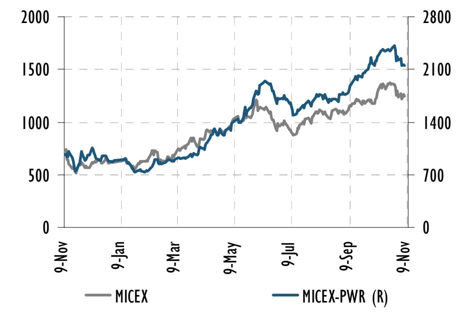
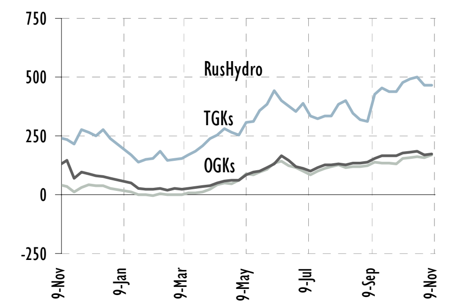
GAZPROMBANK Utilities Weekly

MICEX and MICEX-PWR, 12M curves



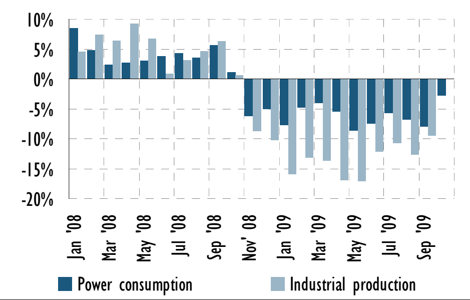
Source: Reuters

Average valuation of gencos, $/Kw of installed capacity, 12M



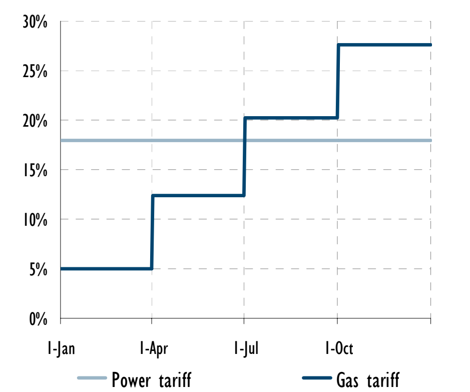
Source: Reuters, GPB estimates

2008 – 2009 industrial production vs. power consumption (annualized)



Source: Rosstat, System Operator, Gazprombank estimates

Gas and power tariff hikes in 2009 vs. 2008



Source: Federal Tariff Authority, GPB estimates

Last week was again marked by volatility spikes. The FOMC's 2-day meeting ended on Wednesday with positive, but generally expected results (the regulator kept stimulating monetary policy), while Friday's worsening was caused by weak unemployment rate figures from US (actual 10.2% vs. forecasted 9.9%).

MICEX gained 0.4%, while the sectoral MICEX-PWR slid 3.2%.

Gencos' corporate reporting

Thermal gencos started releasing 9M09 figures. However, most of them make only partial disclosures (net income), not releasing full financials.

Notably, in early 3Q09 the share of the free power market rose from 30% to 50%, as well as gas tariffs gained 7% (the chart on the left). While the former was positive for efficient gencos contributing to their additional profits, the latter adversely affected almost all companies' financials, as gas is the key fuel for most OGKs and TGKs.

Gencos 9M09 financials (R mn.)

Company name	Net income				Net margin		
	3Q09	3Q08	Change, %	9M09	3Q09	3Q08	9M09
OGK-1	376	930	-59.6%	2 000	2.8%	7.7%	6.6%
OGK-2	314	-197	N/A	1 360	N/D	-2.1%	N/D
OGK-3	-221	1 752	N/A	3 729	-2.5%	18.4%	13.8%
OGK-4	1 519	1 930	-21.3%	5 745	N/D	6.9%	N/D
OGK-5	926	217	327.6%	2 654	8.3%	1.8%	8.7%
OGK-6	704	-6	N/A	3 436	7.2%	-0.1%	11.4%
TGK-1	301	-264	N/A	2 368	N/D	-4.7%	N/D
TGK-2	-911	-1 118	-18.5%	350	-26.5%	-31.7%	2.0%
Mosenergo	-1 255	-1 204	4.3%	5 129	negative	-6.7%	N/D
TGK-4	-213	-448	-52.5%	1 284	negative	-9.5%	N/D
TGK-5	-62	-76	-17.7%	999	-2.3%	-2.8%	8.6%
TGK-6	-274	-322	-14.8%	1 144	negative	-9.2%	N/D
TGK-9	-120	-11	980.7%	2 700	negative	-0.1%	N/D

Source: companies data, Gazprombank estimates

The above table shows that almost all OGKs (except for OGK-3) finished the 3Q09 in black, while TGKs – in red, which is, however, a routine practice (except for TGK-1, with half of its facilities being HPPs). TGKs traditionally perform weakly in 3rd quarter due to lower demand for thermal energy, causing a plunge of sales and electricity output in most effective heat generating cycle.

OGK-4, OGK-5, OGK-6 and TGK-1 had relatively strong performance in 3Q09. On the other hand, TGK-2 released weak results as well as OGK-1, OGK-2, OGK-3 and Mosenergo. We expect the 4th quarter to be no less challenging for the gencos with the major problem being gas tariff hike effective October 1 (by another 6.2% or by 27.7% cumulatively for the YtD) as well as free market fragility.

However, power consumption dynamics is gradually improving. After dashing by 8% y/y in September, in October it dropped by merely 2.8%, while in the week from October 30 to November 5 the demand even rose by 2.4%. At the same time energy prices surpassed the 2008 marks: by 15.9% along the first zone (RUB 644.7/MWh) and by 3.2% across Siberia (RUB 526.5/MWh).

Sector stories

RAB implementation across grid companies remains the most interesting sector story (not yet fully priced in), therefore, we recommend buying the Federal Grid, MRSK Holding and most undervalued DisCos stock.

We also like RusHydro stock, with negative consequences of SShHPP accident already mostly priced in. Among thermal generators we prefer most efficient and rewarding companies as well as Siberian coal-fired TGKs that trade low and are resilient to gas tariff hikes.

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Table 1. Valuation of Russian gencos

Company Name	Ticker	Share price, RUB	YTD Change, %	Mcap, $ mn	P/E-09	EV/EBITDA-09	EV/IC*, $/kW	EV/Output-08, $/MWh
Wholesale gencos					**45.6**	**10.9**	**170**	**33**
OGK-1	OGK1	0.70	106.5%	1 083	46.2	8.1	141	29
OGK-2	OGK2	0.88	236.5%	993	negative	13.9	132	23
OGK-3	OGKC	1.39	280.1%	2 290	19.1	4.7	62	16
OGK-4	OGK4	1.54	305.0%	3 363	27.8	15.6	267	41
Enel OGK-5	OGKE	2.17	110.3%	2 665	69.6	16.9	331	67
OGK-6	OGK6	0.76	185.7%	847	65.2	6.4	87	20
Territorial gencos					**19.0**	**4.3**	**172**	**38**
TGK-1	TGKA	0.014	317.6%	1 897	56.1	8.4	321	75
TGK-2	TGKB	0.007	115.6%	352	12.7	4.6	237	58
Mosenergo	MSNG	2.598	173.8%	3 580	25.9	9.3	315	58
TGK-4	TGKD	0.010	40.6%	659	9.7	3.2	167	44
TGK-5	TGKE	0.011	172.5%	465	19.3	2.9	77	17
TGK-6	TGKF	0.010	163.2%	646	9.7	2.0	98	25
TGK-7	VTGK	1.300	424.2%	1 352	27.8	6.0	201	50
TGK-9	TGKI	0.003	183.3%	924	5.7	2.8	212	43
TGK-11	TGKK	0.014	153.7%	244	N/D	N/D	134	29
Kuzbassenergo	KZBE	0.184	152.1%	451	10.8	3.5	108	20
TGK-13	TGK13	0.056	79.4%	308	25.6	3.5	141	25
TGK-14	TGKN	0.003	-3.1%	146	6.1	0.5	55	11
Hydro power gencos					**11.8**	**6.0**	**253**	**62**
RusHydro	HYDR	1.01	67.2%	9 395	12.2	6.3	467	110
Irkutskenergo	IRGZ	13.26	75.4%	2 191	15.1	6.7	187	40
Krasnoyarsk HPP	KRSG	42.51	112.6%	576	7.9	5.1	106	35
Integrated gencos					**16.7**	**16.3**	**208**	**60**
InterRAO	IRAO	0.030	368.3%	2 325	26.6	29.2	331	113
Bashkirenergo	BEGY	28.400	373.3%	1 049	6.9	3.4	226	45
RAO ES of the East	VRAO	0.223	266.1%	777	negative	N/D	68	21

Source: Reuters, companies' data, Gazprombank estimates *EV (enterprise value) is Mcap plus net debt (outstanding loans less cash and short-term investments). IC – installed capacity

Table 2. Valuation of overseas gencos

Company name	Country	Share price, $	YTD Change, %	Mcap, $mln.	P/E-09	EV/EBITDA-09	EV/IC, $/kW	EV/Output, $/MWh
Power gencos					**15.1**	**7.8**	**678**	**122**
Huaneng Power Int.	China	1.19	17.6%	12 783	23.5	10.9	297	70
China Resources Power	China	2.09	8.9%	8 816	15.7	8.4	863	167
TransAlta	Canada	17.90	-21.8%	3 537	12.5	6.5	684	119
Drax Group	UK	7.81	-17.1%	2 651	8.6	5.5	867	132
Hydro power gencos					**17.1**	**10.9**	**1 219**	**273**
Tractebel Energia	Brazil	12.93	18.9%	8 442	17.5	9.9	1 507	300
AES Tiete S.A.	Brazil	11.20	49.3%	4 366	13.6	8.5	1 804	383
Great Lakes Hydro	Canada	16.87	22.3%	894	20.3	14.3	1 564	408
Integrated gencos					**10.8**	**7.2**	**1 475**	**366**
EdF	France	55.48	-10.8%	101 097	14.3	5.4	970	196
E.ON	Germany	39.32	-7.8%	78 673	9.6	6.0	1 600	327
Iberdrola	Spain	9.34	-4.7%	46 731	12.0	7.8	1 953	552
Endesa	Spain	32.58	-24.0%	34 491	10.7	6.9	1 291	341
Southern	USA	31.59	-14.6%	24 469	12.8	7.6	977	201
Enel	Italy	6.14	-9.5%	24 595	4.0	3.4	898	567
CEZ	Czech Republic	52.17	13.9%	30 894	10.9	6.9	2 401	520
Fortum	Finland	24.49	7.2%	21 732	10.9	7.8	2 598	520
Scottish&Southern Energy	UK	18.06	-11.7%	16 581	11.9	8.5	2 056	471
Entergy	USA	77.01	-7.4%	14 580	10.7	6.1	822	235
KEPCO	Korea	29.02	13.5%	18 615	negative	12.9	598	100
American Electric Power	USA	31.03	-6.8%	12 522	9.6	6.0	690	143
Verbund	Austria	45.64	-6.5%	14 068	12.0	8.2	2 316	581

Source: Reuters, companies' data, Gazprombank estimates

Table 3. Valuation of Russian grid companies

Company name	Ord price, R	YTD Change	Pref price, R	Mcap, $mln.	EV/RAB*	P/E-09	EV/Lines, '000 $/km	EV/Output, '000 $/kWh	Discount to the total market value of stakes (for tradeable assets)
Transmission									
Federal Grid Company	0.31	148.0%		12 217	0.35	20.0	85.7	22.6	
Distribution					**0.33**	**22.0**	**7.1**	**18.9**	
MRSK Holding	3.24	276.7%	1.66	4 729	0.20	11.1	3.7	12.4	13.2%
MOESK (Moscow United Distrib. Co.)	1.13	-2.1%		1 911	0.31	6.9	24.4	33.0	
Lenenergo	25.90	106.0%	22.50	790	0.26	8.8	20.1	40.0	
Central MRSK	0.71	86.4%		1 039	0.41	10.8	3.7	24.0	
Central&Volga MRSK	0.17	88.8%		656	0.31	14.6	3.5	17.3	
North West MRSK	0.21	284.7%		689	0.41	45.9	4.9	19.0	
Ural MRSK	0.24	173.3%		740	0.47	23.9	6.7	11.7	
Siberia MRSK	0.23	215.1%		754	0.40	13.1	3.7	9.6	
Volga MRSK	0.10	49.3%		619	0.28	10.6	3.6	13.6	
South MRSK	0.18	252.2%		493	0.45	54.7	3.0	16.9	
North Caucasus MRSK	81.11	231.3%		83	0.15	41.3	1.1	10.5	
Tyumenenergo	Not listed (MRSK Holding owns a 100% stake)								

Source: Reuters, companies' data, Federal Grid, Gazprombank estimates

*RAB – regulatory asset base, calculated as for 2009 (according to Federal Grid Company)

Corporate Events

Date	Company Name	Event
November 12	TGK-1	Operating results and 9M09 RAS statement
November 14	OGK-4	9M2009 RAS results
November 16	Federal Grid	9M2009 RAS results
End of November	RusHydro	1H09 IFRS results

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