



Middle East money flows into Russian power group

Reuters News, 27 April 2012, By Megan Davies

MOSCOW April 27 (Reuters) - Middle East investors are pumping \$175 million into Russian power generator Enel OGK-5 in what is thought to be the largest injection by a Gulf investor into the country so far, members of the investment consortium said.

Italy's Enel, which acquired a 56.4 percent stake in OGK-5 as part of reforms to break up Russia's Soviet-era power monopoly, was not a party to the transaction.

Russia has been trying to attract investment from around the world for various projects and the Middle East's oil wealth is a key area to tap. Investment so far from the region has been minimal, according to figures from London-based research firm Preqin.

"It's the trillion dollar question," Kirill Dmitriev, head of Russia's \$10 billion state-backed investment fund, told Reuters, when asked why Middle East investors were shy about investing in Russia.

Dmitriev runs the Russian Direct Investment Fund (RDIF), created last year to co-invest alongside foreigners to give them greater comfort in Russia's uncertain business environment, often criticised for corruption. The RDIF is among the consortium of investors in OGK-5.

"There are real issues with investing in Russia but also major perception gaps," Dmitriev added.

He said the RDIF fund was created because "there was the sense that there were large investment pools all over the world and yet there was no concerted effort to communicate to them the Russian value proposition."

The Middle East investment is being made by AGC Equity Partners, Dmitriev and the private equity firm said.

Dmitriev said it was the largest Middle Eastern investment in Russia to date. Preqin said it has no record of any larger deals.

AGC sources and manages investments for clients including sovereign funds according to its website, and it has a dedicated team in the Middle East. The company represents a consortium of Middle East institutional investors in the deal, AGC said.

"There are a lot of opportunities in Russia, we believe," said Walid Abu-Suud, co-CEO of AGC Equity Partners. "It is a high-growth market, with undertapped investment potential (and) a well-educated professional labour market."

"We believe a lot of the issues (of investing in Russia) would be alleviated by investing with the RDIF," Abu-Suud said.

The deal to buy a 26.4 percent stake in Enel OGK-5 was announced in March, but the consortium announced at the time did not include the Middle Eastern investors. [ID: nL5E8E19K3] [ID: nL5E8EG096]

The buyer group also comprises Xenon Capital Partners's Rusenergo Fund and the Macquarie Renaissance Infrastructure Fund. They are buying the shares from Russian power group InterRao in a deal with a total value of \$625 million.

"We think OGK-5 is going to show significant growth in EBITDA, in our view it was a good time to buy the asset," said Hamid Gayibov from Xenon Capital Partners. "It promises a significant dividend yield."

Enel OGK-5 declined to comment.

(Additional reporting by John Bowker; Editing by Douglas Busvine and Erica Billingham)

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State Fund Draws Middle Eastern Partner Into Power Producer

The Moscow Times, 28 April 2012, Irina Filatova

The state-backed Russian Direct Investment Fund has attracted a Middle East private equity firm to co-invest in a blocking stake in power producer Enel OGK-5, with the deal slated to be closed by the end of next week, the fund's chief executive Kirill Dmitriyev said Friday.

With a significant portion of funds coming from AGC Equity Partners — a global private equity firm with investors in the Middle East, the transaction is considered one of the biggest investments in Russia by a company from that region, he said in a telephone interview.

A consortium of the RDIF and a group of international private equity investors is buying a 26.43 percent stake in Enel OGK-5 from state-controlled InterRAO in a transaction worth \$625 million. Dmitriyev didn't specify the size of contributions by each party.

AGC Equity Partners will contribute a total of \$175 million to mark its first deal in Russia, according to a source close to the RDIF.

The same amount of funds will be invested by Rusenergo Fund — a privately held power fund that invests in Russian power-generation companies, while RDIF and Macquarie Renaissance Infrastructure Fund, which focuses on investments in infrastructure across Russia, will contribute \$137.5 million each, said the source, speaking on condition of anonymity because the information is confidential until the deal is closed.

Co-head of AGC Equity Partners, Walid Abu-Suud, couldn't be reached for comment Friday.

"We believe in Russia's energy industry, which is likely to grow in the near future, and OGK-5 is one of the best energy assets," Dmitriyev said.

The asset is attractive, agreed Dmitry Doronin, an analyst at Rye, Man and Gor Securities.

"Creating new facilities is the major driver of the country's power-generation sector, and OGK-5 was the first to complete its investment program, having introduced more than 800 megawatts of additional capacity at its two stations last year," he said by telephone. This might allow the company to pay dividends for 2011 this year, he said.

The other advantage is that the company is controlled by Italy's energy major Enel, which controls costs better compared with Russian companies in the sector, Doronin said.

Enel, which holds 56.4 percent in the company, wasn't a party to the consortium's deal with InterRAO.

Dmitriyev said the consortium doesn't plan to expand its stake in OGK-5. The transaction is the second deal by the RDIF, a \$10 billion sovereign equity fund that was initiated by President Dmitry Medvedev last year and is designed to entice foreign investors by co-investing in local projects and reducing risks.

The fund made its first investment in late January, buying a 7.54 percent stake in the combined MICEX-RTS bourse together with the European Bank for Reconstruction and Development. The sides didn't disclose the size of the deal.

The RDIF has also attracted Chinese sovereign wealth fund China Investment Corp., which agreed in October to contribute \$1 billion into the fund.

"Given that the fund only obtained registration in January, we're satisfied with the pace at which we're moving," Dmitriyev said, adding that the fund is also eyeing new projects in forestry and the automotive construction industry.

But some economists doubted that the RDIF would be able to accomplish its goal of creating a comfortable environment for foreign investors.

"The RDIF's participation in the deal with InterRAO is a classic example of pouring budget money into a state corporation that is managed by authorized people. Such schemes are beloved by both state corporations and the government," Sergei Alexashenko, former deputy finance minister, said in his blog last month.

Alexashenko said the RDIF's deals are just portfolio investments, which don't involve creating new jobs or technology transfer and, thus, don't lead to economic modernization.

"So far, the deals by the RDIF indicate that even for such an investor — with money, the will and the highest sovereign support — it is extremely difficult to find projects to invest in Russia," Alexashenko said.

"Given that, it must be acknowledged that international investment attractiveness rankings, which grant Russia a place at the bottom of the list, tell the truth."

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Arab Investor

Vedomosti, April 28, 2012, By Ksenia Dokukina, Vasily Kudinov

A fund managing assets of Middle East investors may become a shareholder of Enel OGK-5

AGC Equity Partners, a London-based asset investment firm managing assets of Middle East investors, including sovereign funds, joined the three purchasers of Inter RAO's stake in Enel OGK-5 – Xenon Capital, Russian Direct Investment Fund (RDIF, owned by Vnesheconombank) and Macquarie Renaissance, said two sources close to the purchasers.

RDIF's CEO Kirill Dmitriev confirmed that a Middle East investor had joined the consortium through AGC with over \$100m of investment. Inter RAO has no information about a new purchaser. Enel OGK-5 declined to comment.

Back in March, Inter RAO agreed to sell the 26.43% stake in Enel OGK-5 it had received from the government to the consortium of three investors at \$625m (another \$125m will be channeled to Inter RAO as dividends in 2012 to 2014 if performance is good). According to Inter RAO's 2011 financial statements, the stake was valued at RUB 19.3bn for contribution in equity.

The sale of interest in Enel OGK-5 is almost completed, Inter RAO's spokesperson said. The RDIF and Macquarie Renaissance will pay \$137.5m each, with Xenon Capital and AGC Equity Partners paying \$175m each, a participant of talks said. This will provide the latter with 7.4% of equity each, RDIF's and Macquarie Renaissance's stakes being 5.8% each.

No reasons for AGC Equity Partners to invest in Russia's energy sector were revealed. Last time, Middle East investors were interested in Russia's energy sector in 2008, when Dubai World, a sovereign wealth fund, wished to partner Roscommunenergo in buying out a 74.8% interest in OGK-1. The fund even provided a financial guarantee for \$100m, but the deal was derailed by the crisis. As a result, the move by AGC Equity Partners will mark the largest Arab investment in Russia's power sector to date, said Mr Dmitriev.

Current valuations of Russian companies are much lower than at the time of splitting RAO UES, which drives interest from international investors, said Sergey Pikin, Director of Energy Development Fund.



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Gulf Times, April 27, 2012

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