

# TRANSCONTAINER

## Recovery Delivered

### HOLD

**Target price**

**\$11.00**

**Upside potential**

**1%**

Bloomberg code	TRCN LI
Reuters code	TRCNq.L
Price (ordinary GDR)	\$10.87
Upside potential	1%
GDR ratio (GDR: share)	10:1

#### Share data

No. of ordinary GDRs (mn)	139
Daily turnover (\$ '000)	734
Free float	14.3%
Free float value (\$mn)	217
Market capitalisation (\$mn)	1,510
Enterprise value (\$mn)	1,724

#### Major shareholders

Russian Railways (RZD)	50%
FESCO	21%
EBRD	9%

#### FINANCIALS (\$mn)

	2011E	2012E	2013E
Adjusted revenue	771	833	936
EBITDA	296	331	378
EBITDA eff. margin	38%	40%	40%
EBIT	199	222	251
Net income	133	152	180
EPS (\$/GDR)	0.96	1.10	1.30
DPS (\$/GDR)	0.09	0.11	0.13
Dividend yield	0.8%	1.0%	1.2%
Net debt	198	182	122
Shareholders' equity	704	882	1,047

#### VALUATION

	2011E	2012E	2013E
EV/Sales	1.7	1.5	1.3
EV/EBITDA	5.9	5.2	4.4
P/E	11.4	9.9	8.4
Revenue YoY	39%	11%	14%

#### PERFORMANCE

1 month	8%
3 month	39%
12 month	4%
52-week high (\$)	\$12.75
52-week low (\$)	\$6.95

Source: Bloomberg, Company data, Aton estimates

With this note we increase our DCF-based 12M target price for TransContainer's GDRs from \$8.00 to \$11.00 and change our rating from Sell to HOLD. Our investment view has changed based on the faster-than-expected operating and financial recovery that the company reported in 2H11. Nevertheless, we believe that the market overestimates the chances of a quick privatisation of the government-owned stake in TransContainer.

#### Recovery of operating and financial performance was quicker than we anticipated.

In 2009 TransContainer was hit by the financial crisis with container flows declining 22% vs 2008. Nonetheless, in 2011 the market exceeded pre-crisis levels of container transportation volumes. Though the competitive environment became tougher for TransContainer, the company took advantage of market growth and expanded its presence in high-margin segments such as import flows. We think its current profitability level is sustainable and may slightly increase in 2012.

#### Disclosure level and corporate governance standards have also improved

dramatically in the past year, allowing us to say that the company has set new standards for the transportation sector. We think that TransContainer has surpassed Globaltrans, the long-standing leader, in terms of corporate governance quality. Aton's research has shown that the share prices of companies with solid corporate governance have outperformed companies with mediocre corporate policies over the long term ([Keep it Simple: Focus on Good Corporate Governance](#), 30 June 2011).

The share price is mainly being driven by the anticipated privatisation auction. The stock's limited volatility suggests that investors are hoping to benefit from a minority buyout after privatisation. Under Russian law, if a company increases its share in another company's capital above 30% it must announce a buyout of the remaining shareholders at a price no less than it paid for the acquisition, or the stock's six-month weighted average, whichever is greater. In addition to FESCO, which already owns 21.2% of TransContainer, other large transport market players like UCL Holding, Globaltrans and Summa Group have expressed an interest in participating in the auction. The involvement of these heavyweight bidders signals that the final auction price could considerably exceed the current market level.

However, privatisation is becoming a more distant prospect. Distinct differences between the government bodies tasked with deciding on the privatisation terms are hindering the auction. Russian Railways (RZD), which holds 50% of TransContainer, has changed its position from delaying privatisation until 2013-14 to retaining control as long as possible. The Ministry of Transportation and the Ministry of Economic Development still believe that 50% of TransContainer should be sold as a single stake, yet the ministries lack the political will to push the decision forward, making the timing for the auction more difficult to predict.

Dividends should remain low and are unlikely to boost the stock price. The company's dividend policy calls for a dividend payment of 10% of RAS net income and it plans to retain this policy until 2014, as it must refinance bonds in 2013. This means that the recent suggestion by FESCO to increase the ratio to 30% is unlikely to be approved. Unless the government rules otherwise, a 10% payout at the current share price would translate into a dividend yield close to 1% in 2011-13.

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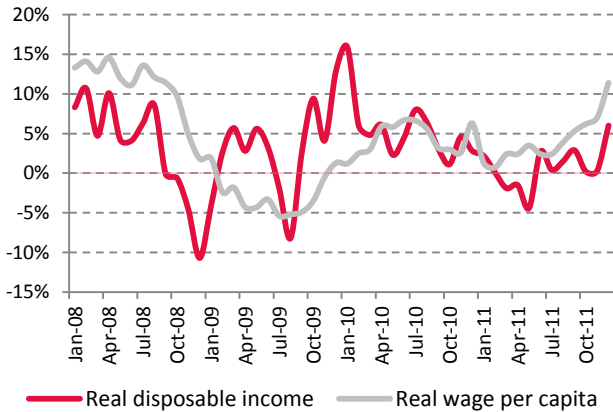
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Note: Prices as of close 30 Mar 2012 throughout the report

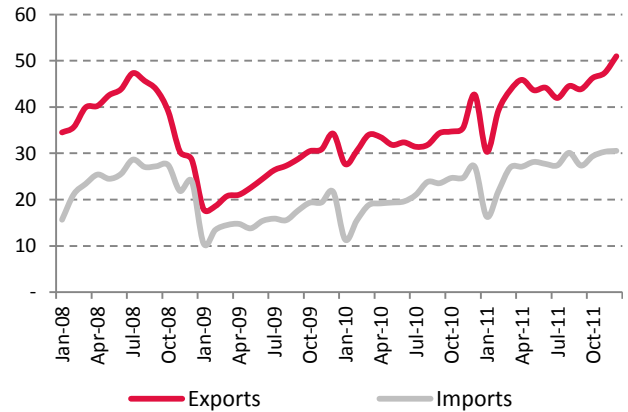
## Container Market Developments

**Russian container flows show a strong dependence on oil prices.** This works in the following way: oil prices affect the value of exports, which in turn leads to higher disposable incomes and increased consumer spending. Since Russia produces very few consumer goods, demand is usually satisfied by imports. Containers are the main means for transporting consumer goods and as such traffic typically grows following an oil price increase (for more details please see our report [Global Ports: Past Performance Does Not Guarantee Future Results](#), 24 Jan 2012).

**Figure 1: Real disposable income and real wage growth (% YoY)**



**Figure 2: Value growth in imports and exports (\$bn)**



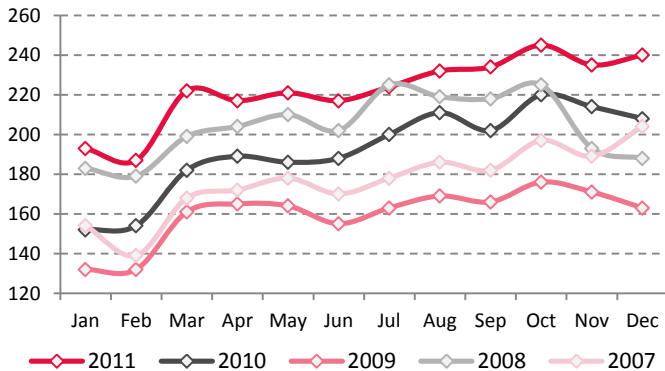
Source: Rosstat

Source: Rosstat, Federal Customs Service

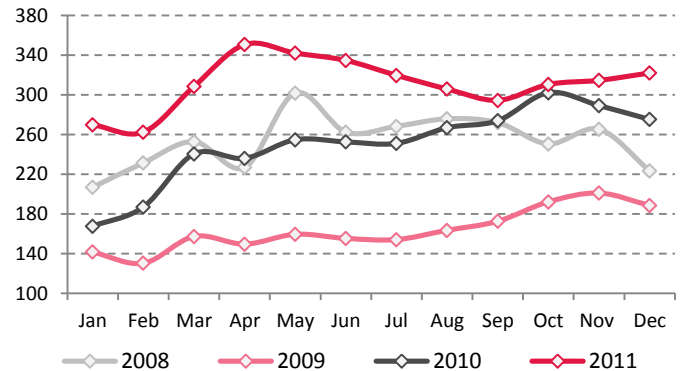
### Ports are the main gateways for container import/export flows in Russia.

Dissipation of the low-base effect resulted in only 13% YoY growth in container flows in 4Q11. We expect a slight reacceleration in FY12 vs 4Q11, but it is highly unlikely that we will see growth rates comparable to FY11. Preliminary data for 2M12 shows a 12% YoY increase. We particularly note the fragility of container traffic in 2H11 caused, in our view, by rouble devaluation and 'defensive' spending cuts by consumers.

**Figure 3: Monthly container flow on rail (TEU '000)**



**Figure 4: Monthly container flow in ports\* (TEU '000)**



\*Proxy based on flows at Big Port of St Petersburg, Vostochny, NCSP and Vladivostok. These ports' total share exceeded 80% in the given years.

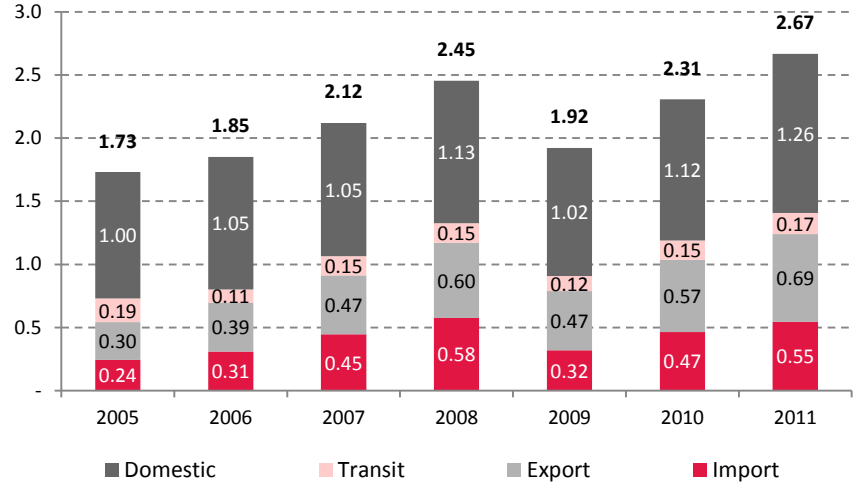
Source: TransContainer, Russian Railways (RZD), Aton estimates

Source: Global Ports, Association of Commercial Sea Ports, Aton estimates

### We believe the post-crisis rebound in rail-based container traffic ended in 2011.

FY11 container traffic results exceeded the all-time high of 2008 by 9%. However, this traffic followed the growth pattern we expected, suggesting only minor growth in FY12. For FY12 we expect a 7% YoY increase with imports slowing and domestic flows (50% of the total) rising in line with GDP. In comparison to container flows in ports we note the much lower dependence of railway container traffic on the short-term economic environment due to the high share of less-cyclical domestic flows.

**Figure 5: Breakdown of container flows by destination (TEUmn)**

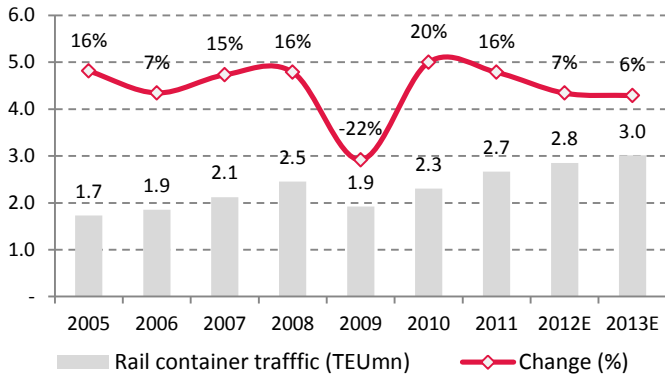


Source: RZD, TransContainer, Aton estimates

Analysis of historical data shows that domestic flows change in line with real GDP, while export and import flows strongly depend on the international economic environment. We believe this will remain the case for the foreseeable future. This underlines the greater stability of TransContainer’s operations and financial performance compared to stevedoring companies such as Global Ports as TransContainer obtains approximately half its revenues from the domestic market.

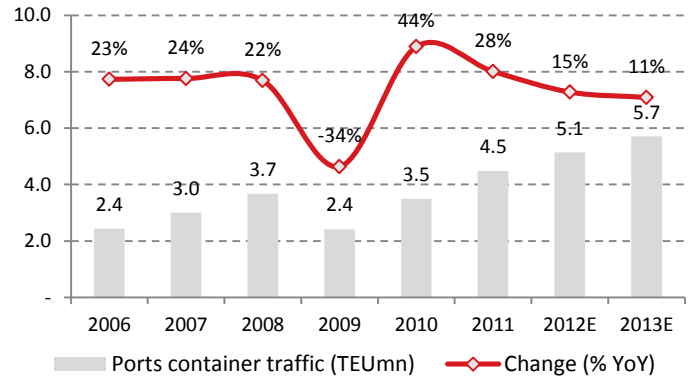
During a conference call with analysts on 6 Mar to discuss the FY11 RAS financial results, TransContainer’s management stated that according to their preliminary expectations, growth of container traffic via rail could reach 8-10% YoY in 2012 under normal economic conditions. We incorporate growth of 7% YoY in our model, which is based on our in-house macro forecast (see Figure 38).

**Figure 6: Forecast of container flow growth via rail**



Source: TransContainer, RZD, Aton estimates

**Figure 7: Forecast of container flow growth via ports**



Source: Global Ports, Association of Commercial Sea Ports, Aton estimates

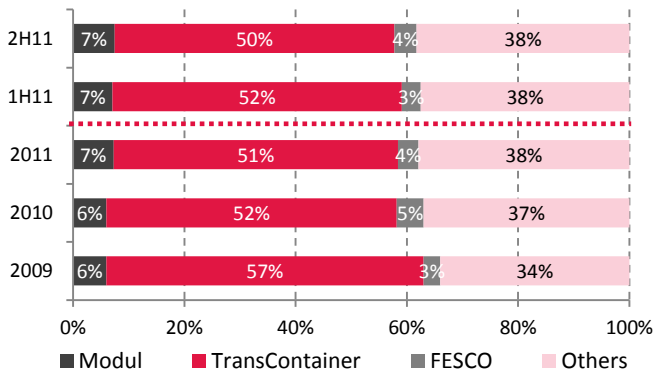
We note that over the past two years, container traffic growth has been quite strong, but this was affected by the low-base effect of the crisis. Containers have become a much more widespread means of transportation and they could show much lower growth rates in the upcoming years as the Russian economy simply does not produce enough high-value, compact cargoes that need to be transported via containers. Containerised exports of non-ferrous metals, chemicals and pulp are expanding slowly. For this reason, we believe that the more mature market for container transport can expect no major external stimuli (apart from rising oil prices) that could reaccelerate its growth levels. On the positive side, even the expected moderate growth should allow market participants to maintain their current profitability, on our estimates.

## Operating and Financial Results

After most of the negative consequences of the economic recession dissipated in 2010, TransContainer needed only one year to produce a recovery in its business. We previously expected the process to take around two years. We believe the company managed to achieve this result by correctly positioning itself on the market.

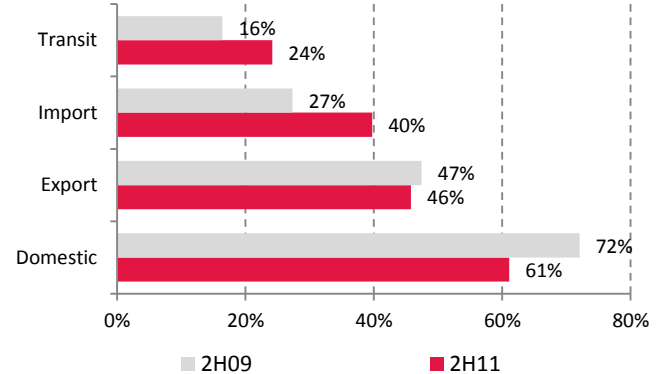
Figure 8 shows that since 2009, TransContainer has lost market share, which fell from 57% to 52% in 2H11 (measured in TEUs). Previously we believed that the company's market share needed to rise in order to support operating and financial improvements. It turned out that positioning itself on more profitable routes and the intermodal logistics market accompanied with more selective work with clients was more efficient than inflating market share.

Figure 8: Market share of key players (% of traffic in TEUs)



Source: TransContainer, RZD, Aton estimates

Figure 9: TransContainer's market share (% of traffic in TEUs)



Source: TransContainer, Aton estimates

In Figure 9 we can see that over two years, TransContainer increased its share on import and transit routes while lowering its share on the domestic container market. Import/export operations allow TransContainer to better utilise its diversified asset base. The provision of integrated logistics for importers is especially profitable: these customers receive a full package of services (flatcar and container rentals, terminal services, trucking) under one contract. This approach also helps TransContainer to increase its overall asset utilisation rates and reduce the cost per container transported.

Figure 10: Empty railcars runs (% of total runs)

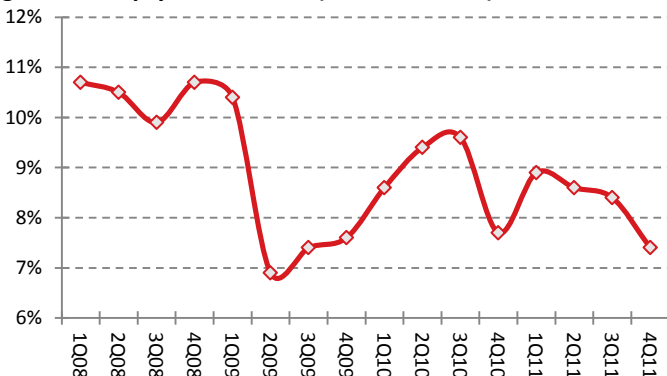
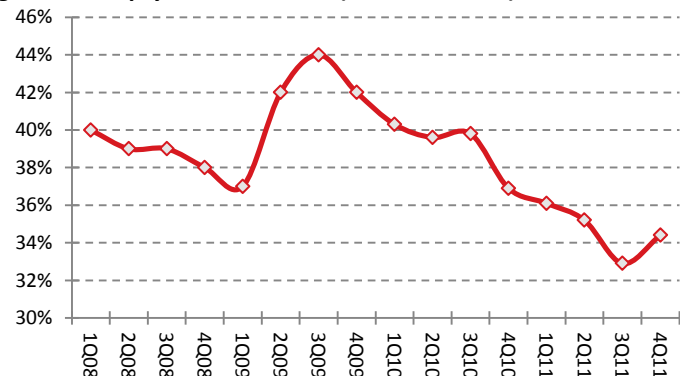


Figure 11: Empty container runs (% of total runs)



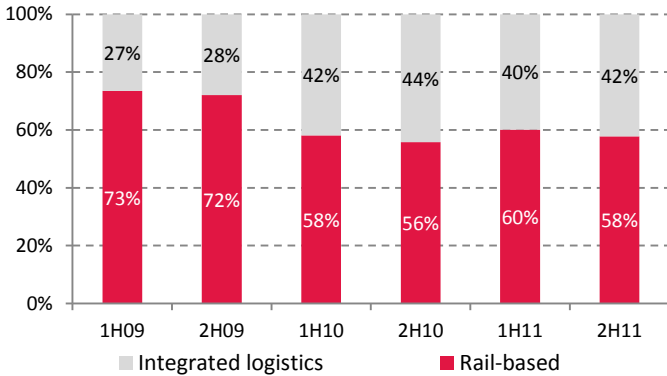
Source: TransContainer, Aton estimates

Figure 10 and Figure 11 show that the empty run ratios for both containers and flatcars have declined to post-crisis lows (the 2009 numbers are not fully descriptive as part of the fleet was not operational at that time). According to the latest company statements there is still room for a slight reduction in empty container runs, which we expect to have a positive effect on the company's financials in 2012.

**TransContainer targets the expansion of its integrated logistics operations.** Though integrated logistics as a percentage of total loaded container transport (Figure 12) remained stable over the past two years, transported volumes have increased. Unfortunately, we see little room for further meaningful growth in integrated logistics volumes as the development of industrial production (which would require the supply of foreign components) is proceeding quite slowly in Russia.

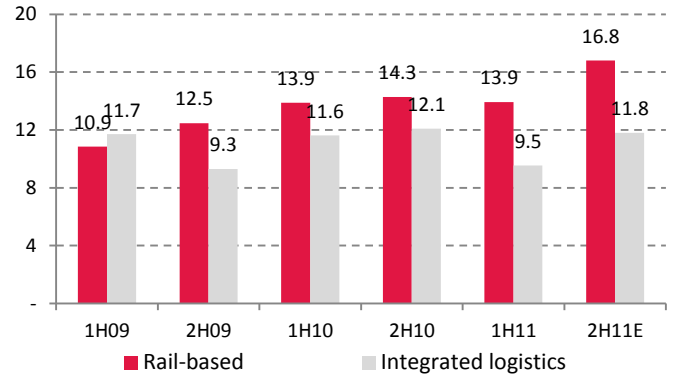
It is interesting to note that while at first glance revenue per TEU transported is lower for integrated logistics (Figure 13) vs rail-based transport, integrated logistics on average are more profitable. This is mainly explained by shorter transport distances and higher asset utilisation.

**Figure 12: Integrated logistics transportation volumes (%)**



Source: TransContainer, Aton estimates

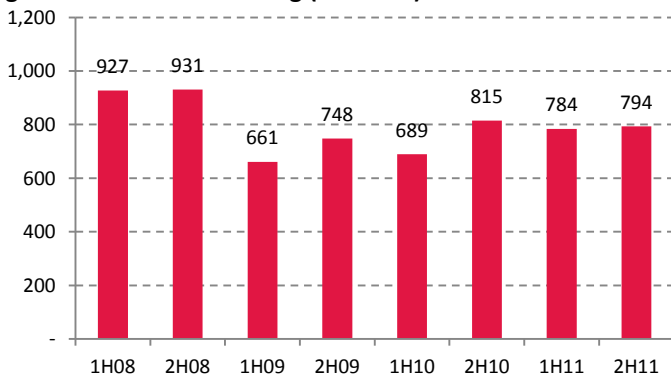
**Figure 13: Revenue per serviced loaded TEU (RUB'000/TEU)**



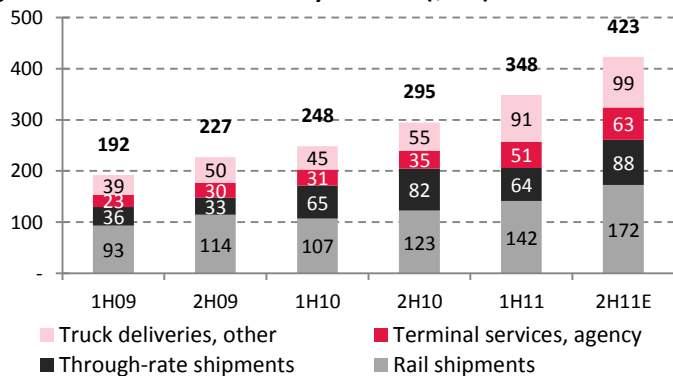
Source: Aton estimates

Another major area of the company's business – railway terminal services – remains stable, despite growth in total Russian container transport volumes. We believe the main reason is tougher competition coming from private terminals and port-based facilities, which are owned by stevedore companies. While we expect no reduction in transported volumes, we forecast that TransContainer will continue to lag the average market growth pace as import/export flows in ports are likely to outpace domestic traffic, which usually goes through TransContainer's numerous terminals. In addition, MDCs (smaller containers for domestic transportation) have been performing poorly (-34% YoY for FY11), which was another drag on TransContainer's performance vs the market average.

**Figure 14: Terminal handling (TEU '000)**



**Figure 15: Revenue structure by source\* (\$mn)**



\* 2H11E reclassified as per old accounting policy to ensure comparability

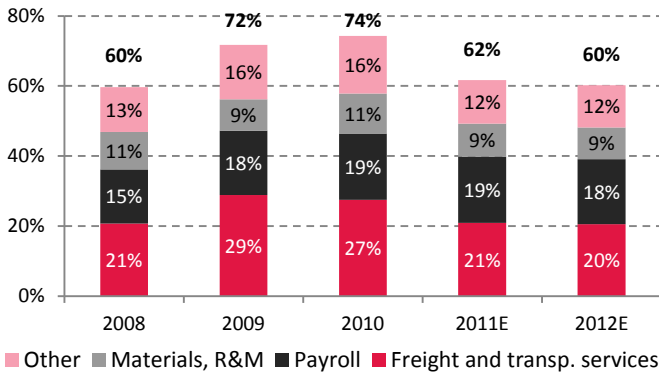
Source: TransContainer, Aton estimates

In terms of revenue composition we see no dramatic changes with the main drivers remaining rail-based services and integrated logistics. A minor addition to the company's business could come from the acquisition of Kedentransservice (KDTS, a railway terminal operator in Kazakhstan) in 2011. On our estimates, KDTS should add around \$55mn in revenue in 2012 (or approximately 7% of total revenue).

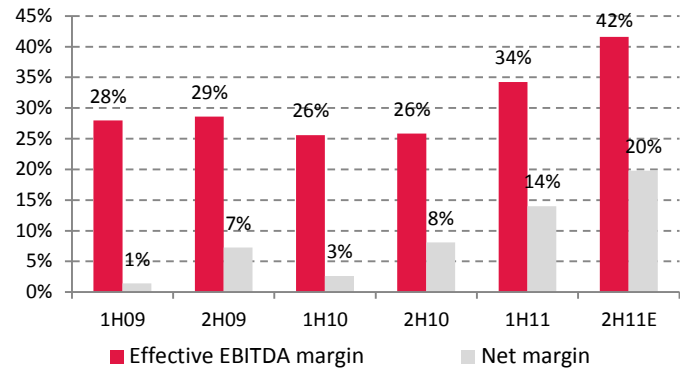
**Better asset utilisation and market positioning result in higher financial efficiency.** TransContainer's cost structure is predominantly composed of fixed expenses – even labour costs, a traditionally flexible expense, are little affected by the level of company operations: the labour market for qualified railway workers is shallow and it is difficult to find skilled personnel during market upturns.

In the figures below, the reduction of empty runs is reflected in a meaningful decline (as a percentage of revenue) in freight and transport services (mainly RZD charges for infrastructure and locomotive traction). Nevertheless, we expect payrolls to remain relatively stable vs revenues as they tend to grow ahead of inflation and any increase in tariffs.

**Figure 16: Cash expenses structure (% of adjusted revenues)**



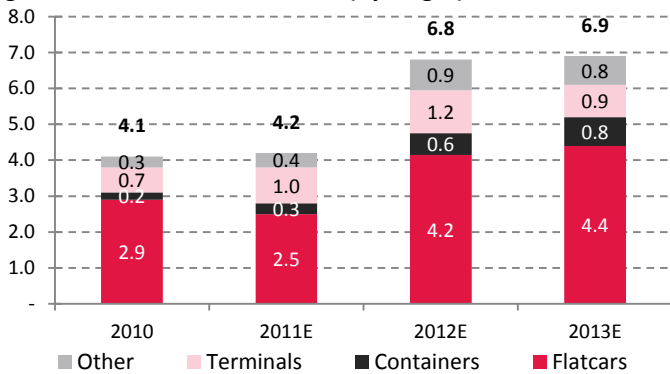
**Figure 17: Effective EBITDA and net margins, quarterly (%)**



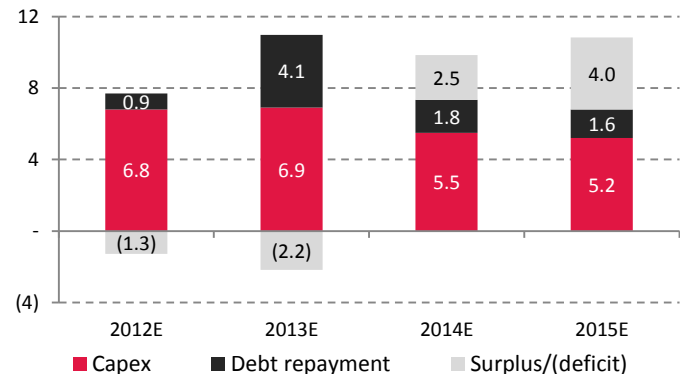
Source: TransContainer, Aton estimates

We expect higher operating earnings translate into higher profits and we anticipate that the dividend pay-out ratio will remain at 10% as the company needs to pay off its debts in 2013-15 and finance its sizeable investment programme. We expect a dividend yield of around 1% in 2012-13E.

**Figure 18: Investments schedule (by target)**



**Figure 19: Capex and debt repayment vs operating cash flows**



Source: TransContainer, Aton estimates

**Capex remains the main limiting factor for our DCF-based valuation.** TransContainer inherited a rather outdated flatcar fleet from RZD. Moreover, the fleet's current composition (in terms of the size of its flatcars) is far from optimal. The company plans to invest heavily into renovating and optimising its flatcars (Figure 18).

Based on our calculations, debt refinancing needs and investments in fixed assets should lead to a cash deficit vs operating cash flows in 2012-13, which may revert to surplus only in 2014 (Figure 19). We feel the company is unlikely to change its dividend policy in the foreseeable future despite pressure from FESCO, which is seeking an increase in the payout to 30% of RAS net income, unless the government changes its approach on dividend policies of state-owned companies.

## Privatisation: Arrival Delayed or Cancelled Altogether?

**We believe that TransContainer's stock price has been strongly affected by the market's anticipation of privatisation of the state's 50% stake in the company. However, in our view, it is becoming ever-more clear that the short-term chances of privatisation are low.**

### **Why is privatisation potentially beneficial for TransContainer's minorities?**

Under Russian law, if a company takes its share in another firm's capital above 30%, it must announce a buyout of the remaining shareholders at a price no less than it paid for the shares or the stock's six-month weighted average, whichever is greater. In addition to FESCO (which owns 21.2% of TransContainer), other large transport market players like UCL Holding, Globaltrans and Summa Group have expressed an interest in participating in the auction. These heavyweights' involvement signals that the final auction price could considerably exceed the current market level.

### **Why does FESCO want to acquire TransContainer?**

FESCO's management is keen on creating an intermodal container transportation company. At the moment FESCO owns a fleet of container ships, container terminals in Vladivostok port and a small (compared to TransContainer) fleet of flatcars. If FESCO acquires TransContainer we believe it could receive solid synergies by gaining access to its vast railcar fleet and highly developed container terminal network. During TransContainer's IPO in 2010, FESCO acquired 12.5% of the stock (about one-third of the placement). It increased its share to 21.2% by the end of 2011, which helped push TransContainer's share price higher. It is unclear whether FESCO plans to increase its stake any further.

### **Why has privatisation been delayed?**

Distinct differences between the government bodies responsible for the privatisation terms have hindered the auction. Russian Railways (which holds 50% of TransContainer) originally proposed selling 25% of the company, but recently changed its position and now plans to retain control as long as possible. In a letter to Prime Minister Vladimir Putin (reported by *Vedomosti*, 2 Feb 2012), RZD's President Vladimir Yakunin wrote that control of TransContainer would allow transit traffic from Asia to Europe to be increased. This reasoning is extremely poor, in our view: transit is currently weak because of low maritime shipping rates and complex customs clearance procedures for transit cargoes. We think RZD's desire to maintain control of TransContainer is actually motivated by its need to retain the latter's large asset base.

The Ministry of Transportation and the Ministry of Economic Development still believe that 50% of TransContainer (the share currently owned by RZD) should be sold as a single stake. However, the ministries apparently lack the political will needed to push the decision forward, which in our view limits the chances for the auction. Deputy Prime Minister Igor Shuvalov, who is overseeing TransContainer's privatisation, supports the position of the ministries (*RZD Partner*, 30 Jan 2012). However, we note that RZD enjoys enormous lobbying power. We believe that the process may drag on for at least another year: the best-case date for the potential privatisation is early 2013, in our view.

### **If privatisation is cancelled, what would that mean for minorities?**

FESCO's board chairman Kirill Rubinsky recently stated (*Interfax*, 17 Mar 2012) that FESCO may sell its TransContainer stake unless privatisation takes place within two years. The absence or cancellation of privatisation would thus not only remove a growth trigger for the stock, but create the danger of share overhang, as it would likely be tough for FESCO to find a new strategic investor in TransContainer.

## FESCO vs TransContainer: Which Offers Better Container Market Exposure?

To allow a comparison of the companies' performances during the most critical period of the 2008 financial crisis and the subsequent rebound, we have prepared a table containing abridged financials and relevant ratios for each stock.

Figure 20: Company performances in 2008-10 (\$mn, unless otherwise stated)

	TransContainer			Global Ports			FESCO		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Revenue	716	418	543	512	275	382	1,247	610	801
Revenue growth, YoY (%)	38%	-42%	30%	n/a	-46%	39%	43%	-51%	31%
EBITDA	289	118	140	303	130	207	352	67	161
EBITDA growth, YoY (%)	68%	-59%	18%	n/a	-57%	58%	38%	-81%	142%
EBITDA margin (%)	40.3%	28.3%	25.7%	59.2%	47.5%	54.0%	28.3%	10.9%	20.1%
EBIT	202	47	66	232	89	157	189	(25)	88
Interest expense	(20)	(30)	(28)	(46)	(46)	(46)	(121)	(65)	(68)
Interest coverage (x)	10.1	1.6	2.4	5.0	1.9	3.4	1.6	n/m	1.3
Net income	144	19	31	187	66	109	(133)	(236)	449
Cash flow from operations	211	94	152	270	141	174	238	126	141
Short-term debt	117	130	22	67	50	36	523	706	122
Long-term debt	28	87	209	307	202	171	550	76	303
Gross debt	146	218	231	374	252	207	1,073	783	425
Equity	617	610	636	747	765	816	1,464	1,292	1,516
Debt/equity ratio (x)	0.2	0.4	0.4	0.5	0.3	0.3	0.7	0.6	0.3
Cash	15	15	42	103	44	47	219	82	556
Net debt	130	203	188	271	208	159	855	700	(131)
Net debt/EBITDA (x)	0.5	1.7	1.3	0.9	1.6	0.8	2.4	10.5	neg
Current assets	147	166	190	194	91	124	498	297	730
Current liabilities	273	252	189	123	95	88	653	796	223
Current ratio (x)	0.5	0.7	1.0	1.6	1.0	1.4	0.8	0.4	3.3
Total assets	989	1,016	1,103	1,301	1,187	1,198	2,777	2,223	2,113
Debt/assets ratio (x)	0.1	0.2	0.2	0.3	0.2	0.2	0.4	0.4	0.2

Source: Company data, Aton estimates

We draw attention to the fact that container companies demonstrate an extremely strong dependence on the economic environment. All three companies presented lost around half of their revenue in 2009, which translated into even more sizeable losses in EBITDA and net profit. We think it is important to be aware of this risk, which is inherent to the container business.

### Sensitivity analysis to changes in model assumptions

To analyse the sensitivity of TransContainer's valuation to changes in the main forecast variables and compare it to its closest Russian peers, we tested a number of scenarios. We focused on GDP growth and rouble exchange rate forecasts, equally increasing or decreasing the variables for each forecast year by the stated amount.

Figure 21: Target price sensitivity to changes in model assumptions

		TransContainer				Global Ports				FESCO			
		Increase/(decrease) in RUB exchange rate forecast vs US dollar (%)											
		-4%	-2%	Base	+2%	-4%	-2%	Base	+2%	-4%	-2%	Base	+2%
Increase/(decrease) in GDP growth forecast	-2 pts	64%	65%	66%	68%	75%	76%	77%	77%	40%	50%	59%	69%
	-1 ppt	78%	80%	81%	83%	86%	87%	88%	89%	59%	69%	79%	90%
	Base	96%	98%	100%	102%	98%	99%	100%	101%	79%	89%	100%	111%
	+1 ppt	117%	120%	122%	125%	111%	112%	113%	115%	100%	111%	122%	133%

Note: Percentages shown are added or subtracted from the forecast variables

Source: Aton estimates

Our analysis shows that TransContainer's high replacement capex requirements make it vulnerable to economic swings. Unlike the other companies, TransContainer cannot avoid capex as its fleet is outdated and needs to be replaced.

## Adjustments to Our Model Assumptions

We have adjusted our model for TransContainer to incorporate:

- **Increase in average tariff.** We increase our forecast for the company's average tariff on the back of more favourable market conditions and a selective increase in TransContainer's market share in more profitable operations.
- **Higher operating efficiency.** TransContainer achieved a stable decline in its empty run ratio and kept the number of operating personnel nearly flat in 2011, so we reduce our forecast for operating expenses and consequently increase our profitability estimates.
- **Capex increase from 2014.** Earlier, we expected to see a decline in railcar prices, but this has not panned out. While the number of expected railcar purchases remains the same as in our previous forecast, higher prices lead to an average increase of 8% in 2014-16E.

Figure 22: Updated forecasts

	2012E Updated (\$mn)	2012E Previous (\$mn)	Change in forecasts (%)	2013E Updated (\$mn)	2013E Previous (\$mn)	Change in forecasts (%)	2014E Updated (\$mn)	2014E Previous (\$mn)	Change in forecasts (%)
Adjusted revenue	833	766	9%	936	866	8%	1,031	972	6%
EBITDA	331	273	21%	378	318	19%	416	355	17%
EBITDA margin	39.7%	35.7%	4 pts	40.4%	36.7%	3.6 pts	40.3%	36.5%	3.8 pts
Net income	152	105	45%	180	132	36%	201	152	32%
Capex	220	222	-1%	225	225	0%	180	167	8%
Container turnover	1,467	1,456	1%	1,551	1,575	-1%	1,642	1,702	-4%
Average tariff on rail ('000 RUB/TEU)	19.2	18.0	7%	20.7	19.1	8%	21.8	20.0	9%

Source: Aton estimates

## DCF Model Assumptions

We increase our WACC estimate to 14.7% from 14.3% following an upward adjustment in cost of debt to reflect slightly higher borrowing costs and a liquidity premium as 6M average trading volumes have decreased to \$0.8mn from \$1.4mn since our last update from Nov 2011. The terminal growth rate is unchanged at 2.5%.

Figure 23: DCF calculations (\$mn)

	2012E	2013E	2014E	2015E	2016E
<b>EBIT</b>	<b>222</b>	<b>251</b>	<b>274</b>	<b>298</b>	<b>320</b>
Less: taxation	(44)	(50)	(55)	(60)	(64)
<b>Tax adjusted EBIT</b>	<b>178</b>	<b>201</b>	<b>220</b>	<b>239</b>	<b>256</b>
Depreciation and amortisation	109	126	141	154	165
Less: capex	(238)	(225)	(180)	(170)	(167)
Change in working capital	(5)	(7)	(7)	(8)	(6)
<b>Unlevered free cash flow</b>	<b>44</b>	<b>95</b>	<b>173</b>	<b>214</b>	<b>248</b>

Source: Aton estimates

Figure 24: DCF-based 12M target price

NPV (\$mn)	543
Discounted terminal value (\$mn)	1,199
<b>Enterprise value (\$mn)</b>	<b>1,743</b>
Net debt/(cash) YE12E (\$mn)	182
Value of minorities YE12E (\$mn)	31
<b>Market capitalisation after minorities (\$mn)</b>	<b>1,529</b>
Number of GDRs (mn)	139
<b>Target price (\$ per GDR)</b>	<b>11.00</b>
Current price (\$ per GDR)	10.87
Upside potential	1%
<b>Rating</b>	<b>HOLD</b>

Source: Aton estimates

**Figure 25: Target price sensitivity (\$ per GDR)**

Discount rate	Terminal growth rate				
	1.5%	2.0%	2.5%	3.0%	3.5%
11.7%	14.00	14.64	15.35	16.15	17.04
12.7%	12.53	13.05	13.62	14.24	14.94
13.7%	11.31	11.73	12.19	12.70	13.25
14.7%	10.27	10.63	11.00	11.42	11.86
15.7%	9.39	9.68	10.00	10.34	10.71
16.7%	8.62	8.87	9.13	9.42	9.73
17.7%	7.94	8.16	8.39	8.63	8.89

Source: Aton estimates

**International Valuation Comparison**

In our comparison of international valuation ratios we used our own estimates for TransContainer, FESCO, Globaltrans and Global Ports and *Bloomberg* consensus figures for peers.

A comparison of TransContainer's key valuation ratios with international sector peers indicates that it trades at discounts on both 2011-13E EV/EBITDA and P/E. Nonetheless, the discount to the Russian peers' median is minor and mainly related to Global Ports' high ratios.

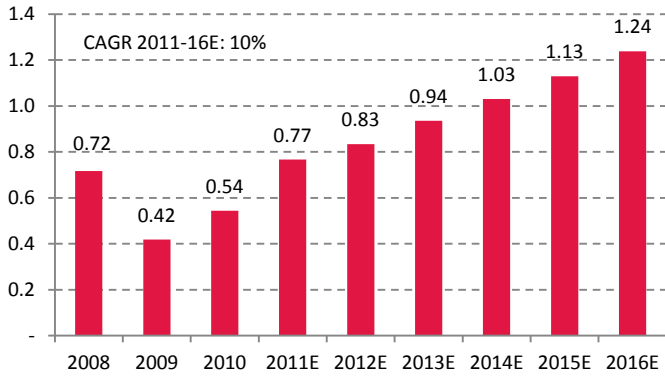
**Figure 26: Peer group valuation**

Company	Country	P/E (x)			EV/EBITDA (x)			EBITDA margin			Sales CAGR
		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011/13E
<b>TransContainer</b>	<b>RUSSIA</b>	<b>11.4</b>	<b>9.9</b>	<b>8.4</b>	<b>5.9</b>	<b>5.2</b>	<b>4.4</b>	<b>38%</b>	<b>40%</b>	<b>40%</b>	<b>12%</b>
<b>International sector peers</b>											
FESCO	RUSSIA	18.4	9.0	7.1	5.9	3.9	3.2	21%	26%	27%	17%
Global Ports	RUSSIA	14.1	13.0	11.9	9.3	7.9	6.8	56%	57%	56%	13%
Globaltrans	RUSSIA	13.1	11.5	9.7	7.5	6.6	5.8	43%	43%	43%	14%
All America Latina Logistica	BRAZIL	23.2	18.3	14.6	8.2	7.2	6.5	47%	48%	49%	10%
Container Corp Of India	INDIA	13.0	12.2	11.4	9.1	8.5	8.1	27%	26%	26%	7%
Daqin Railway	CHINA	8.9	8.2	7.4	5.9	5.6	5.2	45%	45%	45%	7%
China Railway Tielong Container	CHINA	22.1	18.7	15.1	12.9	10.4	8.2	32%	29%	29%	32%
<b>Median emerging markets (EM)</b>		<b>14.1</b>	<b>12.2</b>	<b>11.4</b>	<b>8.2</b>	<b>7.2</b>	<b>6.5</b>	<b>43%</b>	<b>43%</b>	<b>43%</b>	<b>13%</b>
Kuehne + Nagel	SWITZERLAND	22.1	20.5	18.1	14.5	12.2	10.9	5%	5%	5%	6%
Norfolk Southern	US	12.1	11.7	10.7	7.2	6.9	6.3	37%	37%	38%	6%
CSX	US	12.4	12.0	10.7	6.9	6.6	6.0	38%	38%	39%	5%
HUB Group	US	22.6	18.5	15.7	12.8	10.6	9.1	4%	4%	4%	13%
Union Pacific	US	16.1	13.4	11.9	8.2	7.0	6.4	37%	39%	41%	8%
Canadian National Railway	CANADA	15.6	14.9	13.6	9.8	9.2	8.5	47%	46%	47%	7%
Canadian Pacific Railway	CANADA	23.9	17.4	14.7	18.8	9.9	8.8	18%	32%	34%	7%
Asciano	AUSTRALIA	22.1	16.6	13.3	8.0	7.0	6.4	30%	30%	30%	11%
<b>Median developed markets (DM)</b>		<b>19.1</b>	<b>15.7</b>	<b>13.5</b>	<b>9.0</b>	<b>8.1</b>	<b>7.4</b>	<b>33%</b>	<b>35%</b>	<b>36%</b>	<b>7%</b>
<b>Premium/(discount) to EM</b>		<b>-18%</b>	<b>-26%</b>	<b>-33%</b>	<b>-27%</b>	<b>-33%</b>	<b>-38%</b>	<b>-4.4 ppts</b>	<b>-2.8 ppts</b>	<b>-2.1 ppts</b>	<b>5.2 ppts</b>
<b>Premium/(discount) to DM</b>		<b>-39%</b>	<b>-42%</b>	<b>-43%</b>	<b>-33%</b>	<b>-41%</b>	<b>-46%</b>	<b>4.9 ppts</b>	<b>5 ppts</b>	<b>4.4 ppts</b>	<b>11 ppts</b>
<b>Premium/(discount) to Russia</b>		<b>-24%</b>	<b>-18%</b>	<b>-20%</b>	<b>-20%</b>	<b>-22%</b>	<b>-23%</b>	<b>-1.5 ppts</b>	<b>-2.2 ppts</b>	<b>-1.7 ppts</b>	<b>3.9 ppts</b>

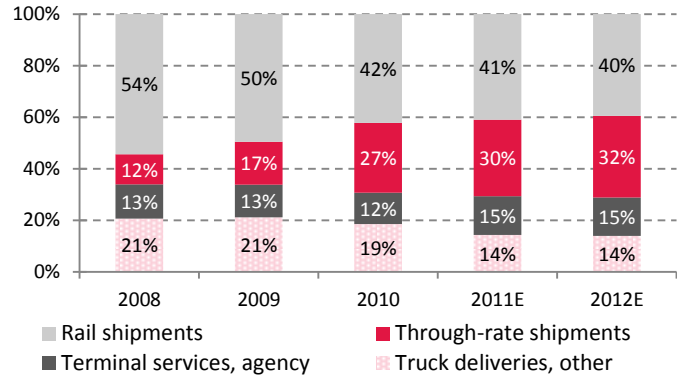
Source: Bloomberg, Aton estimates

## Key Model Assumptions

**Figure 27: Adjusted revenue forecast (\$bn)**

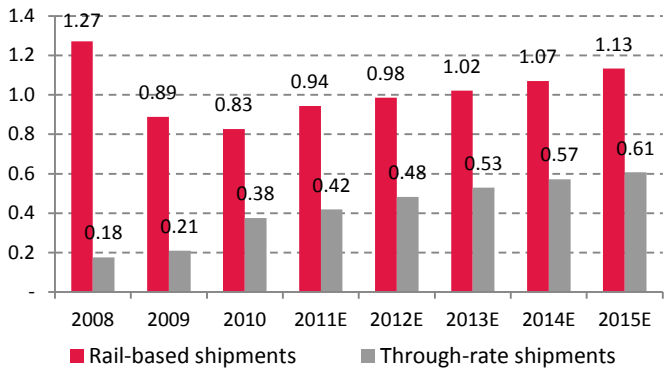


**Figure 28: Revenue structure by type (%)**

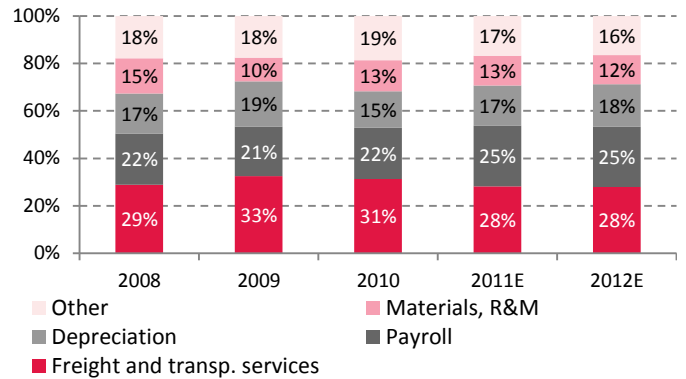


Source: TransContainer, Aton estimates

**Figure 29: Container turnover forecast (TEUmn)**

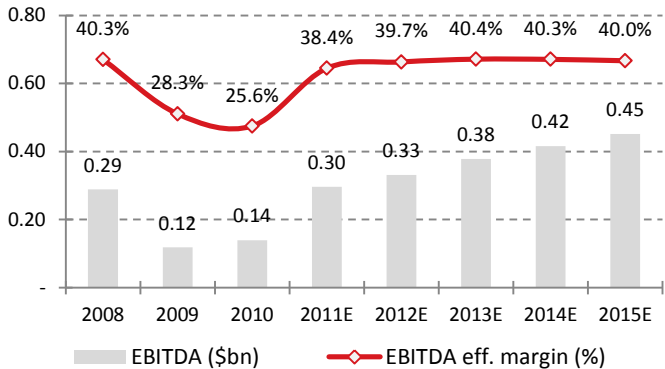


**Figure 30: Adjusted operating costs structure (%)**

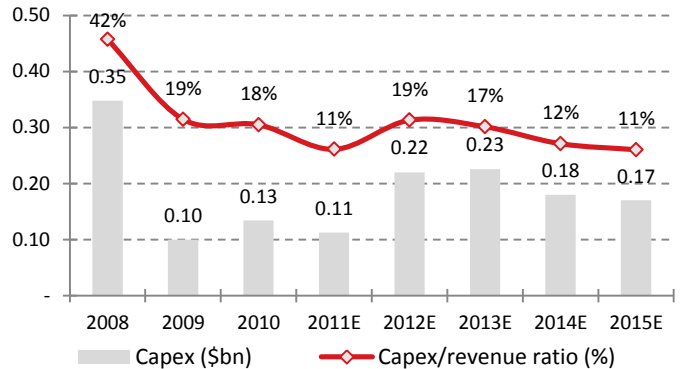


Source: TransContainer, Aton estimates

**Figure 31: EBITDA and EBITDA margin forecast**

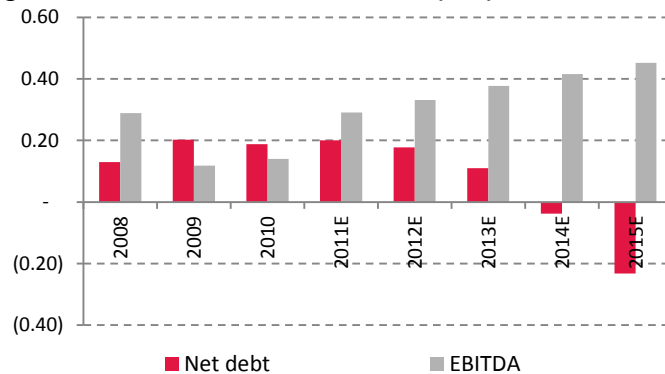


**Figure 32: Capex and capex/revenue ratio forecast**

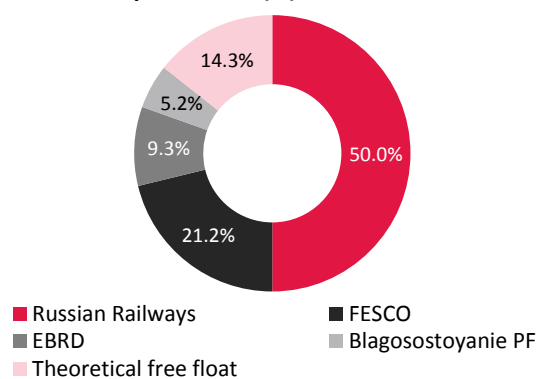


Source: TransContainer, Aton estimates

**Figure 33: Net debt and EBITDA forecast (\$bn)**



**Figure 34: Ownership structure (%)**



Source: TransContainer, Aton estimates

## Financial Statements

Figure 35: Income statement forecast (\$mn)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
<b>Revenue</b>	<b>825</b>	<b>517</b>	<b>752</b>	<b>1,043</b>	<b>1,153</b>	<b>1,310</b>	<b>1,454</b>	<b>1,595</b>	<b>1,752</b>
less infrastructure tariff	(108)	(99)	(209)	(272)	(320)	(375)	(423)	(466)	(514)
<b>Adjusted revenue</b>	<b>716</b>	<b>418</b>	<b>543</b>	<b>771</b>	<b>833</b>	<b>936</b>	<b>1,031</b>	<b>1,129</b>	<b>1,238</b>
Operating expenses	(536)	(398)	(613)	(747)	(822)	(933)	(1,038)	(1,144)	(1,267)
less infrastructure tariff	108	99	209	272	320	375	423	466	514
<b>Adjusted operating expenses</b>	<b>(428)</b>	<b>(300)</b>	<b>(404)</b>	<b>(476)</b>	<b>(502)</b>	<b>(558)</b>	<b>(615)</b>	<b>(677)</b>	<b>(753)</b>
<b>EBITDA</b>	<b>289</b>	<b>118</b>	<b>140</b>	<b>296</b>	<b>331</b>	<b>378</b>	<b>416</b>	<b>452</b>	<b>485</b>
EBITDA effective margin (%)	40.3%	28.3%	25.7%	38.4%	39.7%	40.4%	40.3%	40.0%	39.2%
D&A	(87)	(71)	(74)	(97)	(109)	(126)	(141)	(154)	(165)
<b>EBIT</b>	<b>202</b>	<b>47</b>	<b>66</b>	<b>199</b>	<b>222</b>	<b>251</b>	<b>274</b>	<b>298</b>	<b>320</b>
EBIT effective margin (%)	28.2%	11.3%	12.2%	25.7%	26.6%	26.8%	26.6%	26.4%	25.8%
Financial income	4	1	0	1	1	1	1	1	1
Financial expense	(20)	(30)	(28)	(28)	(27)	(21)	(18)	(10)	(5)
Other non-recurring & FX	(2)	6	6	(3)	(3)	(3)	(3)	(3)	(3)
<b>Profit before tax</b>	<b>183</b>	<b>24</b>	<b>44</b>	<b>168</b>	<b>193</b>	<b>228</b>	<b>254</b>	<b>285</b>	<b>312</b>
Taxation	(40)	(6)	(14)	(34)	(39)	(46)	(51)	(57)	(62)
Non-controlling interest	-	-	-	(2)	(2)	(2)	(2)	(2)	(2)
<b>Net income to shareholders</b>	<b>144</b>	<b>19</b>	<b>31</b>	<b>133</b>	<b>152</b>	<b>180</b>	<b>201</b>	<b>226</b>	<b>247</b>
Net effective margin (%)	20.0%	4.4%	5.6%	17.2%	18.3%	19.3%	19.5%	20.0%	20.0%
<b>Growth rates</b>									
Revenue	38%	-42%	30%	42%	8%	12%	10%	10%	10%
EBIT	93%	-77%	40%	200%	12%	13%	9%	9%	7%
EBITDA	68%	-59%	18%	112%	12%	14%	10%	9%	7%
Net income to shareholders	90%	-87%	65%	335%	15%	18%	11%	13%	9%
<b>Ratios</b>									
RoA (%)	16%	2%	3%	11%	11%	12%	12%	12%	13%
RoE (%)	24%	3%	5%	20%	19%	19%	18%	17%	16%
EPS (\$)	1.03	0.13	0.22	0.96	1.10	1.30	1.45	1.63	1.78

Source: Company data, Aton estimates

Figure 36: Cash flow forecast (\$mn)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Profit before tax	183	24	44	168	193	228	254	285	312
Depreciation and amortisation	87	71	74	97	109	126	141	154	165
Other non-cash items	1	(9)	(4)	5	2	2	2	2	2
Net interest expense	16	29	27	27	26	20	18	10	5
<b>Cash earnings</b>	<b>287</b>	<b>114</b>	<b>141</b>	<b>298</b>	<b>329</b>	<b>376</b>	<b>414</b>	<b>451</b>	<b>485</b>
Change in working capital	(25)	(14)	27	(46)	(6)	(9)	(10)	(10)	(9)
Income tax paid	(52)	(6)	(17)	(34)	(39)	(46)	(51)	(57)	(62)
<b>Cash flow from operating activities</b>	<b>211</b>	<b>94</b>	<b>152</b>	<b>218</b>	<b>285</b>	<b>321</b>	<b>354</b>	<b>384</b>	<b>413</b>
Capital expenditures	(348)	(100)	(134)	(112)	(220)	(225)	(180)	(170)	(167)
(Purchase)/disposal of investments	4	(1)	3	(3)	-	-	-	-	-
(Purchase)/disposal of subsidiaries	-	-	-	(56)	-	-	-	-	-
Other	6	5	8	1	1	1	1	1	1
<b>Cash flow from investing activities</b>	<b>(337)</b>	<b>(96)</b>	<b>(123)</b>	<b>(171)</b>	<b>(220)</b>	<b>(225)</b>	<b>(179)</b>	<b>(169)</b>	<b>(166)</b>
Capital issue or share purchase	-	-	2	(17)	-	-	-	-	-
Change in debt	120	51	48	59	16	(25)	(82)	(111)	-
Lease transactions	(10)	(11)	(20)	(23)	(18)	-	-	-	-
Interest paid	(15)	(26)	(31)	(28)	(27)	(21)	(18)	(10)	(5)
Distributions to shareholders	(6)	(8)	(0)	(3)	(13)	(15)	(18)	(40)	(45)
<b>Cash flow from financing activities</b>	<b>88</b>	<b>6</b>	<b>(1)</b>	<b>(12)</b>	<b>(41)</b>	<b>(61)</b>	<b>(118)</b>	<b>(161)</b>	<b>(50)</b>
Other adjustments	(2)	(5)	(0)	(5)	4	-	-	-	-
<b>Net change in cash</b>	<b>(40)</b>	<b>(1)</b>	<b>28</b>	<b>30</b>	<b>28</b>	<b>36</b>	<b>57</b>	<b>53</b>	<b>197</b>
Cash BoY	55	15	15	42	73	101	137	194	246
Cash EoY	15	15	42	73	101	137	194	246	443

Source: Company data, Aton estimates

**Figure 37: Balance sheet forecast (\$mn)**

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Inventories	5	4	6	10	13	14	16	17	19
Trade and other receivables	122	139	138	172	207	233	259	284	312
Short-term investment	-	5	-	-	-	-	-	-	-
Other short-term assets	5	3	4	8	9	9	9	9	9
Cash	15	15	42	73	101	137	194	246	443
<b>Current assets</b>	<b>147</b>	<b>166</b>	<b>190</b>	<b>264</b>	<b>329</b>	<b>393</b>	<b>477</b>	<b>557</b>	<b>783</b>
Fixed assets	751	764	841	895	1,056	1,159	1,201	1,221	1,226
Intangible assets	3	3	3	17	15	11	8	4	0
Goodwill	-	-	-	7	7	7	7	7	7
Long-term investments	10	7	4	6	7	7	7	7	7
Other long-term assets	77	76	66	62	65	65	65	65	65
<b>Non-current assets</b>	<b>841</b>	<b>850</b>	<b>914</b>	<b>987</b>	<b>1,150</b>	<b>1,249</b>	<b>1,288</b>	<b>1,304</b>	<b>1,305</b>
<b>Total assets</b>	<b>989</b>	<b>1,016</b>	<b>1,103</b>	<b>1,251</b>	<b>1,479</b>	<b>1,642</b>	<b>1,765</b>	<b>1,861</b>	<b>2,089</b>
Trade and other payables	138	105	130	146	177	197	217	236	259
Short-term debt & bonds	105	104	4	12	119	39	137	26	26
Leasing obligations, short-term portion	12	26	18	11	-	-	-	-	-
Other current liabilities	17	16	37	35	37	37	37	37	37
<b>Current liabilities</b>	<b>273</b>	<b>252</b>	<b>189</b>	<b>205</b>	<b>333</b>	<b>274</b>	<b>391</b>	<b>299</b>	<b>323</b>
Long-term debt	-	50	196	241	163	219	39	39	39
Leasing obligations, long-term portion	28	37	13	6	-	-	-	-	-
Other long-term payables	71	68	70	66	70	70	70	70	70
<b>Non-current liabilities</b>	<b>99</b>	<b>155</b>	<b>279</b>	<b>313</b>	<b>233</b>	<b>288</b>	<b>109</b>	<b>109</b>	<b>109</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>31</b>	<b>33</b>	<b>35</b>	<b>37</b>	<b>40</b>
Share capital and premium	528	528	528	528	528	528	528	528	528
Retained earnings and other reserves	181	199	230	363	515	695	896	1,122	1,370
Foreign exchange provision	(92)	(117)	(122)	(186)	(161)	(176)	(194)	(234)	(280)
<b>Shareholders' equity</b>	<b>617</b>	<b>610</b>	<b>636</b>	<b>704</b>	<b>882</b>	<b>1,047</b>	<b>1,230</b>	<b>1,416</b>	<b>1,618</b>
<b>Total liabilities and shareholders' equity</b>	<b>989</b>	<b>1,016</b>	<b>1,103</b>	<b>1,251</b>	<b>1,479</b>	<b>1,642</b>	<b>1,765</b>	<b>1,861</b>	<b>2,089</b>
Net debt	130	203	188	198	182	122	(17)	(181)	(378)
Gross debt	146	218	231	271	283	258	176	65	65
Working capital	(11)	39	14	37	43	50	58	66	72
Working capital to revenue (%)	neg	9%	2%	5%	5%	5%	6%	6%	6%

Source: Company data, Aton estimates

**Figure 38: Macroeconomic forecast used**

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
\$/RUB year-end exchange rate	29.38	30.24	30.48	31.20	30.60	30.60	30.60	30.60	30.60
\$/RUB average exchange rate	24.85	31.74	30.36	29.40	30.90	30.60	30.60	30.60	30.60
GDP growth (%)	5.2%	-7.8%	4.0%	3.9%	4.0%	4.2%	4.5%	4.5%	4.5%
Year-end inflation (%)	13.3%	8.8%	8.8%	6.4%	6.6%	6.5%	5.5%	5.0%	5.0%
EUR/\$ average exchange rate	1.39	1.33	1.40	1.36	1.37	1.37	1.37	1.37	1.37
Average Urals price (\$/bbl)	94.7	61.2	78.3	109.5	89.0	89.0	89.0	89.0	89.0

Source: Rosstat, CBR, Aton estimates

**Figure 39: Forecast of selected lines from income statement (RUBmn)**

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Adjusted revenue	17,806	13,262	16,502	22,672	25,741	28,629	31,542	34,548	37,879
EBIT	5,019	1,502	2,006	5,835	6,858	7,685	8,398	9,123	9,788
EBITDA	7,173	3,752	4,243	8,696	10,230	11,555	12,716	13,822	14,851
Net income to shareholders	3,570	590	928	3,905	4,706	5,513	6,144	6,920	7,568

Source: Company data, Aton estimates

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