

## RusHydro

### Waiting for the full-year results

**Target: RUB 0.51, «HOLD»**

Analyst: Adonin Alexey  
e-mail: AAdonin@veles-capital.ru

✎ We confirm our target price of RusHydro at RUB 0.51 per share and keep the “HOLD” recommendation. We observe several non-recurring effects that might be responsible for the negative in the nearest coming up report and quotes dynamics.

#### ✎ The results and conference call

3Q 2018 results turned out to outperform our targets as the company received more funding within the reported period than we expected it to. Besides, outperforming our targets, the company’s sales grew 6.5% QoQ at the expense of rising output and growth of tariff for heating. Sales (including funding) grew 7.2% for 9M 2018, EBITDA – 13.1%, the net profit – 39.7%.

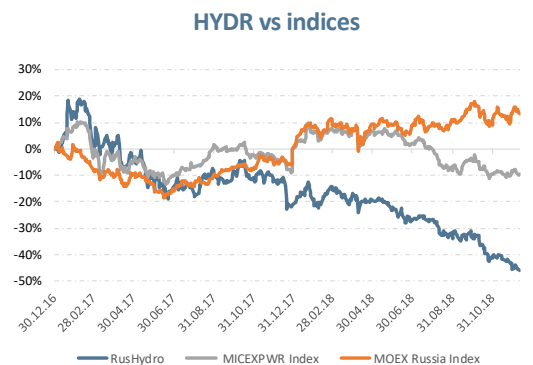
As for the principal matters of the conference call, we outline the following:

#### Negative:

- management has confirmed the expected coal price growth at about 20% for the company in 2019
- the third construction phase of UstSrednekanskaya HEPS is the only one planned be finalized until the end of the current year. Commissioning of Zaramagskaya HEPS has been delayed to 1H 2019. According to management’ outlook, the penalty per month of the delay totals about RUB 40 mn for it.
- unfortunately, the management did not present any valuations of participating in the program of capacities modernization. Lacking any market price-making at the Far East we cannot value the NPV and terms of the company’s participation.
- the company’s management has confirmed the Vostochnaya TPP, commissioned in 2018, still having no tariff for then.

#### Neutral:

- management presented no exact road map of DVUEK assets entering. Possibly, in case of consolidating those, an additional emission of shares might be avoided.



Source: markets’ data; estimation: Veles Capital

#### Target price and recommendations

Company	Rating		PT, RUB		Upside	TSR
	New	Old	New	Old		
HYDR	HOLD	HOLD	0.51	0.51	1.3%	5.9%

#### Company profile: RusHydro

Ticker	HYDR
Share price, RUB	0.50
Min / max price during last year, RUB	0.50 / 0.82
<b>Target price (12m), RUB</b>	<b>0.51</b>
Upside (downside), %	1.3
Total shares <sup>1</sup> , mn	426 289
MC, mn RUB	213 144
EV, mn RUB	278 843

Source: company’s data; estimation: Veles Capital

#### 9M 2018 financials (IFRS)

mn RUB	9M18	9M17	+/-	3K18	3K17	+/-
Revenue excl subsidies	258 472	248 604	4.0%	77 619	67 738	14.6%
Subsidies	29 615	20 138	47.1%	9 591	13 350	-28.2%
EBITDA	81 016	71 605	13.1%	21 067	20 058	5.0%
Net income	43 033	30 804	39.7%	6 345	8 501	-25.4%

Source: company’s data; estimation: Veles Capital



- CapEx should reduce 22.3% in 2018, yet given just means rescheduling the incomplete objects to the future years. Thus, the investment program should expand 19.8% in 2019; 23.7% in 2021 and 17% in 2022.

- management did not forecast any time constraints on the course of Zagorskaya GAES recovery. Given information is expected in 1Q 2019.

#### Risks

Possible devaluation of the principal assets and the debt arrearage for 2018 represents the major short-term risk for the quotes of the company. We observe such risks for Vostochnaya TPP and Ust-Srednekanskaya TPP in the annual review. As for a longer term outlook, given is valid for Zagorskaya GAES-2 as well.

#### Positive factors

We observe the dynamics of funding aimed at equalizing Far Eastern Federal District tariffs being positive for RusHydro. According to the recent numbers, the base tariff totals RUB 4.69, meaning it grows 9.1% YoY. And, if accompanied by growth of funding that is indicated in the company's report, given should make a positive impact on business profitability of the company at the Far East. Far East stations of the company entering the program on conditions similar to the DPM-2, would be positive as well. Payment of RUB 17 bn on behalf of Inter RAO for the bought back shares portfolio should compensate the effect of re-evaluation.

#### Targets and valuation

For 2018, investors will initially focus on the net profit estimate as the company directs 50% of it to dividends.

We expect the dividend yield to be below 6% for the next two years due to the low profit. We believe is forms 4.6% for 2018 FY. We observe the 12M net profit for the previous year coming out lesser that the 9M estimate. Assuming, we might observe that again this year. Aside the non-recurring write-offs, re-evaluation of the forward caused by the progressing decline of quotes, might provide extra pressure on the given estimate.

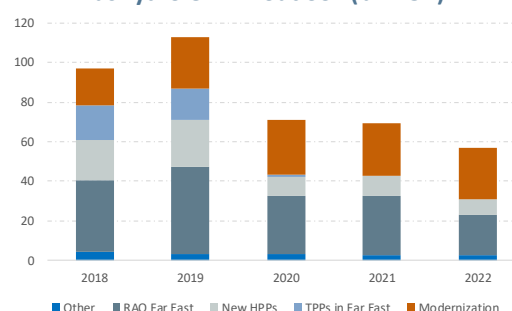
We upgraded our model, having included new targets on CapEx. Considering the future dividend payoffs, TSR (total shareholder return) is 5.9% for the nearest 12M.

#### Financials of RusHydro (IFRS)

mn RUB	2017	2018 (F)
Sales ex. subs.	348 119	347 835
EBITDA	102 082	85 950
Net income	22 451	19 663
EBITDA margin, %	29.3	24.7
Net income margin, %	6.4	5.7
EV / S	0.80	0.76
EV / EBITDA	3.24	3.02
P / E	10.84	8.28
ROIC, %	6.1	5.1
ROE, %	3.2	2.5

Source: company's data; estimation: Veles Capital

#### RusHydro CAPEX outlook (bn RUB)



Source: company's data; estimation: Veles Capital



## Financial model of RusHydro

<b>P&amp;L statement</b>				<b>WACC</b>				
	2017	2018 (F)	2019 (F)		2018			
Sales	348 119	347 835	368 352	Risk-free rate	8.5%			
Operating expenses (excl. Amortization & EBITDA)	(278 782)	(296 885)	(314 134)	Cost of Debt	7.4%			
EBITDA	102 082	85 950	92 217	Income tax rate	20.0%			
Amortization and depreciation	(25 023)	(28 474)	(31 063)	Cost of equity	15.8%			
EBIT	77 059	57 475	61 155	Beta	89.5%			
Non-recurrent items	(29 267)	(25 488)	(25 239)	Debt weight	23.6%			
Interest expenses	(7 187)	(7 163)	(6 053)	Equity weight	76.4%			
Non-operation expenses	0	0	0					
EBT	35 519	27 267	34 332	<b>WACC</b>	<b>13%</b>			
Income tax	(13 068)	(7 604)	(8 583)					
Net income	22 451	19 663	25 749					
<b>Balance sheets</b>				<b>Free cash flow</b>				
<b>Non-current assets</b>	<b>873 132</b>	<b>881 355</b>	<b>909 426</b>	<b>NOPAT</b>	<b>60 494</b>	<b>61 647</b>	<b>45 980</b>	<b>48 924</b>
PPE & IA	799 855	817 432	845 503	Amortization and depreciation	24 130	25 023	28 474	31 063
Other non-current assets	73 277	63 923	63 923	CapEx	2 191	(17 165)	7 822	2 779
<b>Current assets</b>	<b>155 119</b>	<b>216 275</b>	<b>213 304</b>	Changes in working capital	(60 957)	(71 693)	(82 119)	(95 678)
Current assets	76 724	72 276	76 519	<b>Free cash flow</b>	<b>25 858</b>	<b>(2 188)</b>	<b>158</b>	<b>(12 913)</b>
Short-term investments	0	0	0	WACC, %	13.5%			
Cash and equivalents	70 156	25 974	30 952	Discount factor	0.00			
<b>Total assets</b>	<b>1 028 251</b>	<b>1 097 630</b>	<b>1 122 730</b>	<b>Discounted free cash flow</b>	<b>149 505</b>			
<b>Shareholder's equity</b>	<b>695 564</b>	<b>779 642</b>	<b>823 798</b>	<b>Common stock valuation</b>				
Shareholder's capital	692 845	776 923	821 079	TGR, %	2.0%			
Minority interest	2 719	2 719	2 719	Discount cash flow sum (+)	149 505			
<b>Long-term liabilities</b>	<b>181 439</b>	<b>200 852</b>	<b>182 368</b>	Discounted terminal value (+)	149 056			
Long-term debt	90 912	131 075	110 134	<b>EV</b>	<b>298 561</b>			
Other long-term liabilities	90 527	69 777	72 234	Net debt (-)	(94 108)			
<b>Current liabilities</b>	<b>151 248</b>	<b>113 887</b>	<b>115 666</b>	Minority interest (-)	(3 597)			
Short-term debt	78 613	37 878	32 635	Financial investments (+)	32 006			
Current liabilities	72 635	76 009	83 031	<b>MC</b>	<b>222 438</b>			
<b>Total liabilities and shareholder's equity</b>	<b>1 028 251</b>	<b>1 094 381</b>	<b>1 121 832</b>	<b>Fair value of common stock, RUB</b>	<b>0.51</b>			
<b>Cash flow statement</b>				<b>Multiples, 1x</b>				
<b>Operating activity</b>	<b>78 125</b>	<b>88 077</b>	<b>89 440</b>	EV / Sales	0.7	0.8	0.8	
Net income before tax payments	35 519	27 267	34 332	EV / EBITDA	2.8	2.7	3.2	
Amortization and depreciation	25 023	28 474	31 063	EV / EBIT	3.7	3.6	4.9	
Changes in working capital	(17 165)	7 822	2 779	P / E	5.4	9.5	10.8	
Other cashflows from operating activity	34 748	24 513	21 267	P / BV	0.3	0.3	0.3	
<b>Investment activity</b>	<b>(60 013)</b>	<b>(70 412)</b>	<b>(83 566)</b>	EV / FCF	10.8	neg.	1761.4	
CapEx	(71 693)	(82 119)	(95 678)	<b>Ratios</b>				
Purchase/sale of subsidiaries and	28	0	0	EBITDA margin, %	26.7	29.3	24.7	25.0
Other cashflows from investing activity	11 652	11 707	12 112	Net income margin, %	10.6	6.4	5.7	7.0
<b>Financial activity</b>	<b>(15 064)</b>	<b>47 420</b>	<b>(13 088)</b>	EBITDA / interest expenses, 1x	14.6	14.2	12.0	15.2
Changes in debt	(30 704)	40 163	(20 942)	CapEx / Sales, %	16.3	20.6	23.6	26.0
Changes in shareholder's equity	55 000	4 000	3 000	ROE, %	6.1	3.2	2.5	3.1
Dividends paid	(20 079)	(11 226)	(9 832)	ROIC, %	7.0	6.1	5.1	5.5
Other cashflows from financing activity	(19 282)	14 482	14 685	Debt / EBITDA	2.0	1.7	2.0	1.5
<b>Changes in cash and equivalents</b>	<b>2 802</b>	<b>65 603</b>	<b>(7 213)</b>	Net debt / EBITDA	1.3	1.0	0.4	0.2
				Debt / Shareholder's equity	0.3	0.2	0.2	0.2

Source: company data, Veles Capital estimates



## Information disclosure

### The statement of an analyst and confirmation of the responsibility withdrawal

The given report is prepared by the analyst (-s) of the Investment Company Veles Capital. The given estimations in the present report reflect personal opinion of the analyst (-s). The award of the analysts does not depend, never depended and will not depend upon the specific recommendations or estimations, provided in the present report. The award of the analysts depends upon the general efficiency of the business of the Investment Company Veles Capital, determined by the investment benefit of the company's clients and also upon the incomes from other types of activity of the Investment Company Veles Capital.

The given report, prepared by the Research Department of the Investment Company Veles Capital, is basing on the public information. The present review was prepared independently from other Departments of the Investment Company Veles Capital, and any recommendations and judgments, presented in the given report reflect only the view point of the analyst (-s), participated in making of the present review. Due to that consideration, the Investment Company Veles Capital considers being necessary to state that the analysts and the Company are not responsible for the content of the given report. The analysts of the Investment Company Veles Capital do not take overall responsibility to regularly up-date the information, contained in the present report, and also to announce about all changes, introduced to the present review.

Provided analytical material of the Investment Company Veles Capital could be used only with information aims. The company does not guarantee the completeness and preciousness of provided information in the given report and its reliability, and also is not responsible for direct and indirect losses from using of the given materials. This document cannot serve as a basis for purchase and selling any securities, and cannot also be considered as an offer from the part of the Investment Company Veles Capital. The Investment Company Veles Capital and (or) its subsidiaries along with the staff, directors and analysts of the Investment Company Veles Capital have the right to purchase and sell any securities, mentioned in the given review.

The Investment Company Veles Capital and (or) its subsidiaries can serve as a market-maker or have the liabilities for underwriting of companies' securities, mentioned in the given review, can purchase or sell them for clients, and also make any actions, which do not contradict the Russian law. The Investment Company Veles Capital and (or) its subsidiaries can also be interested in the possibility of providing the companies, mentioned in the present review, with the investments and bank or any other services.

All rights for the given bulletin belong to the Investment Company Veles Capital. The reproduction and/or distribution of the analytical materials of the Investment Company Veles Capital are prohibited without the written permission of the Company. © Veles Capital 2018.

### Principles of recommendation assignment

Investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

The investment scale of the Investment Company Veles Capital is the following:

**BUY** – corresponds to the growth potential of the shares within the nearest 12 months by 10% or more.

**HOLD** – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -10% to 10%.

**SELL** – corresponds to the reduction potential of the shares within the nearest 12 months by 10% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.



## Trade Department

---

Evgeni Shilenkov  
Director of Trade Department  
EShilenkov@veles-capital.ru

Aleksandr Tsvetkov  
Head of Stock Market Operational Department  
ATsvetkov@veles-capital.ru

Pavel Altukhov  
Vice-Head of Stock Market Operational Department  
PAltukhov@veles-capital.ru

Alexey Nikogosov  
Senior Trader  
ANikogosov@veles-capital.ru

Vladimir Naumov  
Trader  
VNaumov@veles-capital.ru

Roman Nazarov  
Head of brokerage operations on the stock market  
RNazarov@veles-capital.ru

Mihail Kantolinsky  
Senior Sales-Trader  
Kantolinsky@veles-capital.ru

Vladimir Martynenko  
Senior Sales-Trader  
VMartynenko@veles-capital.ru

Artem Kokorev  
Sales-Trader  
AKokorev@veles-capital.ru

Alexey Kostikov  
Sales-Trader  
AKostikov@veles-capital.ru

## Research Department

---

Ivan Manaenko  
Head of Research Department  
IManaenko@veles-capital.ru

Olga Nikolaeva  
Debt markets  
ONikolaeva@veles-capital.ru

Yury Kravchenko  
Banking, Money Market  
YKravchenko@veles-capital.ru

Alexey Adonin  
Utilities  
AAdonin@veles-capital.ru

Alexander Sidorov  
O&G, metals & mining  
ASidorov@veles-capital.ru

Artem Mykhailin  
Telecoms  
AMykhailin@veles-capital.ru

Ainur Duisembaeva  
Global Markets  
ADuisembaeva@veles-capital.ru