

EOS Russia – MRSK Newsletter 05/05/20

MRSK 2019 dividend yields between 6.7-11.3%

At the end of April, MRSKs started to announce full year dividend recommendations for 2019. As many companies had already paid 9-month dividends, these latest announcements should be considered together with those earlier pay-outs to get a clear view of the full picture as presented in the table below.

While the final planned dividend announcements were generally lower than expectations before the coronavirus lockdowns started, dividend yields for the year as a whole still reached the range of 6.7-11.3%.

In a negative development for shareholders, MRSK Center-Volga decided to forego altogether a dividend for the last quarter; but it is possible that the company will pay this dividend later.

	Share price	Dividend per share		2019 total dividend yield	Payout RAS	Payout IFRS
		9M19	4q19			
MRSK Volga	0,067	0,0053946	0,0010676	9,6%	46,5%	31,1%
MRSK Center-Volga	0,174	0,0163239	-	9,4%	35,7%	26,7%
MRSK Urals	0,148	0,0032000	0,0073000	7,1%	42,6%	33,2%
MRSK North-West	0,049	0,0020000	0,0012724	6,7%	56,6%	29,0%
Lenenergo pref*	119,950	-	13,6100000	11,3%	na	na

* estimate based on the charter formula

Source: Companies, EOS

First quarter hit by the exceptionally warm winter

MRSKs also reported first quarter 2020 RAS financials at the end of April. The winter in Russia was the warmest in the 140-year history of meteorological observations, and this resulted in reduced volumes of electricity being distributed. In addition, the MRSK's industrial customers started to feel the negative economic effects of the coronavirus epidemic from mid-March.

It is clear, however, that some companies handled these conditions better than the others. MRSK Center-Volga, Lenenergo and MRSK North-West reported good numbers given the circumstances, while the numbers of MRSK Volga and MRSK Urals were disappointing.

IFRS	EBIT margin		Net margin		Revenue
	1q20	1q19	1q20	1q19	1q20
MRSK Center-Volga	20,3%	18,5%	16,0%	13,3%	1,4%
MRSK Volga	5,1%	8,3%	3,7%	6,0%	-8,2%
MRSK Urals	7,8%	8,4%	2,5%	3,8%	-29,0%
MRSK North-West	11,6%	13,4%	7,7%	9,2%	-2,1%
Lenenergo	29,1%	28,1%	20,0%	20,4%	2,6%

Source: Companies, EOS Russia

	EBIT	Net profit
	growth Y/Y	growth Y/Y
MRSK Center-Volga	11%	22%
MRSK Volga	-40%	-40%
MRSK Urals	-34%	-53%
MRSK North-West	-15%	-17%
Lenenergo	6%	0%

Source: Companies, EOS Russia

Coronavirus impact on the sector

The coronavirus lockdowns have so far had a mildly negative impact on industrial demand for electricity. However, the coronavirus epidemic's most significant impact on the sector could come from increased non-payments, as the Russian government earlier waived late payment penalties until the end of the year. However, it seems that the resulting poor payment discipline has already led the government to reconsider this decision.

Rosseti-FSK merger going ahead

The management teams of Rosseti and FSK were merged from 24 April. It seems clear that Rosseti and FSK will also be ultimately structurally merged and will then become the parent company of the MRSKs.

Valuations and share prices

MRSK share prices have generally declined in the past two month owing to the adverse impact on the Russia economy of the global coronavirus pandemic and the associated oil price decline.

The companies continue to be attractively valued. They are currently trading at substantial discounts of 67-87% to emerging market peers on P/E and EV/EBITDA multiples based on 2018-20e earnings.

	P/E			EV/EBITDA		
	2018	2019	2020e	2018	2019	2020e
MRSK Average	2.7	3.8	3.5	1.2	1.1	0.9
GEM Average	18.5	11.7	12.4	6.4	6.3	7.0
MRSK Discount	-86%	-67%	-72%	-82%	-83%	-87%

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

Note: Ratios exceeding 25 have been excluded. Source: Companies, Marketscreener, EOS estimates, Date: 30 April, 2020