PROSPERITY CAPITAL MANAGEMENT

Quarterly investor conference call

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Business update

- Prosperity has activated its business continuity plan ("BCP") to ensure that it is well placed to continue its activities in the current environment
- As of 15 March 2020, the Prosperity team has been encouraged to work remotely. Should they be needed for critical tasks, the offices are being maintained as clean, safe and operational environments. From the same date, all business-related travel has been restricted
- The team is set up to undertake remote work via our remote desktop environment. The firm utilises a private cloud managed service from Bahnhof, hosted in Sweden's Stockholm and Malmo. This provides Prosperity with a Citrix-based desktop solution and offers the team secure access to Prosperity's data from anywhere in the world
- In recent weeks Prosperity has been planning for the current set of circumstances and engaging with each of the firm's and the Prosperity funds' service providers to understand their plans. Those parties are implementing their own BCP protocols and are working to ensure that their staff remain healthy through remote-working, segregated-teams, use of remote sites or a combination thereof
- Prosperity continues to conduct its business activities. Our team is working as normal and remains available to contact by email or over the phone. The firm monitors and seek to adhere to the individual government restrictions imposed in each of the jurisdictions where the firm's offices are located. The risk committee and client service team are following the situation closely so that the firm can adapt appropriately as things evolve

Prosperity investor trip

Our annual investor trip is scheduled to take place in Moscow on 16 – 18 September 2020, but we are carefully monitoring developments.

For further information and to register your interest, please email events@prosperitycapital.com

Market update, performance and valuations

Valuations and performance

	2020 P/E	2021 P/E	2022 P/E	2020 DY	2021 DY	2022 DY	Q1 2020 performance	2019 performance
Russian Prosperity Fund	**5.5x**	**3.9x**	**3.1x**	**7.9%**	**11.2%**	**14.0%**	**-34.1%**	**47.9%**
Russian Prosperity Fund (Luxembourg)	**6.3x**	**4.5x**	**3.6x**	**9.4%**	**11.1%**	**12.7%**	**-32.9%**	**36.6%**
Prosperity Quest Fund	**6.2x**	**4.4x**	**3.7x**	**8.2%**	**11.3%**	**14.4%**	**-30.6%**	**32.3%**
Prosperity Russia Domestic Fund	**5.6x**	**4.0x**	**3.1x**	**8.4%**	**9.6%**	**13.2%**	**-34.8%**	**28.6%**
MSCI Russia Net Total Return	8.4x	6.2x	4.2x	9.4%	9.4%	11.4%	-36.4%	50.9%
MSCI Russia 10-40 Net Total Return	7.7x	6.1x	4.6x	9.1%	10.2%	11.5%	-30.3%	42.7%
Brazil	*11.5x*	*9.8x*	*8.5x*	*4.5%*	*5.1%*	*5.6%*	*-51.2%*	*26.9%*
India	*15.0x*	*12.3x*	*10.0x*	*2.1%*	*2.3%*	*2.4%*	*-32.3%*	*13.2%*
China	*10.6x*	*9.5x*	*8.1x*	*2.7%*	*3.1%*	*n.d.*	*-11.3%*	*23.8%*
US	*18.4x*	*16.0x*	*14.1x*	*2.2%*	*2.3%*	*2.4%*	*-19.6%*	*31.5%*

Source: Prosperity, Administrators, Bloomberg
Data: As at 31 March 2020

Market update

- Recent months were difficult for the global economy and financial markets on fears about a recession, caused by COVID-19 and changes on the oil market
- With the spread of COVID-19 entire countries are in lockdown, global transportation links and supply chains are disrupted
- Serious demand shock, which is c. 20%-25% of the total, coupled with Russia and Saudi Arabia failing to agree on production cuts and effectively stopping OPEC+ agreement
- Oil prices dropped to USD 23 per bbl. – levels not seen since early 2016 – but now has recovered to 32 after the OPEC+ deal
- Other commodities YTD performance; gold +4%, palladium +21%, fertilisers +10%, nickel -18%, aluminium -16%, steel -14%
- Russian ruble has depreciated for 21% YTD to 79 against the US dollar from a level of 62 at the end of 2019
- Prosperity is carefully evaluating its portfolios and looking for strategic exits to take advantage of the mis-pricing opportunity
- Prosperity client base remains stable during the quarter

Political and COVID-19 update

Politics

- Mikhail Mishustin appointed as new PM in mid-January. Mr Mishustin transformed Russian Tax Service into one the most efficient tax collectors globally, mainly through digitalisation. Predecessor Mr Medvedev has been moved to Security Council
- Removal of term limit for Putin – on 10 March, President Putin accepted a proposal to remove term limit for himself as part of constitutional amendments, which were then passed by parliament and signed into law
- Plebiscite on constitutional changes delayed – originally scheduled for 22 April, but now delayed due to the pandemic. Plebiscite is engineered to give broad legitimacy to constitutional changes
- Term limit removal creates an unhealthy possibility of Putin's fifth term post-2024
- Ukraine – Easter prisoner exchange planned; President Zelensky mired in domestic politics

COVID-19

- Russia responded early to the threat of pandemic, closing land border as well as limiting air travel from China on 1 February
- March – air travel stopped completely; land border sealed
- Social distancing measures introduced on 30 March and later extended to the end of May: effective term including May holidays is now 6 weeks
- Surge hospital capacity being rolled out across the country
- So far Russia has 18k identified cases and 148 fatalities (as of 13 April), with its prompt actions allowing it to buy more time to prepare. Full extent of pandemic remains to be seen
- B2B businesses continue to operate. The government's attitude is to listen to experts and re-open the economy as early as reasonable. Putin hinted at early lifting of quarantine
- Given lower penetration of SME/service industries compared to Western countries, Russian economy is expected to fare relatively better in current conditions
- Economic response package is quite limited at this point, though it is expected to increase. The government has sufficient resources at its disposal

The macroeconomic environment remains stable

Budget and state debt

- The Russian consolidated budget was planned to balance at an average Urals oil price of USD 42 per barrel in 2020; at USD 30 it would have a deficit of only 4%-5% of GDP
- The Russian state net debt is just 3% of GDP, predominantly in national currency
- We anticipate the government will continue to put pressure on SOEs for higher dividends to fill in the budget

Reserves

- Russia has run a substantial budget surplus in recent years under higher oil prices and accumulated significant reserves
- The National Wealth Fund (NWF) is 12% of GDP, enough to fund the deficit without borrowings for several years; there are no real threats to financial stability
- Central Bank's international reserves are at USD 550 bn

Currency, inflation and interest rate

- Ruble is resilient in the context of oil price; budget rule resulted in significant reduction of correlation between oil price and ruble
- Much of the pressure would probably be taken by the currency deprecation, with a limited influence on inflation as most consumer goods are already domestically produced
- We anticipate inflation will rise to 5% this year from 3% last year
- The CBR cut the key rate for another 25 bps to 6% in February; and in March given the current environment paused the cutting cycle

Banking system and financial markets

- The banking system is solid and there is almost no currency mismatch in fairly moderate corporate debt portfolios
- Russian public equity market has continued to function well, thanks to significant market infrastructure improvements done since 2008 crisis

Scenario analysis

Normalisation scenario

- Gradual return to 'normality' over the next three years; COVID-19 subsides without causing a major depression and economic activity returns to previous levels
- Commodity prices then recover to levels where some return on investment is generated around the middle of the global cost curve
- Russia will see a GDP decline of c. 6% for 2020, but enjoys a steeper recovery to follow with real growth occurs for 2021 and full recovery in 2022
- Some part of the world's high cost commodity producers would be eliminated, global demand picks up and markets rebalance

Long-term stress scenario

- Economies around the world remain under serious pressure for an extended period of time and commodity prices continue to be low
- We use an average Brent Crude oil price of USD 30 per barrel to the end of 2022; under our calculations this level would make most global oil production unprofitable
- All investment in US shale would cease, some 5-10 mn barrels of daily production would be lost in the US and certainly a considerable amount more elsewhere
- Saudi Arabia's treasury reserves would be exhausted under these conditions
- The Russian economic indicators are adjusted in accordance with these inputs, leading to a GDP decline of c. 6% in 2020 and stabilisation thereafter

Impact on profits and fundamentals

- All portfolio companies continue to be profitable, able to duly service their debt, invest and pay significant dividends
- Our analysis foresees a material decline in US dollar-denominated profits, but this does not destabilise the portfolio companies in any significant manner
- Most portfolio companies are attractive and would certainly be so compared to similar companies around the world, which are generally higher up the cost curve

Macroeconomic scenarios

	Normalisation scenario				Long-term stress scenario			
	2019	**2020**	**2021**	**2022**	**2019**	**2020**	**2021**	**2022**
Oil, average	64.1	34.0	45.0	65.0	64.1	34.0	30.0	30.0
RUB, average	64.7	73.0	69.0	65.0	64.7	73.0	75.0	75.0
GDP growth, %	1.3%	-6.0%	2.0%	4.0%	1.3%	-6.0%	0.0%	2.0%
GDP, RUB trn	109.4	103.9	110.2	120.3	109.4	103.9	107.0	113.5
GDP, USD bn	1,691	1,423	1,597	1,851	1,691	1,423	1,426	1,513
Revenues, RUB trn	39.1	32.9	36.6	42.1	39.1	33.4	33.5	35.3
Expenditures, RUB trn	37.0	38.1	39.3	40.8	37.0	38.1	38.0	38.0
Consolidated surplus/deficit, RUB trn	2.1	-5.2	-2.7	1.3	2.1	-4.7	-4.5	-2.7
Consolidated surplus/deficit, % of GDP	1.9%	-5.0%	-2.4%	1.1%	1.9%	-4.6%	-4.2%	-2.4%
NWF, RUB trn, eop	12.9	7.7	5.0	6.3	12.9	8.2	3.7	1.0
GDP deflator		1.0%	4.0%	5.0%		1.0%	3.0%	4.0%
CPI, %	3.0%	5.0%	3.0%	4.0%	3.0%	5.0%	3.0%	4.0%
Nominal wage growth		2.0%	5.0%	8.0%		2.0%	3.0%	5.0%
Key rate, eop, %		6.0%	6.0%	6.0%		6.0%	6.0%	6.0%
Oil production		-9.0%	11.0%	0.5%		-7.0%	2.0%	1.0%

Source: Prosperity

The resilience of portfolio companies

The Russian economy has demonstrated its flexibility and resilience under a challenging set of circumstances

- Freely floated currency protects not only the Russian oil companies' profitability, but also the Russian budget balance and the broader economy as a whole
- Whilst this approach results in lower real incomes, it keeps more or less everyone in business and in employment
- Non-commodity revenues have reached a level of two thirds of the budget in 2019 - up from less than half in 2014
- With almost no leverage at any level of the economy, including household, corporate and sovereign Russia is well placed for difficult times
- It is easier for Russia to further continue diversify its economy in a low ruble environment

Low-cost producers with structural advantages

- Floating exchange rate, coupled with progressive oil taxation regime, ensures that the Russian oil companies, which are amongst the lower cost producers in the world, are profitable at any practical oil price
- The devaluation of the ruble creates strategic and competitive opportunities across the country, not least with respect to exporters (such as metals and mining companies), but also with service providers (such as airlines) and through import substitution (such as food producers)
- Most consumer goods are produced in Russia; prices will not experience much pressure due to devaluation

The portfolio companies went through a number of 'stress tests'

- Prosperity portfolios own strong companies with solid cash flow generation, good cost control, efficiency, low debt and strong industry position
- Companies have successfully managed to go through a number of crises before while the quality of corporate governance and management has evolved and improved
- Profit margins of oil companies have not declined during previous crises, while production was broadly stable
- Non-oil exporters (metals and mining and fertilisers) are now more competitive on a global scale due to currency devaluation
- Banks, food retailers and power companies have controlled inflation during the previous crises

Largest exposures in the normalisation scenario

	SECURITY	SECTOR	Q1 PERFORMANCE, %	PE 2020	PE 2021	PE 2022	DY 2020, %	DY 2021, %	DY 2022, %	ND/EBITDA 2020	ND/EBITDA 2021	ND/EBITDA 2022
1	Alrosa	Metals and mining	-39.6%	7.3	4.8	3.9	7.4%	20.0%	27.5%	0.7	0.3	0.3
2	Bashneft	Oil and gas	-39.3%	8.5	3.8	2.1	13.7%	14.6%	14.4%	1.1	0.8	0.5
3	En+	Metals and mining	-33.5%	3.9	2.9	2.1	0.0%	10.6%	17.1%	0.8	0.5	0.3
4	FSK	Power	-36.3%	3.1	2.5	2.2	11.8%	9.6%	14.0%	1.6	1.5	1.5
5	Gazprom	Oil and gas	-43.5%	9.3	4.2	2.6	9.4%	10.3%	11.1%	2.3	1.5	0.9
6	InterRAO	Power	-22.4%	3.5	2.7	2.4	4.2%	9.2%	12.0%	Neg.	Neg.	Neg.
7	Lenta	Retail	-34.0%	5.6	4.1	3.2	0.0%	19.0%	26.0%	1.7	1.4	1.1
8	LSR	Real Estate	-40.0%	7.4	5.2	3.2	10.8%	10.7%	15.4%	1.0	0.8	0.5
9	Lukoil	Oil and gas	-39.4%	10.7	6.7	4.1	13.0%	11.3%	16.9%	0.0	0.0	Neg.
10	MHP	Agriculture	-36.0%	3.5	2.5	2.4	12.1%	12.1%	12.1%	2.4	1.9	1.6
11	NLMK	Metals and mining	-31.2%	8.6	7.0	6.3	14.7%	12.3%	13.5%	1.1	1.1	1.1
12	Nornickel	Metals and mining	-18.7%	7.4	8.5	8.2	12.0%	12.4%	11.4%	1.1	1.5	1.7
13	Petropavlovsk	Metals and mining	56.1%	5.0	4.6	5.7	3.4%	17.5%	25.4%	1.1	0.9	1.1
14	Phosagro	Fertilisers	-18.7%	6.7	5.2	4.7	7.0%	13.9%	19.5%	1.4	1.2	1.1
15	Rusal	Metals and mining	-32.4%	4.7	3.8	2.7	0.0%	3.9%	8.7%	3.0	2.2	1.6
16	Sberbank	Financials	-41.5%	8.7	5.8	4.2	11.6%	6.1%	9.2%	N.A.	N.A.	N.A.
17	Surgutneftegas	Oil and gas	-47.1%	5.6	4.2	2.9	2.1%	2.1%	2.3%	Neg.	Neg.	Neg.
18	Tatneft	Oil and gas	-42.1%	12.9	7.4	4.7	8.6%	10.0%	14.6%	0.3	0.3	0.2
19	VEON	Telecoms	-40.9%	7.6	3.1	2.3	10.0%	6.6%	16.0%	2.2	1.8	1.6
20	X5	Retail	-21.7%	11.9	10.5	8.9	5.6%	7.5%	8.6%	1.5	1.5	1.3

Sources: PCM for financial forecasts
Data: As at 31 March 2020

Largest exposures in the long-term stress scenario

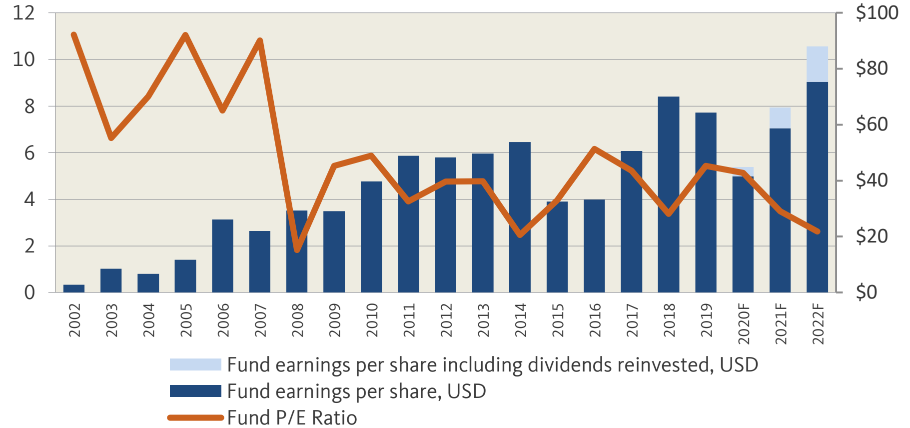
	SECURITY	SECTOR	Q1 PERFORMANCE, %	PE 2020	PE 2021	PE 2022	DY 2020, %	DY 2021, %	DY 2022, %	ND/EBITDA 2020	ND/EBITDA 2021	ND/EBITDA 2022
1	Alrosa	Metals and mining	-39.6%	7.3	6.4	6.2	7.4%	17.7%	20.4%	0.7	0.4	0.5
2	Bashneft	Oil and gas	-39.3%	8.5	8.5	8.4	12.6%	7.5%	5.5%	1.1	1.1	1.0
3	En+	Metals and mining	-33.5%	3.9	3.7	2.9	0.0%	10.2%	15.9%	0.8	0.7	0.5
4	FSK	Power	-36.3%	3.1	2.8	2.7	11.8%	8.8%	11.7%	1.6	1.6	1.5
5	Gazprom	Oil and gas	-43.5%	9.3	7.3	6.7	9.0%	3.4%	5.6%	2.3	2.1	1.9
6	InterRAO	Power	-22.4%	3.5	2.9	2.7	4.2%	8.5%	10.3%	Neg.	Neg.	Neg.
7	Lenta	Retail	-34.0%	5.6	4.5	3.8	0.0%	17.5%	22.6%	1.6	1.4	1.2
8	LSR	Real Estate	-40.0%	7.4	6.3	5.0	10.8%	9.4%	9.9%	1.0	1.0	0.8
9	Lukoil	Oil and gas	-39.4%	10.7	10.8	10.6	13.4%	7.2%	7.2%	0.0	0.0	Neg.
10	MHP	Agriculture	-36.0%	3.5	2.5	2.4	7.6%	12.1%	12.9%	2.4	1.9	1.6
11	NLMK	Metals and mining	-31.2%	8.6	8.7	8.5	14.7%	10.5%	10.0%	1.1	1.3	1.4
12	Nornickel	Metals and mining	-18.7%	7.4	8.7	9.3	12.0%	12.4%	11.2%	1.1	1.5	2.0
13	Petropavlovsk	Metals and mining	56.1%	5.0	4.3	4.3	3.4%	18.2%	28.9%	1.1	0.8	0.9
14	Phosagro	Fertilisers	-18.7%	6.7	4.4	3.6	7.0%	15.9%	25.0%	1.4	1.0	0.8
15	Rusal	Metals and mining	-32.4%	4.7	5.1	4.1	0.0%	3.3%	7.2%	3.0	2.6	2.3
16	Sberbank	Financials	-41.5%	8.7	9.0	6.6	11.6%	5.6%	5.6%	N.A.	N.A.	N.A.
17	Surgutneftegas	Oil and gas	-47.1%	5.6	5.5	5.4	2.1%	2.1%	2.1%	Neg.	Neg.	Neg.
18	Tatneft	Oil and gas	-42.1%	13.1	11.4	10.6	7.1%	6.2%	6.4%	0.3	0.3	0.3
19	VEON	Telecoms	-40.9%	7.8	4.2	3.3	10.0%	6.4%	12.0%	2.2	2.0	1.9
20	X5	Retail	-21.7%	11.9	11.6	10.5	5.6%	6.9%	7.3%	1.5	1.5	1.3

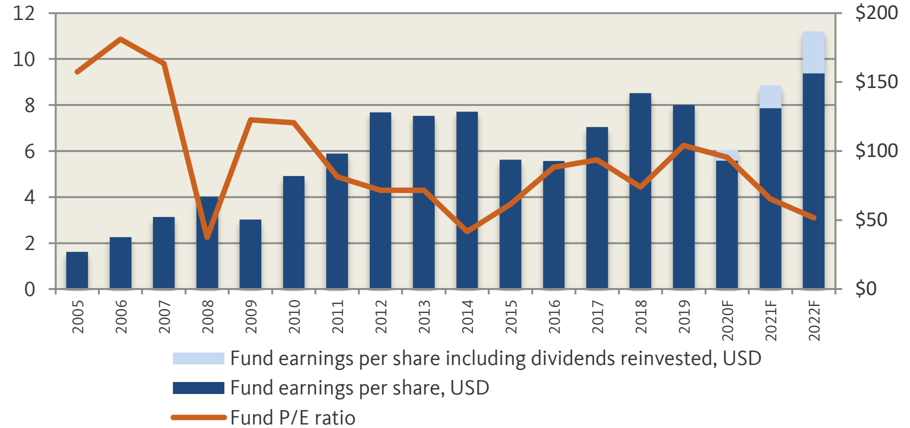
Sources: PCM for financial forecasts
Data: As at 31 March 2020

Valuations and fundamental dynamics

- Prosperity remains focused on its work; identifying fundamentally undervalued, well managed businesses and actively engaged on the corporate governance front. We are confident that our efforts will be rewarded over time and continue to work on the positive development of the intrinsic value in our portfolios
- Portfolio companies have strong and durable business models stress-tested by previous crises, macro downturns and currency shocks in 1998, 2008 and 2014
- The recession and external pressures have focused peoples' minds; we continue to see positive internal transformation, increasing management competence and growing emphasis on shareholder returns at our portfolio companies
- Valuations – including P/E, DY and all asset base or cash-flow multiples - remain attractive
- Companies remain highly cash generative as they generate profits through ever-increased focus on improving operations, cost control, productivity and efficiency gains
- Whilst it is often assumed that Russia has always been cheap or that the low multiple is partly due to commodity companies it is not the case; Russia traded far more rationally against its EM peers in the past and there is little premium for domestic companies
- Many portfolio companies still have dividend yields between 5% and 10%, with some even greater than that. Many of them have higher dividend yields than bond yields - in some cases twice the yield

Russian Prosperity and Prosperity Quest Funds' EPS (RHS) and P/E (LHS)





Source: Prosperity

Lukoil

Well placed to withstand oil markets turmoil

- Strong balance sheet (practically zero debt), completion to date of big investment projects and hence high share of discretionary capex, low cash costs (c. USD 10/bbl) – all makes the company well placed to withstand oil markets turmoil
- Corporate governance turnaround (cancellation of treasury shares-18.5%, change of management team, improvement of financial performance, new dividend policy based on FCF)
- No sanctions on debt or equity, access to debt markets
- FCFY of c. 12% under USD 30/bbl Brent scenario should translate into matching dividend even in the near term. Longer term we expect this to grow to a more meaningful 17% upon normalisation of supply/demand
- P/B 0.7, P/E 10.7 expected for 2020F

Price performance

Financials and valuation

USD mn	2019	2020F	2021F	2022F
Mcap	39,987	39,222	39,222	39,222
EV	39,785	39,167	38,705	36,714
Production, kbd	1,703	1,608	1,723	1,721
EBITDA	19,101	10,385	14,225	18,939
Net income	10,308	3,671	5,852	9,491
FCF	10,002	4,312	4,884	8,648
Net debt/EBITDA	0.0	0.0	0.0	neg
P/E	3.9	10.7	6.7	4.1
FCF Yield	25.0%	11.0%	12.5%	22.0%
DY	15.3%	13.0%	11.3%	16.9%

Sources: Company for 2019, Prosperity Research for 2020F-2022F
Prices as at 31 March 2020

Sberbank

Dominant bank, resilient balance sheet, continued corporate transformation

Key facts

- Dominant bank in Russia with c. USD 400bn+ in assets, 45% share of retail deposits and c. 35% of total loans
- Key competitive advantages: largest branch network; cheapest RUB funding (sourced from retail deposits)
- Highly profitability: 5.5% NIM, 3% ROA, c. 20% ROE in 2019
- Ongoing corporate transformation: improving underwriting process, technology upgrade, remote channels, new and better products, labor productivity
- Building own eco-system: acquisition of/ investment in new assets in e-commerce, taxi, food delivery, e-health and entertainment

Well placed to weather the storm

- Corporate deposit inflows outpaced new loan issuance in the last few years, hence effective balance sheet de-risking
- Strong capital position – Total CAR (N1.0) at 14.3% (vs. min 8%) as of 2M 2020
- Excess FX funding USD 30bn (i.e. funding sources and loans)
- Highly liquid balance sheet with c. 25% in cash and securities
- Our base case assuming CoR rises 4x in 2020 still leaves room for 50% dividend payout and a positive 10% ROE in a stress year

Financials and valuation

USD bn	2019	2020F	2021F	2022F
Key Financials				
Total Banking Revenue	31.1	26.6	27.2	31.5
Net income clean	13.1	6.2	9.4	12.9
YoY Chg %	-9%	-52%	51%	37%
Net Loans	328.9	281.8	312.7	364.9
YoY Chg %	17%	-14%	11%	17%
Div payout (of prior year)	50%	50%	50%	50%
ROE	20.3%	10.1%	13.8%	16.3%
ROA	3.3%	1.6%	2.2%	2.7%
Cost of risk	0.54%	3.0%	1.5%	1.0%
Equity/ Assets	14.7%	14.2%	14.7%	15.2%
Valuation summary				
Mcap	54.2	54.2	54.2	54.2
P/E	4.2	8.7	5.8	4.2
Div yield	10.3%	11.6%	6.1%	9.2%

Sources: Company for 2019, Prosperity Research for 2020F-2022F
Prices as at 31 March 2020

InterRAO

The sector leader with strong FCF generation and massive cash pile

Key facts

- The largest diversified utility company possessing 13% of overall installed capacities in Russia (18% of conventional capacities) of which 20% are brand-new CCGT units
- 20% market share in electricity supply market servicing 16.5mn customers including Moscow and Saint Petersburg
- Vested contracts for 5GW newly built CCGT units secure c. $700-800 mn p.a. stable cash-flows till 2024 and resilient to macro turbulence
- USD 4 bn cash-pile provides room for M&A in the course of further sector consolidation

Key recent developments

- Won state auction for modernisation of 6.7 GW till 2025 with estimated cost of c. USD 1 bn and guaranteed 14% return on capex over 15 years
- Adoption of new regulation in electricity supply segment which drives segment EBITDA margin from 2.5% to 4.0%
- Export of electricity to Finland and Baltics grew by 50% since 2017 bringing USD 260 mn or 13% of EBITDA in 2019
- Capacity prices to grow by 85% within next 5 years securing stable profitability of generation segment

Future value drivers

- 25% payout for 2019 or just 15% of FCF, the company is working on new strategy which could address pay-out increase
- 29% of shares are quasi-treasury. Crystallisation of shareholders structure to unlock additional value

Financials and valuation

USD mn	2019	2020F	2021F	2022F
Market capitalisation*	4,612	4,612	4,612	4,612
Net debt / (cash)	-3,927	-4,359	-5,676	-7,032
EV	685	253	-1,064	-2,420
Electricity output, bn kWh	113	109	112	116
Electricity export, bn kWh	19	10	12	18
Electricity supply, bn kWh	197	193	196	200
Revenues	15,954	13,442	15,369	17,545
EBITDA	2,188	1,674	1,993	2,138
EBITDA margin generation	34	34	35	33
EBITDA blended margin, %	14	12	13	12
Net income, adjusted	**1,645**	**1,337**	**1,713**	**1,920**
Operating cashflow	1,734	1,505	1,905	2,128
Capex (ex. M&A)	-386	-385	-479	-573
Dividends	195	194	427	553
P/E, adjusted	***2.8***	***3.5***	***2.7***	***2.4***
Dividend yield, %	4	4	9	12
FCF Yield, %	***29***	***24***	***31***	***34***

Source: Company for 2019, Prosperity Research for 2020F-2022; Prices as at 31 March 2020

Adjusted for quasi-treasury shares of 29%

Petropavlovsk

Major restructuring potential

- Petropavlovsk is a UK-domiciled and LSE Premium-listed mid-cap gold mining company with assets in Russia
- The company is scheduled to produce around 600-700koz of gold in 2020 (including 3rd party concentrates), which would place it the 3rd among the local gold miners
- It has 21mnoz of gold resources including 12mnoz from refractory ores sufficient to continue mining for 18 years
- The company has mastered a sophisticated Pressure Oxidation (POX) technology to produce from refractory gold ores, second in Russia and one of the few globally
- Having commissioned its POX plant, Petropavlovsk has now unlocked its refractory resources, stabilised its production volumes, costs and ready to start producing strong FCF
- These FCF would be allocated for de-leveraging (also supported by a significant earnings growth), ND/EBITDA is forecasted to fall from 4x in 2018 to 1.0-1.5x in 2020
- The company has only limited capex needs (maintenance and selective lucrative brownfield expansions) and is expected to start paying rich dividends (close to 20% DY)
- Prosperity is in close contact with management and board of directors on strategy and corporate governance

Financials and valuation

USD mn	2019F	2020F	2021F	2022F
Mcap	865	924	924	924
EV	1,408	1,375	1,274	1,302
Gold sales, koz*	472	483	500	505
EBITDA	216	392	411	329
Net income	74	218	235	194
FCF	24	123	264	207
Net debt/EBITDA	2.5	1.1	0.9	1.1
P/E	12.0	5.0	4.6	5.7
FCF Yield	2.8%	13.3%	28.6%	22.4%
DY	0.0%	3.4%	17.5%	25.4%

Sources: Prosperity Research for 2019F-2022F
Prices as at 31 March 2020

* - internal mining gold sales, does not include 3rd party concentrate treatment

X5

Market leader, strong financial discipline

- Leading food retailer in Russia with 13% market share. Our bottom-up analysis suggests that its possible to increase sales by 35% on the basis of anti-monopoly rules by 2022
- Our research shows no economic returns in place for openings of proximity stores for companies outside X5 and Magnit. Industry space growth slowed down from 5% in 2016 and 2017 to 1% in 2018 and 2019, which is already boosting returns
- Already significant overlap with Magnit store base as both rushed for best locations. No viable third competitor
- Returns on new store openings dropped from 35% in 2015 to 30% in 2019 as company opened more stores in smaller cities
- Efficient management, strong board, FCF-based payout
- Possible further consolidation through M&A, active evolution of e-commerce

Financials and valuation

USD mn	2019F	2020F	2021F	2022F
MCAP	7,332	7,332	7,332	7,332
Net debt	3,917	3,158	3,268	3,387
Net debt/EBITDA	1.7	1.5	1.5	1.3
Net sales	26,742	26,234	29,911	34,673
EBITDA	1,924	1,905	2,065	2,317
EBITDA margin	7.2%	7.3%	6.9%	6.7%
Net income	569	615	696	821
Net margin	2.1%	2.3%	2.3%	2.4%
Operating cashflow	1,240	1,376	1,535	1,727
Capex	-1,251	-996	-941	-974
Free cashflow	-11	380	594	753
P/E	12.9	11.9	10.5	8.9
Dividend yield	5.3%	5.6%	7.5%	8.6%

Sources: Prosperity Research for 2020F-2022F
Prices as at 31 March 2020

PROSPERITY CAPITAL MANAGEMENT

"We always tell ourselves we own part of a company, not a piece of paper. Our holdings are not just share certificates someone might pay more for tomorrow."

Mattias Westman
Founding Partner

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