

Electricity Distribution: New Hopes and New Challenges



	Ticker	MC, \$m	EV, \$m	EV/EBITDA 2012	EV/RAB	Old target price, \$	New target price, \$	Upside	Recommendation
I. Top-picks									
MRSK Centre	MRKC	802	1 390	3.0	0.57	0.043	0.0311	66%	BUY
MRSK Centre and Volga	MRKP	588	1 190	3.6	0.48	0.008	0.0085	64%	BUY
MRSK Volga	MRKV	390	548	2.8	0.33	0.0057	0.0039	69%	BUY
II. Outsiders: HOLD and SELL									
MRSK Urals	MRKU	526	735	2.9	0.82	0.016	0.0060	-4%	HOLD
MRSK Siberia	MRKS	282	454	3.0	-	0.009	0.0028	-1%	SELL
Lenenergo com	LSNG	180	822	3.0	0.36	0.52	0.221	10%	HOLD
III. Risks lower than sector average									
MOESK	MSRS	2035	3380	3.0		0.06	0.0514	20%	BUY
Lenenergo pref	LSNGP	47	47		-	0.63	0.894	68%	BUY
IV. Prospects of transition of more branches to RAB									
MRSK North-West	MRKZ	209	358	2.7	0.65	0.0049	0.0030	33%	BUY
MRSK South	MRKY	87	567	4.1	0.79	0.005	0.0027	51%	BUY
V. Speculative ideas									
MRSK Caucasus	MRKK	53	75	1.2	0.14	4.25	2.03	99%	Spec.BUY
Kubanenergo	KUBE	345	648	neg.		4.45	5.28	45%	Spec.BUY
Tomskaya RK com	TORS	54	35	1.4		0.041	0.028	94%	Spec.BUY
Tomskaya RK pref	TORSP	6	6		-	0.035	0.013	28%	Spec.BUY
MRSK Holding com	MRKH	2 638	7 287	2.3	0.53	0.156	0.079	24%	BUY
MRSK Holding prefs	MRKHP	75	75		-	0.101	0.051	29%	BUY

Source: MICEX-RTS, RMG estimates

We update our models for MRSKs Holding to reflect increasing investment programmes and new tariffs approved at generally lower levels than were previously assumed. By November 1 the new RAB will have been introduced in 73% of MRSK branches, and we hope more adequate RAB parameters will enable the state to leave the “rules of the game” unchanged for the next several years. We believe that privatization of a ‘pilot’ MRSK, which is expected to be held in 1Q 2013, will become a trigger for the sector growth.

- ✓ Investment programmes for 2012-2017 turned out to be 10-60% higher than we anticipated. During the next five years MRSK Holding will spend R825b (\$27b) on capex compared to R677b planned earlier (+22%).
- ✓ 38 MRSK branches have been successfully switched to the new RAB regulation at the moment, and 6 more are expected to be switched by November 1. The other 16 branches will be regulated by the less progressive long-term indexation method. For MRSK branches under the new RAB, the capital base iRAB was cut by 20% on average, which is rather substantial, but still better than the market feared at the end of 2011 (30-40% cut).
- ✓ The Federal Tariff Service has already published tariff growth rates for 2012-2017 for 20 MRSK branches. In general, the figures are lower than the 10% permitted by the government.
- ✓ According to the latest statements by the Ministry of Energy, ‘last-mile’ contracts are to be cancelled by the end of 2014. The general idea, in our view, is that the problem is proposed to be solved at the cost of the MRSKs, but if they fall into financial difficulties, the state will help. Thereby, we do not exclude additional share issues of MRSK Urals and MRSK Siberia in favor of the state.
- ✓ We divide MRSKs into five groups depending on their financials, investment quality and risks. Our top picks in the sector are MRSK Centre, MRSK Centre and Volga and MRSK Volga, which are strong and are the main candidates for privatization, which is planned to start in 1Q 2013. MRSK Caucasus, Kubanenergo and Tomsk RK offer speculative ideas related to attractive repurchase prices and (or) improved corporate governance. We prefer our top picks to the shares of MRSK Holding as the latter bears the risk of possible adverse actions towards the minority stakeholders in light of the “merger” with FGC.
- ✓ Our moderate optimism about the sector is based on several arguments. Firstly, we regard a sell-off of regional MRSKs after of a possible merger of MRSK Holding and FGC as unjustified. Secondly, we strongly anticipate privatization of a ‘pilot’ MRSK will become a trigger for the sector growth. Thirdly, we hope more adequate RAB parameters will enable the state to leave the “rules of the game” unchanged for the next several years.

Since our last research on Russian electricity distribution sector MRSKs have faced several regulatory shocks. In view of past events we update our view on the sector.

RAB revision

In order to switch to new RAB regulation, MRSKs had to have their investment programmes for 2012-2017 approved in the Ministry of Energy and (or) by local regulators. In general, the figures turned out to be 10-60% higher than we anticipated. During the next five years MRSK Holding will spend R825b on capex compared to R677b planned earlier (+22%).

During the next five years MRSK Holding will spend R825b on capex, which is 22% higher than it was planned earlier.

New approved investment programmes, Rm

	2012E	2013E	2014E	2015E	2016E	2017E	2012-17E	Old forecast	Change, %
MOESK	37 442	52 274	56 761	47 261	38 698	41 528	273 964	142 400	92%
MRSK Centre and Volga	8 929	9 961	12 307	14 553	16 531	18 472	80 753	62 828	29%
Lenenergo	15 215	15 954	14 733	14 935	13 493	13 618	87 948	93 891	-6%
MRSK Siberia	5 333	6 060	5 957	6 550	7 217	7 269	38 386	27 511	40%
MRSK Caucasus	7 252	5 069	4 457	5 008	5 314	5 550	32 650	13 452	143%
Kubanenergo	9 627	17 970	595	825	931	1 062	31 010	16 505	88%
Tumenenergo	10 659	13 846	14 124	8 954	11 700	10 177	69 460		
Yantarenergo	354	396	459	538	740	688	3 175		
MRSK Volga	9 018	7 378	7 435	8 968	13 010	5 831	51 640	32 784	58%
MRSK Urals	7 653	9 155	9 275	9 879	10 775	11 588	58 325	38 548	51%
MRSK North-West	7 828	6 057	5 961	6 704	7 538	8 397	42 485	20 060	112%

Source: company data, the Ministry of Energy

According to existing legislation, the Federal Tariff Service and regional energy commissions set new RAB parameters for each branch of MRSKs, based on reconciled capital expenditures. The process will be finished by November 1. If the branch does not fit the criteria for the new RAB, it will be switched to the long-term indexation method. We now expect 16 MRSK branches to share this fate. For MRSK branches that had their RAB already revised, the most important parameter – capital base iRAB – was reduced by 20% on average, which is rather substantial, but still better than the market feared in late 2011 (30-40% cut).

44 MRSK branches out of 60 will be switched to the new RAB by November 1

73% of MRSK branches will be switched to new RAB by November 1

	# of branches	New RAB	Long-term indexation method*
MRSK Centre	11	9	2(2) - Bryansk, Tver
MRSK Centre and Volga	9	6	3(3) - Mari, Nizhnov, Tula
MRSK Volga	7	6	1(1) - Samara
MRSK Urals	3	2	1 - Chelyabinsk
MOESK	2	2	
Lenenergo	2	2	
MRSK Siberia	8		8
MRSK North-West	7	3	4
MRSK Caucasus	5	4	1 - Dagestan
MRSK South	4	3	1 - Volgograd
Kubanenergo	1		1
Tomskaya RK	1	1	
Total	60	38	22(6)

* figures in brackets - the number of companies expected to be switched to new RAB closer to Nov. 1

Source: companies, FTS

For MRSK branches that had their RAB already revised, the capital base iRAB was reduced by 20%

iRAB decreased by 20% on average (Rm)

	iRAB 2011	iRAB 2012	Change, %	# of branches switched	Expected to be switched
MRSK Centre	72 960	53 990	-26%	7	11
MRSK Centre and Volga	37 725	34 718	-8%	6	9
MRSK Volga	56 747	37 203	-34%	6	7
MRSK Urals	37 378	28 309	-24%	2	2
Lenenergo	73 400	72 224	-2%	2	2
MRSK North-West	22 892	17 469	-24%	3	3
MRSK Caucasus	16 400	16 400	0%	4	4
MRSK South	22 523	22 523	0%	3	3

Source: company data, FTS

The other branches will to switched to the less progressive long-term indexation method

The long-term indexation method is considered less progressive compared to the RAB due to the lack of repayment and return on invested capital. On the other hand, it does not require maintenance of the ratio of debt to invested capital at a certain level (MRSKs regulated by RAB will have to take on an additional debt burden). As the long-term indexation method caps investment spending at no more than 12% of adjusted revenue, it fits better to branches that have rather moderate investment needs, or vice versa, it may be introduced in «problematic» branches in order to cap the distribution tariff in them. In general, MRSK branches regulated by the long-term indexation method will face lower tariff growth which will be compensated by lower capex.

RAB regulation in Russia is artificial

But the main purpose of RAB restart was to cap electricity tariff growth. The reality is that the government first sets the tariff growth ceiling (5.5%/10%/10% in 2012-2014) and then the Federal Tariff Service sets regulatory parameters so that the government requirements are satisfied. Due to the artificial character of Russian RAB regulation, the difference between the long-term indexation method and RAB is erased to a large extent. According to several MRSK representatives, it is expressed mostly in the investors' perception of RAB as a more progressive system, rather than in a real difference between free cash flows provided by the two methods.

The Federal Tariff Service has already published tariff growth rates for 2012-2017 for 20 MRSK branches out of about 50, which were regulated based on RAB before the restart. In general, the figures are lower than the 10% permitted the government (see Appendix).

The “last-mile” problem

The “last mile” problem is most acute in MRSK Urals and MRSK Siberia

The “last mile” agreement is a form of cross-subsidization between households and large industrial consumers when the latter pay both the FGC and MRSK tariff despite being connected to high voltage lines directly. The legal mechanism behind this is that MRSKs rent from FGC the “last mile” of grids near the industrial enterprise. Last-mile contracts amounted to R60-70b (\$2-2.3b) in 2011 and R58b in 2012. Grids mostly bound by these contracts are MRSK Urals (19% of output worth R10b) and MRSK Siberia (>20%).

The cancellation of last-mile contracts has been postponed many times, but according to the latest statements by the Ministry of Energy, the deadline is the end of 2014. In late July Deputy Energy Minister Mikhail Kurbatov proposed a scheme that would cancel last-mile contracts in the 18 most problematic regions by the date above. The scheme includes moderate tariff growth for households, introducing the social quota of electricity consumption, subsidies to households from local budgets and optimizing the MRSKs' spending (including possible cuts in investment programmes). The core idea, in our view, is that the problem is proposed to be solved at the cost of MRSKs, but if they fall into financial difficulties, the state will help. Thereby, we do not exclude additional share issues of MRSK Urals and MRSK Siberia in favour of the state.

The fate and future of MRSK Holding

The form of the merger of FGC and MRSK Holding will be made by autumn-winter 2012.

During the last three months, the quotes of MRSK Holding were primarily driven by speculation over the merger with FGC (on July 11 the company was transferred under the operating management of FGC). The final decision is to be made by autumn-winter 2012. Several scenarios are considered now, including operating management (refusal from transition to a single share), conversion of MRSK Holding shares into FGC ones and a transition of both monopolies to a single share of United National Grid company, which is to be set up by state-owned Rosneftegas.

We find it unproductive to forecast how the situation will be resolved as it will largely depend on the outcome of the struggle between the 'new' and the 'old' teams in the Energy industry. The last two scenarios described above imply speculation over conversion ratios and repurchase prices that may cause strong fluctuations in FGC and MRSK Holding over the next several months.

Valuation approach and recommendations

We have updated our valuations of MRSKs using the DCF approach and MRSK Holding as the sum-of-the-parts. The basic assumptions under our valuation are the following:

- We consider financial models of MRSKs as an «advanced» cost-plus system due to the artificial character of Russian RAB regulation. In particular, we do not believe that the levels of cost control anticipated in RAB will be achieved.
- Output is expected to rise at a 1.5% level annually, which is generally in line with our forecast of electricity consumption growth rates in Russia.

In the coming years capex will dominate over dividends.

The important feature of the Russian distribution sector is that in the coming years capex will dominate over dividends. At the present time, the power grids of MRSK Holding are worn by 68%, and the main purpose of the state over the next five years is, firstly, to reduce the tear-and-wear rate to 50-55%, secondly, to substantially improve cost control in MRSKs, and thirdly, to avoid a sharp rise in tariffs. Tough tariff conditions and high investment programmes lead to a situation where during 2013-2016 the FCF of most MRSKs will be near zero, and their fair value will mainly be formed by the terminal period.

We divide MRSKs into five groups

	Tariff CAGR 2012-17			Dividends, % of NI	Target price, \$	Recommendation
	new	old	change, %			
I. Top-picks						
MRSK Centre	7.1%	7.3%	-0.2%	8-13% in 2010-11	0.0311	BUY
MRSK Centre and V.	7.1%	7.3%	-0.2%	7.5-10% in 2010-11	0.0085	BUY
MRSK Volga	6.8%	7.3%	-0.4%	15% in 2011	0.0039	BUY
II. Outsiders: HOLD and SELL						
MRSK Urals	4.6%	7.3%	-2.7%	10-15% in 2010-11	0.0060	HOLD
MRSK Siberia	6.2%	7.3%	-1.1%	-	0.0028	SELL
Lenenergo com	9.8%	7.3%	2.6%	-	0.221	HOLD
III. Risks lower than sector average						
MOESK	7.3%	7.3%	0.1%	7-8% in 2009-11	0.0514	BUY
Lenenergo pref				10-11% in 2009-11	0.894	BUY
IV. Prospects of transition more branches to RAB						
MRSK North-West	6.8%	7.3%	-0.4%	-	0.0030	BUY
MRSK South	7.4%	7.3%	0.2%	-	0.0027	BUY
V. Speculative ideas						
MRSK Caucasus	7.6%	7.3%	0.4%	-	2.03	Spec.BUY
Kubanenergo	6.2%	7.3%	-1.1%	-	5.28	Spec.BUY
Tomskaya RK com	5.3%	7.3%	-2.0%	2.5-4% in 2009-11	0.028	Spec.BUY
Tomskaya RK pref				5.2% in 2009-11	0.013	Spec.BUY
MRSK Holding com					0.079	BUY
MRSK Holding pref				5% of adj. NI	0.051	BUY

Source: company, RMG estimates

Our top picks are MRSK Centre, MRSK Centre and Volga and MRSK Volga

Our top picks in the sector are **MRSK Centre, MRSK Centre and Volga and MRSK Volga**. The companies have switched almost all branches to the new RAB now. They have limited debt burden (net debt/EBITDA 0.8-1.7x) and, in our view, will continue to pay moderate dividends of 7.5%-15% of net profit in 2012-2016. Moreover, these companies are main candidates for privatization (Minister of Energy Alexander Novak promised to privatize one "pilot" MRSK in 1Q 2013).

Recommendations for MRSK Urals and MRSK Siberia are downgraded to HOLD and SELL

We decrease our valuation for **MRSK Urals** and **MRSK Siberia** by 63-68% and recommendation from BUY to HOLD and SELL, respectively. The regulator decreased the capital base, iRAB, for Sverdlovennergo and Permenergo, the two branches of MRSK Urals, by 44% and 21% and will most likely reject a switch to RAB for the third branch, Chelyabenergo, where 37% of output worth R7b accounts for "last mile" contracts. Moreover, the Federal Tariff Service approved only a 3.7% tariff CAGR for 2012-2017 for the largest branch, Sverdlovennergo. As for MRSK Siberia, all its branches are expected to be switched to the long-term indexation method, and we do not exclude additional share issues in favour of the state as the company will face problems in financing its investment programme when "last-mile" contracts are cancelled in 2014.

MOESK and Lenenergo prefs have lower risks than the industry average

We confirm our BUY recommendations for **MOESK** and **Lenenergo prefs**. The former pays regular dividends with a 7-8% payout ratio, but offers a small upside of 20%. Lenenergo managed to switch both its branches to RAB with acceptable parameters. We prefer the company's prefs over common shares as they guarantee 10% payout ratio. Due to a large (R74b in 2012-2017) and strategically important investment programme, Lenenergo may rely on a tariff CAGR of almost 10% in 2012-2017, which will positively affect net income. Recommendation on **Lenenergo commons** is downgraded to HOLD.

We reiterate our BUY recommendation on **MRSK North-West** as the company managed to confirm RAB in Novgorod, Pskov and Vologda regions, and **MRSK South** which received high tariffs from the FTS (almost 10% annually) for Astrakhan and Rostov regions (they account for 58% of output).

MRSK Caucasus and Kubanenergo are financially weaker than the companies mentioned above and have poorer corporate governance. They also have higher debt burden and bear the risk of additional share issues, but offer speculative ideas. Our recommendation on these stocks is Speculative BUY.

MRSK Caucasus, Kubanenergo and Tomsk RK offer speculative ideas

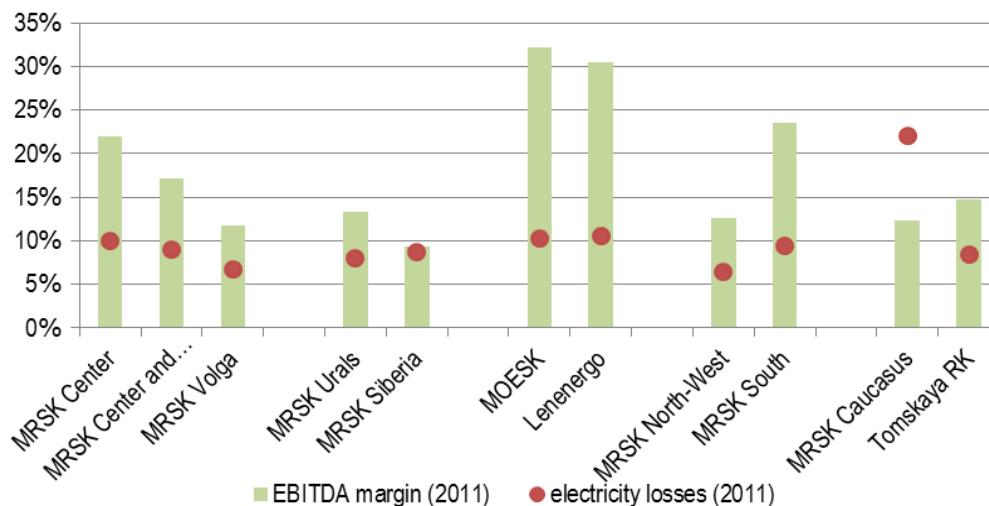
MRSK Caucasus suffers from enormous electricity losses which accounted to 22% of output in 2011 due to obsolete electric lines and, primarily, electricity theft (in Dagestan “commercial” losses account for 40% of output). We anticipate the company will be able to reduce losses to at least 17% by 2016. If the market notices any success in fighting electricity theft, at which the investment program worth R27b is primarily aimed, the quotes will receive a strong driver. Several months ago the company published its first financial statement under IFRS (for 2011).

In April 2012 Tumenenergo, a 100% subsidiary of MRSK Holding, agreed to purchase a 27.97% stake in **Kubanenergo** held by Neft-Aktiv, a Rosneft subsidiary, at R157.8 per share. As a result, its share in Kubanenergo will exceed 30% and minority shareholders will receive the right to demand share repurchase at R157.8. Kubanenergo shares rallied for the first several days after the news was announced, but now slipped to R110 driven by fears of failing a mandatory offer due to a possible merger of MRSK Holding and FGC. Meanwhile, MRSK Holding representatives confirmed the intention to send a mandatory offer several times without specifying precise terms.

Tumenenergo will also redeem stakes of Neft-Aktiv (26% of commons and 27% of preferred shares) in **Tomsk RK** (Russian acronym for Tomsk Electricity Distribution Company) at R0.5365 and R0.4235 respectively. As a result, Tumenenergo stake in Tomsk RK will exceed 40%. Possible repurchase price for common shares is lower than our estimate of fair price (R0.83), but still implies 31% upside.

EBITDA margin and electricity losses (2011)

Average electricity losses in the sector are 10%. MOESK and Lenenergo have higher margins than the industry average due to the high share of connection services in revenue

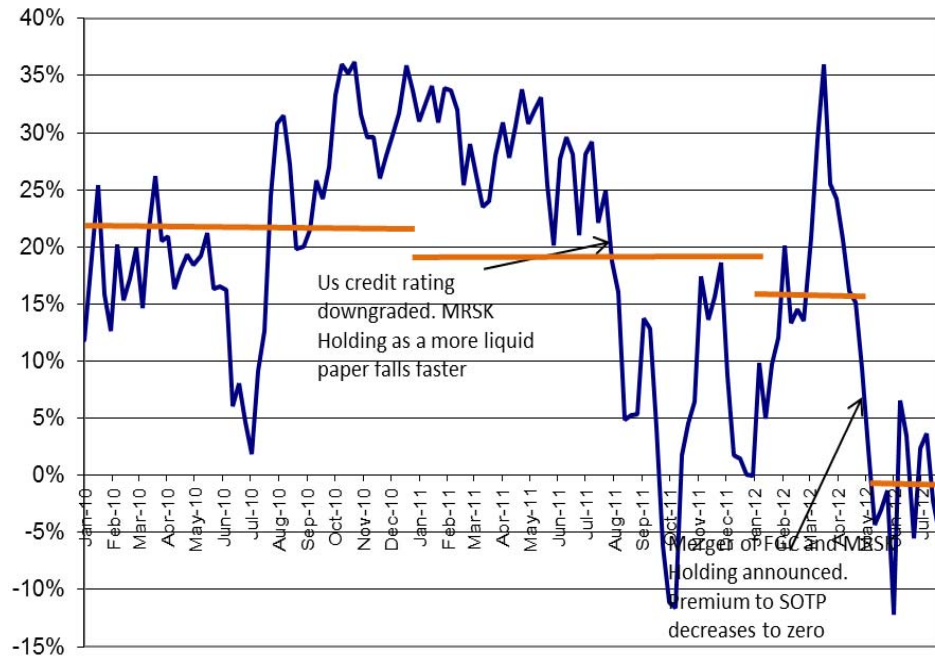


Source: companies, RMG estimates

We value the common shares of MRSK Holding without applying a premium or a discount to the SOTP

We valued the common shares of **MRSK Holding** as the sum-of-the-parts applying no premium or discount. Previously we applied a 19% premium based on historical data (see the chart) as one of the large assets, Tumenenergo (7% and 10% of revenue and EBITDA), is not traded on the market. After the announcement of a possible merger of the two monopolies, the premium quickly dropped to almost zero reflecting the risks of possible adverse actions towards the minority stakeholders of MRSK Holding.

Premium of MRSK Holding to the sum-of-the-parts (traded companies only)

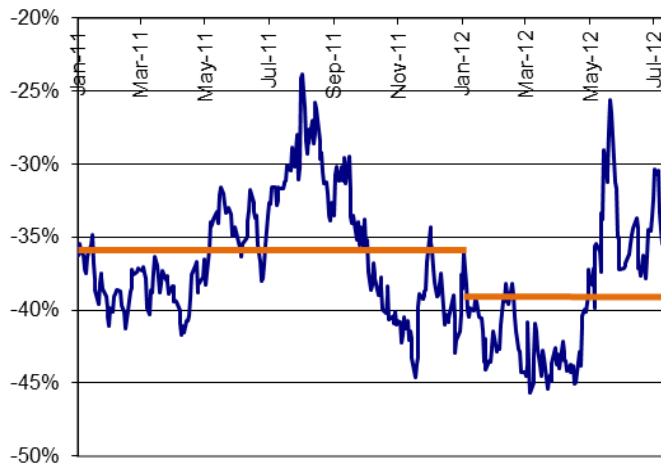


Source: MICEX-RTS, RMG estimates

Our new target price per common share of MRSK Holding is R2.35. We apply 35% discount of MRSK Holding prefs to commons coming to a target price of R1.53. Both shares provide approximately 35% upside, and we reiterate our BUY recommendations. Nevertheless, we prefer our top-picks - MRSK Centre, MRSK Centre and Volga and MRSK Volga – to MRSK Holding shares.

Discount of MRSK Holding prefs to commons

Prefs of MRSK Holding are historically traded at a 35-40% discount to the commons



Source: MICEX-RTS

We believe the launch of privatization and stable “rules of the game” will improve the investment attractiveness of the sector.

Our moderate optimism about the Russian electricity distribution sector is based on the following arguments:

- We regard a global sell-off of regional MRSKs after the announcement of a possible merger of MRSK Holding and FGC as unjustified as it was primarily driven by emotional reasons (disappointment about the abandonment of the grids reform, the state's inability to solve the industry problems, inconsistency in government policy) rather than fundamental ones (the risks of a physical merger of regional MRSKs and FGC branches will not be realized).
- We strongly anticipate privatization of a 'pilot' MRSK (Minister of Energy Alexander Novak promised it will be held in 1Q 2013) will become a trigger for the sector growth. In late June EOS Russia, the Swedish investment fund which has large stakes in MRSK Holding and six regional MRSKs, refused to sell them, betting on the launch of privatization and successful RAB resetting.
- RAB resetting is nearing completion, and we hope that more adequate RAB parameters and approved modest tariff growth rates will make it easier for regulators to follow the “rules of the game” with the companies improving their efficiency.

Appendix

Tariff growth rates announced by the FTS turned out to be lower than the 10% permitted by the government

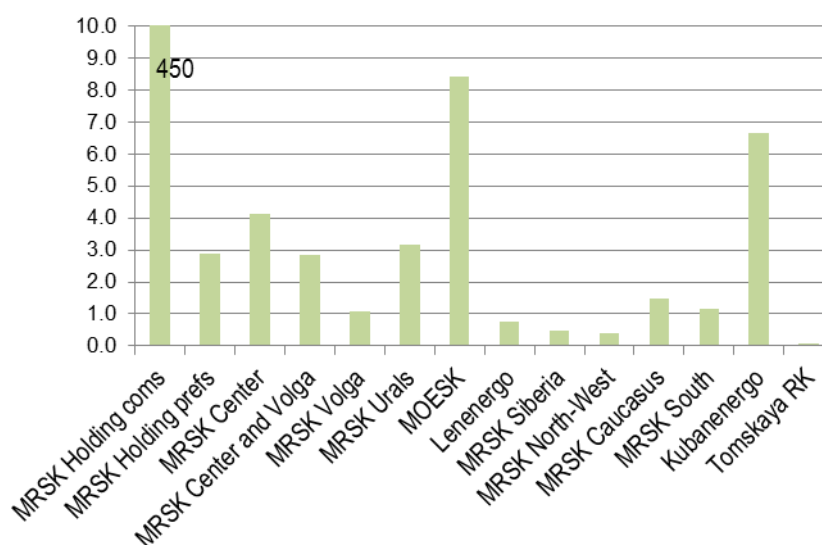
FTS approved tariffs for 2012-2017 for 20 MRSK branches

	% of MRSK output in 2011	2012	2013	2014	2015	2016	2017	average
MRSK Centre								
Belgorod	19%	99.0%	108.6%	109.7%	107.2%	106.1%	107.7%	106.3%
Kursk	9%	101.4%	107.3%	106.0%	106.1%	106.1%	107.2%	105.7%
Orel	4%	99.3%	110.0%	110.0%	110.0%	110.0%	110.0%	108.1%
MRSK Centre and Volga								
Ivanovo	6%	104.7%	107.4%	108.6%	109.1%	107.9%	106.1%	107.3%
Ryazan	8%	107.0%	109.0%	109.0%	108.8%	109.4%	107.8%	108.5%
Kirov	9%	102.4%	108.3%	109.5%	109.4%	109.7%	106.6%	107.6%
Kaluga	7%	102.7%	108.7%	109.5%	109.5%	109.5%	110.0%	108.3%
Udmurtia	14%	102.3%	106.9%	105.8%	106.0%	105.7%	105.4%	105.3%
MRSK Volga								
Mordovia	4%	108.3%	109.8%	109.9%	108.4%	106.7%	105.3%	108.1%
Chuvashia	8%	104.1%	107.9%	109.7%	108.3%	107.9%	103.8%	106.9%
Penza	7%	102.0%	104.7%	106.6%	107.9%	106.9%	105.4%	105.6%
Orenburg	22%	105.9%	109.3%	109.2%	109.4%	107.7%	105.6%	107.8%
MRSK Urals								
Sverdlovenegero	48%	105.1%	107.3%	101.5%	103.0%	103.0%	102.0%	103.6%
MRSK North-West								
Vologda	21%	104.2%	106.9%	105.8%	106.0%	105.7%	105.4%	105.7%
MRSK Caucasus								
Sev. Ossetia	10%	102.5%	109.4%	110.0%	109.9%	109.7%	109.7%	108.5%
Stavropol	41%	105.6%	104.9%	110.0%	110.0%	110.0%	108.7%	108.2%
Kab.-Balkaria	9%	104.4%	109.2%	109.2%	109.0%	109.0%	108.5%	108.2%
Kar.-Cherkessia	8%	106.2%	104.6%	103.5%	108.1%	104.7%	104.7%	105.3%
MRSK South								
Rostov	46%	100.4%	109.5%	108.0%	107.3%	106.7%	104.5%	106.5%
Astrahan	12%	103.4%	108.3%	109.5%	109.5%	109.8%	109.8%	108.4%

Source: companies, FTS

Average daily traded volumes of regional MRSKs are R0.5-8m

Average daily traded volumes on MICEX-RTS, Rm



Source: MICEX-RTS, Bloomberg

MRSK Centre

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	69 041	71 106	78 187	86 061	94 059	102 436	112 466	120 943	130 061	139 867
Growth rate (%)		3%	10%	10%	9%	9%	10%	8%	8%	8%
EBITDA	15 216	14 407	16 212	18 022	19 666	22 317	26 333	29 186	32 521	36 161
Margin (%)	22%	20%	21%	21%	21%	22%	23%	24%	25%	26%
EBIT	8 931	7 877	9 176	10 250	11 511	13 384	16 965	18 756	21 601	24 725
Margin (%)	13%	11%	12%	12%	12%	13%	15%	16%	17%	18%
Net income	5 534	4 864	5 835	6 642	7 591	8 934	11 651	13 359	15 987	18 991
Margin (%)	8.0%	6.8%	7.5%	7.7%	8.1%	8.7%	10.4%	11.0%	12.3%	13.6%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	7 090	6 660	7 717	8 590	9 613	11 151	14 053	15 417	17 605	19 977
depreciation	6 285	6 531	7 036	7 771	8 155	8 933	9 368	10 429	10 919	11 436
CAPEX	-15 716	-14 692	-14 392	-15 898	-16 343	-18 991	-21 162	-15 871	-16 665	-15 832
Change in NWC	-517	-207	-176	-202	-172	-198	-168	-193	-164	-189
FCF	-2 858	-1 708	186	261	1 253	895	2 091	9 781	11 695	15 393

Source: company, RMG estimates

Fair share price calculation

WACC	15%
Long-term growth rate, %	3%
Discounted cash flow, Rm	14 687
Terminal value, Rm	132 177
Discounted terminal value, Rm	43 224
Discounted cash flows 2012-2020, Rm	57 911
Net debt, Rm	18 591
Fair market cap., Rm	39 320
# of shares, m	42 218
Fair price of common share, R	0.931
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.031

Source: company, RMG estimates

Stakeholders

MRSK Holding	50.2%
Prosperity	15.9%
Bank of NY Mellon	8.4%
Immenso Enterprises	3.2%
Energosoyuz Holdings Ltd	2.7%
Rusenergo Fund Ltd	1.5%
other	18.1%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	14.0%	14.5%	15.0%	15.5%	16.0%
2.0%	1.018	0.927	0.843	0.767	0.697
2.5%	1.070	0.974	0.886	0.805	0.731
3.0%	1.128	1.025	0.931	0.846	0.768
3.5%	1.191	1.081	0.981	0.890	0.808
4.0%	1.261	1.142	1.035	0.939	0.851

Source: company, RMG estimates

MRSK Centre and Volga

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	64 590	66 701	73 107	80 459	88 633	97 462	106 004	114 025	122 652	131 933
Growth rate (%)		3%	10%	10%	10%	10%	9%	8%	8%	8%
EBITDA	11 058	10 231	11 441	12 777	14 424	17 083	19 672	21 916	24 552	27 434
Margin (%)	17%	15%	16%	16%	16%	18%	19%	19%	20%	21%
EBIT	6 788	5 562	6 580	7 612	8 811	10 899	12 823	14 318	16 535	18 981
Margin (%)	11%	8%	9%	9%	10%	11%	12%	13%	13%	14%
Net income	4 524	3 493	4 378	5 235	6 205	7 910	9 510	10 706	12 480	14 437
Margin (%)	7.0%	5.2%	6.0%	6.5%	7.0%	8.1%	9.0%	9.4%	10.2%	10.9%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	5 545	4 608	5 486	6 303	7 260	8 922	10 445	11 642	13 415	15 372
depreciation	4 270	4 669	4 861	5 165	5 613	6 184	6 849	7 598	8 016	8 453
CAPEX	-12 935	-7 567	-8 442	-10 430	-12 333	-14 009	-15 654	-12 523	-13 150	-12 492
Change in NWC	155	-163	-138	-159	-135	-156	-132	-152	-129	-149
FCF	-2 960	1 628	1 767	880	404	941	1 508	6 564	8 153	11 184

Source: company, RMG estimates

Fair share price calculation

WACC	14.8%
Long-term growth rate, %	3%
Discounted cash flow, Rm	15 108
Terminal value, Rm	97 999
Discounted terminal value, Rm	32 587
Discounted cash flows 2012-2020, Rm	47 696
Net debt, Rm	19 222
Fair market cap., Rm	28 474
# of shares, m	112 698
Fair price of common share, R	0.2527
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0085

Source: company, RMG estimates

Stakeholders

MRSK Holding	50.4%
Jamaica Ltd	16.8%
Energys Solutions Russia	6.74%
Energysouz Holding	5.4%
other	20.6%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	13.8%	14.3%	14.8%	15.3%	15.8%
2.0%	0.277	0.251	0.227	0.206	0.186
2.5%	0.292	0.265	0.240	0.217	0.196
3.0%	0.309	0.279	0.253	0.228	0.206
3.5%	0.327	0.295	0.267	0.241	0.218
4.0%	0.347	0.313	0.283	0.255	0.230

Source: company, RMG estimates

MRSK Volga

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	48 037	51 116	55 945	61 804	68 030	74 067	78 932	84 908	91 336	98 252
Growth rate (%)		6%	9%	10%	10%	9%	7%	8%	8%	8%
EBITDA	5 674	6 125	6 806	7 639	8 523	9 930	10 705	12 244	14 127	16 198
Margin (%)	12%	12%	12%	12%	13%	13%	14%	14%	15%	16%
EBIT	2 407	2 686	2 737	3 205	3 759	4 704	4 623	6 190	8 084	10 152
Margin (%)	5%	5%	5%	5%	6%	6%	6%	7%	9%	10%
Net income	1 765	1 831	1 848	2 219	2 642	3 304	3 365	4 776	6 292	7 947
Margin (%)	3.7%	3.6%	3.3%	3.6%	3.9%	4.5%	4.3%	5.6%	6.9%	8.1%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	2 015	2 228	2 275	2 651	3 099	3 878	3 782	4 996	6 511	8 166
depreciation	3 267	3 439	4 070	4 434	4 764	5 226	6 082	6 055	6 043	6 046
CAPEX	-7 191	-9 018	-7 378	-7 435	-8 968	-13 010	-5 831	-5 040	-5 141	-5 244
Change in NWC	1 308	-327	-278	-320	-272	-312	-266	-305	-260	-299
FCF	-601	-3 677	-1 312	-670	-1 377	-4 219	3 767	5 704	7 154	8 669

Source: company, RMG estimates

Fair share price calculation

WACC	15%
Long-term growth rate, %	3%
Discounted cash flow, Rm	1 222
Terminal value, Rm	74 439
Discounted terminal value, Rm	24 343
Discounted cash flows 2012-2020, Rm	25 565
Net debt, Rm	4 987
Fair market cap., Rm	20 578
# of shares, m	178 578
Fair price of common share, R	0.1152
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0039

Source: company, RMG estimates

Stakeholders

MRSK Holding	67.63%
Russian government	0.53%
Energyo Solutions Russia	11.10%
other	20.74%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	14.0%	14.5%	15.0%	15.5%	16.0%
2.0%	0.1263	0.1144	0.1035	0.0936	0.0845
2.5%	0.1333	0.1207	0.1091	0.0986	0.0890
3.0%	0.1410	0.1275	0.1152	0.1041	0.0939
3.5%	0.1494	0.1349	0.1219	0.1100	0.0992
4.0%	0.1586	0.1431	0.1291	0.1164	0.1049

Source: company, RMG estimates

MRSK Urals

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	62 000	64 960	70 855	72 132	77 540	82 508	87 180	93 280	99 648	106 467
Growth rate (%)		5%	9%	2%	7%	6%	6%	7%	7%	7%
EBITDA	8 241	8 012	8 886	8 654	9 462	10 024	10 400	11 169	11 934	12 756
Margin (%)	13%	12%	13%	12%	12%	12%	12%	12%	12%	12%
EBIT	4 089	3 666	4 374	3 872	4 420	4 699	4 762	5 186	5 998	6 885
Margin (%)	7%	6%	6%	5%	6%	6%	5%	6%	6%	6%
Net income	3 271	2 945	3 527	3 125	3 592	3 837	3 896	4 254	4 921	5 650
Margin (%)	5.3%	4.5%	5.0%	4.3%	4.6%	4.6%	4.5%	4.6%	4.9%	5.3%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	3 245	2 930	3 492	3 091	3 522	3 740	3 788	4 123	4 767	5 472
depreciation	4 152	4 346	4 512	4 782	5 042	5 325	5 638	5 983	5 936	5 871
CAPEX	-8 323	-6 374	-7 805	-7 950	-8 491	-9 148	-9 840	-5 412	-5 141	-4 884
Change in NWC	-643	-347	-399	-339	-390	-332	-382	-324	-373	-317
FCF	-1 569	555	-200	-417	-318	-415	-795	4 369	5 189	6 142

Source: company, RMG estimates

Fair share price calculation

WACC	15%
Long-term growth rate, %	3%
Discounted cash flow, Rm	5 074
Terminal value, Rm	52 738
Discounted terminal value, Rm	17 246
Discounted cash flows 2012-2020, Rm	22 320
Net debt, Rm	6 617
Fair market cap., Rm	15 703
# of shares, m	87 430
Fair price of common share, R	0.180
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0060

Source: company, RMG estimates

Stakeholders

MRSK Holding	51.52%
Electricity Distribution Investment (KЭC)	20.66%
Energo Solutions Russia (Cyprus) Ltd	5.23%
Russian government	3.71%
Rusenergo Fund Lt	1.72%
Halcyon Power Investment	1.58%
Unicredit securities	1.53%
Uralsib	1.11%
other	12.94%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	14.0%	14.5%	15.0%	15.5%	16.0%
2.0%	0.196	0.178	0.163	0.148	0.135
2.5%	0.206	0.187	0.171	0.156	0.142
3.0%	0.217	0.197	0.180	0.163	0.149
3.5%	0.229	0.208	0.189	0.172	0.156
4.0%	0.242	0.220	0.200	0.181	0.165

Source: company, RMG estimates

MOESK

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	129 366	110 866	119 159	127 854	141 431	156 511	167 973	180 281	193 496	207 686
Growth rate (%)		-14%	7%	7%	11%	11%	7%	7%	7%	7%
EBITDA	41 648	35 546	38 227	41 237	46 711	52 867	57 010	61 474	66 286	71 472
Margin (%)	32%	32%	32%	32%	33%	34%	34%	34%	34%	34%
EBIT	25 109	18 265	19 731	20 574	23 743	28 464	31 902	35 519	39 703	44 173
Margin (%)	19%	16%	17%	16%	17%	18%	19%	20%	21%	21%
Net income	18 043	12 517	13 690	14 364	16 919	21 121	24 324	27 853	31 200	34 776
Margin (%)	13.9%	11.3%	11.5%	11.2%	12.0%	13.5%	14.5%	15.4%	16.1%	16.7%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	19 707	15 136	16 309	16 983	19 514	23 184	25 821	28 556	31 903	35 479
depreciation	16 539	17 282	18 495	20 663	22 968	24 403	25 108	25 955	26 583	27 299
CAPEX	-29 322	-31 731	-44 300	-48 103	-40 052	-32 795	-35 193	-33 434	-35 105	-33 350
Change in NWC	-11 565	400	1 379	-1 172	-1 348	-1 145	-1 317	-1 120	-1 288	-1 094
FCF	-4 641	1 086	-8 117	-11 628	1 082	13 647	14 418	19 958	22 093	28 333

Source: company, RMG estimates

Fair share price calculation

WACC	14.3%
Long-term growth rate, %	3%
Discounted cash flow, Rm	28 570
Terminal value, Rm	258 602
Discounted terminal value, Rm	88 862
Discounted cash flows 2012-2020, Rm	117 433
Net debt, Rm	42 530
Fair market cap., Rm	74 903
# of shares, m	48 707
Fair price of common share, R	1.54
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0514

Source: company, RMG estimates

Stakeholders

MRSK Holding	50.90%
Gazprom	22.12%
Moscow government	5%
Gazprombank	5.23%
other	16.75%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	13.3%	13.8%	14.3%	14.8%	15.3%
2.0%	1.696	1.527	1.373	1.232	1.103
2.5%	1.796	1.616	1.452	1.303	1.16
3.0%	1.905	1.712	1.538	1.379	1.235
3.5%	2.026	1.819	1.632	1.463	1.309
4.0%	2.160	1.936	1.735	1.554	1.390

Source: company, RMG estimates

Lenenergo

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	32 257	33 073	35 985	39 968	44 422	49 403	54 579	58 548	62 809	67 382
Growth rate (%)		3%	9%	11%	11%	11%	10%	7%	7%	7%
EBITDA	9 823	9 219	9 707	10 952	12 361	13 956	15 594	16 693	17 870	19 132
Margin (%)	30%	28%	27%	27%	28%	28%	29%	29%	28%	28%
EBIT	754	4 433	4 544	5 448	6 586	7 893	9 321	10 217	11 401	12 632
Margin (%)	2%	13%	13%	14%	15%	16%	17%	17%	18%	19%
Net income	-943	2319	2542	3266	4177	5311	6594	7581	8529	9513
Margin (%)	-2.9%	7.0%	7.1%	8.2%	9.4%	10.7%	12.1%	12.9%	13.6%	14.1%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	655	3 853	3 908	4 631	5 542	6 566	7 673	8 321	9 269	10 253
depreciation	9 069	4 786	5 163	5 504	5 775	6 062	6 273	6 476	6 469	6 500
CAPEX	-11 789	-12 894	-13 520	-12 486	-12 657	-11 435	-11 541	-6 357	-6 993	-6 294
Change in NWC	2 742	-381	-438	-373	-429	-364	-419	-356	-409	-348
FCF	677	-4 636	-4 888	-2 722	-1 768	829	1 986	8 084	8 336	10 111

Source: company, RMG estimates

Fair share price calculation

WACC	14.3%
Long-term growth rate, %	3%
Discounted cash flow, Rm	-574
Terminal value, Rm	88 599
Discounted terminal value, Rm	29 462
Discounted cash flows 2012-2020, Rm	28 888
Net debt, Rm	20 275
Fair market cap., Rm	8 613
Fair value of prefs, Rm	2 493
# of shares, m	926
Fair price of common share, R	6.61
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.221

Source: company, RMG estimates

Stakeholders

MRSK Holding	50.31%
Saint-Petersburg	25.16%
I.D.E Electricity Distribution Inv. (KES)	8.76%
Energyo Solutions Russia	4.15%
Rusenergo Fund Ltd	2.75%
JP Morgan Funds	1.83%
other	7.04%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	13.8%	14.3%	14.8%	15.3%	15.8%
2.0%	9.22	6.40	3.83	1.48	-0.68
2.5%	10.90	7.89	5.16	2.67	0.40
3.0%	12.73	9.52	6.61	3.97	1.56
3.5%	14.74	11.29	8.18	5.37	2.81
4.0%	16.95	13.24	9.90	6.90	4.17

Source: company, RMG estimates

MRSK Siberia

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	52 311	54 267	58 370	62 756	63 922	69 956	76 563	82 318	88 506	95 159
Growth rate (%)		4%	8%	8%	2%	9%	9%	8%	8%	8%
EBITDA	4 926	4 496	4 735	5 214	5 110	6 245	7 675	8 631	9 759	10 995
Margin (%)	9%	8%	8%	8%	8%	9%	10%	10%	11%	12%
EBIT	110	581	758	1 153	944	1 943	3 188	3 965	5 019	6 216
Margin (%)	0%	1%	1%	2%	1%	3%	4%	5%	6%	7%
Net income	-475	126	267	558	339	1 164	2 211	2 832	3 676	4 633
Margin (%)	-0.9%	0.2%	0.5%	0.9%	0.5%	1.7%	2.9%	3.4%	4.2%	4.9%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	-55	550	691	1 014	859	1 652	2 635	3 256	4 100	5 057
depreciation	4 816	3 914	3 977	4 061	4 166	4 302	4 487	4 666	4 740	4 779
CAPEX	-6 876	-4 538	-4 819	-5 112	-5 526	-6 150	-6 284	-5 401	-5 131	-5 231
Change in NWC	3 493	-419	-356	-409	-348	-400	-340	-391	-332	-382
FCF	1 378	-493	-507	-447	-849	-596	498	2 130	3 376	4 223

Source: company, RMG estimates

Fair share price calculation

WACC	15%
Long-term growth rate, %	3%
Discounted cash flow, Rm	1 649
Terminal value, Rm	36 265
Discounted terminal value, Rm	11 859
Discounted cash flows 2012-2020, Rm	13 508
Net debt, Rm	5 442
Fair market cap., Rm	8 066
# of shares, m	94 815
Fair price of common share, R	0.085
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0028

Source: company, RMG estimates

Stakeholders

MRSK Holding	55.60%
Donalink	27.50%
GMK NN	7.70%
other	9.20%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	14.0%	14.5%	15.0%	15.5%	16.0%
2.0%	0.095	0.084	0.074	0.065	0.057
2.5%	0.101	0.090	0.079	0.070	0.061
3.0%	0.108	0.096	0.085	0.075	0.066
3.5%	0.116	0.103	0.091	0.080	0.071
4.0%	0.125	0.111	0.098	0.086	0.076

Source: company, RMG estimates

MRSK North-West

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	33 288	35 048	38 152	41 702	45 872	50 070	54 114	57 978	62 048	66 412
Growth rate (%)		5%	9%	9%	10%	9%	8%	7%	7%	7%
EBITDA	4 209	4 136	4 600	5 227	6 144	7 231	8 215	9 035	9 940	10 925
Margin (%)	13%	12%	12%	13%	13%	14%	15%	16%	16%	16%
EBIT	1 325	1 125	1 219	1 668	2 432	3 319	4 050	4 569	5 349	6 280
Margin (%)	4%	3%	3%	4%	5%	7%	7%	8%	9%	9%
Net income	-475	126	267	558	339	1 164	2 211	2 832	3 676	4 633
Margin (%)	-0.9%	0.2%	0.5%	0.9%	0.5%	1.7%	2.9%	3.4%	4.2%	4.9%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	874	976	1 059	1 418	2 030	2 739	3 324	3 723	4 322	5 067
depreciation	2 884	3 011	3 381	3 560	3 712	3 913	4 165	4 466	4 591	4 646
CAPEX	-4 908	-6 634	-5 133	-5 052	-5 681	-6 388	-7 116	-5 693	-5 124	-4 867
Change in NWC	255	-166	-182	-164	-181	-162	-179	-161	-177	-159
FCF	-895	-2 813	-875	-238	-120	101	194	2 335	3 613	4 686

Source: company, RMG estimates

Fair share price calculation

WACC	15%
Long-term growth rate, %	3%
Discounted cash flow, Rm	222
Terminal value, Rm	40 236
Discounted terminal value, Rm	13 158
Discounted cash flows 2012-2020, Rm	13 380
Net debt, Rm	4 693
Fair market cap., Rm	8 687
# of shares, m	95 786
Fair price of common share, R	0.091
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0030

Source: company, RMG estimates

Stakeholders

MRSK Holding	55.38%
Energys Solutions Russia	12.65%
Energosouz Holdings	5.65%
The Bank of New York Mellon	7.39%
GMK NN	2.56%
Memphito Ltd	4.57%
other	11.80%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	14.0%	14.5%	15.0%	15.5%	16.0%
2.0%	0.102	0.090	0.079	0.069	0.060
2.5%	0.109	0.096	0.085	0.074	0.064
3.0%	0.117	0.103	0.091	0.079	0.069
3.5%	0.125	0.111	0.097	0.085	0.075
4.0%	0.134	0.119	0.105	0.092	0.080

Source: company, RMG estimates

MRSK North Caucasus

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	12 978	14 076	15 273	16 739	18 522	20 338	22 236	23 905	25 700	27 631
Growth rate (%)		8%	9%	10%	11%	10%	9%	8%	8%	8%
EBITDA	1 608	1 924	2 360	2 979	3 889	5 004	6 241	6 891	7 635	8 447
Margin (%)	12%	14%	15%	18%	21%	25%	28%	29%	30%	31%
EBIT	95	689	683	1 066	1 808	2 729	3 765	4 214	4 882	5 640
Margin (%)	1%	5%	4%	6%	10%	13%	17%	18%	19%	20%
Net income	-551	226	136	443	1 037	1 773	2 603	3 074	3 608	4 214
Margin (%)	-4.2%	1.6%	0.9%	2.6%	5.6%	8.7%	11.7%	12.9%	14.0%	15.3%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	-303	633	649	955	1 549	2 286	3 115	3 446	3 980	4 586
depreciation	1 513	1 235	1 677	1 913	2 081	2 275	2 476	2 676	2 753	2 807
CAPEX	-6 078	-6 146	-4 296	-3 777	-4 244	-4 503	-4 703	-3 528	-3 351	-3 184
Change in NWC	4 435	-480	-528	-475	-523	-470	-517	-466	-512	-461
FCF	-433	-4 758	-2 498	-1 384	-1 137	-413	370	2 129	2 870	3 749

Source: company, RMG estimates

Fair share price calculation

WACC	15.5%
Long-term growth rate, %	3%
Discounted cash flow, Rm	-5 624
Terminal value, Rm	30 839
Discounted terminal value, Rm	9 724
Discounted cash flows 2012-2020, Rm	4 100
Net debt, Rm	691
Fair market cap., Rm	3 409
# of shares, m	56.092
Fair price of common share, R	60.8
\$/rub, average in 2012	29.9
Fair price of common share, \$	2.03

Source: company, RMG estimates

Stakeholders

MRSK Holding	58.3%
other	41.7%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	14.5%	15.0%	15.5%	16.0%	16.5%
2.0%	74.0	59.6	46.4	34.3	23.3
2.5%	82.6	67.3	53.3	40.6	28.9
3.0%	91.9	75.6	60.8	47.3	34.9
3.5%	102.1	84.7	68.9	54.5	41.5
4.0%	113.3	94.5	77.7	62.4	48.5

Source: company, RMG estimates

MRSK South

Financial forecasts, Rm*

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	24 356	23 979	26 644	29 382	32 288	35 451	39 066	42 012	45 181	48 589
Growth rate (%)		-2%	11%	10%	10%	10%	10%	8%	8%	8%
EBITDA	5 727	4 362	5 170	5 818	6 501	7 552	8 941	9 854	10 909	12 059
Margin (%)	24%	18%	19%	20%	20%	21%	23%	23%	24%	25%
EBIT	3 537	2 048	2 609	3 028	3 536	4 380	5 518	6 149	7 000	7 987
Margin (%)	15%	9%	10%	10%	11%	12%	14%	15%	15%	16%
Net income	117	203	2 9	300	351	435	548	610	695	793
Margin (%)	0.5%	0.8%	1.0%	1.0%	1.1%	1.2%	1.4%	1.5%	1.5%	1.6%

* under RAS

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	3 197	1 820	2 331	2 711	3 174	3 945	4 986	5 559	6 335	7 235
depreciation	2 190	2 314	2 561	2 790	2 965	3 171	3 423	3 705	3 909	4 072
CAPEX	-4 019	-5 397	-5 429	-4 973	-5 546	-6 315	-6 952	-6 257	-5 944	-6 241
Change in NWC										
FCF	1 368	-1 263	-537	529	592	801	1 457	3 007	4 300	5 066

Source: company, RMG estimates

Fair share price calculation

WACC	14.9%
Long-term growth rate, %	3%
Discounted cash flow, Rm	4 846
Terminal value, Rm	43 811
Discounted terminal value, Rm	14 412
Discounted cash flows 2012-2020, Rm	19 258
Net debt, Rm	15 185
Fair market cap., Rm	4 073
# of shares, m	49 811
Fair price of common share, R	0.082
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.0027

Source: company, RMG estimates

Stakeholders

MRSK Holding	51.66%
Lancrenan Inv.	9.25%
Prosperity	6.85%
other	32.24%

Source: company, RMG estimates

Sensitivity analysis

Terminal growth rate	Discount rate = WACC, %				
	13.9%	14.4%	14.9%	15.4%	15.9%
2.0%	0.107	0.081	0.057	0.035	0.015
2.5%	0.122	0.094	0.069	0.046	0.024
3.0%	0.138	0.109	0.082	0.057	0.035
3.5%	0.156	0.125	0.096	0.070	0.046
4.0%	0.176	0.142	0.111	0.084	0.058

Source: company, RMG estimates

Tomsk RK

Financial forecasts, Rm*

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	6 574	6 806	7 323	7 878	8 476	9 120	9 812	10 557	11 358	12 220
Growth rate (%)		3.5%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
EBITDA	973	817	915	985	1 102	1 186	1 325	1 425	1 590	1 711
Margin (%)	14.8%	12.0%	12.5%	12.5%	13.0%	13.0%	13.5%	13.5%	14.0%	14.0%
EBIT	722	546	625	677	776	840	958	1 037	1 179	1 275
Margin (%)	11.0%	8.0%	8.5%	8.6%	9.2%	9.2%	9.8%	9.8%	10.4%	10.4%
Net income	374	314	352	379	424	456	509	548	611	658
Margin (%)	5.7%	4.6%	4.8%	4.8%	5.0%	5.0%	5.2%	5.2%	5.4%	5.4%

* under RAS

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	578	437	500	542	621	672	767	830	943	1 020
depreciation	251	271	290	307	326	345	366	388	411	436
CAPEX	-486	-416	-750	-800	-820	-840	-860	-850	-850	-850
Change in NWC										
FCF	343	292	40	49	127	178	273	368	504	606

Source: company, RMG estimates

Fair share price calculation

WACC	14.3%
Long-term growth rate, %	3%
Discounted cash flow, Rm	1 208
Terminal value, Rm	4 992
Discounted terminal value, Rm	1 576
Discounted cash flows 2012-2020, Rm	2 785
Net debt, Rm	-625
Fair value of prefs	221.4
Fair market cap., Rm	3 188
# of shares, m	3 819
Fair price of common share, R	0.83
\$/rub, average in 2012	29.9
Fair price of common share, \$	0.028

Source: company, RMG estimates

Stakeholders

MRSK Holding	52%
Neft-activ	25.88%
others	22.1%

Source: company, RMG estimates

MRSK Holding

Financial forecasts, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	634 608	637 263	693 471	747 755	814 929	889 603	961 555	1 032 113	1 107 49	1 188 451
Growth rate (%)	13%	0%	9%	8%	9%	9%	8%	7%	7%	7%
EBITDA	106 908	102 551	113 213	122 694	137 612	157 298	175 983	192 933	212 054	232 793
Margin (%)	17%	16%	16%	16%	17%	18%	18%	19%	19%	20%
EBIT	59 254	53 306	60 296	65 502	76 730	92 819	108 185	121 518	139 980	160 225
Margin (%)	9%	8%	9%	9%	9%	10%	11%	12%	13%	13%
Net income	38 966	36 338	42 153	46 487	56 038	70 267	84 005	97 270	113 735	131 711
Margin (%)	6.1%	5.7%	6.1%	6.2%	6.9%	7.9%	8.7%	9.4%	10.3%	11.1%

Source: company, RMG estimates

FCF calculation, Rm

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
NOPLAT	44 565	42 645	48 236	52 402	61 384	74 255	86 548	97 214	111 984	128 180
depreciation	47 654	49 245	52 917	57 192	60 881	64 478	67 797	71 415	72 074	72 568
CAPEX	-129 209	-124 000	-146 600	-144 900	-135 100	-138 100	-136 300	-113 217	-115 579	-111 648
FCF	-35 850	-32 111	-45 446	-35 307	-12 834	634	18 045	55 412	68 479	89 100

Source: company, RMG estimates

Stakeholders

Russian government	53.7%
other	46.3%

Source: company data

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