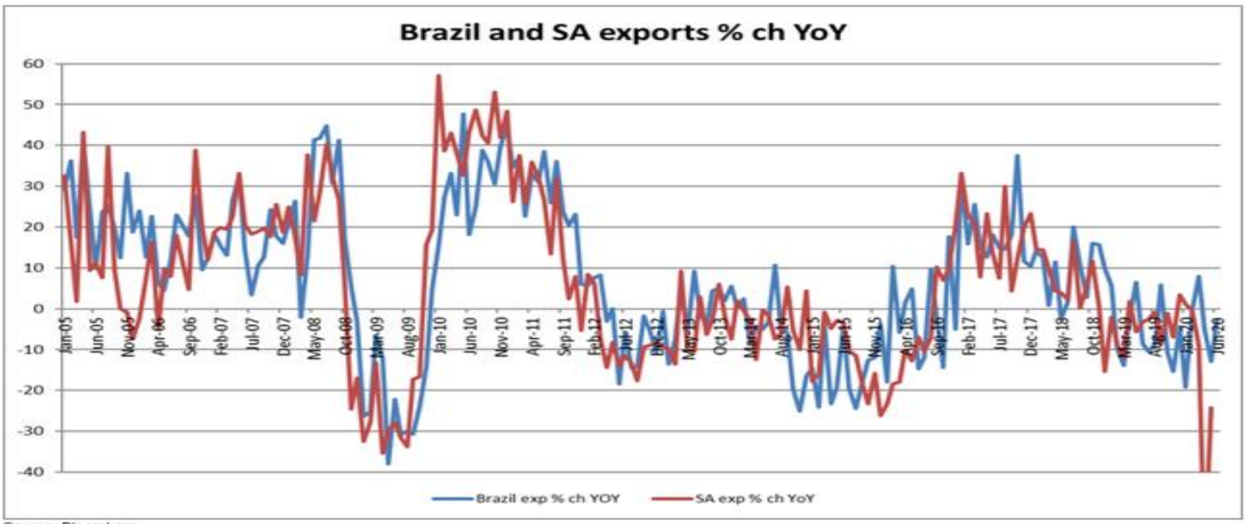

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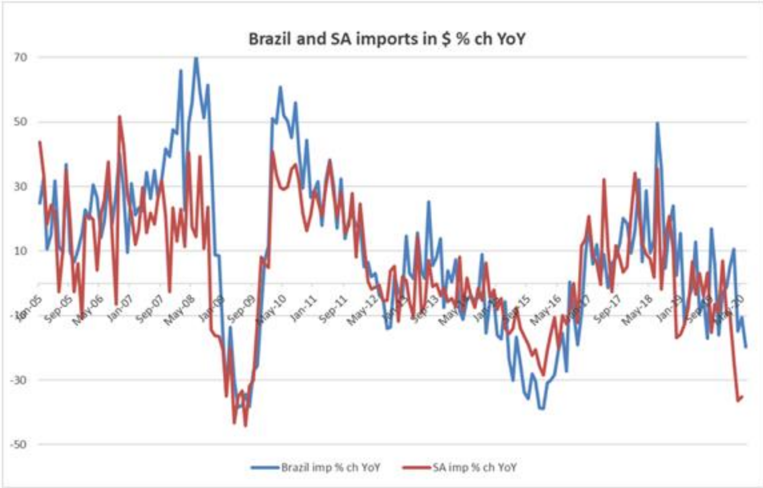

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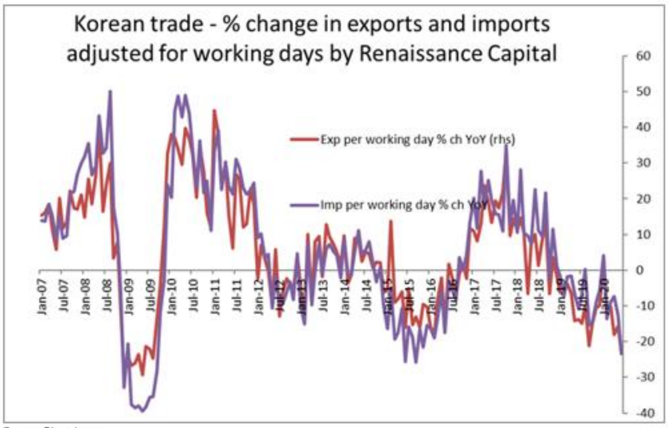

Source: Bloomberg

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Halyk Bank: Latest lockdown gauged little risk for dividend; BUY

Ticker: HSBK LI
Rating: **BUY**
Target price: $14.40/GDR
Current price: $12.90/GDR

FY19 dividend still on track

- **Kazakhstan has re-imposed a partial lockdown** (details below). The relatively 'light touch' restrictions are likely designed to avoid exacting a heavy toll from the steadying economy.
- We think that the lockdown **should have no impact on Halyk's upcoming FY19 dividend** approval and payment. In its recent announcement, Halyk stated that it had taken cognisance of what it termed a 'pessimistic scenario', and that its CAR would still be above 17% by end-2020 (and presumably it will be able to continue lending and supporting growth).
- We see **low risk of Halyk going back on its decision** before the **23 July** meeting or the payment on the following day, but of course this is based on the information currently at hand. The regulator is also a wildcard. Fundamentally, we see no reason for Halyk not to pay this, or for that matter in due course an FY20, dividend.
- **Our Halyk CoR conservatism remains** in place. We currently forecast a credit loss ratio of nearly 150 bpts in FY20, up from 70 bpts in FY19. This implies continued relatively high charges for the rest of the year given a 1Q charge that was higher than normal but did not seem to take an unduly dour view on likely bad debts. We do not think the latest lockdown will necessitate changes to our CoR forecast.
- The main lockdown restrictions:

    1. The country will suspend bus service between regions.
    2. Rail traffic will also be limited.
    3. Air traffic between the regions will continue, as well as with other countries.

4. A ban on mass events, as well as family and commemorative events, is reintroduced. In the streets, parks and squares it will be possible to walk in groups of no more than three people, people over 65 must stay at home. At the same time, individual training in the open air is allowed.
5. Beauty salons, hairdressers, gyms and fitness centres, swimming pools and water parks, indoor markets, beaches, museums and exhibitions, entertainment centres, kindergartens (except for duty groups), cinemas, children's health camps, religious facilities, etc. will be closed.

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