

## European Investing Summit 2019 Preview: Sberbank

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Salmon Mundi Capital is a Spanish sicav listed on the MAB (Spanish Alternative Stock Exchange). We invest all over the world in different asset classes, both long and short. Our investment philosophy is based on value investing and the Austrian school of economics. We are value investors because we prefer to buy cheap assets with a high margin of safety. We usually find attractive investment opportunities in assets, sectors, commodities or countries out of favour due to temporary problems. We find the Austrian school of economics useful to us as a framework for our investments. We take into account distortions caused by credit cycles and their impact on asset valuations, this is why we try to avoid investing in countries which have had a large and rapid credit growth during many years. This analysis has led us to avoid several countries that are in fashion, and to look at others beyond the investors radar, such as Russia.

Since the sanctions were imposed on Russia in 2015, investors have been afraid to invest in the country. However, we believe Russia despite its negative aspects, that are widely known, has positive fundamentals, and the authorities have managed the economy in a very orthodox manner in recent years, in contrast to the rest of the world's major countries. Currently they have only 15% of public debt to GDP, a level that is much lower than the one of the heavily indebted Western countries. Russia is the fourth country with more reserves worldwide, and its reserves fully cover all its foreign debt. In 2018 they had a 7% current account surplus. Russia is one of the major countries with a lower level of debt (79% both public and private debt). In addition, we see potential because Russian assets are very cheap. Russian equities are trading at only 7x CAPE.

Among the Russian shares that we have in our portfolio, we have the largest exposure in Sberbank. Sberbank was founded in 1841 and it is the largest Russian bank. It has 93 million active retail clients in the country. The bank is the leader in Russia in both retail deposits and loans to companies (45% and 31% respectively) and it grants 54% of all the mortgages in the country. Sberbank has undergone unprecedented changes with the appointment of its new CEO in 2007. The bank has focused more on clients and on technological improvements, achieving a very strong cost-effective culture. Sberbank is an international reference in digitization and one of the strongest banking brands around the world.

Its credit quality is good, just 4% of NPLs, which is significantly lower than the Russian banking system. Its current dividend yield is 6.8% but if they finally successfully fulfill its strategic plan for 2020 it could reach 10% next year. In spite of being one of the most profitable banks (ROE of 24%) and one of the most cost-efficiency banks (33%), it is trading at just 5.8x earnings and 1.3x book value. Compared to other emerging countries' banks, it trades with a 50% discount.