

## RusHydro: The Torrents of Spring

### Investment Summary

We updated our model for RusHydro to reflect changes in macro and generating sector assumptions and positive news on reconstruction of Sayano-Shushenskaya HPP. Our analysis shows that the market understates RusHydro's growth potential based on new capacity rules. We expect the stock to outperform the benchmark and other generators pending final regulatory decisions. Our new target of \$0.061 per share entails 24% upside, we confirm a BUY recommendation.

- ✓ RusHydro has just relaunched the two least damaged units of Sayano-Shushenskaya HPP. Two more units should be brought back into use by end-2010. Total station output this year should be 43% of average annual levels, which is much more than we had expected.
- ✓ The recently updated repair plan is for 80% completion as early as end-2012. Repair capex estimates were reduced by 18% from R40b to R33b, which significantly increases our cash flow forecast for the next three years.
- ✓ We are still conservative about operating losses from the accident. We slightly increase our loss forecast in 2010-2011 due to higher estimates of missed profits: RusHydro has missed earnings from the cold winter 2009-2010 and consequent spot market recovery.
- ✓ We used the same new macro and generating sector assumptions as in our OGK/TGK models (R/\$ exchange rate and electricity price predictions) to update our valuation of RusHydro. We also reduced WACC by 2 p.p. to 12% due to change of the risk-free rate and took account of the company's production forecast for 2010, which is higher than the average annual generating levels that we previously used.
- ✓ As shown in our model, benefits for RusHydro from launch of the long-term capacity market should be greater than for fuel-fired generators because hydro units always have higher exposure to capacity payments (hydro generators have no fuel costs that need to be covered out of electricity prices).
- ✓ With only 30% growth since the start of the year, RusHydro has lagged fuel-fired generators, which have added 40% on expectations of positive regulatory terms, and semi-hydro-powered TGK-1 (+50%). We believe that RusHydro will outpace the benchmark and other generating companies pending final decisions on the capacity market.
- ✓ We raise our target price by 24% to \$0.061 per share and maintain our BUY recommendation for RusHydro stocks.

### Previous RMG reports on this company

[RusHydro: Chance to Buy Cheap](#) from November 12, 2009

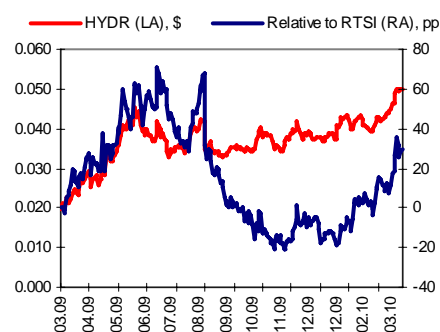
[RusHydro: Fluctuat Nec Mergitur](#) from September 4, 2009

**HYDR BUY \$0.061 ▲24%**

Current market cap, \$m	13 011
EV, \$m	11 907
Estimated free-float, %	39%
<b>Common shares</b>	
- ticker (RTS)	HYDR
- number, m	265 695
- market price, \$	0.049
- fair price, \$	0.061
- up/down, %	24%
- previous fair price, \$	0.049
<b>Preferred shares</b>	
- ticker (RTS)	no
- number, m	0
- bid-ask range, \$	n/a
- fair price, \$	n/a
- up/down, %	n/a
- previous fair price, \$	n/a
<b>Other stock exchanges</b>	
LSE (1 GDR = 100 shares)	HYDR
NYSE	N/L

IFRS, \$m	08	09E	10E	11E
Revenues	4 329	3 841	4 857	5 159
EBITDA	1 356	1 519	1 839	2 201
- margin, %	31%	40%	38%	43%
Op. income	981	1 139	1 366	1 687
Net income	407	821	970	1 204
- margin, %	14%	21%	20%	23%
EPS, \$	0.0017	0.0016	0.0027	0.0042

	08	09E	10E	11E
EV/S	2.7	3.1	2.5	2.3
EV/EBITDA	8.8	7.8	6.5	5.4
P/E	29.5	31.3	18.2	11.6
EV/Capacity	476	626	545	529
EV/Output	151	149	178	174



**Forecast losses from Sayano-Shushenskaya HPP accident,\* Rb**

	2009E	2010E	2011E	2012E	2009E-2012E
Losses from additional electricity resale	0.8	2.8	2.2	1.1	6.9
Missed profits	1.2	6.6	5.0	3.2	16.1
One-off operating losses	1.7	4.5	4.6	3.6	14.5
Interest expense	0.0	0.6	1.3	1.5	3.4
<b>Total losses*</b>	<b>3.7</b>	<b>14.6</b>	<b>13.2</b>	<b>9.4</b>	<b>40.9</b>

Note: all items are net of tax

\* excluding one-off non-operating losses

Source: RMG estimates

**DCF model (2016-2026 not shown)**

	2010E	2011E	2012E	2013E	2014E	2015E
EBIT*(1-T), \$m	1 054	1 308	1 656	1 703	1 905	2 013
DD&A, \$m	474	514	616	670	754	816
Changes in NWC, \$m	-152	39	-5	13	13	18
Capex, \$m	2 158	1 338	1 587	1 033	1 127	1 121
New issue, \$m	710*					
FCFF, \$m	231	446	689	1 326	1 519	1 690
WACC	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Discount factor	1.00	1.12	1.25	1.40	1.57	1.76
DCFF, \$m	231	398	549	944	965	959
Terminal growth rate, %	3%					
Terminal value (after 2026), \$m	3 861					
<b>Fair EV, \$m</b>	<b>14 127</b>					
Boguchansk project (50% share), \$m	2 011					
Net debt end-2009E, \$m	-1 104					
<b>Fair market cap, \$m</b>	<b>17 241</b>					
Number of shares outstanding, million	284 695*					
<b>Fair price per share, \$</b>	<b>0.061</b>					

\* new issue of 19 billion shares at R1.15 per share

Source: RMG estimates

**RusHydro financial forecast**

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Revenues, \$m	4 329	3 841	4 857	5 159	5 724	5 977	6 586	7 039
- electricity generation, \$m	2 584	2 562	3 323	3 534	3 965	4 035	4 377	4 624
- retail segment, \$m	1 609	1 160	1 390	1 465	1 573	1 750	1 998	2 192
- other revenues, \$m	136	118	144	160	187	192	211	222
Operating costs, \$m	3 348	2 702	3 491	3 472	3 597	3 790	4 141	4 455
- electricity purchases, \$m	1 893	1 493	2 069	2 016	2 039	2 166	2 383	2 595
- depreciation, \$m	375	381	474	514	616	670	754	816
- water tax, \$m	34	30	28	28	30	31	33	35
- other operating costs*, \$m	1 046	799	922	914	912	923	970	1 009
Operating income*, \$m	981	1 139	1 366	1 687	2 128	2 187	2 445	2 584
- operating margin, %	23%	30%	28%	33%	37%	37%	37%	37%
EBITDA*, \$m	1 356	1 519	1 839	2 201	2 743	2 857	3 199	3 400
- EBITDA margin, %	31%	40%	38%	43%	48%	48%	49%	48%
Net income*, \$m	407	821	970	1 204	1 552	1 599	1 801	1 909
- net margin, %	14%	21%	20%	23%	27%	27%	27%	27%

\* adjusted for paper losses

Source: Company data, RMG estimates

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