

Analysis: Inter RAO at Odds With Investors Over Expansion

By [The Moscow Times](#)

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The Russian government's pursuit of power generation assets abroad is frustrating investors who believe their interests would be better served by the state developing its own underfunded electricity sector.

Inter RAO, an \$11 billion holding company for a myriad of state power assets, has said it is eyeing acquisitions in Germany, Italy and other markets in a bid to have 25 percent of what it owns outside Russia by 2015, bringing new technologies to Russia and boosting its international profile along the way.

A director's comments that it is in talks with indebted German utility RWE about buying some of its units were received poorly by the market, which has since spurned the stock in protest at its lack of domestic focus.

Its shares are down 11.7 percent in the year to date, while the MICEX power industry index is

up 13.5 percent amid a strong run for Russian equities.

"I understand that Inter RAO management has been tasked [by the government] to proceed with global expansion. I think some of the share price underperformance could be attributed to this," said Dmitry Mikhailov, manager of Renaissance Asset Managers' Russian Power Utilities Fund.

The push overseas has been led by Deputy Prime Minister Igor Sechin, who chaired Inter RAO until ministers were forced out of state company boardrooms by President Dmitry Medvedev last year.

Another power investor said Sechin's hands-on involvement had put off investors who believed he would put political ambitions above shareholder value and corporate governance.

Sechin's role in any future government after Vladimir Putin resumes his presidential duties in May is one of the burning issues for foreign investors looking for signs that Russia will pursue a reformist agenda.

"Inter RAO has been very aggressive in its growth strategy. ... The way it achieved that [growth] is not necessarily in full compliance with best corporate governance standards," said Sergei Yezimov, portfolio manager of Wermuth Asset Management's Go East For Value utilities fund.

A spokesman for Inter RAO confirmed the group is seeking generation assets and joint ventures in mainland Europe and also has its eye on Asia and South America.

Inter RAO was effectively created last May when, as a power-trading group chaired by Sechin, it was selected to become the home of state electricity assets that had not been sold during the first wave of privatization last decade.

The group controls two major power companies, OGK-1 and OGK-3, but the duo lag foreign-owned industry leaders Enel OGK-5 and E.ON Russia in terms of profitability and fulfillment of capital expenditure obligations.

Russian generators must contribute to the \$500 billion cost of renewing the country's Soviet-era power sector, troubled by power cuts and fatal accidents, before they can let shareholders benefit from expected rising domestic demand and electricity tariffs by hiking dividends.

Russian electricity demand is anticipated to rise with economic growth, and household electricity tariffs are widely expected to be hiked after Putin secured a return to the presidency in a March 4 election.

"If they carry on looking overseas, they cannot expect analysts to come out with raging 'buys,' as that is not going to raise the share price. Profits and dividend will. It's very simple ... developing its Russian assets is the key to ramping up the share price," Renaissance Capital utilities analyst Derek Weaving said.

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