

EOS Russia – MRSK Newsletter 05/06/17

Very strong 1Q17 RAS results

At the end of April and beginning of May, MRSKs reported their 1Q17 RAS results that were very strong across the board.

RAS	EBIT margin		Net margin		Revenue growth
	1Q17	1Q16	1Q17	1Q16	
MRSK Center-Volga	20,7 %	13,7 %	17,9 %	6,3 %	13,2 %
MRSK Volga	11,9 %	8,6 %	7,1 %	2,8 %	12,5 %
MRSK Urals	9,7 %	4,3 %	5,0 %	4,4 %	12,5 %
MRSK North-West	10,7 %	9,2 %	6,7 %	4,4 %	7,0 %
Lenenergo	11,9 %	8,6 %	7,1 %	2,8 %	9,5 %

Source: Companies, EOS

The companies' efforts to control costs which began two years ago have generally produced a steady improvement in results every quarter. However, the Y/Y quarterly improvement in 1Q17 is exceptionally impressive.

Dividend payouts approved

In May, the Russian government approved a dividend directive for state-controlled companies to pay 50% of their IFRS net profits as dividends. The directive allows for certain exceptions.

For Rosseti, the government is excluding non-cash items and connection fee profits from the net profit calculations.

The dividend proposals for our holdings came out in the last weeks of May with proposed payouts close to 50% of IFRS net profits with the exceptions of MRSK North-West and Lenenergo. Lenenergo made the lion's share of its profits from connection fees.

2016 dividends		
	IFRS payout	Dividend yield
MRSK Center-Volga	37%	7.6%
MRSK Urals	54%	6.0%
MRSK Volga	47%	10.0%
MRSK North-West	19%	2.8%
Lenenergo	*25%	2.6%
Lenenergo pref	NA	13.7%

Source, EOS; 24 May, 2017

* including preferred dividends

The strong 1Q17 results bode well for next year's dividend prospects.

Valuations and Share Prices

MRSK share prices have been generally flat or slightly down in the past two months, and have not reacted to the strong first quarter result announcements with the market focus on 2016 dividends.

MRSKs continue to trade at very low valuations in comparison with their Emerging Market peers. For instance, they are currently traded at discounts of 60-80% on 2015-17e P/E and EV/EBITDA multiples to the peers.

	P/E			EV/EBITDA		
	2015	2016e	2017e	2015	2016e	2017e
MRSK Average	7.0	6.3	2.8	2.9	3.0	2.1
GEM Average	24.5	15.8	13.7	10.2	8.7	7.3
MRSK Discount	-71%	-60%	-80%	-72%	-65%	-71%

Note: MRSK average: Center-Volga, Volga, North-West, Urals; GEM average: Light (BRA, Equatorial Energia (BRA), Manila Electric (PHI).

Note: Ratios exceeding 30 have been excluded.

Source: Companies, 4-Traders, EOS estimates, Date: 26 May, 2017