

### Regulatory-Risk Decline A Sector Trigger

#### State Companies Still Face Capex Pressure

##### Regulation improves, but state control poses threat.

Regulatory risks in the sector are declining with the end of the election period and the approval of new RAB regulations for discos as well as recent adjustments to long-term regulated tariffs. This protects shareholders' interests and signals gradual transition for the heating business from annual to long-term tariffs. However, state-controlled companies retain their massive capex and reorganization processes, creating risks to minority shareholders.

**Top picks in second tier.** E.On Russia (EONR RX – Buy) and Enel-OGK-5 (OGKE RX – Buy), the most efficient privately controlled gencos, have the best FCF-generation prospects. We also favor the MRSK Holding's subsidiaries, given their strong financial performances following the recently finalized revision of the RAB tariff system and the privatization prospects for the sector in 2013-14. We particularly like MRSK Center & Volga (MRKP RX – Buy) and MRSK Volga (MRKV RX – Buy). Among liquid names, we currently prefer Federal Grid (FEES RX – Buy) and Inter RAO (IRAO RX – Buy), which offer better short-term opportunities.

##### REGULATION IMPROVES; SOME UNCERTAINTY REMAINS

**President approves amendments to tariff regulation.** The state may compensate losses from the previously-approved tariff revision.

**RAB parameters approved last autumn.** The reintroduction of the RAB tariff system may generate additional demand for discos.

**Elections over.** Tariffs increased in 2H12 following a year-and-a-half freeze caused by the election campaign.

**New market model under discussion.** The wholesale market model is under discussion, creating some risks for gencos.

**Grid privatization on agenda.** The government is discussing privatizing the grid this year.

##### CORPORATE RISKS IN CAPEX AND CONSOLIDATION

**Consolidation continues.** Consolidation continues in state-controlled discos and gencos.

**Capex still an issue for sector.** The sector's investment program is still heavy and risky for shareholders.

##### VALUATION GAP TO NARROW

**Attractive on DCF.** We expect our top sector picks to trade with an average 27% upside to our DCF targets.

**Undervalued on multiples.** Heavy capex pressure on our top picks results in huge 50% discounts on 2013 EV/EBITDA and 36% on 2013 P/E.

##### Upside Attractive

TPs and Recommendations				
Company	Price, \$	TP \$	Up, (Dn), %	Rec
E.ON Russia	0.092	0.117	27	Buy
Mosenergo	0.051	0.071	39	Buy
Enel OGK-5	0.056	0.080	43	Buy
RusHydro	0.025	0.029	14	Buy
Inter RAO	0.0008	0.0012	39	Buy
Federal Grid Co	0.0072	0.0093	30	Buy
MRSK Holding	0.0687	0.0755	10	Buy
MRSK Ctr & Volga	0.0066	0.0075	13	Buy
MRSK Center	0.0204	0.0234	15	Buy
MRSK Volga	0.0028	0.0032	15	Buy

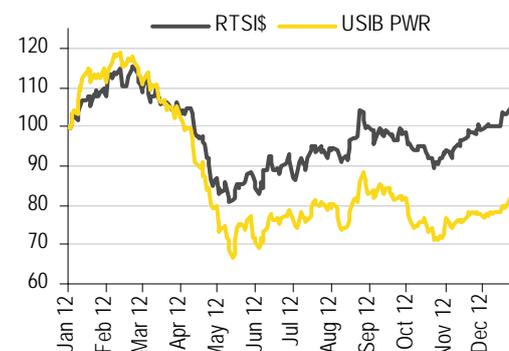
Source: Bloomberg, MICEX-RTS, URALSIB estimates

##### Multiples Attractive

Company	P/E			EV/EBITDA		
	2011	2012E	2013E	2011	2012E	2013E
E.ON Russia	11.7	10.1	10.0	6.4	5.4	5.3
Mosenergo	6.8	15.3	8.4	2.1	2.6	2.2
Enel OGK-5	11.7	9.8	11.4	6.9	5.7	5.9
RusHydro	8.1	12.3	7.9	4.8	7.1	5.3
Inter RAO	4.7	Neg	16.0	3.6	5.1	4.2
Federal Grid Co	5.4	13.8	10.2	3.5	3.9	3.5
MRSK Holding	4.1	8.9	6.3	3.7	4.2	3.7
MRSK Ctr & Volga	4.9	28.2	5.2	3.6	5.1	3.2
MRSK Center	4.7	9.1	11.7	2.8	3.3	3.5
MRSK Volga	8.4	7.5	15.3	3.4	2.9	3.4

Source: Bloomberg, Micex-RTS, URALSIB estimates

##### Sector Index, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

## REGULATION IMPROVES; SOME UNCERTAINTY EXISTS

### President Approves Tariff-Regulation Amendments

**State to compensate losses from tariff revision.** President Vladimir Putin has signed an amendment to the Russian energy law allowing companies to receive state compensation if previously-approved long-term tariffs are revised. If the tariffs are revised as a result of local government initiative, the compensation is to be provided by local governments. However, if the tariff revision is initiated at the federal level, then the federal budget is to compensate losses from such revisions. We expect this move to help return investor interest to the electricity-distribution sector. The reliability of investment in the sector was undermined significantly following the government's decision to revise long-term tariffs at the beginning of 2011 ahead of the 2011-12 election campaign.

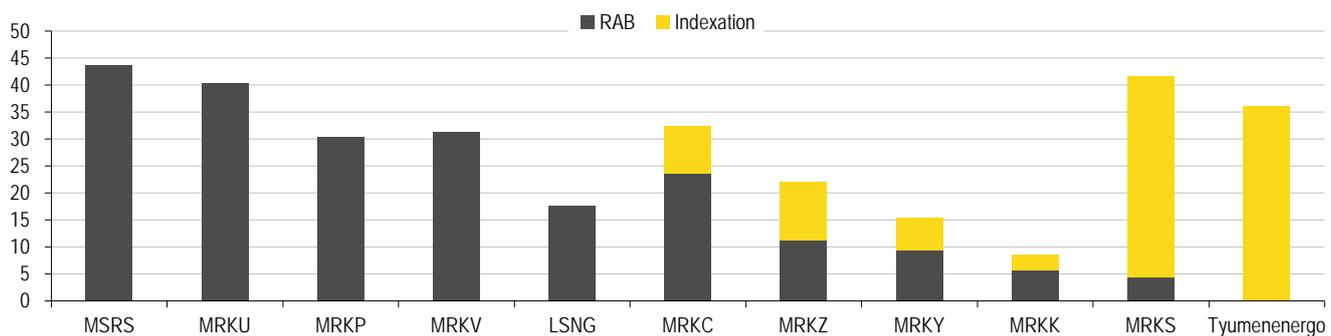
**Long-term heating regulation by 2016.** The amendments signed by Putin also stipulate a gradual move from annual tariff revisions for the heating business towards a long-term regulation system. While details of a long-term regulation system for heating remain unclear, we see this move as positive for co-generation companies such as TGK-1 and Mosenergo, which would make additional profit on the back of cost-cutting programs in heating. Any cost cutting means lower revenues in the next regulatory period under the current annually revised cost-plus tariffs, while it could generate additional profit for companies once the regulatory period is three-five years and companies are allowed to keep additional profit from cost cutting. Long-term regulation will also help to attract additional financing for the renovation of heat assets, as it will add clarity for investment planning. Improvements to heating notwithstanding, the main issue remains cash collection for heating, as heat customers are less organized, as it is much more complicated to limit heat supply than electricity supply.

### RAB Parameters Approved Last Fall

**Distributors receive new long-term tariff regulation.** The new parameters for RAB regulation were approved last autumn by regional energy commissions and the Federal Tariff Service. Tariffs were revised, as some regions experienced sharp 25-30% surges in distribution tariffs in 2011. Such high tariff growth was unacceptable in the pre-election period, as it contributed substantially to the final electricity price: distribution tariffs amount to as much as 40% of the final average electricity price. As a result of the revision, the RAB base was downgraded by 29%, and several regions were switched from the RAB system to long-term tariff indexation, which is less attractive for companies, as it does not take the return on invested capital into account. However, the revision and approval of long-term tariffs for discos is a positive move, as it should support their stable performances. (See our report *Distribution Companies – Changes to RAB Regulation Nearly Complete*, from 1 November 2012).

### Just Five of MRSK Holding's 11 Subsidiaries Have Full-Scale RAB Regulation

Breakdown of electricity output by regulation method, bln kWh



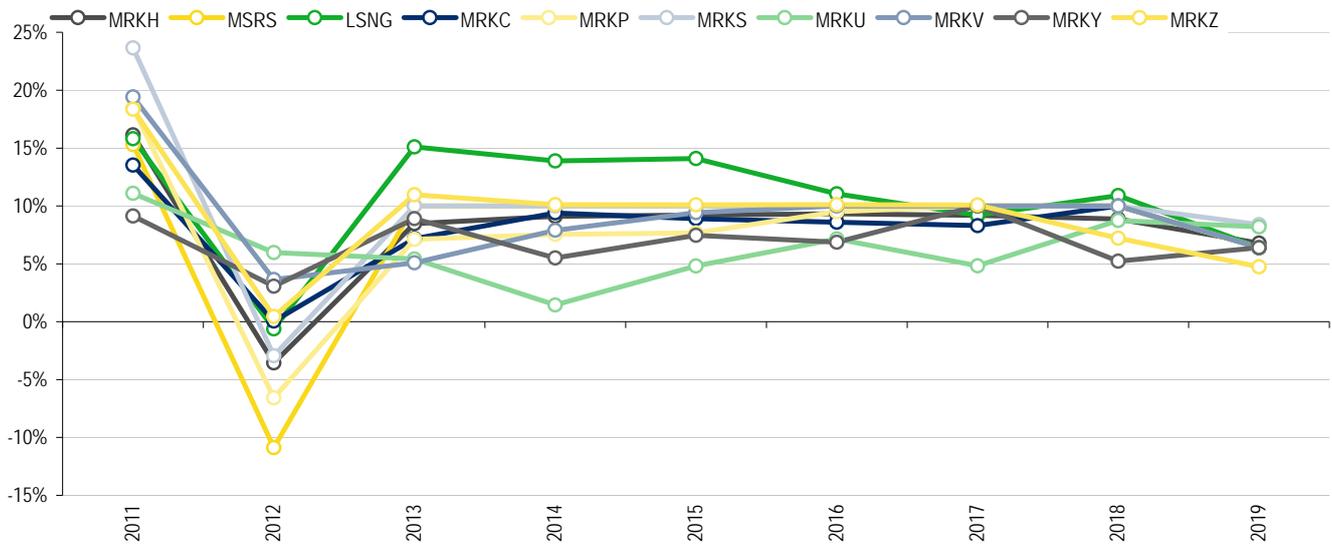
Source: URALSIB estimates

**Tariff growth to slow.** While the approved RAB tariffs should result in lower tariff growth for 2013-14 (10% versus the previously approved 17%), we believe that the market has overreacted to the tariff revision. The discount to EM peers on P/E and EV/EBITDA expanded from 23% and 35% to 50% and 68% following the tariff decision. The 60% decline in distribution stocks was not only irrational, but also an overreaction by investors, as the entire concept of long-term regulation was violated by the government, which decided to revise tariffs that had been approved only a few months before. With the last amendments (at the end of 2012), the government is trying to regain the trust of investors, looking to compensate any losses caused by the revision of long-term tariffs. The new tariffs have maximum growth of 10%, which looks realistic from a socio-economic point of view and makes the new scenario more reliable for investors.

Decline in Regulatory Risks is Sector Trigger

**Long-term Tariff Growth Not To Exceed 8%**

Tariff growth forecast, %



Source: URALSIB estimates

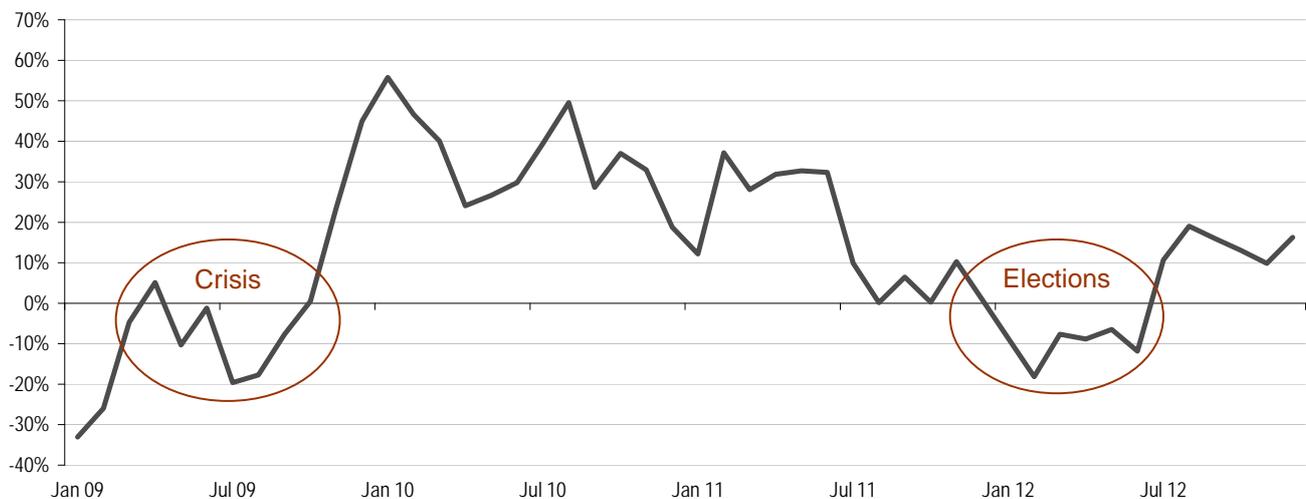
**Elections Are Over**

**Tariffs increased starting from 2H12.** With the presidential elections in March, tariff growth was postponed from January until July. Once the elections were over, the 1.5-year tariff freeze came to an end, and distribution tariffs were raised 10%, gas prices increased 15%, and wholesale electricity prices for 2H12 up 15% YoY in European Russia and 13% YoY in Siberia. With the next election scheduled for 2017-18, it is reasonable to expect a relatively stable tariff environment for Russian utilities over the next few years.

**Government limits electricity-price growth in 2011-12.** Electricity and heat tariffs were used as tools to achieve political goals during the elections. The government managed to revise tariffs for discos, change tariffs for gencos operating in so called 'force mode' (providing capacity necessary for stable system operation), and cancel the investment component for RusHydro and Rosenergoatom. The government used its administrative resources to influence unregulated wholesale electricity prices, which were also under pressure in 2011-12.

**Unregulated Wholesale Price Under Pressure Prior To Elections**

Price growth in European price zone, YoY, %



Source: URALSIB estimates

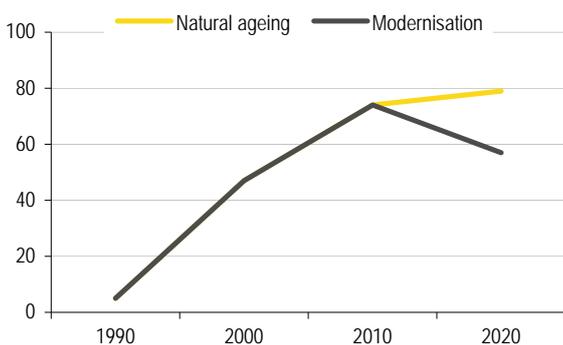
## New Market Model Is Under Discussion

**Wholesale electricity market model could be revised.** The wholesale market currently consists of two main parts, namely the electricity and capacity markets. On the electricity market, the majority of volumes are sold on a day-ahead basis, and only a fraction through long-term contracts. The proposed scenario for market reform suggests combining the capacity and electricity markets and increasing the volume of bilateral unregulated contracts, leaving the day-ahead market only for marginal volumes. The impact of these changes is not obvious for gencos. However, it should help protect the market from administrative pressure, as the majority of flows will be contracted through bilateral contracts, thus making it much more difficult to influence the price of contracts compared to the day-ahead market.

**Gencos may expect ROI for capacity modernization.** Investment in the construction of new generation capacity has been accelerated and supported with the approval of a special compensation mechanism which guarantees gencos an 11% ROI in new generation capacity. The average capacity payment for newly constructed gas-fired generation units is about RUB500,000 MW/month compared to the RUB128,000 MW/month price cap on existing capacity in the European price zone. However, the market requested not only new construction but also modernization of capacity, which is also quite capital intensive. Gencos are looking for special regulatory incentives to make modernization projects economically feasible and value-accretive. One of the key objectives for regulator is improvement of the power-system stability and security, and another is the overall obsolescence of existing generating assets. This favors the introduction of a guaranteed ROI mechanism for modernization projects. Enel-OGK-5 last year announced a RUB47 bln capacity-modernization program for 2012-16, and any progress in compensation for modernization will be a trigger for the sector, and for Enel-OGK-5 in particular.

### Russia's Thermal Power Capacity

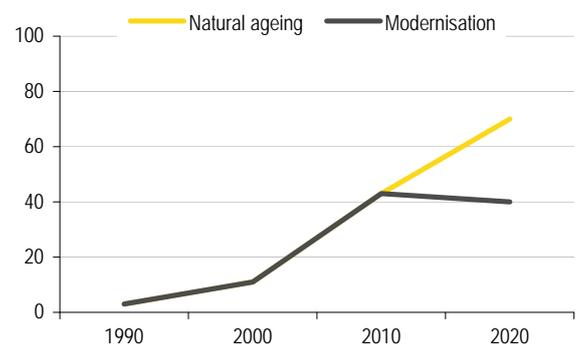
Asset amortisation, %



Source: URALSIB estimates

### Russia's Hydro Power Capacity

Asset amortisation, %



Source: URALSIB estimates

## Privatization of Grid is on the Agenda

**One or two regional MRSKs may be privatized this year.** Controlling stakes in one or two regional MRSKs may be sold this year, according to state officials. The so-called shortlist of companies includes MRSK Center, MRSK Center & Volga, MRSK Volga, and MRSK Urals. Among potential bidders for the stakes' may be foreign investors, including EDF's distribution subsidiary (which already manages discos in Siberia) and Enel. The sector may also be interesting to Russian strategic investors such as Gazprom, Sistema, and En+. A strategic utilities investor last year purchased a controlling stake in Kurganenergo from MRSK Urals at 2011 EV/EBITDA of 8.7, almost treble the current multiples for MRSKs. We see the potential sector privatization as a core driver for the sector, as it may trigger stock revaluations.

**CORPORATE RISKS IN CAPEX AND CONSOLIDATION**

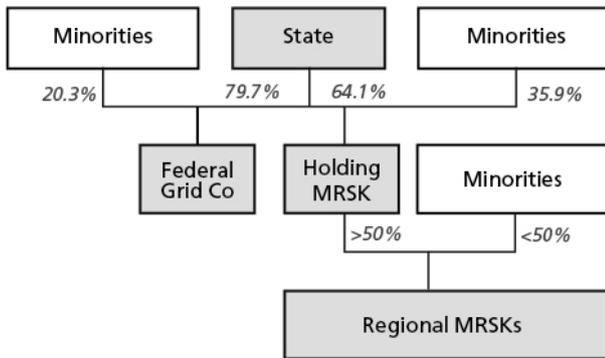
**Consolidation Continues**

**State in process of creating grid champion.** Consolidation of Russian distribution assets was finally approved by the president last year. According to the plan, MRSK Holding is to be renamed Russian Grid. Russian Grid will then issue additional shares to acquire 79.7% stake in Federal Grid Company from the state, making Federal Grid Company a subsidiary of Russian Grid. The valuation for the transaction is to be announced in March-April 2013, while the consolidation should be completed in June. The core drivers for MRSK Holding and Federal Grid Company will be the swap ratios to be announced during the process of asset consolidation. Moreover, the privatization of MRSK Holding’s subsidiaries is unlikely to be initiated prior to the asset consolidation being completed.

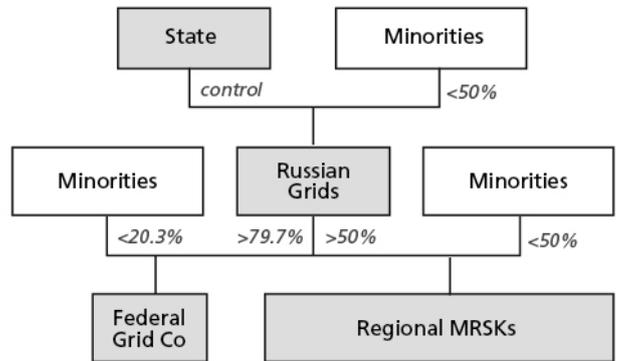
**State Stakes in Transcos and Discos To Be Consolidated on Russian Grids’ Balance**

Federal Grid Company to become subsidiary

**Current ownership structure**



**Target ownership structure**

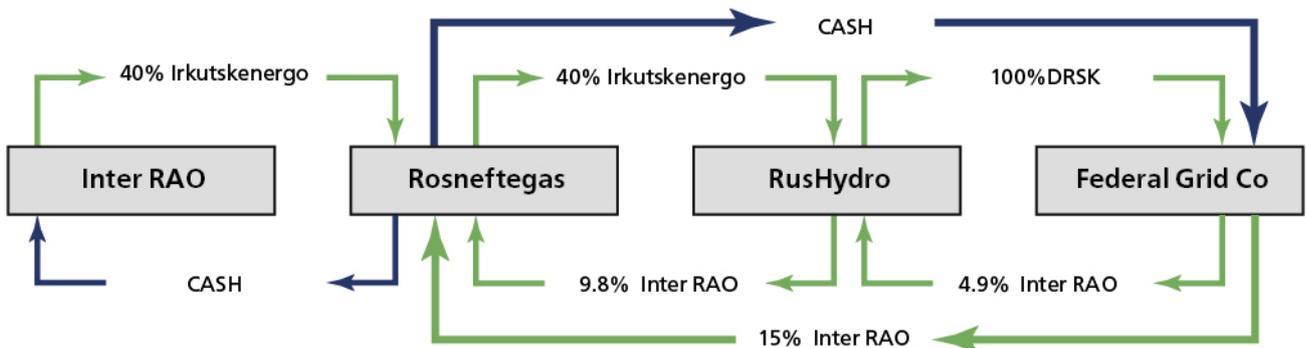


Source: Energy Ministry, URALIB estimates

**RusHydro transaction with Irkutskenergo still not closed.** Another long-lasting story in the sector remains the deal which includes RusHydro, Irkutskenergo, Inter RAO, and Eurosibenergo, as well as Rosneftegaz as a new member of the deal group. The latest plan is for RusHydro to sell 100% of Far-East Distribution Company to Federal Grid in exchange for a 4.9% stake in Inter RAO; this will bring RusHydro’s stake in Inter RAO up to 9.8%. Rosneftegaz will simultaneously purchase a 40% stake in Irkutskenergo from Inter RAO. RusHydro will purchase a 40% stake in Irkutskenergo from Rosneftegaz, paying with a 9.8% stake in Inter RAO. This transaction will allow RusHydro to move forward towards the assets swap with Eurosibenergo and receive up to 30% in the latter. The transaction may be valued at the current market price and support RusHydro shares, or it may pressure Inter RAO stock. The pressure may be a result of a lower than previously announced valuation of 40% of Irkutskenergo and consequently lower deal proceeds going to Inter RAO.

**Asset-Shuffling Scenario Proposed By Government**

Proposed in December



Source: URALIB estimates

Decline in Regulatory Risks is Sector Trigger

### Capex Is Still an Issue for the Sector

**RusHydro involved in power-plant construction in Far East.** The state is continuing its utilities-sector policies, which are risky for other shareholders. RusHydro plans to raise RUB50 bln from the state via an equity placement to finance thermal-power-plant construction in Russia's Far East. RusHydro's management believes that construction of new capacity in the Far East is economically feasible, as the new power plants will continue to receive tariffs set at the opex levels of old, inefficient plants. We believe that the final regulation has yet to be established and will depend on subsidies from local authorities and the government. We thus see no clarity regarding the investment attractiveness of Far-East projects, while there is a transparent mechanism of guaranteed ROI for newly-built capacities in the European and Siberian price zones.

**Inter RAO may raise equity to finance HPP construction in Kyrgyzstan.** A controlling stake in Inter RAO may be transferred to Rosneftgaz's control, as are various other stakes in state companies. Media report that Inter RAO may issue additional shares to raise up to RUB60 bln to finance construction of hydro plants in Kyrgyzstan. The details of the project are unclear, and it might be a risk for current Inter RAO shareholders.

**Near-term grid capex heavy.** The heavy capex at state controlled companies is to continue for the next few years. Distribution-sector capex is expected at RUB750 bln in 2013-17, and as a result, FCF may appear at some regional MRSKs only in 2018, while we expect the consolidated Russian Grid to become FCF positive in 2016. RusHydro is to become FCF positive by 2015 if it does not be involved in ambitious new state investment projects. We expect Inter RAO to be FCF positive in 2015; however, the plans to construct power plants in the FSU may damage its cashflow forecast.

### VALUATION GAP TO NARROW

---

#### DCF Upside Is Lower than on Multiples as Result of Heavy Capex Pressure

**Upside exists.** We see upside for our top sector picks: 27% for E.ON Russia, 43% for Enel-OGK5, and 39% for Mosenergo. Our top disco picks are MRSK Center & Volga and MRSK Volga, with 15% and 13% upsides.

**Large discounts on multiples in heavily capexed stories.** E.ON Russia and Enel-OGK5 trade with 54% and 50% discounts to their EM peers on EV/EBITDA, and with 29% and 19% discounts on P/E. More heavily capexed discos trade with larger discounts to their EM peers, with 68% discount on EV/EBITDA and with 50% discount on P/E. Mosenergo, controlled by Gazprom, also offers an attractive discount of 81% on EV/EBITDA and 40% on P/E.

Decline in Regulatory Risks is Sector Trigger

### Privatization Deals May Narrow Discounts to International Peers

Mixed upside for discos

Company name	Country	Price, \$	MCap, \$ mln	EV, \$ mln	P/E				EV/EBITDA			
					2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
<b>Discos</b>												
MRSK Holding	Russia	0.069	3,376	14,410	4.1	8.9	6.3	5.2	3.7	4.2	3.7	3.3
MRSK Ctr & Volga	Russia	0.007	748	1,345	4.9	28.2	5.2	4.0	3.6	5.1	3.2	2.8
MRSK Center	Russia	0.020	863	1,440	4.7	9.1	11.7	8.4	2.8	3.3	3.5	2.8
MRSK Ural	Russia	0.008	675	881	6.1	13.0	7.7	Neg	3.0	3.2	2.7	4.9
MRSK Volga	Russia	0.003	503	658	8.4	7.5	15.3	10.7	3.4	2.9	3.4	2.8
MRSK Siberia	Russia	0.003	275	411	Neg	Neg	Neg	Neg	3.1	5.4	3.4	2.5
MRSK Northwest	Russia	0.002	220	366	8.1	10.4	5.2	2.9	2.6	2.9	2.0	1.6
MRSK South	Russia	0.002	86	620	21.6	9.1	2.1	2.2	3.2	3.2	2.7	2.6
MRSK N Caucasus	Russia	0.946	53	117	Neg	Neg	3.1	1.7	2.2	2.4	1.5	1.0
MOESK	Russia	0.057	2,781	4,102	4.5	6.4	6.5	6.4	2.9	3.2	3.1	2.9
Lenenergo	Russia	0.231	317	947	Neg	4.4	2.6	2.4	2.8	3.4	2.9	2.5
<b>Average</b>					<b>7.8</b>	<b>10.8</b>	<b>6.6</b>	<b>4.9</b>	<b>3.0</b>	<b>3.6</b>	<b>2.9</b>	<b>2.7</b>
<b>EMs</b>												
SP Ausnet	Australia	1.20	4,038	11,416	16.4	17.3	13.8	-	12.8	12.6	11.1	-
United Utilities	UK	11.44	7,799	17,211	20.3	19.1	16.5	15.6	11.9	12.2	11.6	11.1
Severn Trent	UK	25.43	6,062	12,801	17.6	19.2	16.5	15.8	9.9	10.4	9.8	9.6
Snam Rete Gas	Italy	4.92	16,650	32,678	13.1	14.4	13.5	12.2	9.6	9.3	8.9	8.5
Terna Spa	Italy	4.16	8,358	16,259	17.0	14.6	14.4	13.1	10.2	9.1	8.7	8.2
Elia	Belgium	45.62	2,754	5,933	20.0	15.3	14.6	13.9	10.2	9.4	9.0	9.9
REN	Portugal	3.06	1,634	4,915	9.5	9.3	9.1	8.6	7.8	7.1	7.0	6.9
Red Electrica	Spain	55.91	7,563	14,440	12.4	11.8	10.7	9.8	9.0	8.5	8.0	7.5
ITC Holding	US	79.59	4,101	7,130	24.4	19.1	15.8	12.3	14.2	12.5	10.3	8.8
<b>Average</b>					<b>16.8</b>	<b>15.6</b>	<b>13.9</b>	<b>11.2</b>	<b>10.6</b>	<b>10.1</b>	<b>9.4</b>	<b>7.8</b>
<b>DMs</b>												
CIA de Transmissao	Brazil	16.59	2,907	4,450	5.5	6.9	11.0	8.4	5.6	6.0	12.6	9.6
Transelectrica SA	Romania	4.13	303	576	6.7	12.6	7.9	8.6	3.5	4.4	3.6	3.5
Transener	Argentina	0.15	68	205	neg	neg	17.4	neg	4.6	4.4	1.8	1.4
Power Grid	India	2.09	9,684	19,704	n/a	n/a	n/a	n/a	n/m	11.9	10.1	8.5
<b>Average</b>					<b>6.1</b>	<b>9.7</b>	<b>12.1</b>	<b>8.5</b>	<b>4.6</b>	<b>6.7</b>	<b>7.0</b>	<b>5.8</b>

Source: Bloomberg, Company data, URALSIB estimates

Decline in Regulatory Risks is Sector Trigger

### Huge Capex Program Pressures Valuation

Mixed upside for transcos

Company name	Country	Price, \$	MCap, \$ mln	EV, \$ mln	P/E				EV/EBITDA			
					2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
<b>Federal Grid Co</b>												
Federal Grid Company	Russia	0.007	9,043	10,104	5.4	13.8	10.2	8.3	3.5	3.9	3.5	3.1
<b>EMs</b>												
SP Ausnet	Australia	1.20	4,038	11,416	16.4	17.3	13.8	-	12.8	12.6	11.1	-
United Utilities	UK	11.44	7,799	17,211	20.3	19.1	16.5	15.6	11.9	12.2	11.6	11.1
Severn Trent	UK	25.43	6,062	12,801	17.6	19.2	16.5	15.8	9.9	10.4	9.8	9.6
MRSK Northwest	Italy	4.92	16,650	32,678	13.1	14.4	13.5	12.2	9.6	9.3	8.9	8.5
Terna Spa	Italy	4.16	8,358	16,259	17.0	14.6	14.4	13.1	10.2	9.1	8.7	8.2
MRSK N Caucasus	Belgium	45.62	2,754	5,933	20.0	15.3	14.6	13.9	10.2	9.4	9.0	9.9
REN	Portugal	3.06	1,634	4,915	9.5	9.3	9.1	8.6	7.8	7.1	7.0	6.9
Red Electrica	Spain	55.91	7,563	14,440	12.4	11.8	10.7	9.8	9.0	8.5	8.0	7.5
ITC Holding	US	79.59	4,101	7,130	24.4	19.1	15.8	12.3	14.2	12.5	10.3	8.8
<b>Average</b>					<b>16.8</b>	<b>15.6</b>	<b>13.9</b>	<b>11.2</b>	<b>10.6</b>	<b>10.1</b>	<b>9.4</b>	<b>7.8</b>
<b>DMs</b>												
CIA de Transmissao	Brazil	16.59	2,907	4,450	5.5	6.9	11.0	8.4	5.6	6.0	12.6	9.6
Transelectrica SA	Romania	4.13	303	576	6.7	12.6	7.9	8.6	3.5	4.4	3.6	3.5
Transener	Argentina	0.15	68	205	neg	neg	17.4	neg	4.6	4.4	1.8	1.4
Power Grid	India	2.09	9,684	19,704	n/a	n/a	n/a	n/a	n/m	11.9	10.1	8.5
<b>Average</b>					<b>6.1</b>	<b>9.7</b>	<b>12.1</b>	<b>8.5</b>	<b>4.6</b>	<b>6.7</b>	<b>7.0</b>	<b>5.8</b>

Source: Bloomberg, Company data, URALSIB estimates

### End of Elections Cycle to Support Russian Generators Performance

Comparative valuations for thermal gencos

Company name	Country	Price, \$	MCap, \$ mln	EV, \$ mln	P/E				EV/EBITDA			
					2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
<b>Russia</b>												
OGK-2	Russia	0.013	763	1,770	n/a	Neg	Neg	Neg	8.1	7.3	9.4	8.9
E.ON Russia	Russia	0.092	5,827	4,986	11.7	10.1	10.0	10.2	6.4	5.4	5.3	5.3
Enel OGK-5	Russia	0.056	1,977	2,829	11.7	9.8	11.4	8.9	6.9	5.7	5.9	5.1
<b>Average</b>					<b>11.7</b>	<b>10.0</b>	<b>10.7</b>	<b>9.5</b>	<b>7.1</b>	<b>6.2</b>	<b>6.9</b>	<b>6.4</b>
TGK-1	Russia	0.0003	1,010	2,050	7.6	10.1	4.0	3.6	5.1	5.7	3.7	3.4
TGC-2	Russia	0.0001	116	689	neg	2.1	neg	neg	24.6	3.3	6.2	2.9
Mosenergo	Russia	0.051	2,020	1,710	6.8	15.3	8.4	7.2	2.1	2.6	2.2	2.0
TGC-4	Russia	0.0002	402	529	10.1	9.5	8.8	11.5	3.1	2.8	2.4	2.3
TGC-5	Russia	0.000128	157	504	25.8	5.4	5.0	1.6	7.4	6.7	6.4	2.8
TGC-6	Russia	0.0001	232	379	3.2	3.5	3.4	1.6	3.1	3.3	3.3	1.6
TGC-7	Russia	0.053	1,594	1,801	9.9	n/m	25.5	12.3	5.3	13.4	8.8	6.1
TGC-9	Russia	0.0001	842	1,615	30.1	18.9	11.6	13.3	10.4	8.8	7.1	7.4
TGC-11	Russia	0.0005	242	417	33.1	45.7	14.2	-	7.1	6.5	4.8	3.8
TGC-14	Russia	0.0001	69	84	2.6	2.1	2.5	3.8	1.8	1.6	1.8	2.4
<b>Average</b>					<b>14.3</b>	<b>12.5</b>	<b>9.3</b>	<b>6.1</b>	<b>7.0</b>	<b>5.5</b>	<b>4.7</b>	<b>3.5</b>
<b>EMs</b>												
EGCO	Thailand	5.0	2,636	3,735	14.5	12.1	12.0	11.9	38.2	25.3	17.6	18.0
Ratchaburi	Thailand	2.0	2,911	3,748	15.9	15.0	14.7	15.1	12.4	10.6	10.7	11.1
Datang	China	0.41	7,888	38,105	30.1	16.6	12.5	10.8	14.1	10.5	8.9	7.6
AES Gener S.A.	Chile	0.69	5,537	7,587	15.4	26.4	17.7	20.6	10.2	11.8	11.3	11.6
Glow Energy PCL	Thailand	2.6	3,797	6,200	28.3	20.3	13.5	13.1	20.3	13.1	10.1	9.8
<b>Average</b>					<b>20.8</b>	<b>18.1</b>	<b>14.1</b>	<b>14.3</b>	<b>19.0</b>	<b>14.3</b>	<b>11.7</b>	<b>11.6</b>
<b>DMs</b>												
Drax Group	UK	9.1	3,640	3,274	12.1	13.0	21.4	19.8	6.3	7.0	9.7	8.4
TransAlta	USA	17.0	4,333	9,631	16.4	31.1	17.8	21.8	9.1	9.7	9.1	9.0
NRG	USA	23.9	7,709	18,175	41.0	47.0	29.7	27.4	9.9	9.5	7.0	7.0
<b>Average</b>					<b>23.2</b>	<b>30.3</b>	<b>23.0</b>	<b>23.0</b>	<b>8.5</b>	<b>8.8</b>	<b>8.6</b>	<b>8.1</b>

Source: Bloomberg, Company data, URALSIB estimates

Decline in Regulatory Risks is Sector Trigger

### Risky Capex In Far East Causes Discount To Peers

Comparative valuations for hydro gencos

Company name	Country	Price, \$	MCap, \$ mln	EV, \$ mln	P/E				EV/EBITDA			
					2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
<b>Russia</b>												
RusHydro	Russia	0.025	8,098	11,124	8.1	12.3	7.9	5.2	4.8	7.1	5.3	3.9
Irkutskenergo	Russia	0.5	2,530	2,911	Neg	7.0	7.8	6.8	4.2	4.4	4.7	4.3
<b>Average</b>					<b>8.1</b>	<b>9.7</b>	<b>7.9</b>	<b>6.0</b>	<b>4.5</b>	<b>5.8</b>	<b>5.0</b>	<b>4.1</b>
<b>EMs</b>												
China Yangtze Power	China	1.2	19,449	32,355	16.2	12.4	12.3	11.9	11.5	9.6	9.9	9.8
CIA Energetica De Minas	Brazil	10.7	9,344	15,134	7.8	4.8	7.0	7.6	5.3	5.3	5.3	5.2
AES Tiete	Brazil	10.6	3,829	4,099	8.3	8.1	7.9	7.6	5.0	5.0	4.9	4.7
Tractebel Energia	Brazil	17.5	11,408	13,239	14.6	15.3	14.0	13.3	8.2	8.6	8.1	7.6
CESP	Brazil	7.5	3,064	4,091	28.0	10.0	6.7	5.3	3.9	3.6	3.5	3.2
Endesa Chili	Chili	1.7	14,110	19,303	17.8	18.9	14.0	12.5	10.7	10.2	8.4	7.7
Compania paranaense de energia	Brazil	12.4	3,822	4,362	5.5	7.9	7.4	7.1	3.8	4.9	4.5	4.0
<b>Average</b>					<b>14.0</b>	<b>11.1</b>	<b>9.9</b>	<b>9.3</b>	<b>6.9</b>	<b>6.7</b>	<b>6.4</b>	<b>6.0</b>

Source: Bloomberg, Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Best Exposure to Liberalized Wholesale Electricity Market

### Most-Efficient Producers to Benefit, But Risks In Far East Increase

#### INVESTMENT RATIONALE

**Focus on market liberalization.** RusHydro offers prime exposure to the liberalized wholesale electricity market, enjoying generation operating costs far below liberalized prices and other generators' regulated tariffs. The company's hydro plants have zero fuel costs, leaving RusHydro to benefit most from the growth in liberalized electricity prices that is being driven by rising domestic gas prices. However, the company has purchased RAO UES of the East, which has substantial capex plans, thus creating risks to portfolio investors under the current regulatory system.

#### PROS

**Most efficient electricity producer.** The company operates hydro plants with almost zero variable costs. RusHydro's hydro stations enjoy the highest EBITDA margin in the sector, at more than 40%.

**Electricity prices outpace inflation ...** Driven by an increase in gas prices, we expect spot electricity prices to grow with a CAGR of 9.1% in 2012-17.

**... which should become another growth factor.** Growth in liberalized prices should have a noticeable impact on the company's EBITDA, as we expect variable costs to remain flat.

#### CONS

**Uncertainty over long-term strategy.** The company's long-term strategy and investment program have yet to be fully clarified. The recent purchase of a controlling stake in loss-making RAO UES of the East is a sign of the company's transition to a less profitable business.

**Uncertainty over residential market.** As a state-controlled company, RusHydro could continue supplying large volumes of electricity to residential users at discounts to the market.

**Exposure to climatic conditions.** The company's output volumes are subject to water levels in the river basin and beyond the management's control. Thus, generation volumes can fluctuate significantly.

**New infrastructure projects likely.** As a state-controlled company, RusHydro could participate in ambitious infrastructure projects in Russia and abroad, with unclear prospects.

RusHydro	Buy	
HYDR RX	52 wk hi, \$	0.040
Price, \$	0.025	52 wk lo, \$
Target Price, \$	0.029	Common, mln
Up/Dn, %	14	Free float, %
1 m, %	6	Sh./DR
3 m, %	(6)	Pref sh, mln
6 m, %	(4)	MC, \$ mln
12 m, %	(24)	EV, \$ mln
	2011	2012E
P/E	8.1	12.3
EV/EBITDA	4.8	7.1
		2013E
		7.9
		5.3

Source: MICEX-RTS, URALSIB estimates

#### RusHydro

##### Key Financials, \$ Mln

	2011	2012E	2013E	2014E	2015E
Revenue	9,394	9,224	10,147	11,774	12,586
EBITDA	2,326	1,563	2,112	2,880	3,250
Net Income	1,004	658	1,022	1,557	1,792
EPS, \$/share	0.0032	0.0021	0.0032	0.0049	0.0056
Margins, %					
EBITDA	24.8	16.9	20.8	24.5	25.8
Net Income	10.7	7.1	10.1	13.2	14.2

Source: Company data, URALSIB estimates

#### RusHydro, RTS, Relative Performance



Source: RTS, Bloomberg

Note: Market data as of 22 January 2013

## RusHydro

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	4,332	10,663	7,958	9,394	9,224	10,147	11,774	12,586
Cost of sales	3,350	2,178	6,568	7,710	8,228	8,669	9,598	10,089
D&A	376	372	386	553	567	635	704	752
EBITDA	2,983	1,871	1,544	2,326	1,563	2,112	2,880	3,250
EBIT	982	1,282	1,390	1,684	996	1,477	2,176	2,497
Pre tax profit	(766)	1,266	609	1,488	822	1,278	1,946	2,240
Taxes	18	255	185	490	164	256	389	448
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	(784)	1,012	342	1,004	658	1,022	1,557	1,792

## Balance Sheet, \$ Mln

PP&E, net	11,470	11,913	16,930	17,659	20,733	23,349	25,090	26,710
Other non-current assets	1,116	1,610	2,018	2,781	2,847	2,854	2,855	2,835
Non-current assets	12,586	13,524	18,947	20,441	23,579	26,202	27,945	29,545
Cash & cash equivalents	845	1,737	737	1,470	313	347	57	(28)
Accounts receivable	874	1,106	1,370	1,549	1,622	1,727	1,873	1,943
Inventories	-	42	483	558	611	655	699	740
Other current assets	167	383	2,789	1,193	1,221	1,224	1,224	1,216
Total current assets	1,885	3,268	5,379	4,770	3,767	3,953	3,854	3,870
Total assets	14,471	16,792	24,326	25,211	27,346	30,156	31,799	33,416
Shareholder equity	11,622	13,315	16,653	15,481	16,491	17,552	19,093	20,727
Minority interest	33.2	129.0	965.8	843.8	870.1	882.6	898.4	910.1
Accounts payable	553	1,209	900	1,243	1,368	1,425	1,508	1,550
Short-term debt	115	168	1,018	665	681	682	683	678
Total current liabilities	857	1,528	3,240	3,918	4,105	4,170	4,253	4,277
Long-term debt	681	642	1,684	3,187	4,057	5,724	5,726	5,687
Non-current liabilities	1,278	1,179	1,783	1,781	1,823	1,827	1,828	1,815
Total liabilities	2,816	3,348	6,708	8,886	9,985	11,721	11,807	11,779
SE, minority interest & liabilities	14,471	16,792	24,326	25,211	27,346	30,156	31,799	33,416

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	1,111	1,445	(2,508)	3,394	1,411	1,767	2,383	2,729
Net change in working capital	148	(123)	(2,815)	1,683	12	(90)	(108)	(72)
Cash flows from investing activities	(1,391)	(973)	(2,299)	(2,752)	(3,420)	(3,380)	(2,674)	(2,811)
Capex	(1,391)	(973)	(2,299)	(2,752)	(3,420)	(3,380)	(2,674)	(2,811)
Cash flows from financing activities	788	421	3,806	91	852	1,647	1	(3)
Net increase/(decrease) in cash and cash equivalents	508	892	(1,000)	733	(1,157)	34	(290)	(85)
Cash and cash equivalents /beginning of period	337	845	1,737	737	1,470	313	347	57
Cash and cash equivalents /end of period	845	1,737	737	1,470	313	347	57	(28)

## Profitability and Growth

Margins, %								
EBITDA margin	68.9	17.5	19.4	24.8	16.9	20.8	24.5	25.8
Net margin	n/m	9.5	4.3	10.7	7.1	10.1	13.2	14.2
Growth, %								
Revenue growth	n/a	146.1	(25.4)	18.0	(1.8)	10.0	16.0	6.9
EBITDA growth	n/a	(37.3)	(17.5)	50.7	(32.8)	35.1	36.4	12.8
Net income/(loss) growth	n/a	n/m	(66.2)	193.3	(34.5)	55.4	52.3	15.1

## Other Ratios

Per share data								
EBITDA/share, (\$)	0.0094	0.0059	0.0049	0.0073	0.0049	0.0066	0.0091	0.010
Earnings per share, \$	n/m	0.0032	0.0011	0.0032	0.0021	0.0032	0.0049	0.0056
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	(6.7)	8.1	2.3	6.3	4.1	6.0	8.5	9.0
ROIC	(6.4)	7.7	2.1	5.4	3.4	4.7	6.5	7.0
ROA	(5.4)	6.5	1.7	4.1	2.5	3.6	5.0	5.5
Efficiency & investments, %								
Capex/Sales	32.1	9.1	28.9	29.3	37.1	33.3	22.7	22.3
Working capital/Sales	24.0	14.4	58.3	35.1	37.4	35.5	32.2	31.0

## Valuations

P/E	n/a	8.0	23.7	8.1	12.3	7.9	5.2	4.5
P/S	1.9	0.8	1.0	0.9	0.9	0.8	0.7	0.6
EV/S	2.6	1.0	1.4	1.2	1.2	1.1	0.9	0.9
EV/EBITDA	3.7	5.9	7.2	4.8	7.1	5.3	3.9	3.4
P/CF	7.3	5.6	n/m	2.4	5.7	4.6	3.4	3.0
P/B	0.7	0.6	0.5	0.5	0.5	0.5	0.4	0.4

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Consolidation Poses Risk To Current Business Model

### Long-term Value to Be Realized

#### INVESTMENT RATIONALE

**New tariff regime drives strong profitability growth.** Federal Grid Company is a monopoly operator of high-voltage grids in Russia. It switched to the RAB tariff system on 1 January 2010. Federal Grid is already included in the MSCI Index. On the risk side, we note a lack of clarity regarding potential consolidation with MRSK Holding. Centralization of all state grids into one company may result in substantial amendments to business models, creating additional risk for shareholders.

#### PROS

**New tariffs under RAB system ...** Based on our RAB expectations, we project the company's transmission tariffs to grow at a 10.7% CAGR in 2013-19.

**... to boost profitability.** Transition to RAB should allow the company to enjoy an EBITDA CAGR of 11% in 2012-19, while the EBITDA margin should reach 60% in 2018.

**Attractive return on new investments.** Under the RAB methodology, all new investments by the company will generate a 10% return after tax.

**Attractive to portfolio investors.** The company was included in the MSCI Index in February 2009, and successfully listed GDRs on the LSE in March 2011.

#### CONS

**Consolidation creates new risks.** The government has decided to consolidate Federal Grid Company and MRSK Holding to create a more reliable utility. Federal Grid's business model may be revised, creating additional risks for shareholders.

**FCF negative to 2017E.** Strong profitability growth should be offset by RUB750 bln (\$25 bln) capex needs over the next five years. Federal Grid should thus remain FCF negative.

**Return on existing assets too low.** The return on existing capital should not exceed 7.8% in 2013, which is below the company's WACC and return on new capital.

**Privatization likely to be delayed.** Federal Grid was included in the list of strategic companies, thus the sale of a 4.1% stake is likely to be delayed.

Federal Grid Company		Buy	
FEES RX		52 wk hi, \$	0.012
Price, \$	0.0072	52 wk lo, \$	0.0053
Target Price, \$	0.0093	Common, mln	1,260,387
Up/Dn, %	30	Free float, %	20.0
1 m, %	7	Sh./DR	-
3 m, %	(5)	Pref sh, mln	-
6 m, %	(3)	MC, \$ mln	9,043
12 m, %	(29)	EV, \$ mln	10,104
	2011	2012E	2013E
P/E	5.4	13.8	10.2
EV/EBITDA	3.5	3.9	3.5

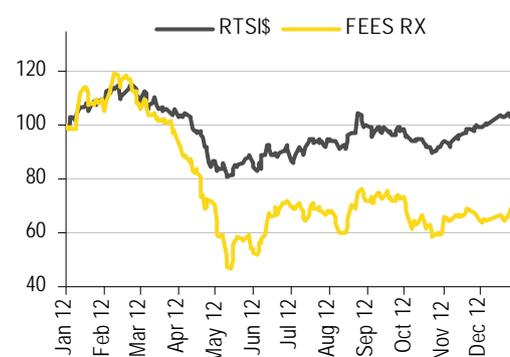
Source: MICEX-RTS, URALSIB estimates

#### Federal Grid Company

Key Financials, \$ Mln					
	2011	2012E	2013E	2014E	2015E
Revenue	4,752	4,610	5,029	5,603	6,075
EBITDA	2,864	2,613	2,884	3,225	3,466
Net Income	1,668	653	882	1,095	1,249
EPS, \$/share	0.0013	0.00052	0.00070	0.00087	0.00099
<i>Margins, %</i>					
EBITDA	60.3	56.7	57.3	57.6	57.1
Net Income	35.1	14.2	17.5	19.5	20.6

Source: Company data, URALSIB estimates

#### Federal Grid Co., RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

## Federal Grid Company

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	2,849	2,759	3,730	4,752	4,610	5,029	5,603	6,075
Cost of sales	2,743	2,464	2,892	3,430	3,958	4,092	4,404	4,684
D&A	652	527	994	1,130	1,765	1,781	1,856	1,904
EBITDA	1,096	1,176	1,908	2,864	2,613	2,884	3,225	3,466
EBIT	404	(2,720)	751	2,446	816	1,103	1,368	1,562
Pre tax profit	(1,356)	(2,456)	794	2,140	816	1,103	1,368	1,562
Taxes	(452)	(421)	189	472	163	221	274	312
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	(904)	(2,016)	605	1,668	653	882	1,095	1,249

## Balance Sheet, \$ Mln

PP&E, net	18,804	23,325	28,019	33,390	35,130	37,044	39,748	41,808
Other non-current assets	4,730	3,465	3,958	3,153	2,967	2,930	2,962	2,949
Non-current assets	23,534	26,790	31,977	36,543	38,098	39,974	42,710	44,758
Cash & cash equivalents	631	1,062	447	1,638	1,452	1,891	2,327	2,749
Accounts receivable	1,250	921	1,075	1,122	1,060	1,078	1,124	1,159
Inventories	111	103	184	215	223	241	265	285
Other current assets	2,547	1,887	1,591	103	97	96	97	96
Total current assets	4,540	3,974	3,298	3,078	2,832	3,306	3,812	4,290
Total assets	28,074	30,763	35,275	39,621	40,929	43,280	46,522	49,047
Shareholder equity	23,822	26,519	28,772	30,579	29,535	30,137	31,565	32,679
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	1,266	1,038	1,674	1,531	1,441	1,450	1,505	1,539
Short-term debt	652	238	247	68	64	63	64	64
Total current liabilities	1,957	1,311	1,961	1,687	1,588	1,594	1,650	1,684
Long-term debt	697	189	1,646	4,453	7,074	8,851	10,580	11,968
Non-current liabilities	1,598	2,744	2,896	2,903	2,732	2,697	2,727	2,715
Total liabilities	4,252	4,244	6,502	9,042	11,394	13,143	14,958	16,368
SE, minority interest & liabilities	28,074	30,763	35,275	39,621	40,929	43,280	46,522	49,047

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	818	1,023	1,930	2,456	2,394	2,638	2,935	3,133
Net change in working capital	(40)	(137)	98	(153)	(24)	(26)	(16)	(21)
Cash flows from investing activities	(1,553)	(1,169)	(4,639)	(5,177)	(5,471)	(4,140)	(4,152)	(4,134)
Capex	(4,462)	(2,838)	(4,670)	(5,225)	(5,471)	(4,140)	(4,152)	(4,134)
Cash flows from financing activities	622	577	2,094	3,912	2,891	1,942	1,652	1,423
Net increase/(decrease) in cash and cash equivalents	(114)	431	(615)	1,191	(186)	439	436	422
Cash and cash equivalents /beginning of period	745	631	1,062	447	1,638	1,452	1,891	2,327
Cash and cash equivalents /end of period	631	1,062	447	1,638	1,452	1,891	2,327	2,749

## Profitability and Growth

Margins, %								
EBITDA margin	38.5	42.6	51.1	60.3	56.7	57.3	57.6	57.1
Net margin	n/m	n/m	16.2	35.1	14.2	17.5	19.5	20.6
Growth, %								
Revenue growth	n/a	(3.1)	35.2	27.4	(3.0)	9.1	11.4	8.4
EBITDA growth	n/a	7.3	62.2	50.1	(8.7)	10.4	11.8	7.5
Net income/(loss) growth	n/a	n/m	n/m	175.6	(60.8)	35.1	24.1	14.1

## Other Ratios

Per share data								
EBITDA/share, (\$)	0.00087	0.00093	0.0015	0.0023	0.0021	0.0023	0.0026	0.0027
Earnings per share, \$	n/m	n/m	0.00048	0.0013	0.00052	0.00070	0.00087	0.00099
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	(3.8)	(8.0)	2.2	5.6	2.2	3.0	3.5	3.9
ROIC	(3.7)	(7.9)	2.1	5.1	1.8	2.3	2.7	2.9
ROA	(3.2)	(6.9)	1.8	4.5	1.6	2.1	2.4	2.6
Efficiency & investments, %								
Capex/Sales	156.6	102.9	125.2	110.0	118.7	82.3	74.1	68.0
Working capital/Sales	137.2	105.5	76.4	30.3	29.9	28.1	26.5	25.4

## Valuations

P/E	n/a	n/a	14.9	5.4	13.8	10.2	8.3	7.2
P/S	3.2	3.3	2.4	1.9	2.0	1.8	1.6	1.5
EV/S	3.5	3.7	2.7	2.1	2.2	2.0	1.8	1.7
EV/EBITDA	9.2	8.6	5.3	3.5	3.9	3.5	3.1	2.9
P/CF	11.1	8.8	4.7	3.7	3.8	3.4	3.1	2.9
P/B	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Center of Distribution Sector Consolidation

### Uncertainty Over Consolidation

#### INVESTMENT RATIONALE

**Changing distribution sector landscape.** MRSK Holding owns controlling stakes in regional discos. Its shares are the most liquid in the disco universe, and included to the MSCI Index. MRSK Holding's management was transferred to Federal Grid Co this year. However, the most recent consolidation scenario suggested by the government assumes Federal Grid will become an MRSK Holding subsidiary like other regional MRSKs. In order to swap its 79.7% stake in Federal Grid for the stake in MRSK Holding, the state should initiate a huge additional shares placement in MRSK Holding, which at the current market price would boost existing share capital by at least 220%.

#### PROS

**Diversified basket with good liquidity.** MRSK Holding's shares have among the best liquidity in the utilities sector.

**Attractive to portfolio investors.** The company was included in the MSCI Index in November 2011 and listed GDRs on the London Stock Exchange at the end of 2011.

**New long-term tariffs lower, less likely to change.** The approved RAB tariffs look more realistic than the old ones. Together with the budget compensation approved in case of tariff revision, they mitigate the distribution business's regulatory risks.

**Foreign expertise.** Operating control of the holding's subsidiary in the Tomsk Region has been transferred to France's EdF.

#### CONS

**Consolidation risks.** Uncertainty over consolidation with Federal Grid pressures the stock.

**Holding structure creates risks for minorities.** MRSK Holding may sell some core assets. The proceeds from an asset sale could be used for capex and other projects with unclear returns.

**Value-destructive development.** We expect MRSK Holding subsidiary Kubanenergo to spend over \$1 bln on Olympic infrastructure without a clear plan to return money to investors.

**Pricy regional grids consolidation likely.** In addition to huge capex projects, the company's profits may be used to consolidate numerous small regional discos.

MRSK Holding		Buy	
MRKH RX		52 wk hi, \$	0.12
Price, \$	0.069	52 wk lo, \$	0.047
Target Price, \$	0.075	Common, mln	47,872
Up/Dn, %	10	Free float, %	30.0
1 m, %	6	Sh./DR	-
3 m, %	11	Pref sh, mln	2,075
6 m, %	25	MC, \$ mln	3,376
12 m, %	(14)	EV, \$ mln	14,410
	2011	2012E	2013E
P/E	4.1	8.9	6.3
EV/EBITDA	3.7	4.2	3.7

Source: MICEX-RTS, URALSIB estimates

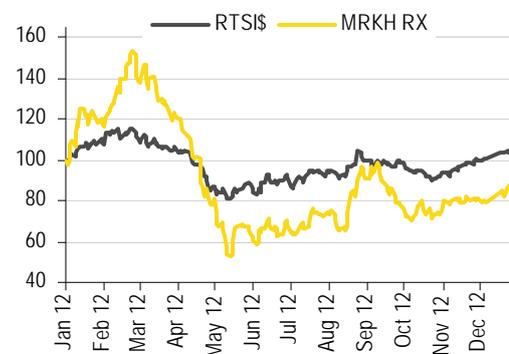
#### MRSK Holding

##### Key Financials, \$ Mln

	2011	2012E	2013E	2014E	2015E
Revenue	21,607	19,950	21,203	22,930	24,912
EBITDA	3,859	3,422	3,867	4,356	4,956
Net Income	798	369	521	630	831
EPS, \$/share	0.017	0.0077	0.011	0.013	0.017
Margins, %					
EBITDA	17.9	17.2	18.2	19.0	19.9
Net Income	3.7	1.8	2.5	2.7	3.3

Source: Company data, URALSIB estimates

#### MRSK Holding, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

**MRSK Holding**

<b>Income Statement IFRS, \$ Mln</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Revenue	16,009	14,545	18,706	21,607	19,950	21,203	22,930	24,912
Cost of sales	13,338	11,825	15,358	17,749	16,528	17,336	18,574	19,956
D&A	1,363	1,271	1,539	1,841	2,089	2,087	2,296	2,478
<b>EBITDA</b>	<b>2,863</b>	<b>2,918</b>	<b>3,348</b>	<b>3,859</b>	<b>3,422</b>	<b>3,867</b>	<b>4,356</b>	<b>4,956</b>
<b>EBIT</b>	<b>1,307</b>	<b>1,450</b>	<b>1,810</b>	<b>2,018</b>	<b>1,334</b>	<b>1,780</b>	<b>2,060</b>	<b>2,478</b>
Pre tax profit	1,072	888	1,556	1,827	889	1,216	1,375	1,729
Taxes	277	203	415	500	178	243	275	346
Minority interest	350.9	249.8	400.2	528.7	342.3	451.6	470.2	552.2
<b>Net income/(loss)</b>	<b>444</b>	<b>435</b>	<b>741</b>	<b>798</b>	<b>369</b>	<b>521</b>	<b>630</b>	<b>831</b>

**Balance Sheet, \$ Mln**

PP&E, net	21,340	17,705	20,169	23,408	24,206	26,227	28,543	30,083
Other non-current assets	1,613	503	569	616	515	509	514	512
<b>Non-current assets</b>	<b>22,953</b>	<b>18,207</b>	<b>20,737</b>	<b>24,024</b>	<b>24,721</b>	<b>26,735</b>	<b>29,057</b>	<b>30,595</b>
Cash & cash equivalents	785	921	832	1,663	1,185	1,863	2,512	2,757
Accounts receivable	2,606	2,951	3,302	3,354	3,181	3,315	3,549	3,773
Inventories	480	356	375	439	455	480	517	548
Other current assets	170	253	425	451	225	222	225	224
<b>Total current assets</b>	<b>4,042</b>	<b>4,481</b>	<b>4,933</b>	<b>5,908</b>	<b>5,046</b>	<b>5,880</b>	<b>6,803</b>	<b>7,302</b>
<b>Total assets</b>	<b>26,995</b>	<b>22,689</b>	<b>25,671</b>	<b>29,931</b>	<b>29,768</b>	<b>32,615</b>	<b>35,860</b>	<b>37,896</b>
<b>Shareholder equity</b>	<b>7,709</b>	<b>6,503</b>	<b>7,826</b>	<b>9,082</b>	<b>8,916</b>	<b>9,324</b>	<b>10,057</b>	<b>10,845</b>
Minority interest	5,519.1	4,719.9	5,408.8	6,031.2	6,018.3	6,393.6	6,934.3	7,456.9
Accounts payable	3,897	5,526	6,159	6,537	5,977	5,853	6,012	6,127
Short-term debt	2,232	2,119	907	918	610	602	609	606
<b>Total current liabilities</b>	<b>6,256</b>	<b>7,709</b>	<b>7,163</b>	<b>7,635</b>	<b>6,755</b>	<b>6,622</b>	<b>6,789</b>	<b>6,901</b>
Long-term debt	3,503	2,641	4,034	5,748	6,642	8,224	10,004	10,627
Non-current liabilities	4,008	1,116	1,239	1,435	1,436	2,052	2,075	2,066
<b>Total liabilities</b>	<b>13,767</b>	<b>11,465</b>	<b>12,436</b>	<b>14,818</b>	<b>14,833</b>	<b>16,898</b>	<b>18,868</b>	<b>19,595</b>
<b>SE, minority interest &amp; liabilities</b>	<b>26,995</b>	<b>22,689</b>	<b>25,671</b>	<b>29,931</b>	<b>29,768</b>	<b>32,615</b>	<b>35,860</b>	<b>37,896</b>

**Cash Flow Statement, \$ Mln**

Net cash provided by operating activities	1,455	2,187	2,814	3,306	3,002	3,371	3,946	4,479
Net change in working capital	(855)	(11)	(148)	42	(242)	(252)	(135)	(131)
<b>Cash flows from investing activities</b>	<b>(4,250)</b>	<b>(2,002)</b>	<b>(2,530)</b>	<b>(4,250)</b>	<b>(4,265)</b>	<b>(4,414)</b>	<b>(4,323)</b>	<b>(4,140)</b>
Capex	(4,682)	(2,052)	(2,530)	(4,250)	(4,265)	(4,414)	(4,323)	(4,140)
<b>Cash flows from financing activities</b>	<b>1,184</b>	<b>(362)</b>	<b>79</b>	<b>1,950</b>	<b>882</b>	<b>1,737</b>	<b>1,005</b>	<b>(83)</b>
Net increase/(decrease) in cash and cash equivalents	(1,611)	135	(88)	831	(479)	678	649	245
Cash and cash equivalents /beginning of period	2,396	785	921	832	1,663	1,185	1,863	2,512
Cash and cash equivalents /end of period	785	921	832	1,663	1,185	1,863	2,512	2,757

**Profitability and Growth**

<b>Margins, %</b>								
EBITDA margin	17.9	20.1	17.9	17.9	17.2	18.2	19.0	19.9
Net margin	2.8	3.0	4.0	3.7	1.8	2.5	2.7	3.3
<b>Growth, %</b>								
Revenue growth	n/a	(9.1)	28.6	15.5	(7.7)	6.3	8.1	8.6
EBITDA growth	n/a	1.9	14.8	15.2	(11.3)	13.0	12.7	13.8
Net income/(loss) growth	n/a	(2.0)	70.2	7.7	(53.8)	41.4	20.9	31.8

**Other Ratios**

<b>Per share data</b>								
EBITDA/share, (\$)	0.060	0.061	0.070	0.081	0.071	0.081	0.091	0.10
Earnings per share, \$	0.0093	0.0091	0.015	0.017	0.0077	0.011	0.013	0.017
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	5.8	6.1	10.3	9.4	4.1	5.7	6.5	7.9
ROIC	4.0	4.3	7.1	6.0	2.4	3.1	3.4	4.0
ROA	1.6	1.8	3.1	2.9	1.2	1.7	1.8	2.3
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	29.2	14.1	13.5	19.7	21.4	20.8	18.9	16.6
Working capital/Sales	20.3	24.5	21.9	19.6	19.4	18.9	18.7	18.2

**Valuations**

P/E	7.4	7.6	4.4	4.1	8.9	6.3	5.2	4.0
P/S	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
EV/S	0.9	1.0	0.8	0.7	0.7	0.7	0.6	0.6
EV/EBITDA	5.0	4.9	4.3	3.7	4.2	3.7	3.3	2.9
P/CF	2.3	1.5	1.2	1.0	1.1	1.0	0.9	0.8
P/B	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.3

*Source: Company data, URALSIB estimates*

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Government Tool For Expansion

### Asset Consolidator

#### INVESTMENT RATIONALE

**On way to becoming largest integrated holding in 2015.** Inter RAO UES is set to become the center of a state-controlled thermal generation asset. The company received most of the energy assets that were not sold prior to the reorganization of UES, as well as utilities assets held by the state and some private investors. Since the acquisition of controlling stakes in several power utilities, the company's total installed capacity is now 33 GW. Inter RAO currently controls all of Russia's electricity export/import trading.

#### PROS

**Efficient assets.** Inter RAO inherited the most modern and efficient power plants during the breakup of UES in 2008. OGK-1's assets are among the best in terms of fuel efficiency.

**Strong state support.** Inter RAO should be able to fill the gap as the government's main force in the electricity sector after UES's breakup. With state support, the company could lead ongoing reform in the sector, working with the regulators.

**Access to end users.** The company owns the largest retail companies in Moscow and St Petersburg. Its large customer base makes it easier to hedge price risks by switching from the spot market to long-term direct contracts.

#### CONS

**Risks of antimonopoly supervision.** The expected extent of Inter RAO's market power has aroused the interest of the Federal Antimonopoly Service (FAS), which may insist on some of the company's assets being sold off or the company facing litigation.

**Government intervention in retail business.** The recent revision of electricity retail rules should cut its margins significantly. The retail segment remains the core area of activity for Inter RAO, providing 41% of 2011 EBITDA.

**No clear strategy regarding acquired assets.** The company has yet to provide a detailed strategy on the minority stakes acquired in various gencos.

Inter RAO		Buy	
IRAO RX		52 wk hi, \$	0.0012
Price, \$	0.00083	52 wk lo, \$	0.00080
Target Price, \$	0.0012	Common, mln	8,491,784
Up/Dn, %	39	Free float, %	12.9
1 m, %	2	Sh./DR	-
3 m, %	(1)	Pref sh, mln	-
6 m, %	(1)	MC, \$ mln	7,040
12 m, %	(20)	EV, \$ mln	5,215
	2011	2012E	2013E
P/E	4.7	Neg	16.0
EV/EBITDA	3.6	5.1	4.2

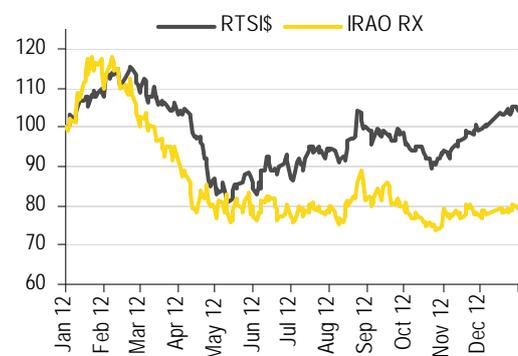
Source: MICEX-RTS, URALSIB estimates

#### Inter RAO

Key Financials, \$ Mln					
	2011	2012E	2013E	2014E	2015E
Revenue	18,258	17,857	20,734	23,051	24,916
EBITDA	1,435	1,021	1,251	1,612	1,916
Net Income	1,501	(303)	441	717	946
EPS, \$/share	0.00018	n/m	0.000052	0.000084	0.00011
<i>Margins, %</i>					
EBITDA	7.9	5.7	6.0	7.0	7.7
Net Income	8.2	n/m	2.1	3.1	3.8

Source: Company data, URALSIB estimates

#### Inter RAO, RTS, Relative Performance



Source: RTS, Bloomberg

Note: Market data as of 22 January 2013

## Inter RAO

Income Statement IFRS, \$ mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	-	-	-	18,258	17,857	20,734	23,051	24,916
Cost of sales	-	-	-	18,232	17,564	19,732	21,702	23,362
D&A	-	-	-	443	489	562	582	612
<b>EBITDA</b>	-	-	-	<b>1,435</b>	<b>1,021</b>	<b>1,251</b>	<b>1,612</b>	<b>1,916</b>
EBIT	-	-	-	992	531	690	1,030	1,304
Pre tax profit	-	-	-	1,765	(254)	551	896	1,183
Taxes	-	-	-	263	49	110	179	237
Minority interest	-	-	-	-	-	-	-	-
<b>Net income/(loss)</b>	-	-	-	<b>1,501</b>	<b>(303)</b>	<b>441</b>	<b>717</b>	<b>946</b>
<b>Balance Sheet, \$ mln</b>								
PP&E, net	-	-	-	8,991	10,218	11,046	11,982	12,326
Other non-current assets	-	-	-	3,461	3,257	3,216	3,252	3,238
<b>Non-current assets</b>	-	-	-	<b>12,452</b>	<b>13,475</b>	<b>14,262</b>	<b>15,233</b>	<b>15,563</b>
Cash & cash equivalents	-	-	-	3,103	757	1,209	978	1,069
Accounts receivable	-	-	-	1,635	1,514	1,758	1,955	2,113
Inventories	-	-	-	383	361	388	427	462
Other current assets	-	-	-	2,187	2,058	2,032	2,055	2,046
<b>Total current assets</b>	-	-	-	<b>7,308</b>	<b>4,691</b>	<b>5,388</b>	<b>5,415</b>	<b>5,690</b>
<b>Total assets</b>	-	-	-	<b>19,761</b>	<b>18,166</b>	<b>19,650</b>	<b>20,648</b>	<b>21,253</b>
<b>Shareholder equity</b>	-	-	-	<b>13,212</b>	<b>12,161</b>	<b>12,404</b>	<b>13,186</b>	<b>13,981</b>
Minority interest	-	-	-	1,470.1	1,353.2	1,380.2	1,467.2	1,555.6
Accounts payable	-	-	-	1,999	1,810	1,981	2,067	2,107
Short-term debt	-	-	-	118	299	295	298	297
<b>Total current liabilities</b>	-	-	-	<b>2,378</b>	<b>2,355</b>	<b>2,519</b>	<b>2,611</b>	<b>2,649</b>
Long-term debt	-	-	-	1,593	1,208	1,193	1,206	898
Non-current liabilities	-	-	-	1,108	1,089	2,155	2,179	2,169
<b>Total liabilities</b>	-	-	-	<b>5,079</b>	<b>4,651</b>	<b>5,866</b>	<b>5,995</b>	<b>5,716</b>
<b>SE, minority interest &amp; liabilities</b>	-	-	-	<b>19,761</b>	<b>18,166</b>	<b>19,650</b>	<b>20,648</b>	<b>21,253</b>
<b>Cash Flow Statement, \$ mln</b>								
Net cash provided by operating activities	-	-	-	1,566	338	901	1,151	1,404
Net change in working capital	-	-	-	502	(268)	(101)	(148)	(154)
<b>Cash flows from investing activities</b>	-	-	-	<b>(779)</b>	<b>(1,809)</b>	<b>(1,519)</b>	<b>(1,395)</b>	<b>(1,007)</b>
Capex	-	-	-	(900)	(2,246)	(1,519)	(1,395)	(1,007)
<b>Cash flows from financing activities</b>	-	-	-	<b>689</b>	<b>(875)</b>	<b>1,070</b>	<b>13</b>	<b>(306)</b>
Net increase/(decrease) in cash and cash equivalents	-	-	-	1,477	(2,346)	452	(231)	90
<b>Cash and cash equivalents /beginning of period</b>	-	-	-	<b>1,627</b>	<b>3,103</b>	<b>757</b>	<b>1,209</b>	<b>978</b>
<b>Cash and cash equivalents /end of period</b>	-	-	-	<b>3,103</b>	<b>757</b>	<b>1,209</b>	<b>978</b>	<b>1,069</b>
<b>Profitability and Growth</b>								
<b>Margins, %</b>								
EBITDA margin	n/a	n/a	n/a	7.9	5.7	6.0	7.0	7.7
Net margin	n/a	n/a	n/a	8.2	n/m	2.1	3.1	3.8
<b>Growth, %</b>								
Revenue growth	n/a	n/m	n/m	n/m	(2.2)	16.1	11.2	8.1
EBITDA growth	n/a	n/m	n/m	n/m	(28.9)	22.6	28.8	18.9
Net income/(loss) growth	n/a	n/m	n/m	n/m	n/m	n/m	62.6	32.0
<b>Other Ratios</b>								
<b>Per share data</b>								
EBITDA/share, (\$)	n/a	n/a	n/a	0.00017	0.00012	0.00015	0.00019	0.00023
Earnings per share, \$	n/a	n/a	n/a	0.00018	n/m	0.000052	0.000084	0.00011
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	n/a	n/a	n/a	n/a	(2.4)	3.6	5.6	7.0
ROIC	n/a	n/a	n/a	n/a	(2.2)	3.3	5.1	6.5
ROA	n/a	n/a	n/a	n/a	(1.6)	2.3	3.6	4.5
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	n/a	n/a	n/a	4.9	12.6	7.3	6.1	4.0
Working capital/Sales	n/a	n/a	n/a	23.0	22.0	20.2	19.2	18.5
<b>Valuations</b>								
P/E	n/a	n/a	n/a	4.7	n/a	16.0	9.8	7.4
P/S	n/a	n/a	n/a	0.4	0.4	0.3	0.3	0.3
EV/S	n/a	n/a	n/a	0.3	0.3	0.3	0.2	0.2
EV/EBITDA	n/a	n/a	n/a	3.6	5.1	4.2	3.2	2.7
P/CF	n/a	n/a	n/a	4.5	20.8	7.8	6.1	5.0
P/B	n/a	n/a	n/a	0.5	0.6	0.6	0.5	0.5

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Looking for Synergies from Merger With OGK-6

### Play on Consolidation of Gazprom Subsidiaries

#### INVESTMENT RATIONALE

**Large unified genco with low margins.** OGK-2 is a wholesale genco controlled by Gazprom. The company just completed its consolidation with OGK-6, doubling its installed capacity to 17 GW. After consolidation, the company owns several inefficient power plants with a lack of competitive advantage on the wholesale electricity market. The company has one of the lowest EBITDA margins (6%) among gencos. We expect significant margin improvement by 2015. The consolidation of OGK-2 and OGK-6 into one entity could provide cost-cutting benefits of RUB7.8 bln (\$250 mln), while the launch of new power units should boost revenues.

#### PROS

**Focus on Surgutskaya and Kirishskaya plants.** Surgutskaya GRES is one the company's core assets, accounting for 20% of its total installed capacity and having one of the highest efficiency rates in the sector. The company has just modernized 800 MW of capacity at the Kirishskaya GRES, increasing total capacity by 540 MW.

**Consolidation to result in strong unified company.** The company's management has estimated the benefits from the consolidation of OGK-2 and OGK-6 at RUB7.8 bln (\$250 mln) in 2011-15. Besides a reduction in fixed costs, the decreasing cost of new borrowings should improve the company's financial stability.

#### CONS

**Weak financials until new power units launched.** Given the fuel inefficiency of some of the company's power plants, it has seen little benefit from electricity sales on the liberalized wholesale market. The EBITDA margin fell from 11% to 6% last year. We expect the company to operate on the brink of being loss making until the launch of 1.5 GW of new capacity in 2015.

**New share issues.** OGK-2 is in the process of placing additional shares to finance its investment program. The board approved a plan to issue up to 110 bln shares, or 185% of existing shares capital, at a placement price of RUB0.45/share.

**Asset swaps with Inter RAO likely.** OGK-2 could participate in asset swaps between InterRAO and Gazprom, which we view as a risk, as the possible benefits to the company are unclear.

OGK-2	Buy		
OGKB RX	52 wk hi, \$	0.029	
Price, \$	0.013	52 wk lo, \$	
Target Price, \$	0.015	Common, mln	
Up/Dn, %	19	Free float, %	
1 m, %	13	Sh./DR	
3 m, %	5	Pref sh, mln	
6 m, %	(10)	MC, \$ mln	
12 m, %	(47)	EV, \$ mln	
	2011	2012E	2013E
P/E	2,242.4	Neg	Neg
EV/EBITDA	8.1	7.3	9.4

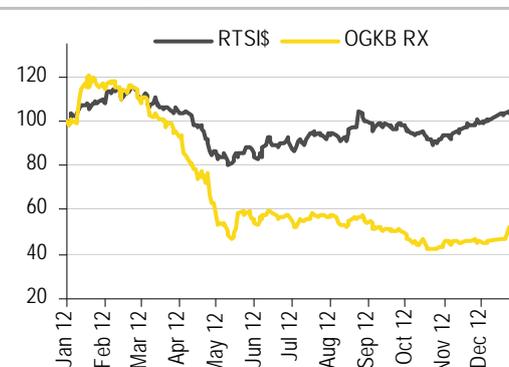
Source: MICEX-RTS, URALSIB estimates

#### OGK-2

Key Financials, \$ Mln					
	2011	2012E	2013E	2014E	2015E
Revenue	3,572	3,443	3,770	4,253	5,379
EBITDA	219	241	188	199	771
Net Income	0	(3)	(7)	(22)	430
EPS, \$/share	0.000057	n/m	n/m	n/m	0.0072
<i>Margins, %</i>					
EBITDA	6.1	7.0	5.0	4.7	14.3
Net Income	0.0	n/m	n/m	n/m	8.0

Source: Company data, URALSIB estimates

#### OGK-2, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

## OGK-2

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,636	1,229	3,175	3,572	3,443	3,770	4,253	5,379
Cost of sales	1,627	1,169	2,933	3,496	3,355	3,733	4,211	4,772
D&A	52	42	105	125	153	150	157	165
EBITDA	58	117	346	219	241	188	199	771
EBIT	7	59	242	75	87	37	42	606
Pre tax profit	7	44	211	14	(4)	(8)	(27)	537
Taxes	(13)	10	57	14	(1)	(2)	(5)	107
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	20	34	154	0	(3)	(7)	(22)	430

## Balance Sheet, \$ Mln

PP&E, net	3,012	3,204	3,007	3,307	3,725	4,315	4,892	4,898
Other non-current assets	292	276	156	140	143	144	144	143
<b>Non-current assets</b>	<b>3,304</b>	<b>3,480</b>	<b>3,164</b>	<b>3,447</b>	<b>3,868</b>	<b>4,458</b>	<b>5,036</b>	<b>5,041</b>
Cash & cash equivalents	115	91	175	11	(282)	667	213	549
Accounts receivable	220	313	307	422	418	445	471	539
Inventories	241	181	194	191	205	215	225	233
Other current assets	183	126	2	28	28	29	29	28
<b>Total current assets</b>	<b>759</b>	<b>712</b>	<b>678</b>	<b>652</b>	<b>370</b>	<b>1,356</b>	<b>937</b>	<b>1,349</b>
<b>Total assets</b>	<b>4,063</b>	<b>4,192</b>	<b>3,842</b>	<b>4,099</b>	<b>4,238</b>	<b>5,814</b>	<b>5,973</b>	<b>6,390</b>
<b>Shareholder equity</b>	<b>3,040</b>	<b>3,078</b>	<b>2,837</b>	<b>2,561</b>	<b>2,619</b>	<b>4,196</b>	<b>4,176</b>	<b>4,574</b>
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	306	250	227	231	306	301	352	380
Short-term debt	92	319	0	174	55	55	55	54
<b>Total current liabilities</b>	<b>427</b>	<b>610</b>	<b>263</b>	<b>425</b>	<b>381</b>	<b>377</b>	<b>428</b>	<b>455</b>
Long-term debt	266	164	494	844	963	965	1,093	1,086
Non-current liabilities	329	341	247	270	276	277	277	275
<b>Total liabilities</b>	<b>1,023</b>	<b>1,114</b>	<b>1,004</b>	<b>1,538</b>	<b>1,620</b>	<b>1,618</b>	<b>1,798</b>	<b>1,816</b>
<b>SE, minority interest &amp; liabilities</b>	<b>4,063</b>	<b>4,192</b>	<b>3,842</b>	<b>4,099</b>	<b>4,238</b>	<b>5,814</b>	<b>5,973</b>	<b>6,390</b>

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	(73)	15	288	148	313	149	220	614
Net change in working capital	(104)	(127)	(53)	(112)	70	(41)	16	(50)
<b>Cash flows from investing activities</b>	<b>(693)</b>	<b>(174)</b>	<b>(8)</b>	<b>(639)</b>	<b>(588)</b>	<b>(772)</b>	<b>(804)</b>	<b>(274)</b>
Capex	(717)	(48)	(79)	(584)	(495)	(727)	(735)	(204)
<b>Cash flows from financing activities</b>	<b>6</b>	<b>135</b>	<b>(195)</b>	<b>328</b>	<b>(18)</b>	<b>1,573</b>	<b>130</b>	<b>(4)</b>
Net increase/(decrease) in cash and cash equivalents	(760)	(24)	84	(164)	(293)	949	(454)	336
<b>Cash and cash equivalents /beginning of period</b>	<b>875</b>	<b>115</b>	<b>91</b>	<b>175</b>	<b>11</b>	<b>(282)</b>	<b>667</b>	<b>213</b>
<b>Cash and cash equivalents /end of period</b>	<b>115</b>	<b>91</b>	<b>175</b>	<b>11</b>	<b>(282)</b>	<b>667</b>	<b>213</b>	<b>549</b>

## Profitability and Growth

<b>Margins, %</b>								
EBITDA margin	3.5	9.5	10.9	6.1	7.0	5.0	4.7	14.3
Net margin	1.2	2.8	4.8	0.0	n/m	n/m	n/m	8.0
<b>Growth, %</b>								
Revenue growth	n/a	(24.9)	158.4	12.5	(3.6)	9.5	12.8	26.5
EBITDA growth	n/a	101.7	195.6	(36.9)	10.4	(22.2)	5.8	288.1
Net income/(loss) growth	n/a	72.0	354.1	(99.8)	n/m	n/m	n/m	n/m

## Other Ratios

<b>Per share data</b>								
EBITDA/share, (\$)	0.00098	0.0020	0.0058	0.0037	0.0041	0.0032	0.0033	0.013
Earnings per share, \$	0.00033	0.00057	0.0026	0.0000057	n/m	n/m	n/m	0.0072
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	0.6	1.1	5.2	0.0	(0.1)	(0.2)	(0.5)	9.8
ROIC	0.6	1.0	4.7	0.0	(0.1)	(0.2)	(0.4)	7.9
ROA	0.5	0.8	3.8	0.0	(0.1)	(0.1)	(0.4)	7.0
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	43.8	3.9	2.5	16.3	14.4	19.3	17.3	3.8
Working capital/Sales	39.4	50.5	15.8	17.9	18.9	18.3	17.0	14.9

## Valuations

P/E	38.8	22.6	5.0	2,242.4	n/a	n/a	n/a	1.8
P/S	0.5	0.6	0.2	0.2	0.2	0.2	0.2	0.1
EV/S	1.1	1.4	0.6	0.5	0.5	0.5	0.4	0.3
EV/EBITDA	30.5	15.1	5.1	8.1	7.3	9.4	8.9	2.3
P/CF	n/m	50.6	2.7	5.2	2.4	5.1	3.5	1.2
P/B	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## German Utilities Holding at the Helm

### Efficient Generator With Strong Control Over Fixed Costs

#### INVESTMENT RATIONALE

**Efficiency supported by foreign experience.** E.ON Russia operates 10.2 GW of electricity capacity, with one of the highest levels of efficiency in the sector. This allows for high profitability on the liberalized wholesale electricity market and when spot electricity prices increase. E.ON Russia's controlling shareholder is German utilities holding E.ON, which is well known for its high standards of corporate governance. We believe that the ownership structure will lead to the introduction of high management and cost-control standards.

#### PROS

**One of the more efficient electricity producers.** E.ON Russia operates 10.2 GW of thermal capacity at 316 goe/kWh, which is more efficient than the OGK average of 338 goe/kWh.

**Play on market liberalization.** The high level of fuel efficiency allows the company to benefit greatly from the liberalized wholesale electricity market.

**Minority-friendly shareholder structure.** E.ON Group, well known for its high corporate standards, owns 78% of the company.

**Potential dividend play.** For 2011, the company paid dividends of 25% of net profit, implying a current dividend yield of 2.7%. E.ON Russia could increase its dividend yield to 3-4% for 2012-14, above the industry average.

#### CONS

**Limited production growth.** As it already has a high utilization rate at its TPPs, the company has limited opportunities to increase production with its existing base.

**Substantial upgrades required.** In addition to the highly efficient Surgutskaya GRES-2 and Berezovskaya GRES, E.ON Russia also has three inefficient power plants, which could hurt its valuation.

**Dependence on commercial gas and coal.** The profitability of Surgutskaya GRES-2 and Berezovskaya GRES, the company's core assets, is highly dependent on the price of commercial gas and coal supplies.

**Ambiguous outlook.** Adoption of a five-year strategic plan in 1Q13 could affect the company's long-term outlook and dividend expectations.

E.ON Russia		Buy	
<b>EONR RX</b>		52 wk hi, \$	0.095
Price, \$	0.092	52 wk lo, \$	0.069
Target Price, \$	0.12	Common, mln	63,049
Up/Dn, %	27	Free float, %	21.0
1 m, %	7	Sh./DR	-
3 m, %	2	Pref sh, mln	-
6 m, %	20	MC, \$ mln	5,827
12 m, %	19	EV, \$ mln	4,986
	2011	2012E	2013E
P/E	11.7	10.1	10.0
EV/EBITDA	6.4	5.4	5.3

Source: MICEX-RTS, URALSIB estimates

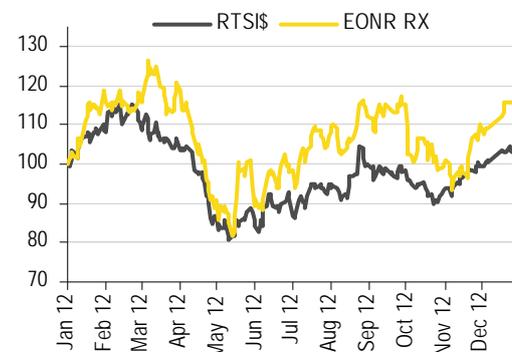
#### E.ON Russia

##### Key Financials, \$ Mln

	2011	2012E	2013E	2014E	2015E
Revenue	2,250	2,411	2,602	2,848	3,396
EBITDA	781	920	932	945	1,204
Net Income	497	576	584	573	779
EPS, \$/share	0.0079	0.0091	0.0093	0.0091	0.012
Margins, %					
EBITDA	34.7	38.1	35.8	33.2	35.5
Net Income	22.1	23.9	22.4	20.1	22.9

Source: Company data, URALSIB estimates

#### E.ON Russia, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

**E.ON Russia**

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,536	1,351	1,655	2,250	2,411	2,602	2,848	3,396
Cost of sales	1,417	1,154	1,266	1,646	1,746	1,928	2,191	2,485
D&A	99	74	77	177	254	258	288	293
<b>EBITDA</b>	<b>239</b>	<b>305</b>	<b>480</b>	<b>781</b>	<b>920</b>	<b>932</b>	<b>945</b>	<b>1,204</b>
EBIT	128	217	403	604	666	674	658	912
Pre tax profit	299	229	414	619	719	730	717	973
Taxes	44	54	77	122	144	146	143	195
Minority interest	-	-	-	-	-	-	-	-
<b>Net income/(loss)</b>	<b>255</b>	<b>176</b>	<b>337</b>	<b>497</b>	<b>576</b>	<b>584</b>	<b>573</b>	<b>779</b>

**Balance Sheet, \$ Mln**

PP&E, net	1,904	2,039	2,620	2,953	3,102	3,374	3,489	3,553
Other non-current assets	70	17	21	42	40	39	40	40
<b>Non-current assets</b>	<b>1,974</b>	<b>2,055</b>	<b>2,642</b>	<b>2,995</b>	<b>3,142</b>	<b>3,413</b>	<b>3,529</b>	<b>3,593</b>
Cash & cash equivalents	5	15	479	841	934	1,084	1,368	1,803
Accounts receivable	116	237	230	180	191	205	223	262
Inventories	73	54	46	59	58	60	64	67
Other current assets	1,247	552	0	20	19	19	19	19
<b>Total current assets</b>	<b>1,441</b>	<b>858</b>	<b>756</b>	<b>1,100</b>	<b>1,202</b>	<b>1,368</b>	<b>1,674</b>	<b>2,150</b>
<b>Total assets</b>	<b>3,415</b>	<b>2,914</b>	<b>3,398</b>	<b>4,095</b>	<b>4,344</b>	<b>4,781</b>	<b>5,202</b>	<b>5,743</b>
<b>Shareholder equity</b>	<b>3,118</b>	<b>2,656</b>	<b>3,099</b>	<b>3,693</b>	<b>3,934</b>	<b>4,326</b>	<b>4,711</b>	<b>5,241</b>
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	119	142	171	172	193	241	275	287
Short-term debt	-	-	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>172</b>	<b>175</b>	<b>203</b>	<b>222</b>	<b>240</b>	<b>288</b>	<b>322</b>	<b>334</b>
Long-term debt	-	-	-	-	-	-	-	-
Non-current liabilities	125	83	95	179	169	167	169	168
<b>Total liabilities</b>	<b>297</b>	<b>258</b>	<b>298</b>	<b>402</b>	<b>409</b>	<b>455</b>	<b>491</b>	<b>502</b>
<b>SE, minority interest &amp; liabilities</b>	<b>3,415</b>	<b>2,914</b>	<b>3,398</b>	<b>4,095</b>	<b>4,344</b>	<b>4,781</b>	<b>5,202</b>	<b>5,743</b>

**Cash Flow Statement, \$ Mln**

Net cash provided by operating activities	127	32	457	767	771	811	809	972
Net change in working capital	(49)	(154)	35	36	2	31	14	(31)
<b>Cash flows from investing activities</b>	<b>(649)</b>	<b>(562)</b>	<b>(558)</b>	<b>(446)</b>	<b>(577)</b>	<b>(569)</b>	<b>(365)</b>	<b>(372)</b>
Capex	(649)	(562)	(558)	(446)	(577)	(569)	(365)	(372)
<b>Cash flows from financing activities</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(117)</b>	<b>(142)</b>	<b>(236)</b>	<b>(228)</b>
Net increase/(decrease) in cash and cash equivalents	(157)	10	464	361	93	150	284	435
Cash and cash equivalents /beginning of period	162	5	15	479	841	934	1,084	1,368
Cash and cash equivalents /end of period	5	15	479	841	934	1,084	1,368	1,803

**Profitability and Growth**

<b>Margins, %</b>								
EBITDA margin	15.6	22.6	29.0	34.7	38.1	35.8	33.2	35.5
Net margin	16.6	13.0	20.4	22.1	23.9	22.4	20.1	22.9
<b>Growth, %</b>								
Revenue growth	n/a	(12.0)	22.5	36.0	7.2	7.9	9.5	19.2
EBITDA growth	n/a	27.4	57.3	62.9	17.7	1.4	1.4	27.4
Net income/(loss) growth	n/a	(31.0)	92.1	47.3	15.8	1.4	(1.8)	35.8

**Other Ratios**

<b>Per share data</b>								
EBITDA/share, (\$)	0.0038	0.0048	0.0076	0.012	0.015	0.015	0.015	0.019
Earnings per share, \$	0.0040	0.0028	0.0054	0.0079	0.0091	0.0093	0.0091	0.012
Dividends per share, (\$)	-	-	-	0.0020	0.0023	0.0037	0.0036	0.0049
<b>Return on capital, %</b>								
ROE	8.2	6.1	11.7	14.6	15.1	14.1	12.7	15.6
ROIC	n/a							
ROA	7.5	5.6	10.7	13.3	13.6	12.8	11.5	14.2
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	42.3	41.6	33.7	19.8	23.9	21.9	12.8	11.0
Working capital/Sales	93.5	62.4	16.7	11.5	11.1	10.9	10.7	10.2

**Valuations**

P/E	22.9	33.2	17.3	11.7	10.1	10.0	10.2	7.5
P/S	3.8	4.3	3.5	2.6	2.4	2.2	2.0	1.7
EV/S	3.2	3.7	3.0	2.2	2.1	1.9	1.8	1.5
EV/EBITDA	20.8	16.4	10.4	6.4	5.4	5.3	5.3	4.1
P/CF	46.0	179.6	12.8	7.6	7.6	7.2	7.2	6.0
P/B	1.9	2.2	1.9	1.6	1.5	1.3	1.2	1.1

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Efficient and Well-Managed

### Low-risk Exposure to Russia's Utilities Sector

#### INVESTMENT RATIONALE

**Foreign expertise, high efficiency.** Enel OGGK-5 operates 9.6 GW of electricity capacity, with a competitive level of fuel efficiency. The company's assets are located in central Russia and the Urals, which allows it to sell its electricity at high prices on the liberalized wholesale electricity market. With the Italian utilities holding Enel controlling 56% of the company, Enel OGGK-5 is one of the most investor-friendly companies in the sector. This should support its investment case and increase capital gains for minority shareholders.

#### PROS

**Centrally-located assets.** The company does not have any assets in Siberia, which allows it to benefit from higher electricity prices than its Siberian-based counterparts.

**Controlled by Enel.** Enel's influence has enabled it great success in cutting costs, which was noticeable in the 2009 and 2010 financials.

**Minority-friendly shareholder structure.** The blocking stake is owned by a consortium headed by Russian Direct Investment Fund (a company created by VEB) and Macquarie Renaissance Infrastructure Fund (established by Macquarie, an Australian infrastructure fund).

**No obligatory capital expenditures.** Enel OGGK-5 was the first company to complete the obligatory investment program in the sector, having launched 820 MW of additional capacity by 2011.

**Dividends likely in medium term.** On the basis of being FCF positive in 2013E, Enel OGGK-5 is likely to follow E.ON Russia to resume decent dividend payments to minorities.

#### CONS

**Potentially value-destructive maintenance capex.** The management has announced EUR1.2 bln 2012-16 maintenance capex. The lack of a guaranteed return by the state creates a risk that the company will not be fully compensated for investments in its ageing generation assets.

**Low free float.** Enel OGGK-5 has only a 7% free float, which is the lowest among OGGKs. This poses a liquidity concern for some investors.

**High dependency on coal prices.** The bulk of the company's profit is generated by Reftinskaya GRES, whose profitability depends heavily on coal prices.

Enel OGGK-5		Buy	
OGKE RX		52 wk hi, \$	0.076
Price, \$	0.056	52 wk lo, \$	0.050
Target Price, \$	0.080	Common, mln	35,372
Up/Dn, %	43	Free float, %	7.0
1 m, %	12	Sh./DR	-
3 m, %	(8)	Pref sh, mln	-
6 m, %	4	MC, \$ mln	1,977
12 m, %	(16)	EV, \$ mln	2,829
	2011	2012E	2013E
P/E	11.7	9.8	11.4
EV/EBITDA	6.9	5.7	5.9

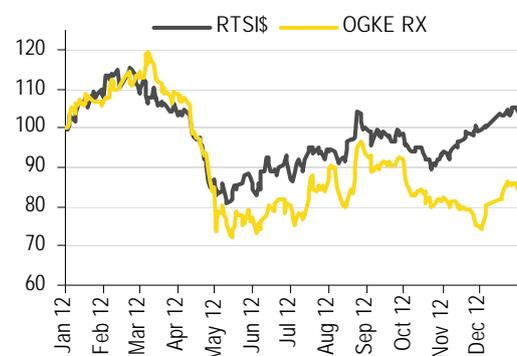
Source: MICEX-RTS, URALSIB estimates

#### Enel OGGK-5

Key Financials, \$ Mln					
	2011	2012E	2013E	2014E	2015E
Revenue	2,046	2,174	2,348	2,672	2,941
EBITDA	411	495	482	550	595
Net Income	169	202	174	222	256
EPS, \$/share	0.0048	0.0057	0.0049	0.0063	0.0072
<i>Margins, %</i>					
EBITDA	20.1	22.8	20.5	20.6	20.2
Net Income	8.3	9.3	7.4	8.3	8.7

Source: Company data, URALSIB estimates

#### Enel OGGK-5, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

## Enel OGK-5

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,726	1,371	1,730	2,046	2,174	2,348	2,672	2,941
Cost of sales	1,629	1,215	1,544	1,749	1,825	2,037	2,303	2,536
D&A	93	84	92	113	146	171	181	190
EBITDA	221	252	375	411	495	482	550	595
EBIT	113	160	186	297	349	312	368	405
Pre tax profit	96	133	151	214	252	217	278	319
Taxes	31	32	30	45	50	43	56	64
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	65	101	122	169	202	174	222	256

## Balance Sheet, \$ Mln

PP&E, net	2,241	2,605	2,878	3,137	3,448	3,539	3,614	3,654
Other non-current assets	37	103	62	53	54	54	54	54
Non-current assets	2,279	2,707	2,940	3,190	3,502	3,593	3,669	3,708
Cash & cash equivalents	29	33	18	147	104	194	335	516
Accounts receivable	146	224	247	237	265	286	315	340
Inventories	80	68	77	103	111	117	123	128
Other current assets	5	6	3	18	18	18	18	18
Total current assets	260	332	344	505	499	616	791	1,002
Total assets	2,539	3,039	3,284	3,695	4,000	4,209	4,460	4,710
Shareholder equity	1,959	2,025	2,122	2,179	2,430	2,611	2,833	3,068
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	88	128	141	176	199	223	252	276
Short-term debt	234	133	179	40	41	41	41	41
Total current liabilities	353	300	408	290	315	340	368	392
Long-term debt	-	478	498	959	982	984	985	978
Non-current liabilities	227	236	257	267	273	274	274	272
Total liabilities	580	1,014	1,163	1,516	1,570	1,598	1,627	1,642
SE, minority interest & liabilities	2,539	3,039	3,284	3,695	4,000	4,209	4,460	4,710

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	170	211	378	327	441	437	488	524
Net change in working capital	(66)	(11)	44	(64)	(7)	(2)	(6)	(7)
Cash flows from investing activities	(235)	(578)	(496)	(671)	(485)	(348)	(347)	(341)
Capex	(523)	(578)	(496)	(671)	(485)	(348)	(347)	(341)
Cash flows from financing activities	66	377	67	322	24	3	0	(7)
Net increase/(decrease) in cash and cash equivalents	(5)	4	(16)	130	(43)	90	141	181
Cash and cash equivalents /beginning of period	34	29	33	18	147	104	194	335
Cash and cash equivalents /end of period	29	33	18	147	104	194	335	516

## Profitability and Growth

Margins, %								
EBITDA margin	12.8	18.4	21.7	20.1	22.8	20.5	20.6	20.2
Net margin	3.8	7.4	7.0	8.3	9.3	7.4	8.3	8.7
Growth, %								
Revenue growth	n/a	(20.6)	26.2	18.3	6.2	8.0	13.8	10.1
EBITDA growth	n/a	14.4	48.5	9.6	20.4	(2.5)	14.0	8.2
Net income/(loss) growth	n/a	55.1	20.6	39.0	19.3	(13.9)	28.0	15.1

## Other Ratios

Per share data								
EBITDA/share, (\$)	0.0062	0.0071	0.011	0.012	0.014	0.014	0.016	0.017
Earnings per share, \$	0.0018	0.0029	0.0034	0.0048	0.0057	0.0049	0.0063	0.0072
Dividends per share, (\$)	-	-	-	-	-	-	-	-
Return on capital, %								
ROE	3.3	5.1	5.9	7.9	8.8	6.9	8.2	8.7
ROIC	n/a	n/a	4.7	5.9	6.2	5.0	6.0	6.5
ROA	2.6	3.6	3.8	4.8	5.2	4.2	5.1	5.6
Efficiency & investments, %								
Capex/Sales	30.3	42.2	28.7	32.8	22.3	14.8	13.0	11.6
Working capital/Sales	13.4	21.8	18.9	17.5	18.1	17.9	17.1	16.5

## Valuations

P/E	30.4	19.6	16.3	11.7	9.8	11.4	8.9	7.7
P/S	1.1	1.4	1.1	1.0	0.9	0.8	0.7	0.7
EV/S	1.6	2.1	1.6	1.4	1.3	1.2	1.1	1.0
EV/EBITDA	12.8	11.2	7.5	6.9	5.7	5.9	5.1	4.8
P/CF	11.6	9.4	5.2	6.0	4.5	4.5	4.0	3.8
P/B	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.6

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Efficient, Well-Located Genco

### One of the Most Undervalued Gencos

#### INVESTMENT RATIONALE

##### Advantageous location supported by high efficiency.

Mosenergo supplies electricity and heat to the Moscow region, the center of Russia's wealth. The company also has some of the most efficient thermal generation capacity in the country, which will allow it to benefit from liberalization of the wholesale electricity market. Additionally, the company has completed the first part of its obligatory investment program, and should enjoy a significant profit boost from its newly commissioned capacity.

#### PROS

**Among the cheapest electricity producers.** Mosenergo's thermal capacity operates at 255 goe/kWh, which is very efficient compared to other TGTKs (averaging 329 goe/kWh).

**1.4GW of new capacity already commissioned.** The company has already commissioned 1.4GW of new capacity, and is set to enjoy much higher returns than on existing capacity.

**Higher dividends likely.** The company currently pays 10% of its net profit to shareholders, implying a 1.2% dividend yield, but intends to increase the payout after completion of the mandatory capex program.

#### CONS

**Exposure to heavily regulated heating business.** Half of Mosenergo's revenues come from the heating business, the social importance of which dictates low tariffs. 2012's average heating tariff is set to increase 3.5% YoY, lagging gas price growth of 7.5%.

**New intergroup transformations likely.** Gazprom could return to the idea of consolidating all controlled companies into a unified company.

**Potentially pricy M&A.** Cash-rich Mosenergo may be involved in asset acquisitions (probably expensive) in the heat generation and transmission business.

Mosenergo		Buy	
MSNG RX		52 wk hi, \$	0.065
Price, \$	0.051	52 wk lo, \$	0.039
Target Price, \$	0.071	Common, mln	39,749
Up/Dn, %	39	Free float, %	15.0
1 m, %	17	Sh./DR	-
3 m, %	10	Pref sh, mln	-
6 m, %	24	MC, \$ mln	2,020
12 m, %	(8)	EV, \$ mln	1,710
	2011	2012E	2013E
P/E	6.8	15.3	8.4
EV/EBITDA	2.1	2.6	2.2

Source: MICEX-RTS, URALSIB estimates

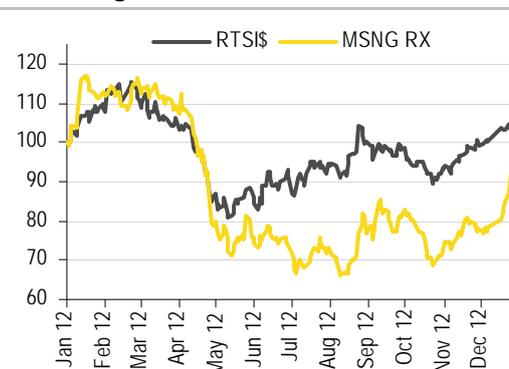
#### Mosenergo

##### Key Financials, \$ Mln

	2011	2012E	2013E	2014E	2015E
Revenue	5,486	5,337	6,013	6,814	7,522
EBITDA	815	650	769	870	850
Net Income	296	132	240	283	270
EPS, \$/share	0.0075	0.0033	0.0060	0.0071	0.0068
<i>Margins, %</i>					
EBITDA	14.9	12.2	12.8	12.8	11.3
Net Income	5.4	2.5	4.0	4.1	3.6

Source: Company data, URALSIB estimates

#### Mosenergo, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

## Mosenergo

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	3,815	3,502	4,783	5,486	5,337	6,013	6,814	7,522
Cost of sales	3,703	3,489	4,516	5,115	5,118	5,676	6,384	7,112
D&A	253	369	402	444	432	432	441	440
EBITDA	383	429	669	815	650	769	870	850
EBIT	130	60	267	371	219	337	429	410
Pre tax profit	134	71	362	407	183	333	425	406
Taxes	25	(18)	(70)	(71)	(37)	(67)	(85)	(81)
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	159	52	292	296	132	240	283	270
<b>Balance Sheet, \$ Mln</b>								
PP&E, net	6,645	6,197	5,820	5,755	6,280	6,511	6,458	6,261
Other non-current assets	539	621	564	451	461	462	462	459
<b>Non-current assets</b>	<b>7,184</b>	<b>6,818</b>	<b>6,384</b>	<b>6,205</b>	<b>6,742</b>	<b>6,973</b>	<b>6,920</b>	<b>6,721</b>
Cash & cash equivalents	113	75	925	794	537	493	760	1,111
Accounts receivable	513	764	689	843	886	988	1,085	1,175
Inventories	151	150	210	214	230	242	254	265
Other current assets	506	489	88	94	96	96	96	96
<b>Total current assets</b>	<b>1,283</b>	<b>1,479</b>	<b>1,913</b>	<b>1,945</b>	<b>1,749</b>	<b>1,819</b>	<b>2,196</b>	<b>2,647</b>
<b>Total assets</b>	<b>8,466</b>	<b>8,297</b>	<b>8,296</b>	<b>8,150</b>	<b>8,491</b>	<b>8,792</b>	<b>9,116</b>	<b>9,368</b>
Shareholder equity	6,324	6,152	6,270	6,212	6,489	6,747	7,031	7,251
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	412	605	512	588	620	660	700	741
Short-term debt	425	69	162	166	170	171	171	170
<b>Total current liabilities</b>	<b>891</b>	<b>747</b>	<b>785</b>	<b>781</b>	<b>817</b>	<b>858</b>	<b>897</b>	<b>937</b>
Long-term debt	347	552	410	317	325	326	326	324
Non-current liabilities	905	845	831	839	859	861	862	856
<b>Total liabilities</b>	<b>2,142</b>	<b>2,144</b>	<b>2,027</b>	<b>1,938</b>	<b>2,002</b>	<b>2,045</b>	<b>2,085</b>	<b>2,116</b>
<b>SE, minority interest &amp; liabilities</b>	<b>8,466</b>	<b>8,297</b>	<b>8,296</b>	<b>8,150</b>	<b>8,491</b>	<b>8,792</b>	<b>9,116</b>	<b>9,368</b>
<b>Cash Flow Statement, \$ Mln</b>								
Net cash provided by operating activities	235	286	390	564	528	586	670	659
Net change in working capital	(105)	(140)	(163)	(201)	(9)	(72)	(70)	(65)
<b>Cash flows from investing activities</b>	<b>(714)</b>	<b>(321)</b>	<b>(277)</b>	<b>(597)</b>	<b>(784)</b>	<b>(605)</b>	<b>(344)</b>	<b>(246)</b>
Capex	(714)	(321)	(277)	(597)	(784)	(605)	(344)	(246)
<b>Cash flows from financing activities</b>	<b>136</b>	<b>(3)</b>	<b>737</b>	<b>(98)</b>	<b>(0)</b>	<b>(26)</b>	<b>(59)</b>	<b>(62)</b>
Net increase/(decrease) in cash and cash equivalents	(342)	(38)	850	(131)	(257)	(45)	267	351
Cash and cash equivalents /beginning of period	455	113	75	925	794	537	493	760
Cash and cash equivalents /end of period	113	75	925	794	537	493	760	1,111
<b>Profitability and Growth</b>								
<b>Margins, %</b>								
EBITDA margin	10.0	12.2	14.0	14.9	12.2	12.8	12.8	11.3
Net margin	4.2	1.5	6.1	5.4	2.5	4.0	4.1	3.6
<b>Growth, %</b>								
Revenue growth	n/a	(8.2)	36.6	14.7	(2.7)	12.7	13.3	10.4
EBITDA growth	n/a	11.9	56.1	21.8	(20.2)	18.2	13.2	(2.3)
Net income/(loss) growth	n/a	(67.2)	459.4	1.4	(55.5)	82.1	17.7	(4.5)
<b>Other Ratios</b>								
<b>Per share data</b>								
EBITDA/share, (\$)	0.0096	0.011	0.017	0.020	0.016	0.019	0.022	0.021
Earnings per share, \$	0.0040	0.0013	0.0074	0.0075	0.0033	0.0060	0.0071	0.0068
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	2.5	0.8	4.7	4.7	2.1	3.6	4.1	3.8
ROIC	2.4	0.8	4.4	4.5	2.0	3.5	3.9	3.6
ROA	1.9	0.6	3.5	3.6	1.6	2.8	3.2	2.9
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	18.7	9.2	5.8	10.9	14.7	10.1	5.0	3.3
Working capital/Sales	30.7	40.1	20.6	21.0	22.7	22.0	21.1	20.4
<b>Valuations</b>								
P/E	12.7	38.7	6.9	6.8	15.3	8.4	7.2	7.5
P/S	0.5	0.6	0.4	0.4	0.4	0.3	0.3	0.3
EV/S	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.2
EV/EBITDA	4.5	4.0	2.6	2.1	2.6	2.2	2.0	2.0
P/CF	8.6	7.1	5.2	3.6	3.8	3.4	3.0	3.1
P/B	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Bet On Hydro Generation

### Assets Located in the Highly-Developed Northwest Region

#### INVESTMENT RATIONALE

**Unique combination of thermal and hydro generation.** TGK-1 is a thermal genco supplying heat and electricity to Russia's northwest, one of the country's most developed regions. The company operates 7GW of capacity, 45% of which comes from cheap hydro generation capacity. Together with high fuel efficiency, the company successfully operates on the wholesale electricity market. In addition, the company has a minority-friendly shareholder structure, with Finland's Fortum holding a blocking stake.

#### PROS

**High fuel efficiency.** TGK-1's operations are highly efficient, with fuel usage 7% below the 329goe/kWh average for TGKs.

**Focus on hydro generation.** The company produces 2.9GW from cheap hydro capacity, which is likely to boost profits following liberalization.

**Minority-friendly shareholder structure.** Well-known for its high corporate standards, Fortum holds a blocking stake in the company.

**Low dependence on heat supplies.** The company generates only 35% of its electricity through the co-generation cycle.

#### CONS

**Heating-market uncertainty over.** Heating supplies, which generate 47% of total revenues, remain fully regulated.

**Low spot prices in Karelia and Murmansk regions.** There is 2.2GW of hydro capacity in the Karelia and Murmansk regions, where spot prices are below the average for the northwest.

**Export profits at risk.** TGK-1's electricity exports to Finland and Sweden are set to shrink due to power prices declining in northern Europe.

TGK-1		Buy	
TGKA RX		52 wk hi, \$	0.00040
Price, \$	0.00026	52 wk lo, \$	0.00020
Target Price, \$	0.00029	Common, mln	3,854,341
Up/Dn, %	11	Free float, %	20.7
1 m, %	29	Sh./DR	-
3 m, %	19	Pref sh, mln	-
6 m, %	31	MC, \$ mln	1,010
12 m, %	(8)	EV, \$ mln	2,050
	2011	2012E	2013E
P/E	7.6	10.1	4.0
EV/EBITDA	5.1	5.7	3.7

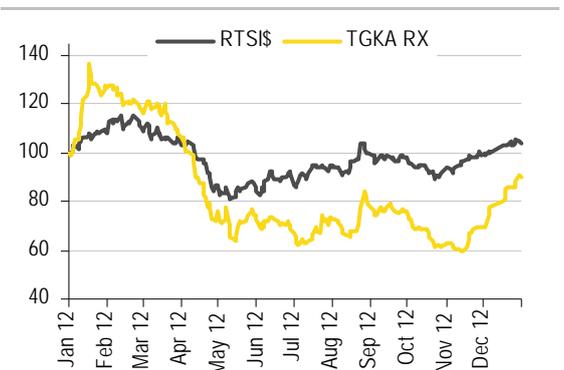
Source: MICEX-RTS, URALSIB estimates

#### TGK-1

Key Financials, \$ Mln					
	2011	2012E	2013E	2014E	2015E
Revenue	2051	1992	2416	2683	2960
EBITDA	405	363	554	602	656
Net Income	133	100	251	283	323
EPS, \$/share	0.000034	0.000026	0.000065	0.000073	0.000084
<i>Margins, %</i>					
EBITDA	20	18	23	22	22
Net Income	6	5	10	11	11

Source: Company data, URALSIB estimates

#### TGK-1, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2013

**TGK-1**

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,332	1,295	1,662	2,051	1,992	2,416	2,683	2,960
Cost of sales	1,385	1,159	1,516	1,812	1,806	2,043	2,268	2,496
D&A	111	88	111	164	177	180	187	192
EBITDA	116	199	255	405	363	554	602	656
EBIT	(24)	149	146	240	186	374	415	464
Pre tax profit	27	329	272	180	125	314	354	403
Taxes	5	72	57	79	25	63	71	81
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	22	257	215	133	100	251	283	323

**Balance Sheet, \$ Mln**

PP&E, net	2,181	2,815	3,233	3,747	4,183	4,446	4,589	4,571
Other non-current assets	61	39	46	40	41	41	41	41
<b>Non-current assets</b>	<b>2,242</b>	<b>2,854</b>	<b>3,279</b>	<b>3,787</b>	<b>4,224</b>	<b>4,487</b>	<b>4,630</b>	<b>4,612</b>
Cash & cash equivalents	70	19	9	12	6	(27)	74	334
Accounts receivable	281	332	325	393	418	489	530	574
Inventories	88	71	83	90	99	106	113	120
Other current assets	11	20	6	2	2	2	2	2
<b>Total current assets</b>	<b>449</b>	<b>442</b>	<b>423</b>	<b>497</b>	<b>524</b>	<b>570</b>	<b>719</b>	<b>1,030</b>
<b>Total assets</b>	<b>2,692</b>	<b>3,296</b>	<b>3,702</b>	<b>4,284</b>	<b>4,748</b>	<b>5,057</b>	<b>5,349</b>	<b>5,642</b>
Shareholder equity	2,040	2,268	2,437	2,631	2,787	3,034	3,302	3,585
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	353	323	252	280	302	328	351	373
Short-term debt	83	186	226	354	362	363	363	361
Total current liabilities	457	536	510	660	691	718	740	760
Long-term debt	78	312	532	698	968	1,003	1,003	996
Non-current liabilities	117	180	222	295	302	303	303	301
<b>Total liabilities</b>	<b>652</b>	<b>1,028</b>	<b>1,264</b>	<b>1,653</b>	<b>1,962</b>	<b>2,024</b>	<b>2,047</b>	<b>2,057</b>
<b>SE, minority interest &amp; liabilities</b>	<b>2,692</b>	<b>3,296</b>	<b>3,702</b>	<b>4,284</b>	<b>4,748</b>	<b>5,057</b>	<b>5,349</b>	<b>5,642</b>

**Cash Flow Statement, \$ Mln**

Net cash provided by operating activities	16	154	211	387	333	439	506	545
Net change in working capital	(115)	15	(34)	(2)	(4)	(52)	(26)	(31)
<b>Cash flows from investing activities</b>	<b>(503)</b>	<b>(439)</b>	<b>(480)</b>	<b>(653)</b>	<b>(589)</b>	<b>(491)</b>	<b>(391)</b>	<b>(266)</b>
Capex	(503)	(439)	(480)	(653)	(589)	(491)	(391)	(266)
<b>Cash flows from financing activities</b>	<b>(72)</b>	<b>338</b>	<b>254</b>	<b>294</b>	<b>274</b>	<b>23</b>	<b>(14)</b>	<b>(25)</b>
Net increase/(decrease) in cash and cash equivalents	(581)	(51)	(10)	3	(6)	(32)	100	261
Cash and cash equivalents /beginning of period	651	70	19	9	12	6	(27)	74
Cash and cash equivalents /end of period	70	19	9	12	6	(27)	74	334

**Profitability and Growth**

<b>Margins, %</b>								
EBITDA margin	8.7	15.4	15.3	19.8	18.2	22.9	22.4	22.2
Net margin	1.6	19.9	12.9	6.5	5.0	10.4	10.5	10.9
<b>Growth, %</b>								
Revenue growth	n/a	(2.8)	28.3	23.4	(2.9)	21.3	11.0	10.3
EBITDA growth	n/a	71.3	28.0	59.1	(10.6)	52.7	8.7	9.0
Net income/(loss) growth	n/a	1,083.3	(16.7)	(38.1)	(24.9)	151.5	12.8	14.0

**Other Ratios**

<b>Per share data</b>								
EBITDA/share, (\$)	0.000030	0.000052	0.000066	0.00011	0.000094	0.00014	0.00016	0.00017
Earnings per share, \$	0.000056	0.000067	0.000056	0.000034	0.000026	0.000065	0.000073	0.000084
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	1.1	12.0	9.1	5.2	3.7	8.6	8.9	9.4
ROIC	1.0	11.0	7.7	4.2	2.8	6.4	6.8	7.3
ROA	0.8	8.6	6.1	3.3	2.2	5.1	5.4	5.9
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	37.8	33.9	28.9	31.8	29.6	20.3	14.6	9.0
Working capital/Sales	28.5	32.6	24.9	23.7	26.0	24.7	24.0	23.5

**Valuations**

P/E	46.4	3.9	4.7	7.6	10.1	4.0	3.6	3.1
P/S	0.8	0.8	0.6	0.5	0.5	0.4	0.4	0.3
EV/S	1.5	1.6	1.2	1.0	1.0	0.8	0.8	0.7
EV/EBITDA	17.6	10.3	8.0	5.1	5.7	3.7	3.4	3.1
P/CF	64.0	6.5	4.8	2.6	3.0	2.3	2.0	1.9
P/B	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3

Source: Company data, URALSIB estimates

Analysts: Matvei Taitis, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Largest Renewable Energy Producer in Siberia

### Potentially Buyback Should Boost Appeal to Investors

#### INVESTMENT RATIONALE

**Strong, stable cash flows.** Irkutskenergo is the fourth-largest generation company in Russia and the largest in Siberia, with 12.9 GW of installed capacity, including 9 GW (70%) of hydro power plants. Being a low cost producer, Irkutskenergo greatly benefits from electricity market liberalization. The company also controls coal assets that almost cover its coal consumption. A 50.2% controlling stake is owned by Eurosibenergo, an affiliate of aluminum producer Rusal. Rusal's plants buy about half of Irkutskenergo's total electricity production at a significant discount to the market price.

#### PROS

**High share of hydro generation.** The company owns 9 GW of hydro capacity, which has a lower production cost than fuel-based generation.

**Vertical integration.** The company controls coal assets that are targeted to exceed its own needs by 2014.

**IPO of parent company.** The forthcoming IPO of Eurosibenergo will generate interest in the name.

**Potential buyback at attractive price.** We expect Eurosibenergo to consolidate its power assets and make a buyout offer to Irkutskenergo's minorities.

**Possible exports to China.** Located close to the border, the company can expand electricity sales to the rapidly-growing Chinese economy.

#### CONS

**Transfer pricing.** The company sells electricity to Rusal at a discount to spot prices.

**No capacity market for hydro capacity.** The government last year revised its policy to hydro power in Siberia and, since then, the company sells its hydro capacity at a regulated price, which is at a 70% discount to fuel-generated power.

**Liquidity low.** The free float is less than 10%, with Eurosibenergo owning 50% and Inter RAO currently holds of a 40% stake.

Irkutskenergo		Buy	
IRGZ RX		52 wk hi, \$	0.68
Price, \$	0.53	52 wk lo, \$	0.44
Target Price, \$	0.72	Common, mln	4,767
Up/Dn, %	35	Free float, %	10.0
1 m, %	4	Sh./DR	-
3 m, %	8	Pref sh, mln	-
6 m, %	3	MC, \$ mln	2,530
12 m, %	(5)	EV, \$ mln	2,911
	2011	2012E	2013E
P/E	Neg	7.0	7.8
EV/EBITDA	4.2	4.4	4.7

Source: MICEX-RTS, URALSIB estimates

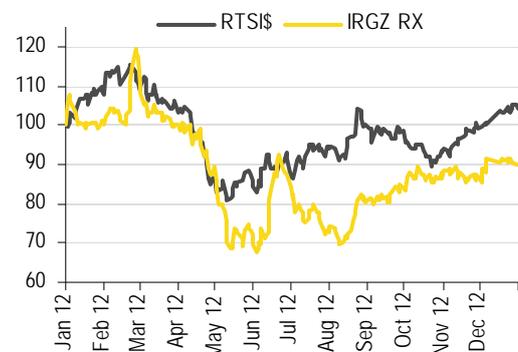
#### Irkutskenergo

##### Key Financials, \$ Mln

	2011	2012E	2013E	2014E	2015E
Revenue	2,553	2,498	2,553	2,782	2,960
EBITDA	686	661	618	682	719
Net Income	(158)	361	325	370	396
EPS, \$/share	n/m	0.076	0.068	0.078	0.083
<i>Margins, %</i>					
EBITDA	26.9	26.5	24.2	24.5	24.3
Net Income	n/m	14.5	12.7	13.3	13.4

Source: Company data, URALSIB estimates

#### Irkutskenergo, RTS, Relative Performance



Source: RTS, Bloomberg

Note: Market data as of 22 January 2013

## Irkutskenergo

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,886	1,667	2,109	2,553	2,498	2,553	2,782	2,960
Cost of sales	1,678	1,425	1,666	2,020	2,005	2,107	2,279	2,424
D&A	80	78	147	153	169	171	179	183
EBITDA	288	321	590	686	661	618	682	719
EBIT	208	242	443	533	492	446	504	536
Pre tax profit	195	664	556	(156)	451	406	463	495
Taxes	48	146	125	2	90	81	93	99
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	147	518	430	(158)	361	325	370	396

## Balance Sheet, \$ Mln

PP&E, net	1,184	1,822	1,822	1,777	1,890	1,945	1,985	1,985
Other non-current assets	144	583	699	345	353	354	354	352
<b>Non-current assets</b>	<b>1,328</b>	<b>2,405</b>	<b>2,521</b>	<b>2,122</b>	<b>2,243</b>	<b>2,299</b>	<b>2,339</b>	<b>2,337</b>
Cash & cash equivalents	30	17	21	14	293	564	883	1,245
Accounts receivable	186	189	204	228	241	251	270	286
Inventories	81	86	94	117	125	129	129	130
Other current assets	30	65	72	25	25	25	25	25
<b>Total current assets</b>	<b>327</b>	<b>357</b>	<b>392</b>	<b>383</b>	<b>684</b>	<b>969</b>	<b>1,307</b>	<b>1,685</b>
<b>Total assets</b>	<b>1,655</b>	<b>2,762</b>	<b>2,913</b>	<b>2,505</b>	<b>2,928</b>	<b>3,268</b>	<b>3,646</b>	<b>4,023</b>
Shareholder equity	928	1,448	1,825	1,559	1,954	2,286	2,655	3,031
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	119	91	145	182	191	198	206	212
Short-term debt	302	385	196	180	184	185	185	184
<b>Total current liabilities</b>	<b>571</b>	<b>625</b>	<b>419</b>	<b>459</b>	<b>475</b>	<b>483</b>	<b>490</b>	<b>494</b>
Long-term debt	28	318	229	215	220	221	221	219
Non-current liabilities	127	371	440	273	279	280	280	278
<b>Total liabilities</b>	<b>727</b>	<b>1,314</b>	<b>1,088</b>	<b>947</b>	<b>974</b>	<b>983</b>	<b>991</b>	<b>992</b>
<b>SE, minority interest &amp; liabilities</b>	<b>1,655</b>	<b>2,762</b>	<b>2,913</b>	<b>2,505</b>	<b>2,928</b>	<b>3,268</b>	<b>3,646</b>	<b>4,023</b>

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	308	515	510	135	564	530	578	607
Net change in working capital	(31)	201	(3)	(128)	(7)	(7)	(11)	(13)
<b>Cash flows from investing activities</b>	<b>(397)</b>	<b>(107)</b>	<b>(148)</b>	<b>(215)</b>	<b>(240)</b>	<b>(221)</b>	<b>(218)</b>	<b>(197)</b>
Capex	(397)	(107)	(148)	(215)	(240)	(221)	(218)	(197)
<b>Cash flows from financing activities</b>	<b>171</b>	<b>312</b>	<b>(307)</b>	<b>(48)</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>(3)</b>
Net increase/(decrease) in cash and cash equivalents	30	(13)	5	(7)	279	271	319	362
Cash and cash equivalents /beginning of period	-	30	17	21	14	293	564	883
Cash and cash equivalents /end of period	30	17	21	14	293	564	883	1,245

## Profitability and Growth

<b>Margins, %</b>								
EBITDA margin	15.3	19.2	28.0	26.9	26.5	24.2	24.5	24.3
Net margin	7.8	31.1	20.4	n/m	14.5	12.7	13.3	13.4
<b>Growth, %</b>								
Revenue growth	n/a	(11.6)	26.5	21.0	(2.2)	2.2	9.0	6.4
EBITDA growth	n/a	11.3	83.9	16.4	(3.7)	(6.5)	10.5	5.4
Net income/(loss) growth	n/a	252.6	(16.9)	n/m	n/m	(10.1)	14.1	7.0

## Other Ratios

<b>Per share data</b>								
EBITDA/share, (\$)	0.060	0.067	0.12	0.14	0.14	0.13	0.14	0.15
Earnings per share, \$	0.031	0.11	0.090	n/m	0.076	0.068	0.078	0.083
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	15.8	43.6	26.3	(9.3)	20.6	15.3	15.0	13.9
ROIC	15.4	38.1	22.5	(8.3)	18.3	13.9	13.8	12.9
ROA	8.9	23.5	15.2	(5.8)	13.3	10.5	10.7	10.3
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	21.0	6.4	7.0	8.4	9.6	8.7	7.8	6.7
Working capital/Sales	15.8	20.4	17.6	14.4	15.7	15.9	15.2	14.9

## Valuations

P/E	17.2	4.9	5.9	n/a	7.0	7.8	6.8	6.4
P/S	1.3	1.5	1.2	1.0	1.0	1.0	0.9	0.9
EV/S	1.5	1.7	1.4	1.1	1.2	1.1	1.0	1.0
EV/EBITDA	10.1	9.1	4.9	4.2	4.4	4.7	4.3	4.0
P/CF	8.2	4.9	5.0	18.7	4.5	4.8	4.4	4.2
P/B	2.7	1.7	1.4	1.6	1.3	1.1	1.0	0.8

Source: Company data, URALSIB estimates

Analysts: Matvei Taits, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## One of Best Distribution-Sector Ideas

### Undervalued Assets in Central Russia

#### INVESTMENT RATIONALE

**Among the pioneers in the transition to RAB.** MRSK Center & Volga operates across nine regions in the central part of European Russia, and along the Volga River. This area spans 409,000 sq km and has a population of 13.3 mln people – 9.4% of Russia’s total. Notable cities include Vladimir, Ivanovo, Kaluga, Kirov, Nizhny Novgorod, Ryazan and Tula. MRSK Center and Volga was among the leaders in the transition to the new tariff system, which resulted in strong growth in the company’s operating cashflow. MRSK Center-Volga is one of the best candidates for the upcoming privatization, as it uses the RAB regulation system for all of its regional divisions

#### PROS

**Minority-friendly shareholder structure.** 22% of company’s shares are controlled by EnergoSouz and Genhold Limited (companies often associated with Prosperity Capital); 5.7% by Swedish fund EOS Russia. We expect them to play an active role in the potential privatization and protection of minority interests.

**Dividend history since 2010.** Unlike other discos, MRSK Center & Volga has been paying dividends since 2010.

**100% RAB regulated.** All regional divisions of MRSK Center & Volga are regulated using RAB system.

#### CONS

**Significant exposure to last mile customers.** According to MRSK Holding’s estimate, the departure of customers for a direct connection with Federal Grid Company results in increasing the distribution tariff by 14%. As it is below the industry average (20% increase), it creates downward risks for our valuation.

**Potential involvement in regional grid acquisition.** The company’s profits may go towards potentially pricy consolidation of regional discos.

MRSK Center & Volga		Buy	
MRKP RX		52 wk hi, \$	0.0068
Price, \$	0.0066	52 wk lo, \$	0.0034
Target Price, \$	0.0075	Common, mln	112,698
Up/Dn, %	13	Free float, %	27.0
1 m, %	9	Sh./DR	-
3 m, %	21	Pref sh, mln	-
6 m, %	24	MC, \$ mln	748
12 m, %	48	EV, \$ mln	1,345
	2011	2012E	2013E
P/E	4.9	28.2	5.2
EV/EBITDA	3.6	5.1	3.2

Source: MICEX-RTS, URALSIB estimates

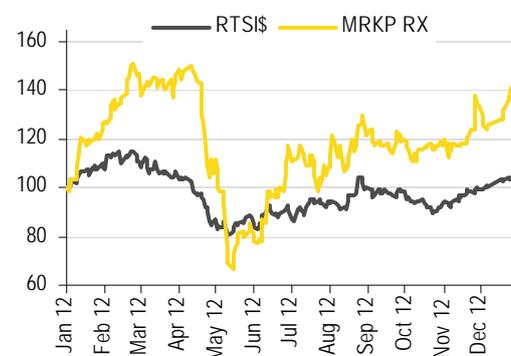
#### MRSK Center and Volga

Regional Location



Source: Company data

#### MRSK Center & Volga, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2012

## MRSK Center & Volga

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,541	1,492	1,798	2,199	1,916	2,148	2,371	2,542
Cost of sales	1,440	1,423	1,724	1,968	1,825	1,903	2,077	2,251
D&A	125	118	120	145	172	173	182	196
<b>EBITDA</b>	<b>226</b>	<b>187</b>	<b>194</b>	<b>376</b>	<b>263</b>	<b>419</b>	<b>476</b>	<b>488</b>
<b>EBIT</b>	<b>101</b>	<b>69</b>	<b>74</b>	<b>231</b>	<b>91</b>	<b>245</b>	<b>294</b>	<b>291</b>
Pre tax profit	87	39	40	196	33	181	231	226
Taxes	11	15	13	42	7	36	46	45
Minority interest	-	-	-	-	-	-	-	-
<b>Net income/(loss)</b>	<b>75</b>	<b>24</b>	<b>27</b>	<b>154</b>	<b>27</b>	<b>144</b>	<b>185</b>	<b>181</b>

## Balance Sheet, \$ Mln

PP&E, net	1,346	1,340	1,474	1,686	1,856	1,955	2,107	2,287
Other non-current assets	31	30	29	34	35	35	35	34
<b>Non-current assets</b>	<b>1,377</b>	<b>1,370</b>	<b>1,503</b>	<b>1,720</b>	<b>1,891</b>	<b>1,990</b>	<b>2,141</b>	<b>2,322</b>
Cash & cash equivalents	84	83	104	122	19	56	77	157
Accounts receivable	154	206	157	174	178	190	207	218
Inventories	24	27	28	31	34	36	39	41
Other current assets	17	13	5	98	148	149	149	148
<b>Total current assets</b>	<b>278</b>	<b>329</b>	<b>293</b>	<b>425</b>	<b>379</b>	<b>431</b>	<b>472</b>	<b>564</b>
<b>Total assets</b>	<b>1,655</b>	<b>1,700</b>	<b>1,796</b>	<b>2,145</b>	<b>2,269</b>	<b>2,421</b>	<b>2,613</b>	<b>2,886</b>
<b>Shareholder equity</b>	<b>923</b>	<b>925</b>	<b>939</b>	<b>1,029</b>	<b>1,079</b>	<b>1,228</b>	<b>1,412</b>	<b>1,582</b>
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	228	207	220	208	213	214	221	232
Short-term debt	36	177	55	55	56	57	57	56
<b>Total current liabilities</b>	<b>272</b>	<b>398</b>	<b>290</b>	<b>284</b>	<b>291</b>	<b>292</b>	<b>299</b>	<b>310</b>
Long-term debt	329	245	453	664	679	681	681	775
Non-current liabilities	132	132	114	168	220	220	220	219
<b>Total liabilities</b>	<b>732</b>	<b>775</b>	<b>857</b>	<b>1,116</b>	<b>1,190</b>	<b>1,193</b>	<b>1,201</b>	<b>1,303</b>
<b>SE, minority interest &amp; liabilities</b>	<b>1,655</b>	<b>1,700</b>	<b>1,796</b>	<b>2,145</b>	<b>2,269</b>	<b>2,421</b>	<b>2,613</b>	<b>2,886</b>

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	210	122	188	288	255	369	418	440
Net change in working capital	55	(49)	36	5	(2)	(14)	(12)	(2)
<b>Cash flows from investing activities</b>	<b>(422)</b>	<b>(133)</b>	<b>(268)</b>	<b>(440)</b>	<b>(303)</b>	<b>(267)</b>	<b>(334)</b>	<b>(393)</b>
Capex	(422)	(133)	(268)	(440)	(303)	(267)	(334)	(393)
<b>Cash flows from financing activities</b>	<b>292</b>	<b>10</b>	<b>100</b>	<b>171</b>	<b>(55)</b>	<b>(64)</b>	<b>(63)</b>	<b>32</b>
Net increase/(decrease) in cash and cash equivalents	80	(1)	21	18	(103)	37	21	80
Cash and cash equivalents /beginning of period	3	84	83	104	122	19	56	77
Cash and cash equivalents /end of period	84	83	104	122	19	56	77	157

## Profitability and Growth

<b>Margins, %</b>								
EBITDA margin	14.6	12.6	10.8	17.1	13.8	19.5	20.1	19.2
Net margin	4.9	1.6	1.5	7.0	1.4	6.7	7.8	7.1
<b>Growth, %</b>								
Revenue growth	n/a	(3.2)	20.5	22.3	(12.9)	12.1	10.3	7.2
EBITDA growth	n/a	(16.9)	3.7	93.8	(30.0)	58.8	13.8	2.4
Net income/(loss) growth	n/a	(68.1)	14.0	461.0	(82.8)	444.1	27.9	(2.3)

## Other Ratios

<b>Per share data</b>								
EBITDA/share, (\$)	0.0020	0.0017	0.0017	0.0033	0.0023	0.0037	0.0042	0.0043
Earnings per share, \$	0.00067	0.00021	0.00024	0.0014	0.00024	0.0013	0.0016	0.0016
Dividends per share, (\$)	-	-	-	-	-	-	-	-
<b>Return on capital, %</b>								
ROE	8.2	2.6	2.9	15.7	2.5	12.5	14.0	12.1
ROIC	6.0	2.0	2.1	10.0	1.5	7.9	9.2	8.1
ROA	4.6	1.4	1.6	7.8	1.2	6.2	7.3	6.6
<b>Efficiency &amp; investments, %</b>								
Capex/Sales	27.4	8.9	14.9	20.0	15.8	12.4	14.1	15.5
Working capital/Sales	12.6	16.5	10.5	13.8	18.8	17.5	16.7	16.0

## Valuations

P/E	9.9	31.1	27.2	4.9	28.2	5.2	4.0	4.1
P/S	0.5	0.5	0.4	0.3	0.4	0.3	0.3	0.3
EV/S	0.9	0.9	0.7	0.6	0.7	0.6	0.6	0.5
EV/EBITDA	6.0	7.2	6.9	3.6	5.1	3.2	2.8	2.8
P/CF	3.6	6.1	4.0	2.6	2.9	2.0	1.8	1.7
P/B	0.8	0.8	0.8	0.7	0.7	0.6	0.5	0.5

Source: Company data, URALSIB estimates

Analysts: Matvei Taitis, tai\_ma@uralsib.ru, Kristina Kornich, kornichko@uralsib.ru

## Fully RAB Disco With Privatisation Potential

### Undervalued Assets in Central Russia

#### INVESTMENT RATIONALE

**One of our preferred plays in distribution.** MRSK Volga operates in seven regions (Chuvashiya, Mordovia, Ulyanovsk, Penza, Samara, Saratov and Orenburg) in Russia's Volga region, supplying electricity to 12.7 mln people, which is equal to 8.9% of the country's population. One of the largest minority shareholders is the Swedish fund EOS Russia with stake of 11.1%. MRSK Volga is in the short list for the upcoming privatization.

#### PROS

**Discount to domestic peers.** On a sector specific multiple (EV/RAB), the company trades at 0.35, which implies a 27% discount to domestic peers.

**100% RAB regulated.** All of MRSK Volga's regional divisions are regulated using the RAB system.

#### CONS

**Exposure to the suffering car industry.** The region is at the heart of the Russian car industry and the future dynamics of electricity consumption will depend on the development of this industry in general, and AvtoVAZ in particular.

**Potential involvement in regional-grid acquisitions.** The company's profits may go towards potentially pricy consolidation of regional discos.

MRSK Volga		Buy	
MRKV RX		52 wk hi, \$	0.0041
Price, \$	0.0028	52 wk lo, \$	0.0018
Target Price, \$	0.0032	Common, mln	178,578
Up/Dn, %	15	Free float, %	14.0
1 m, %	13	Sh./DR	-
3 m, %	19	Pref sh, mln	-
6 m, %	20	MC, \$ mln	503
12 m, %	7	EV, \$ mln	658
	2011	2012E	2013E
P/E	8.4	7.5	15.3
EV/EBITDA	3.4	2.9	3.4

Source: MICEX-RTS, URALSIB estimates

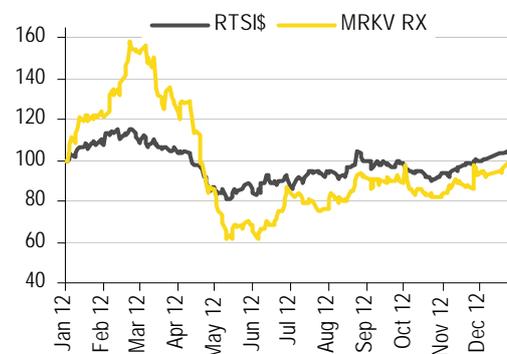
#### MRSK Volga

Regional Location



Source: Company data

#### MRSK Volga, RTS, Relative Performance



Source: Bloomberg

Note: Market data as of 22 January 2012

## MRSK Volga

Income Statement IFRS, \$ Mln	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Revenue	1,235	929	1,302	1,636	1,610	1,691	1,878	2,063
Cost of sales	1,102	865	1,264	1,554	1,506	1,622	1,780	1,939
D&A	96	89	93	111	123	123	136	146
EBITDA	229	153	131	193	227	192	233	271
EBIT	132	64	38	82	104	69	97	125
Pre tax profit	112	48	29	73	84	41	59	76
Taxes	30	7	11	13	17	8	12	15
Minority interest	-	-	-	-	-	-	-	-
Net income/(loss)	82	41	19	60	67	33	47	61

## Balance Sheet, \$ Mln

PP&E, net	871	837	873	971	1,158	1,273	1,375	1,504
Other non-current assets	38	34	24	22	22	22	22	22
<b>Non-current assets</b>	<b>909</b>	<b>871</b>	<b>897</b>	<b>993</b>	<b>1,180</b>	<b>1,295</b>	<b>1,397</b>	<b>1,526</b>
Cash & cash equivalents	16	14	48	63	32	103	188	242
Accounts receivable	86	101	74	115	135	159	192	231
Inventories	29	26	30	30	47	50	54	57
Other current assets	23	35	18	46	33	33	33	33
<b>Total current assets</b>	<b>154</b>	<b>176</b>	<b>170</b>	<b>253</b>	<b>248</b>	<b>346</b>	<b>467</b>	<b>563</b>
<b>Total assets</b>	<b>1,063</b>	<b>1,047</b>	<b>1,067</b>	<b>1,246</b>	<b>1,428</b>	<b>1,640</b>	<b>1,864</b>	<b>2,089</b>
Shareholder equity	675	700	709	729	801	836	883	937
Minority interest	-	-	-	-	-	-	-	-
Accounts payable	91	63	111	206	176	192	209	227
Short-term debt	102	6	3	2	3	3	3	3
<b>Total current liabilities</b>	<b>209</b>	<b>94</b>	<b>125</b>	<b>219</b>	<b>190</b>	<b>206</b>	<b>223</b>	<b>241</b>
Long-term debt	119	193	170	215	347	507	667	821
Non-current liabilities	60	60	64	83	91	91	91	90
<b>Total liabilities</b>	<b>388</b>	<b>347</b>	<b>358</b>	<b>518</b>	<b>627</b>	<b>804</b>	<b>980</b>	<b>1,151</b>
<b>SE, minority interest &amp; liabilities</b>	<b>1,063</b>	<b>1,047</b>	<b>1,067</b>	<b>1,246</b>	<b>1,428</b>	<b>1,640</b>	<b>1,864</b>	<b>2,089</b>

## Cash Flow Statement, \$ Mln

Net cash provided by operating activities	162	110	188	206	141	173	202	231
Net change in working capital	(32)	(31)	63	45	(69)	(10)	(20)	(25)
Cash flows from investing activities	(254)	(69)	(138)	(245)	(289)	(233)	(238)	(286)
Capex	(254)	(69)	(138)	(245)	(289)	(233)	(238)	(286)
Cash flows from financing activities	91	(43)	(16)	53	118	131	121	109
Net increase/(decrease) in cash and cash equivalents	(2)	(2)	34	14	(30)	71	85	54
Cash and cash equivalents /beginning of period	18	16	14	48	63	32	103	188
Cash and cash equivalents /end of period	16	14	48	63	32	103	188	242

## Profitability and Growth

### Margins, %

EBITDA margin	18.5	16.5	10.1	11.8	14.1	11.3	12.4	13.1
Net margin	6.6	4.4	1.4	3.7	4.2	1.9	2.5	2.9

### Growth, %

Revenue growth	n/a	(24.8)	40.2	25.6	(1.6)	5.0	11.1	9.9
EBITDA growth	n/a	(33.0)	(14.5)	47.5	17.4	(15.4)	21.6	16.1
Net income/(loss) growth	n/a	(49.8)	(54.5)	221.5	11.8	(50.9)	42.5	29.0

## Other Ratios

### Per share data

EBITDA/share, (\$)	0.0013	0.00086	0.00073	0.0011	0.0013	0.0011	0.0013	0.0015
Earnings per share, \$	0.00046	0.00023	0.00010	0.00034	0.00038	0.00018	0.00026	0.00034
Dividends per share, (\$)	-	-	-	-	-	-	-	-

### Return on capital, %

ROE	12.1	6.0	2.7	8.4	8.8	4.0	5.5	6.7
ROIC	10.3	4.9	2.1	6.6	6.4	2.6	3.2	3.7
ROA	7.7	3.9	1.8	5.2	5.0	2.1	2.7	3.1

### Efficiency & investments, %

Capex/Sales	20.6	7.4	10.6	15.0	17.9	13.8	12.7	13.8
Working capital/Sales	11.2	17.4	9.3	11.7	13.4	14.3	14.9	15.6

## Valuations

P/E	6.1	12.2	26.9	8.4	7.5	15.3	10.7	8.3
P/S	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.2
EV/S	0.5	0.7	0.5	0.4	0.4	0.4	0.4	0.3
EV/EBITDA	2.9	4.3	5.0	3.4	2.9	3.4	2.8	2.4
P/CF	3.1	4.6	2.7	2.4	3.6	2.9	2.5	2.2
P/B	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.5

Source: Company data, URALSIB estimates

**URALSIB Securities Ltd**

Tower 42, 25 Old Broad St., London EC2N 1HQ, UK  
Telephone: +44 (0) 20 7562 8000  
Fax +44 (0) 20 7562 8099

Authorised and Regulated by FSA  
Member Firm London Stock Exchange,  
Turquoise Derivatives and Euronext

**URALSIB Capital LLC**

8 Efremova Street, Moscow, Russia 119048  
Telephone: + 7 (495) 788 0888  
Fax: + 7 (495) 705 7010

**Auerbach Grayson & Co.**

25 West 45th Street, 16th Fl., New York,  
New York 10036  
Tel: +1 (212) 557-4444,  
Fax: +1 (212) 557-9066  
U.S. registered broker-dealer and  
member of FINRA and SIPC

## Disclaimer

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject. The lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Opinions, estimates and projections in this report constitute the present judgment of the undersigned lead analyst(s) as at the date of the report. They do not necessarily reflect the opinions of URALSIB and are subject to change without notice. Name of lead analyst: Matvei Taits (Utilities).

This report is provided for informational purposes only. Under no circumstances is it to be used or considered as an offer or a solicitation of an offer to buy or sell securities.

Information and opinions contained in this report have been compiled by URALSIB from sources believed to be reliable and while all reasonable care has been taken in the preparation of this report, URALSIB makes no representation or warranty, express or implied, to its accuracy or completeness. Neither URALSIB nor its principals, employees, agents or affiliates accept any liability for any direct or consequential loss arising from any use of this report or its contents. Investors should make their own investment decisions using their own independent advisors, as they believe necessary and based upon their specific financial situations and investment objectives when investing. The information is the exclusive property of "URALSIB Capital LLC" and may not be reproduced or distributed without prior written permission.

URALSIB, their principals, employees, agents or affiliates may have positions or effect transactions in the securities referred to in this report and may engage in securities transactions with respect to securities covered by this report. They may also sell to or buy from customers on a principal basis and may serve as a director of issuers of such securities. Disclosures of conflicts of interest, if any, are listed below.

Investing in Russia and Russian securities may not be suitable for all investors and involves a high degree of risk. Investors should perform their own due diligence before investing, having due regard to their investment objectives and financial situation. Exchange rate fluctuations may affect the value of, and/or income from, securities denominated in currencies other than an investor's currency. Past performance is not an indication of future results necessarily. Prices of securities, income from an investment, liquidity and availability of securities are subject to change without notice. URALSIB has no obligation to modify, amend or update this report, nor to otherwise notify a reader of this report should any opinion, projection, forecast, estimate or other matter change or subsequently becomes inaccurate or if research coverage of the company by URALSIB ceases.

This report is not intended for the use of Private Customers as that term is defined under the Financial Services and Markets Act 2000. This report has been approved for publication in the United Kingdom by URALSIB Securities Limited, authorised and regulated by the Financial Services Authority and a member firm of the London Stock Exchange.

Additional information available upon request.

© URALSIB Capital 2013

This report has been prepared by the correspondent of Auerbach Grayson & Company Incorporated named above on the date listed above. We are distributing the report in the U.S. and accept responsibility for its content subject to the terms as set within the report. Any U.S. person receiving this report and wishing to effect transactions in any security discussed herein should do so only with a representative of Auerbach Grayson & Company Incorporated. Additional information on recommended securities is available on request.

## Research

**+7 (495) 788-0888**

### Head of Research

Konstantin Chernyshev, che\_kb@uralsib.ru

### Deputy Head of Research

Vyacheslav Smolyaninov, smolyaninovv@uralsib.ru

### Head of Fixed Income Research

Dmitry Dudkin, dudkindi@uralsib.ru

### Research Sectors & Staff

#### Strategy

Vyacheslav Smolyaninov, smolyaninovv@uralsib.ru

#### Economy

Alexei Devyatov, PhD, devyatovae@uralsib.ru

Olga Sterina, sterinaoa@uralsib.ru

#### Market Analysis

Vyacheslav Smolyaninov, smolyaninovv@uralsib.ru

Dmitry Push, pushds@uralsib.ru

Maxim Nedovesov, nedovesovmv@uralsib.ru

#### Fixed Income

Dmitry Dudkin, CFA, dudkindi@uralsib.ru

Anton Tabakh, PhD, CFA, tabakhav@uralsib.ru

Nadezhda Bozhenko, bozhenkonv@uralsib.ru

Olga Sterina, sterinaoa@uralsib.ru

Tatiana Dneprovskaya, dneprovskata@uralsib.ru

#### Banking

Natalia Berezina, berezinana@uralsib.ru

#### Oil & Gas

Alexei Kokin, kokinav@uralsib.ru

Stanislav Kondratiev, kondratievds@uralsib.ru

#### Utilities

Matvei Taits, tai\_ma@uralsib.ru

Kristina Kornich, kornichko@uralsib.ru

#### Metals & Mining

Valentina Bogomolova, CFA, bogomolovava@uralsib.ru

#### Telecommunications, IT & Media

Konstantin Chernyshev, PhD, che\_kb@uralsib.ru

Konstantin Belov, belovka@uralsib.ru

#### Fertilizers, Transport & Machinery

Artem Egorenkov, egorenkovag@uralsib.ru

Denis Vorchik, vorchikdb@uralsib.ru

#### Consumer Goods, Retail & Real Estate

Marat Ibragimov, Ibragimovmy@uralsib.ru

### Editorial & Production

#### English Language Editions

John Walsh, walshj@uralsib.ru

Tim Hall, hallt@uralsib.ru

Paul de Witt, dewittpd@uralsib.ru

Hissam Latif, latifh@uralsib.ru

#### Design

Angelina Fridenberg, fridenbergav@uralsib.ru

#### Russian Language Editions

Andrei Pyatigorsky, pya\_ae@uralsib.ru

Olga Simkina, sim\_oa@uralsib.ru

Stepan Chugrov, chugrovss@uralsib.ru

Alexey Smorodin, Smorodinay@uralsib.ru

### Equity Sales Desks

#### MOSCOW

Phone: +7 (495) 723 7026

#### LONDON

Phone: +44 (0)20 7562 8012

#### NEW YORK

Direct: +1 (212) 453-3525

Trading: +1 (212) 557-4444

URALSIB on Bloomberg: type USIB <Go> on your Bloomberg terminal