

05/03/2014 **EdF hires JP Morgan for Quadra bid - source**

**Story**

**EdF** [EPA:EDF], the French utility, has hired JP Morgan to advise on its joint bid with **Inter RAO** [MCX:IRAO] to acquire Russian power generator **Quadra - Power Generation** [TGKD:RTS], this news service has learned. Meanwhile, **Onexim**, the vendor, has hired Xenon to advise on the sale, a person with knowledge of the situation said.

EdF was conducting target due diligence following its team trip to Moscow last month, the same person said.

EDF has been looking for ways to enter Russia for some time, the person said. The Russian power market is currently more profitable compared to Europe, added an industry source. "**Fortum**, **E.On** and **Enel** are active in the Russian market. They have indicated that they see good long-term potential in Russia, and it is likely that EDF sees this potential too. But signals for the short term are not particularly exciting," a Moscow-based lawyer who specialises in energy transactions said.

Quadra was acquired by the Onexim Group in 2007. A Russian sector analyst valued the deal at around USD 1.5bn. Quadra's market cap stood at RUB 4bn (USD 112m) on 5 March; its value was impacted by a deteriorating regulatory framework in the Russian energy market, added the analyst. Its share price went from around RUB 0.0137 in 1H11 to RUB 0.0020 per share at the beginning of 2014.

Onexim would be looking to sell the firm at a premium to market cap in excess of 100% to recoup a portion of its losses from the acquisition, a person with knowledge of the situation suggested. Quadra is a non-core asset for Onexim, which has been mulling the sale for a while, the second analyst said.

However, both Moscow-based energy analysts expect Quadra to receive a valuation at a 25%-30% premium to market cap. The second analyst referred to the **Rosneftgas**'s recent acquisition of a stake in **Inter RAO**, which held a similar proportion of premium. Rosneftgaz reportedly paid RUB 18.8bn (USD 529.4m) to buy a 13.76% stake in Inter RAO.

Another Russian analyst, however, expects that the transaction was unlikely to take place for several months due to the ongoing Russian electricity reform. "Towards the middle of the year we could see some refurbishment of the regulatory landscape," he said. Issues include a retail tariff freeze, which has squeezed utilities' margins. There is also low visibility over a long-term framework for the heating market and electricity capacity market prices. Ongoing discussions about whether the tariff freeze should continue into 2015 are expected to conclude in the next two to three months, after which investors may have a greater clarity of market conditions, said the lawyer and the analyst.

Deals of a similar nature in Russia, typically take three to six months to conclude, added the lawyer. He expects the time frame for the Quadra sale to also be within this range.

Quadra produces power and heat, which it sells on the wholesale and retail markets. It sees smaller profit margins than many of its peers, the second analyst noted. This is because its fleet consists mainly of old and relatively inefficient gas-fired steam generators, he said. Additionally, its newer combined-cycle gas turbine plants are subject to regulatory and pricing uncertainties, which are hampering their revenues. For 6M13, Quadra recorded operating profit of RUB 533.3m, according to the report for the period. Cash and cash equivalents stood at RUB 323.1m, for the same period.

Inter Rao's market cap stood at RUB 79bn on 5 March.

EdF, Quadra, JP Morgan, Inter RAO and Xenon declined to comment.

by Maryna Irkliyenko and Katie McQue in London

**Source** Proprietary Intelligence  
**Value** GBP 67m (Quarda's market cap)  
**Stake Value** more than 30% inclusive