



## IDGCs: updated valuations

**Analyst: Ekaterina Tripoten**  
tripoten@sovlink.ru

### IDGC of the Central region

Ticker	MRKC	M.Cap, \$ mn	2,094
Shares Ords '000	42,217,941	Target price, \$	<b>0.0472</b>
Bid Ords, \$	0.048	Downside	-4.8%
Offer Ords, \$	0.0512	Rating	<b>SELL</b>

### IDGC of the Central and Volga regions

Ticker	MRKP	M.Cap, \$ mn	1,364
Shares Ords '000	112,697,817	Target price, \$	<b>0.0151</b>
Bid Ords, \$	0.012	Upside	25.0%
Offer Ords, \$	0.0122	Rating	<b>BUY</b>

### IDGC of the North-West

Ticker	MRKZ	M.Cap, \$ mn	995
Shares Ords '000	95,698,372	Target price, \$	<b>0.0139</b>
Bid Ords, \$	0.01	Upside	33.8%
Offer Ords, \$	0.0108	Rating	<b>BUY</b>

### IDGC of the Volga region

Ticker	MRKV	M.Cap, \$ mn	1,321
Shares Ords '000	178,577,801	Target price, \$	<b>0.0092</b>
Bid Ords, \$	0.0068	Upside	23.7%
Offer Ords, \$	0.008	Rating	<b>BUY</b>

### IDGC of Siberia

Ticker	MRKS	M.Cap, \$ mn	1,667
Shares Ords '000	89,367,655	Target price, \$	<b>0.0095</b>
Bid Ords, \$	0.0175	Downside	-48.9%
Offer Ords, \$	0.0198	Rating	<b>SELL</b>

### MGESK

Ticker	MGRS	M.Cap, \$ mn	1,815
Shares Ords '000	28,249,359	Target price, \$	<b>0.0691</b>
Bid Ords, \$	0.063	Upside	7.6%
Offer Ords, \$	0.0655	Rating	<b>HOLD</b>

### MOESK

Ticker	MSRS	M.Cap, \$ mn	2,465
Shares Ords '000	28,249,359	Target price, \$	<b>0.1239</b>
Bid Ords, \$	0.086	Upside	42.0%
Offer Ords, \$	0.0885	Rating	<b>BUY</b>

### Lenenergo

Ticker	LSNG	M.Cap, \$ mn	1,309
Shares Ords '000	691,854	Target price O, \$	<b>1.34</b>
Shares Pref '000	93,264	Downside	-21.8%
Bid Ords, \$	1.62	Rating Ords	<b>SELL</b>
Bid Prefs, \$	1.25	Target price P, \$	0.94
Offer Ords, \$	1.8	Downside	-30.6%
Offer Prefs, \$	1.45	Rating Prefs	<b>SELL</b>

• Since our last research on the IDGCs (“IDGC: just gRAB it!” issued on May, 21), most of them have started trading and been priced by the market, which has given us the opportunity to issue recommendations on them. Furthermore, during this period, several events occurred, which have led us to correct our fair value estimate for the IDGCs.

• First of all, the day before the final UES shareholders’ meeting, new IDGC investment programs covering 2008-12 were published (and can be found on UES’ website). We have incorporated the planned investments in our DCF models. Primarily, these changes are reflected in MGESK’s and MOESK’s valuations.

• Secondly, the Federal Grid Company (FGC) published information (during its conference on May, 26), which clarifies the terms and the phases of the shift to a new tariff regulation based on the Regulatory Asset Base (RAB). Previously, we had assumed that the large-scale shift towards the new tariff regulation will take place starting from 2009, and the first period of the regulation will last for 3 years. In fact, the first period of the regulation will last for 3 years - or more exactly for 2.5 years from mid-2008 - only for five pilot distribution companies; for the remaining distribution companies it will last for one to two years. Correspondingly, the shift to the 5-year regulation will take place starting from 2011- we have reflected this in our estimates.

• Thirdly, almost all the IDGCs issued precise data regarding the exact number of their shares after the consolidation process.

• Also, we have estimated Lenenergo’s cash flows (see Appendix 1). We forecast its cash flows based on the same assumptions that we used for the other IDGCs. Lenenergo has not been included in any of the IDGCs and has maintained its independence. At present, the company is in the process of placing additional shares for the benefit of the authorities of Saint Petersburg, who will finally receive a blocking stake in Lenenergo in exchange for capital from the budget and municipal assets.

• As a result of our additional analysis we:  
- issue a **BUY** recommendation on IDGC of the Central and Volga regions, IDGC of the Northwest region, and IDGC of the Volga region;  
- issue a **SELL** recommendation on IDGC of the Center region, IDGC of Siberia, and Lenenergo;  
- lower the target price for MGESK and MOESK;  
- downgrade our recommendation on MGESK from **BUY** to **HOLD**; and  
- maintain our **BUY** recommendation on MOESK.

• We are eagerly awaiting the entry on the stock market of the remaining IDGCs – of the South region, North Caucasus and Urals. (IDGC of the North Caucasus has received permission to start trading on the RTS as of today, however, no trades have taken place so far.) We will issue recommendations on them as soon as these IDGCs are listed on the stock market. Our new target price (after incorporating the planned investments and the terms of the shift towards the new tariff regulation) for IDGC of the South - \$0.027 per share; IDGC of the Urals - \$0.0365; and IDGC of the North Caucasus - \$4.72.



**Appendix 1**

**Lenenergo**

*Forecast financials*

<b>RUR mn</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Revenues	23,000	50,689	52,072	45,979	46,701	45,302	46,173	47,026
Operating expenses	11,692	12,802	13,852	13,506	14,424	15,318	16,176	17,017
EBITDA	11,308	37,886	38,220	32,473	32,277	29,983	29,997	30,009
Depreciation	3,610	5,093	6,329	7,317	8,059	8,553	8,800	8,800
EBIT	7,698	32,794	31,892	25,156	24,219	21,431	21,197	21,209
Working capital	1,328	2,649	2,736	2,433	2,498	2,471	2,546	2,613

*DCF*

<b>RUR mn</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
EBIT*(1-t)	5,851	24,923	24,238	19,119	18,406	16,287	16,110	16,119
Depreciation	3,610	5,093	6,329	7,317	8,059	8,553	8,800	8,800
Change in WC	-422	-1,322	-86	303	-65	26	-74	-67
Capex	-21,678	-39,528	-33,362	-18,893	-18,569	-15,000	-15,000	-15,000
Cash Flow	-12,639	-10,834	-2,882	7,846	7,831	9,867	9,835	9,852
Cash Flow, \$ mn	-521	-441	-112	293	282	344	334	328
WACC	10.50%	10.67%	10.84%	11.02%	11.20%	11.39%	11.38%	11.38%
Discount factor	0.90	0.82	0.73	0.66	0.59	0.52	0.47	0.42
Discounted Cash Flow, \$ mn	-471.2	-360.3	-82.2	192.6	166.0	180.3	157.3	138.4

*Year-end target price*

Present value of cash flow, \$ mn	-79
Terminal Value, \$ mn	1,216
Fair EV, \$ mn	1,137
Net debt, \$ mn	124
Mcap, \$ mn	1,013
Numbers of ordinaries	691,854,144
Numbers of preferred shares	93,264,311
Price, Ord \$	<b>1.34</b>
Price, Pref \$	<b>0.94</b>

*Below, we have given some physical IDGC performance indicators:*

	<b>Line length, km</b>	<b>Electric power transmission, kWh mn</b>
Lenenergo	54,000	26,000



---

## STOCK RATING POLICY

---

<b>STRONG BUY:</b>	Upside over 25%; confidence level – high / upside over 100%; confidence level – low
<b>BUY:</b>	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
<b>HOLD:</b>	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
<b>SELL:</b>	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](http://www.sovlink.ru)  
[research@sovlink.ru](mailto:research@sovlink.ru)

---

©2008 Sovlink LLC. The information in the enclosed Report (the "Information") is not an advertisement for any security or particular issuer and should not be interpreted as such. The Information is intended solely for the personal use of Sovlink LLC's clients or other parties pre-agreed to with Sovlink LLC. The Information is not intended for use by citizens of the USA or legal entities registered in the USA. Nothing contained in the Information is, or should be interpreted as being information intended for an undetermined audience.

The Information is exclusively of an informational/analytical nature, and should not be interpreted as a recommendation to take any particular investment action. The Information should not be relied upon as a justification for the execution of any transactions, and should not be referred to as such. Sovlink LLC takes no responsibility for any actions taken on the basis of the Information. The enclosed Report does not contain an offer or an invitation to make an offer to buy or sell any securities or any options, futures or other derivatives related to such securities.

This Report does not have regard to any specific investment objectives, financial situation and the particular needs of any specific person who may receive this Information. Investors should seek financial advice regarding the appropriateness of investing in any securities mentioned and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may earn less than originally invested. Past performance is not necessarily a guide for future performance. Foreign currency exchange rates may adversely affect the value, price or income of any security mentioned in the Report. Please bear in mind that investment activity in emerging markets is very risky, and investors should conduct their own due-diligence prior to making an investment decision.

The individual(s) responsible for the preparation of this Report (the Author(s)), or Sovlink LLC may hold short- and long-term positions in any of the securities mentioned in the Report, and may take part in investment activities with companies mentioned in the Report.

In preparing this Report, the Author(s) assumed that the issuers mentioned in the Report disclose information in the amount and under the procedure stipulated by the securities legislation of the Russian Federation for issuers who publicly place securities.

This Report and the Information is based exclusively on publicly-available information, which is deemed to be reliable, however Sovlink LLC makes no representation that this Information is accurate or comprehensive, and it should not be relied upon as such. Sovlink LLC makes no representation that this Report has been released to all readers simultaneously, nor that Sovlink LLC will update this material on a regular basis, or that it will correct inaccuracies contained in this Report.