

WINNER – RUSSIA

DEAL: Consortium of investors led by Xenon Capital Partners acquires 26.4% stake in OJSC Enel OGK-5 for \$625m

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XENON
CAPITAL PARTNERS

FIRM PROFILE: DEAL OVERVIEW:

Founded in 2009, XENON Capital Partners is a leading investment and advisory boutique focused on the Russian energy sector. XENON manages Rusenergo Fund, Russia's largest utility fund, which is invested in significant minority stakes across a broad range of Russian electricity generation, transmission and distribution companies, including the stake in Enel OGK-5. Additionally, XENON's corporate finance team advises high-profile clients providing creative solutions in complex mandates.

BIO:



Natasha Tsukanova

Natasha Tsukanova founded XENON Capital Partners after a long career at J.P. Morgan, where she led high-profile energy transactions in emerging markets. In addition to being involved in all XENON projects, Natasha is on the Executive Board of Kerogen Capital Limited, an Asia-based oil and gas private equity fund. She holds an MBA from INSEAD and a degree in Economics from the Moscow State University.

In March 2012, XENON Capital Partners led a consortium of investors in acquiring a 26.4% stake in the Russian power generation company Enel OGK-5 for US\$ 625MM. The investors included XENON's Rusenergo Fund, the Russian government sponsored Direct Investment Fund, Macquarie's Russia Infrastructure Fund and AGC Capital Partners, a Middle Eastern private equity investor. The transaction represents the largest private equity investment in the Russian utilities sector to date.

Enel OGK-5 is an interregional thermal power generation company in Russia. Since 2007, the company has operated four large power plants with a total capacity of nearly 10,000 MW. Enel OGK-5 strategically benefits from the locations of its generation assets situated in both electricity deficient and/or high consumption growth areas. The company's key fundamentals are healthy with an expected EBITDA margin close to 22% and an estimated compound annual growth rate of roughly 17%. With EBRD acting as a minority shareholder since 2007, corporate governance has been a key focus for Enel OGK-5.

Q How does the transaction fit in with your overall business strategy?

We found the opportunity attractive for a variety of reasons. The fact that the company was run by an experienced operator would enable us to exert substantial influence over key strategic and commercial decisions, while the day-to-day operations would be controlled by an experienced and efficient management team. Additionally, based on the size of the stake, the investor was guaranteed three Board positions and veto rights over key decisions. XENON worked with INTER RAO UES from the beginning to secure proprietary access to this target. The entry valuation at which we came to an agreement with INTER RAO UES was compelling, reflecting the challenges within the Russian utilities sector. Compared to international and emerging market peers, the entry price was at a significant discount to fair value, and the attractiveness was further enhanced by an above average dividend yield.

To reflect current market sentiment and address the reluctance of investors to invest in blind pool

private equity funds especially in perceived high risk markets like Russia, XENON identified ENEL OGK-5 specifically as a large single investment opportunity – similar to SPACs (Single Project Acquisition Company) and invited co-investors to the opportunity. For large transactions in emerging markets, investors appreciate the ability to carry out detailed due diligence, participate in negotiations and structure the investment to reflect their risk appetite. The acquisition of INTER RAO UES's stake in OGK-5 was such an opportunity.

Q Were there any challenges or difficulties that arose, and what enabled you to overcome them?

The challenges of the transaction were quite substantial. Finding a quality investment opportunity in a market which is largely overlooked and introducing this opportunity to investors was a challenge in itself. In addition, during execution of the deal, Russian Presidential elections sent the domestic stock market into pre-election jitters and as a result OGK-5's listed stock price dropped by 15% shortly before closing, requiring creative structuring including complex upside sharing mechanisms to bridge the gap between INTER RAO's price expectations and the consortium's return requirements.

Q What are your thoughts and predictions within your sector for 2013 and beyond?

Emerging markets are commonly perceived as extremely risky—and Russia is frequently seen as one of the least attractive markets in the context of emerging markets private equity. However, compared to other emerging economies, Russia's long-term private equity returns have been consistently strong. And while political risk, governance issues, and legal uncertainty in Russia have led investors to conclude that the risks are high, positive investment indicators, such as an abundance of natural resources, continued consumer growth, low household debt, and minimal sovereign debt, are regularly ignored. XENON Capital Partners remains bullish about Russia and the investment outlook for the country; hopefully we will continue to be able to convince new investors of our enthusiasm.