The Moscow Times
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Electric Grid Could See New European Investors

By The Moscow Times

February 21, 2012

Major European utilities will soon get a bigger slice of profits from the vast Russian electric grid, as state network operator MRSK prepares to award regional management deals alongside a keenly anticipated privatization plan.

The utility sector was overhauled and partly privatized during the early years of then-President Vladimir Putin's rule last decade, but the electricity grid sector remains largely state-controlled.

MRSK, the holding company for electricity grids covering more than 2 million kilometers across Russia, now wants to build on the precedent set by handing the management contract of its Tomsk regional company to a division of French giant EDF in March last year.

"EDF has a management contract for 8 1/2 years. It will bring its expertise and begin to further understand the Russian market," MRSK finance director Alexei Demidov said.

"Now we are preparing more management contracts. We would welcome other companies, major European utilities," he added.

"We are evaluating the privatization options with our financial advisers — there are two or three regional companies we will be ready to sell within the next few years, with a possibility to decrease our stake in one of the companies in 2012. The exact timeline will depend on market conditions," Demidov said.

Deutsche Bank, Morgan Stanley and VTB Capital are advising MRSK on the potential sales.

Germany's E.On and Italy's Enel, which own majority stakes in power generators E.On Russia and Enel Russia, respectively, are the biggest international investors in Russia's utility sector.

MRSK, just over 50 percent controlled by the Russian government, obtained a London stock market listing in December — a move aimed at attracting international investors and boosting its corporate profile.

Demidov said the group had a three-year roadmap to execute its privatization plan, during which it hoped to put in place corporate governance and financial reforms that would reassure foreign investors.

MRSK last month appointed lighting equipment tycoon and former Kaliningrad Governor Georgy Boos as its first independent nonexecutive chairman.

A second reform is likely to be to its dividend policy. To attract traditionally low-risk investors, the company plans to increase its dividend yields over time.

"We are trying to attract new kinds of investors, and we realize that pension funds, for example, look for high-dividend yields when choosing investments," Demidov said.

MRSK shares took a battering last year, falling 57 percent against a 17 percent fall on the wider MICEX Index.

Analysts put the fall down to uncertainty over electricity tariff reform, which the Russian government put on hold as a sop to voters ahead of elections.

The sector is now many fund managers' tip for growth following the presidential election on March 4, in which Putin is all but certain to return to the Kremlin for a new six-year term. The hope is he will allow reforms to go through that will raise Russian household electricity bills — still among the cheapest in Europe.

"The tariff regulation is more and more predictable. We have a lot of discussions with the government," Demidov said, adding that a transparent regulatory environment was one of many targets for the company ahead of privatization.

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