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EEMEA Equity Strategy | EEMEA

Macro Meets Micro Stock Picks - Shifting Further into Cyclical

We update our EEMEA 'Macro Meets Micro' stock picks list, shifting further into cyclicals & value. Our conviction continues to rise that recent rotations in EEMEA are sustainable with material further outperformance to go. Add Alpha Bank, Lukoil, & Bidcorp, remove CD Projekt, Detsky Mir, & Life HC.

We are still in 'easy money' territory for EEMEA cyclicals and value

outperformance, in our view: Since vaccine news, rotations into EEMEA cyclical and value stocks have been sharp. In our [2021 EEMEA Equity Outlook](#) we dove into how much further rotations can go (conclusion: a lot). At the time, we shifted our focus list to more cyclicals. We now shift further into cyclicals and value, highlighting 5 recent dynamics that add to our conviction: 1) value's NTM EPS growth has risen sharply above history and 'growth' levels; 2) breakout of EEMEA cyclicals vs defensives is not a false start. If anything it resembles 2009 and is, at most, halfway complete we think; 3) cyclicals' EPS revisions vs defensives have continued to turn up, and are now not only driven by cyclicals' EPS recovery but also by defensives' (including tech) EPS decline; 4) EEMEA's historically strong high vs low momentum performance has broken down, again 2009 style. 5) Technical indicators are strong - Rotations into value and cyclicals are happening across all major EEMEA countries and sub-regions; EEMEA has broken out vs EM, suggesting material further near-term upside.

We add three more EEMEA value and cyclical stocks to our focus list: 1) Lukoil:

We add direct oil exposure via Lukoil, which we see as the best in class oil company within EEMEA and perhaps EM. Lukoil offers the highest 2021 DY in Russian energy (10% at \$50/bbl Brent), the strongest balance sheet, and one of the strongest FCF yields. Every \$5/bbl increase in oil prices = +c. 2.5pp in the DY.

2) Alpha Bank: We are Overweight Greece given high EU Recovery fund exposure (26% of 2019 GDP), high exposure to tourism (>20% of GDP), and low valuations (particularly for banks). Our banks analyst is bullish Greek banks with Alpha his top pick. The stock trades on 0.2x 2020e P/B, below Eurobank (0.4x) and NBG (0.3x) due to a higher NPE ratio. But the company is likely to close its €10bn Galaxy securitisation deal in 1Q21, which should bring its NPE ratio down to c.26% from 43%. **3) Bidcorp:** Listed in S. Africa but with primarily UK and European foodservices exposure, Bidcorp should see 2020's headwinds turn into tailwinds towards 2H21 as eating out recovers across restaurants, airlines, and cruises post vaccine normalization. The stock trades on 17x P/E FY22 vs international peers c. 20x, despite higher growth.

We remove CD Projekt, Detsky Mir, and Life Healthcare: While we like these stocks longer-term, we think they are unlikely to keep up with the EEMEA

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Exhibit 1: Our Updated EEMEA 'Macro Meets Micro' Focus List

Ticker	Name	Sector (Country)	MS rating	new value addition	cyclical ?
ALPHA GA	Alpha Bank	Banks (Greece)	OW	✓	✓
BID SJ	Bidcorp	Foodservice (SA)	OW	✓	✓
EMAARMLS UH	Emaar Malls	Malls (UAE)	OW	✓	✓
EBS AV	Erste Group	Banks (CEE)	EW	✓	✓
LKOD LI	Lukoil	Oil (Russia)	OW	✓	✓
NPN SJ	Naspers	Tech (S. Africa)	OW		
NHM SJ	Northam	PGM (S. Africa)	OW		✓
PLZL LI	Polyus Gold	Gold (Russia)	OW		
SBER RX	Sberbank	Banks (Russia)	OW	✓	✓
TCS LI	TCS Bank	Banks (Russia)	OW		✓

Source: Morgan Stanley Research

Exhibit 2: We believe that we are still in 'easy money' territory for EEMEA cyclicals (and value) outperformance

EEMEA: Cyclical* vs Defensives rel. performance



*Financials stocks are included within Cyclical. Performance is calculated Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

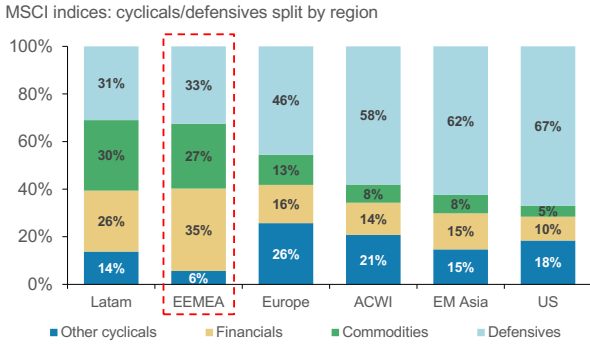
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cyclical and value rallies at this time. We do consider Life Healthcare a cyclical in the current environment, as well as value, but [our analysis of COVID-19 vaccine roll-outs](#) by country, and the relatively low level of vaccine purchases in S. Africa (enough to cover 10% of the population in 2021, thus far) points to a drawn out recovery for Life Healthcare, whilst at this time, SA's COVID cases are rising again.

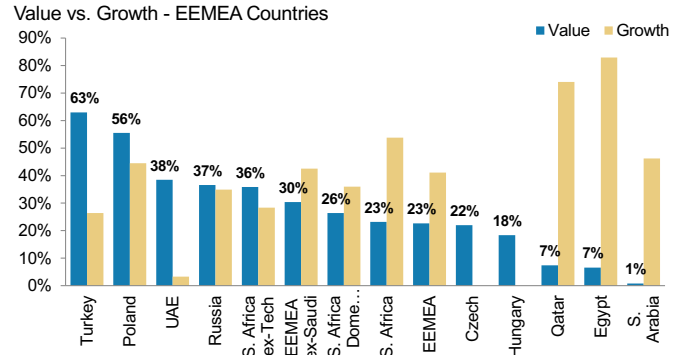
EEMEA's Cyclical & Value Recovery in 12 Charts

Exhibit 3: The EEMEA region has one of the highest levels of exposure to cyclicals of any major region globally...



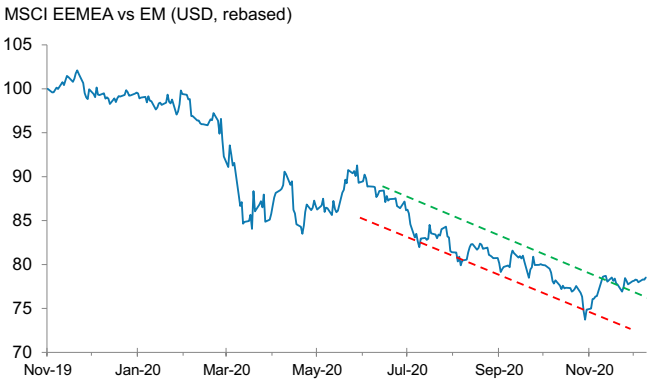
Gold and internet stocks are included in defensives; Source: MSCI, Bloomberg and Morgan Stanley Research

Exhibit 4: ...As well as large pockets of value exposure for many countries (on MS methodology)



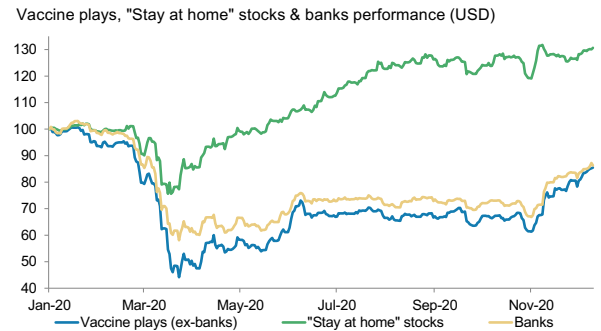
MSCI EEMEA stock universe, Morgan Stanley classification; Source: MSCI, Eikon, Morgan Stanley Research

Exhibit 5: Index composition, low valuations & high vaccine tailwind exposure have driven EEMEA's breakout vs EM



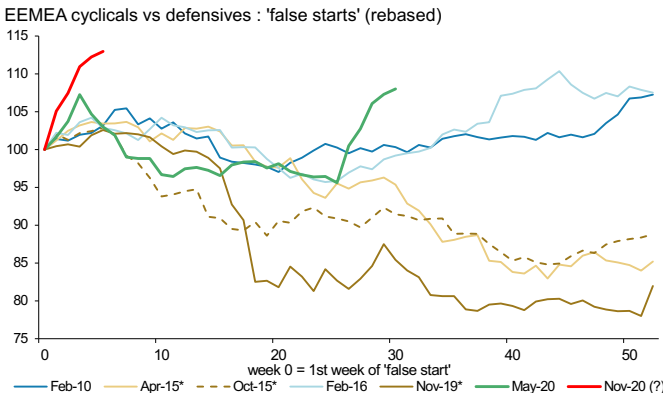
Source: Datastream and Morgan Stanley Research

Exhibit 6: EEMEA vaccine play stocks and banks have seen a sharp recovery on vaccine news, but still have further to go to pre-COVID levels



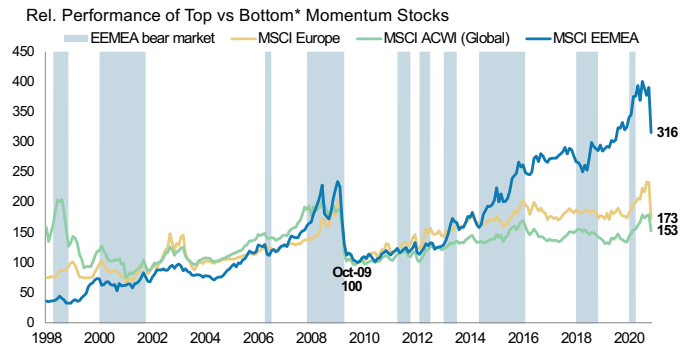
For details on methodology of groupings see EEMEA COVID-19 - Lockdowns Working, Vaccines Coming (2 Dec); Source: Eikon and Morgan Stanley Research

Exhibit 7: The recent EEMEA cyclical vs defensive rotation has far surpassed that of past 'false starts' - looking more similar to 2009



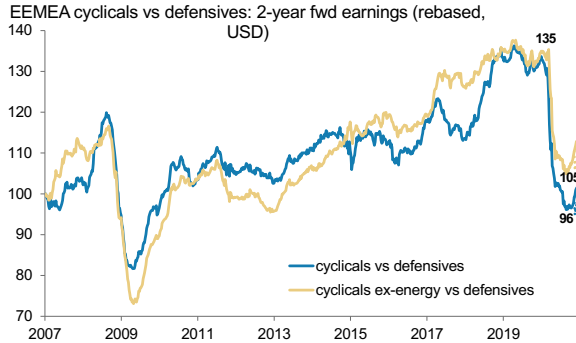
Source: Bloomberg and Morgan Stanley Research

Exhibit 8: EEMEA high vs low momentum performance was outstanding through the last cycle but has been broken - 2009 style



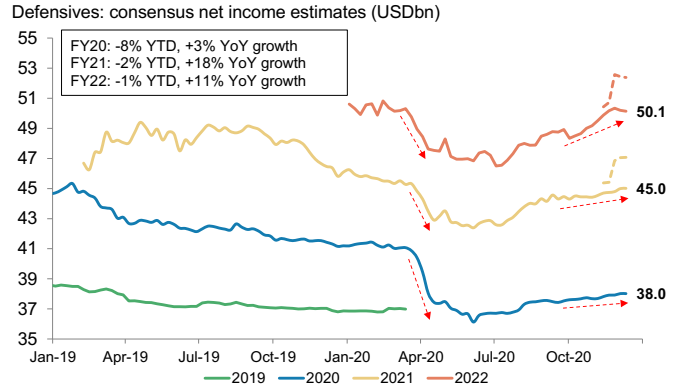
*MSCI EEMEA uses top vs bottom quartile and MSCI Europe and MSCI ACWI use top vs bottom quintile

Exhibit 9: Fundamentally, EEMEA cyclicals' 2Y fwd consensus earnings estimates have started to turn up vs defensives - we expect a continuation of this trend



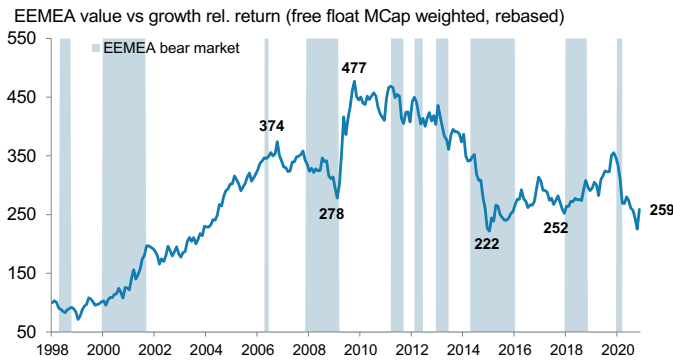
*size weighted; Source: Bloomberg and Morgan Stanley Research

Exhibit 10: Interestingly, EEMEA defensives' 2022 earnings are now turning down post vaccine news after recovering to near pre-COVID levels



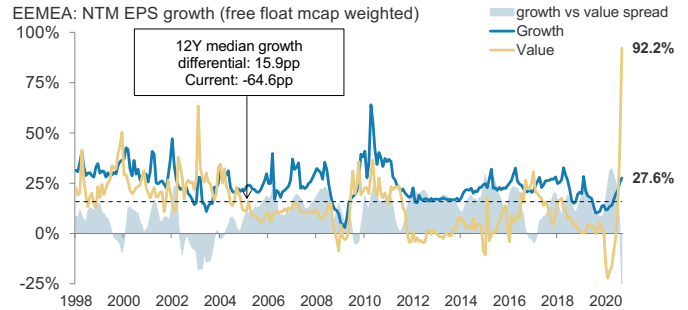
Dotted lines include Saudi Electricity; Source: Eikon, Bloomberg and Morgan Stanley Research

Exhibit 11: EEMEA value outperformed growth by 15% in Nov (on MS methodology) - a return to pre-COVID levels in the ratio = 37% further relative upside potential



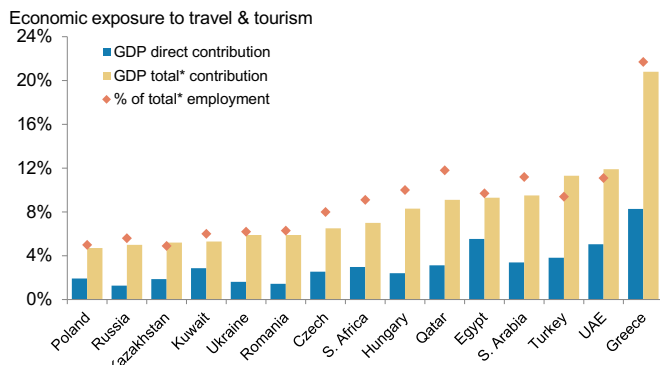
MSCI EEMEA stock universe, Morgan Stanley classification; Source: MSCI, Eikon and Morgan Stanley Research

Exhibit 12: EEMEA value's NTM EPS growth is up sharply, far outstripping EEMEA growth & history - despite trading at half the NTM P/E multiple & offering 3x the DY



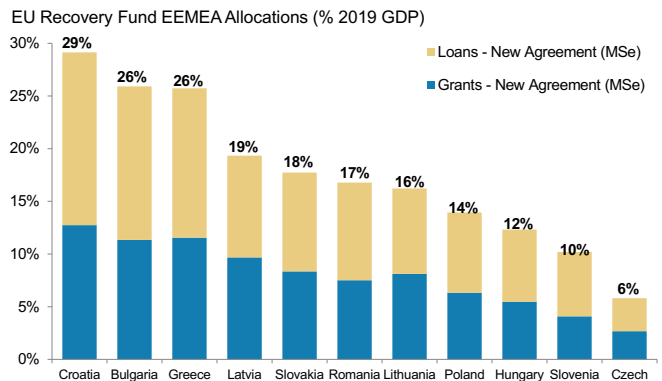
Morgan Stanley classification; free float market cap weighted; data as of Nov 30; Source: IBES estimates and Factset estimates and Morgan Stanley Research

Exhibit 13: EEMEA's high tourism exposure goes from headwind to tailwind in 2021 - Greece has particularly high exposure at over 20% of 2019 GDP



total = direct + indirect (2019), direct contribution data from 2018, Source: WTTC and Morgan Stanley Research

Exhibit 14: Greece is one of the biggest beneficiaries of the EU recovery fund -> Loans + grants= c. 26% of GDP; disbursements begin in 2H21



Source: European Commission, Morgan Stanley Research

New Stock Additions - Investment Cases

Lukoil

Overweight, Price Target \$77

Analyst: Igor Kuzmin

Investment thesis: Lukoil is our most preferred among integrated oil focused energy companies in Russia. It offers a stronger 2021-22e dividend yield of 10.2% compared to Tatneft's 6.7% and Rosneft's 8.9%. It also stands out compared to its history (5-9%). On 2021-22e EV/ EBITDA, it is the least expensive in our Russian O&G coverage universe, trading on 3.0 - 3.2x compared to 4.5-4.9x for peers excluding Novatek (which trades at a much higher level c13.2-13.7x).

Lukoil has the strongest balance sheet in the sector and one of the strongest FCFs (c12%) vs domestic peers, which underpins its dividend strength (based on our base case oil price assumption of \$48/bbl. Lukoil's dividends are directly geared to the key drivers of its FCF including changes in oil prices as 100% of free cash flow (adjusted for leases and buy backs) is distributed as dividends. It has stated that any potential M&A would be funded via debt. Every \$5/bbl increase in oil prices carries could add another c2.5% to the dividend yield.

Key risk - FCF (and hence) dividends come under pressure as energy transition, environmental and tax regime issues escalate.

Latest research: [Russian Oil & Gas: Positioning Ideas After the Rally \(20 Nov 2020\)](#), [Russian Oil & Gas: Raising estimates \(8 Dec 2020\)](#)

Alpha Bank

Overweight, price target €0.90

Analyst: Ivan Kachkovski, CFA

Investment thesis: Alpha Bank's NPE ratio in 3Q20 stood at 43%, second highest in Greece. However, Alpha is currently working on closing the €10bn Galaxy securitisation deal, which should take its NPE ratio down to c.26% by 1Q21. Together with other banks in Greece and the broader region, Alpha Bank has a significant portion of its loan book under moratoria which – together with government support measures – effectively delays new NPE formation into 2021 at least. Only after the moratoria expire will the true effect of the pandemic on asset quality can be seen. The recent news on vaccines helps restore confidence that next year the Greek economy could indeed rebound, which should help limit new NPE formation.

Alpha Bank is trading at 0.2x 2020e P/B, below peers Eurobank (0.4x) and NBG (0.3x), which we attribute to a much higher NPE ratio. However, we believe that Alpha Bank has enough capital and coverage cushion to drive this down to 10% on a group level and

below 5% in Greece standalone by YE24. On our numbers, this would come at a significant cost of €3.6bn (additional provisioning and losses on sales of junior tranches), which would be offset by pre-provisioning profit over the period, as well as by some capital relief from securitisation under HAPS.

Modelling a sharper macro rebound, as we do in our bull case, we see less need for further securitisations as Alpha would be able to speed up organic NPE reduction efforts post-Galaxy. We see sustainable RoTe at 10% from 2025, which (coupled with a 20% cost of equity and 1% growth rate) translates into our Gordon-growth based bull case of €1.30 for a 44% upside.

Latest Research: [Greek banks - Balance Sheet Cleanup Underappreciated](#)

Bid Corporation

Overweight, price target ZAc 34,500

Analyst: Vikhyat Sharma, CFA

Investment thesis: Bidcorp has seen a hit to its earnings (FY20) due to pressure on sales because of Covid trends (less eating out, no airline, cruise or travel spending on food). We see the volume recovery post first lockdowns as encouraging, although second lockdowns in the UK and Europe are likely to weigh on FY21 earnings. That said, we see the current environment as conducive for Bidcorp to use its ungeared balance sheet (Net Debt to EBITDA at 1x for FY20) to do roll up acquisitions and consolidate the market, in line with company strategy. Contrary to the expectation of restaurants closing, the company has highlighted that the skew towards higher margin independent trade has actually increased over the Covid period. There is potential for earnings recovery if a Covid vaccine normalises the eating out and travel trends. Even with pressure on earnings the company's focus on FCF management (R1.2bn for 1Q21 materially improved from previous period) should stand it in good stead, we believe. The company did indicate that the Australian business was running at 84% to 96% of previous year sales for 1Q21 despite lockdowns in Melbourne and Auckland. This does indicate a swift recovery while there is no revenue from cruise, events, travel etc. We believe that the company has managed its cost base quite well, implying any recovery in topline to pre Covid levels is likely to result in better than pre Covid margins. Finally the company has indicated that purchasing trends from its customers haven't changed and therefore it doesn't see any structural change to its business, implying that medium term growth prospects based on trends of people eating out, adding more private label product, diversifying more into low value add manufacturing, etc., remain intact. The stock trades at 17x P/E FY22, which we forecast on normalised trends compared to its international peer group average at around 19.7x. We believe that for its superior growth prospects, the stock should at least trade in line with its international peers.

Latest Research: [1QFY21 Update - Cash superlative and second time lockdowns not as severe](#)

Exhibit 15: Bidcorp - Fwd EV/EBITDA - Average rating on lower base of EBITDA



Source: Thomson Reuters and RMB Morgan Stanley Research.

Exhibit 16: Bidcorp - Trading at average PE 12 mths forward on lower/affected earnings base with potential for earnings to recover



Source: Thomson Reuters and RMB Morgan Stanley Research.

EEMEA 'Macro Meets Micro' Stock Picks List

Exhibit 17: Our Updated EEMEA 'Macro Meets Micro' Stock Picks - Valuation Metrics

Ticker	Name	Sector	Positioning vs bench (bp)	ccy	Last Price	Price Target	Upside	DY		PE		PBV		ROE		FCFY		3m ADTV (USDm)
								2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	
NPN SJ	Naspers	Tech	(34)	ZAc	314,163	470,000	50%	0.3%	0.3%	33.6x	27.1x	3.2x	2.9x	10%	12%	-0.4%	0.4%	241
BID SJ	Bidcorp	Foodservice	3	ZAc	27,100	34,500	27%	2.5%	2.9%	17.0x	15.5x	2.9x	2.6x	19%	19%	3.9%	4.5%	19
PLZL LI	Polyus Gold	Gold	(4)	USD	98.8	120.0	21%	3.6%	4.4%	10.8x	9.8x	3.9x	2.7x	135%	81%	8.2%	9.8%	52
LKOD LI	Lukoil	Oil	(5)	USD	68.0	77.0	13%	7.8%	10.0%	31.8x	7.2x	0.9x	0.8x	2%	12%	7.5%	11.9%	126
EMAARMLS UH	Emaar Malls	Malls	(1)	AED	1.9	2.1	12%	0.0%	4.7%	23.8x	13.4x	1.3x	1.2x	6%	9%	18.1%	9.6%	3
SBER RX	Sberbank	Banks	85	RUB	277	285	3%	5.9%	7.3%	8.2x	6.6x	1.2x	1.1x	16%	18%	NA	NA	302
EBS AV	Erste Group	Banks	1	EUR	25.4	25.0	-2%	2.9%	4.1%	17.4x	15.3x	0.7x	0.7x	4%	5%	NA	NA	30
ALPHA GA	Alpha Bank	Banks	0	EUR	0.94	0.90	-4%	0.0%	0.0%	2.9x	3.4x	0.2x	0.2x	6%	6%	NA	NA	6
TCS LI	TCS Bank	Banks	4	USD	33.8	32.0	-5%	2.1%	3.0%	12.2x	10.0x	3.9x	3.1x	42%	39%	NA	NA	24
NHM SJ	Northam Platinur	PGM	(6)	ZAc	19,214	18,000	-6%	0.0%	0.0%	28.4x	10.6x	10.1x	5.3x	46%	96%	3.7%	9.3%	16

Last price as of December 09, 2020; GEM positioning data as of September 30, 2020. Source: Factset, Bloomberg and Morgan Stanley Research

Exhibit 18: Performance of our EEMEA 'Macro Meets Micro' Focus List Since Inception - Not Enough Cyclical/Value exposure vs the EEMEA benchmark took a toll on our performance since vaccine news

#	Ticker	Company name	Country	Last price	Perf. since inclusion to the list (USD)		date of inclusion	date of removal
					Total Return	Rel. to EEMEA		
1	CDR PW	CD Projekt	Poland	395.8	132.1%	133.6%	22/02/2019	10/12/2020
2	NHM SJ	Northam Platinum	Saudi Arabia	19,214	58.2%	44.9%	09/08/2020	
3	SBER RX	Sberbank	CEE	277	15.4%	10.9%	16/11/2020	
4	TCS LI	TCS Group	Russia	33.8	14.2%	9.8%	16/11/2020	
5	EBS AV	Erste	South Africa	25.4	11.5%	7.0%	16/11/2020	
6	NPN SJ	Naspers	South Africa	314,163.0	40.1%	6.3%	22/04/2020	
7	DSKY RM	Detsky Mir	South Africa	140.3	19.3%	6.0%	09/08/2020	10/12/2020
8	EMAARMLS UH	Emaar Malls	Saudi Arabia	1.9	9.3%	4.8%	16/11/2020	
9	PLZL LI	Polyus Gold	Russia	98.8	26.3%	-7.4%	22/04/2020	
10	LHC SJ	Life Healthcare	M. East	1,525.0	-9.2%	-13.6%	16/11/2020	10/12/2020
	BUPA AB	BUPA	Saudi Arabia	121.6	40.8%	53.9%	22/02/2019	09/08/2020
	ANG SJ	AngloGold Ashanti	South Africa	31,699	51.4%	43.0%	18/10/2018	22/02/2019
	SSW SJ	Sibanye-Stillwater	South Africa	5,459	43.1%	36.0%	18/10/2018	04/03/2019
	ALMARAI AB	Almarai	Saudi Arabia	55.4	0.4%	13.4%	22/02/2019	09/08/2020
	EEC AB	Mobily	Saudi Arabia	29.4	11.1%	2.6%	18/10/2018	22/02/2019
	EXX SJ	Exxaro	South Africa	13,910	7.6%	-0.8%	18/10/2018	22/02/2019
	PEO PW	Pekao SA	Poland	63.8	6.8%	-1.6%	18/10/2018	22/02/2019
	ETISALAT UH	Etisalat	UAE	17.2	0.8%	-7.6%	18/10/2018	22/02/2019
	SABIC AB	SABIC	Saudi Arabia	97.7	-1.4%	-9.8%	18/10/2018	22/02/2019
	OGZD LI	Gazprom	Russia	5.1	-4.1%	-12.5%	18/10/2018	22/02/2019
	IQCD QD	Industries Qatar	Qatar	10.9	-6.1%	-14.5%	18/10/2018	22/02/2019
	KAZ LN	KAZ	EEMEA	655.6	-41.2%	-14.9%	22/02/2019	22/04/2020
	SOL SJ	Sasol Ltd	South Africa	13,881	-4.4%	-18.4%	18/10/2018	17/04/2019
	EMAAR UH	Emaar Properties	UAE	3.6	-46.4%	-20.0%	22/02/2019	22/04/2020
	OGZD LI	Gazprom	Russia	5.1	-5.2%	-22.2%	22/04/2020	01/10/2020
	FSR SJ	Firstrand	South Africa	5,030.0	-54.3%	-27.9%	22/02/2019	22/04/2020
	BAW SJ	Barloworld	South Africa	9,186	-59.7%	-33.3%	22/02/2019	22/04/2020
	PPH SJ	Pepkor	South Africa	1,372.0	-59.9%	-34.5%	04/03/2019	22/04/2020
	PIK SJ	Pick 'N Pay	South Africa	5,082	-48.0%	-34.9%	22/02/2019	07/08/2020
	MSM SJ	Massmart	South Africa	3,768.0	-76.5%	-46.5%	17/04/2019	22/04/2020
Focus list average (since inception)					-0.7%	-747bp		
<i>Relative Hit Ratio</i>					43%			
<i>Absolute Hit Ratio</i>					57%			
MSCI EEMEA total return					6.8%			

Last price as of December 9, 2020. Source: Bloomberg and Morgan Stanley Research. The USD total return of the Morgan Stanley EEMEA Equity Strategy 'Macro meets Micro' Stock Picks List since inception on October 18, 2018 is -0.7% (MSCI EEMEA Index total return +6.8%). Performance returns shown above represent US dollar total returns, including dividends and excluding brokerage commission. This assumes the Focus List constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Returns are calculated using the closing price of the date shown in the "Date of Inclusion" column through close on December 9, 2020. These figures are not audited. Past performance is no guarantee of future results. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures

Methodology: Our selection criteria involve choosing stocks that we expect to outperform on a 3-6 month basis, and where we combine our top-down thinking with bottom-up fundamental views from our sector analysts. Our top-down preferences incorporate our analysis on rotational and thematic trends, relative country macro dynamics, positioning, technicals, relative valuations, earnings revision trends, and macro and micro catalysts. We endeavoured to provide a range of ideas across sectors, countries, and themes. Given our 3-6 month time horizon, in some cases we have made tactical calls on stocks rated Equal-weight by our fundamental analysts on a 12-18 month time horizon. The list is not a portfolio, but rather a compilation of some of our best stock ideas that reflect our top-down strategy views. For more details see our 'Macro Meets Micro' stock picks launch report: [EEMEA Equity Strategy: Macro meets micro stock picks \(18 October 2018\)](#).

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Global Stock Ratings Distribution

(as of November 30, 2020)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1404	41%	372	46%	26%	620	41%
Equal-weight/Hold	1448	43%	346	43%	24%	666	44%
Not-Rated/Hold	5	0%	1	0%	20%	4	0%
Underweight/Sell	536	16%	85	11%	16%	219	15%
TOTAL	3,393		804			1509	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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