



**MGRS, MSRS**

**MGESK-MOESK: on the verge of consolidation**

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**MGESK**

Ticker	MGRS	M.Cap, \$ mn	1,815
Shares Ords '000	28,249,359	Target price,\$	<b>0.0811</b>
Bid Ords, \$	0.0635	Upside	26.2%
Offer Ords, \$	0.065	Rating	<b>BUY</b>

**MOESK**

Ticker	MSRS	M.Cap, \$ mn	2,535
Shares Ords '000	28,249,359	Target price,\$	0.1119
Bid Ords, \$	0.0885	Upside	24.7%
Offer Ords, \$	0.091	Rating	<b>BUY</b>

- MGESK and MOESK are taking the final steps before consolidation: the companies are preparing the details of buying out the shares of shareholders, who oppose the reorganization process. The owners of 5.5 bn shares (0.02% of the authorized capital of each company) have exercised their right to demand that their shares are bought out, Interfax reported.

- The merger of MGESK and MOESK will result in the creation of the biggest Russian distribution company with a capitalization of \$5.5 bn (Sovlink estimate). The opportunity of entering the new structure through MGESK and MOESK will be available for another two weeks, as these companies are expected to stop trading on June, 24.

- For the consolidation, MOESK will issue additional shares, which will be swapped for all of MGESK's shares. The merger (conversion of shares – Sovlink's note) is planned to be completed on June, 30, as reported on UES' web site, the majority shareholder in the two companies.

- On the eve of consolidation, we have decided to calculate the entry price into the (about to be) merged company through MGESK and MOESK, in order to find the cheapest entry point. Our calculation is based on the coefficient used to convert MGESK's shares into MOESK's shares and their current RTS stock price – entry through MGESK is 1.4% cheaper than through MOESK.

- In addition, we have updated our estimated fair value of MGESK and MOESK, based on the exact ratio of each company in the merged company. We did not change the fair value of this new company - IDGC of Moscow. Our new target price for MGESK is \$0.0811 per share, and for MOESK - \$0.1119 per share, offering potential upside of 26% and 25% respectively. Accordingly, we reiterate our **BUY** recommendation on MOESK and raise our recommendation from **HOLD** to **BUY** on MGESK.



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## STOCK RATING POLICY

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<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

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