



Analyst: Ekaterina Tripoten
tripoten@sovlink.ru

HydroOGK

On the 11th of February HydroOGK started trading on Russian stock markets. As a result of merging the HPPs and HydroOGK, the HPPs' shareholders became shareholders in the merged company (Ticker: HYDR). Below, we have estimated HydroOGK's current fair value.

In the absence of regulations in the capacity and system services markets, which will substantially contribute to HydroOGK's profitability, we have not been able to develop a DCF model that would adequately reflect the company's finances. We have, therefore, based our valuation on a comparative analysis.

In order to carry out our comparative analysis, we selected peer companies operating in the power generation sector in developing countries such as India, China and Brazil. However, a direct comparison of HydroOGK with hydro generation companies in these countries, in our opinion, leads only to an approximate long-term valuation and depends to a significant degree on the country discount factor applied. Therefore, we have estimated the discount/premium at which hydro generation companies in these countries are usually traded in comparison to heat generating companies, and then applied the resultant discount/premium to the Russian heat WGCs. In our calculations, we used the EV/capacity industry multiplier.

The table below provides basic figures * on hydro generation companies in developing countries.

	Country	Ticker	M.Cap, \$ mn	Net Debt, \$ mn	EV, \$ mn	IC, Mwt	EV/IC
CIA ENERGETICA DE SP-PREF B	BRAZIL	CESP6	7,865	3,454	11,319	7,455	1,518
JAIPRAKASH HYDRO POWER LTD	INDIA	JHPL I	936	21	957	300	3,191
CHINA YANGTZE POWER CO LTD-A	CHINA	600900	23,340	1,851	25,192	12,577	2,003
CIA ENERGETICA MINAS GER-PRF	BRAZIL	CMIG4	8,335	3,746	12,081	6,684	1,807
TRACTEBEL ENERGIA SA	BRAZIL	TBLE3	7,972	972	8,944	5,881	1,521
CIA PARANAENSE DE ENERGI-PFB	BRAZIL	CPLE6	4,267	751	5,018	4,500	1,115
AES TIETE SA-PREF	BRAZIL	GETI4	3,712	475	4,187	2,651	1,400
Average							1,794

Source: Bloomberg

The table below provides basic figures * on heat generation companies in developing companies:

	Country	Ticker	M.Cap, \$ mn	Net Debt, \$ mn	EV, \$ mn	IC, Mwt	EV/IC
DATANG INTL POWER GEN CO-H	CHINA	991 HK	21,664	6,659	28,323	15,410	1,838
CHINA YANGTZE POWER CO LTD-A	CHINA	600900	23,340	1,851	25,192	12,577	2,003
HUANENG POWER INTL INC-H	CHINA	902 HK	18,695	6,723	25,418	32,575	780
HUADIAN POWER INTL CORP-A	CHINA	600027	5,912	-3,100	5,909	8,200	721
GUANGDONG ELECTRIC POWER-B	CHINA	200539	4,139	481	4,620	2,800	1,650
NTPC LIMITED	INDIA	NATP I	41,781	3,205	44,986	25,795	1,744
Average							1,456

Source: Bloomberg

* Prices as on February, 15



Thus, we found that heat generation companies were valued at a discount of 23.2% vs. hydro generation companies. Next, we computed an average EV/capacity figure for Russian heat WGCs.

Company	Ticker	M.Cap, \$mn	Net debt, \$ mn	EV, \$mn	IC, Mwt	EV/IC
OGK 1	OGKA	5,332	97	5,429	9,531	570
OGK 2	OGKB	4,010	156	4,166	8,695	479
OGK 3	OGKC	5,983	-365	5,618	8,497	661
OGK 4	OGKD	7,814	66	7,880	8,630	913
OGK 5	OGKE	6 084	-225	5,859	8,672	676
OGK 6	OGKF	3 533	197	3,729	9,052	412
Average						618

Source: RTS, Company data, Sovlink's estimates

Applying a premium of 23.2% to the average EV/capacity multiplier applicable to the heat WGCs, we obtained an EV/capacity figure for HydroOGK equal to \$762/kWh. Based on this, we estimated the company's price per share, as given below:

EV HydroOGK, \$mn	17,759
Installed capacity, MWt	24,000
Net debt, \$mn	40
M.Cap, \$mn	17,718
Number of shares	195,860,496,735
Price per share, \$	0.093

Our fair value estimate is 8% higher than HydroOGK's last closing price on the RTS (\$0.086). We expect HydroOGK to trade at current levels until regulations on the capacity and system services markets come into force, or as long as HydroOGK's free-float does not exceed its current level (19%) as a result of UES' reorganisation, scheduled for July 1. Currently UES holds a 77.9% stake in HydroOGK, the government (1.5%) and the remaining 1.5% has been held in an options programme for management.

Over the long term, HydroOGK's emerging market peers could serve as a bench-mark for the company's fair value. Currently, the average EV/capacity multiple applicable to the company's peers is \$1,794/kWh, implying a premium of 135% over HydroOGK's multiple.

We will publish our estimate of the company's fair value based on our DCF-model in the near future.

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STRONG BUY:	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
BUY:	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
HOLD:	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
SELL:	Target price at or below current price levels

SOVLINK LLC

Tel.: +7 495 967 1300

Fax: +7 495 967 1311

Kremlin Embankment 1, building 2,
Moscow 119019, Russia

www.sovlink.ru
research@sovlink.ru

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