

EOS Russia – MRSK Newsletter 21/05/18

MRSKs reported good performance in the first quarter

MRSKs reported their first quarter 2018 RAS results between 25 April and 3 May, showing good performance that was all the more encouraging given that the equivalent Q1 period in 2017 was extremely strong, especially for MRSK Center-Volga and MRSK Volga.

	EBIT margin		Net margin		Revenue
RAS	1q18	1q17	1q18	1q17	growth
MRSK Center-Volga	20,4 %	20,7 %	16,1 %	17,9 %	17,8 %
MRSK Volga	9,8 %	12,0 %	10,7 %	7,1 %	12,0 %
MRSK Urals	11,2 %	9,7 %	7,4 %	5,0 %	6,8 %
MRSK North-West	10,3 %	10,7 %	5,7 %	8,8 %	26,2 %
Lenenergo	20,7 %	20,6 %	15,2 %	8,7 %	14,1 %

Source: Companies, EOS

Very attractive dividends

In the past weeks, MRSKs have been announcing the level of dividends on their 2017 earnings that they will be recommending for approval at their forthcoming AGMs. Even though their share prices have performed strongly this year, the dividend yields still exceed 10% in many cases. The estimated portfolio pre-tax yield on EOS's NAV is currently 9.8% (as of May 11). The ex-dividend dates of the shares owned by EOS will fall in June.

	Portfolio weight	Dividend yield
MRSK Volga	36%	11.7%
MRSK Center-Volga	33%	11.3%
MRSK Urals	17%	9.2%
MRSK North-West*	9%	0.0%
Lenenergo	3%	2.3%
Lenenergo pref	1%	11.7%
Weighted average dividend yield		9.8%

*Estimated dividend yield, not yet announced. Source: EOS.

We understand that Rosseti's present financial model provides for maintaining this trend of increased dividends despite the company's commitment to a capital intensive digitalisation programme. This programme has the potential to deliver efficiency gains that would contribute to further improvements in profitability.

Valuations and share prices

MRSK shares have performed mostly strongly in the past weeks and months. Nevertheless, they continue to be trading at substantial discounts of 73-74% to emerging market peers on 2018 estimated P/E and EV/EBITDA multiples.

	P/E			EV/EBITDA		
	2016	2017	2018e	2016	2017	2018e
MRSK Average	10.5	4.7	3.4	3.6	3.8	2.2
GEM Average	17.3	14.6	12.9	10.4	8.9	8.2
MRSK Discount	-39%	-68%	-74%	-65%	-57%	-73%

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: 3 May, 2018