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NCSP: neutral 3Q2011 IFRS results

Target price: -
Upside: -

Stock data

Ticker, GDRs	NCSP	M.Cap, \$ mn	1 875
Shares Ords	19 259 815 400	EV, \$ mn	4 347
Shares in 1 GDR	75	Free Float	29.9%
Price, GDR, \$	7.30	Free Float, \$ mn	561

Market performance

		1 month	6 months
Absolute	GDRs	-4.0%	-19.4%
Relative to RTSI	GDRs	-1.2%	6.7%
Price range, \$			
High	GDRs	7.97	9.00
Low	GDRs	7.12	6.27

Financials, USD mn

	2010	9M2011	2011E
Revenue	635	782	1 070
EBITDA	415	406	598
Operating income	346	346	523
Net income	258	72	141

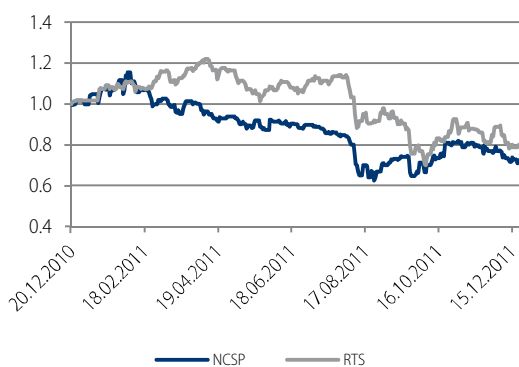
Margins

	2010	9M2011	2011E
EBITDA margin	65.3%	51.9%	55.9%
Operating margin	54.5%	44.3%	48.8%
Net margin	40.7%	9.2%	13.2%

Ratios

	2010	2011E
EV/S	6.8	4.1
EV/EBITDA	10.5	7.3
P/E	7.3	13.3

Relative performance



Source: RTS

NCSP

On December 21, 2011 Novorossiysk Commercial Sea Port (NCSP) published 3Q2011 IFRS results. We see these results as neutral. On one hand, the business of company grew gradually in 3Q2011 and NCSP managed to improve margins. On the other hand, we think that margins improvement to a large degree is attributable to ruble depreciation, as company's tariffs are nominated in US dollars while costs are in rubles. However, ruble depreciation in 3Q2011 resulted in foreign exchange loss of USD 293 mn. Company's debt load remains at high level with 4.6 ND/EBITDA at the end of 3Q2011. However, large stable positive cash flows from operations should allow NCSP to reduce net debt in several years, so this level is not threatening for the company.

We do not see the current valuation of NCSP at 7.3 EV/EBITDA 2011 as attractive now. This valuation implies less than 15% discount to emerging market peers, which is fully justified by high debt load, in our view.

We point to that NCSP does not restate the results for 9M2010, consequently, they do not include the financial performance of Primorsk Trading Port (PTP) last year. Thereby, for comparison reasons we analyze only q-o-q results.

We highlight the following key trends in 3Q2011:

- Business grew only due to grain export ban removal.** In 3Q2011 total cargo turnover of NCSP increased by 2.1% q-o-q to 40.4 mn tons. We highlight that almost all types of cargo showed negative q-o-q dynamics, except for grain. Crude oil volumes, which are the key cargo type of NCSP, which accounts for more than 70% of company's turnover, showed a decline of 0.4% q-o-q. One of the most marginal segments – container transshipment – declined by 17.0% q-o-q to 134,000 TEUs. However, the grain segment showed a record of 3.0 mn tons after the ban on grain export was removed.

- Revenue increased by 10.3% q-o-q to USD 288 mn.** As tariffs for grain handling are higher compared to weighted average tariff on other types of cargo, revenue increased quicker than cargo turnover. Revenue from stevedoring services surged by 28.8% q-o-q to USD 183 mn. A decrease in revenue from bunkering by 21% q-o-q to USD 56 mn is explained by change in company's focus from conquering this market to increasing margins on it.

- Cost of services decline by 8.2% q-o-q due to ruble depreciation and significant decrease in fuel purchases.** Almost all NCSP costs are nominated in rubles, consequently, average ruble depreciation in 3Q2011 by 3.8% q-o-q resulted in costs decline, nominated in USD. However, we point to the fact that costs decreased quicker, compared to average ruble rate depreciation. A decline in revenue from bunkering by 20.9% q-o-q in 3Q2011 resulted in corresponding decrease in fuel costs by 21.1% q-o-q.

- NCSP managed to improve margins in 3Q2011.** Revenue increase together with decline in costs of services resulted in increase in gross margin by 8.8 pp q-o-q to 56.1%. EBITDA margin grew by 10.6 pp q-o-q to 57.8%. 3Q2011 EBITDA grew by 35.2% q-o-q to USD 166.6 mn. Among positive factors we also highlight a decline in administrative expenses both in USD and ruble terms by 17.0% q-o-q and 13.8% q-o-q respectively.

- Huge foreign exchange loss of USD 293 mn resulted in USD 151 mn net loss in 3Q2011.** We recall that NCSP functional currency is RUB while reporting currency is USD. Consequently, each quarter the company makes a revaluation of all its assets, nominated in other currencies than RUB. In 3Q2011 the US dollar appreciated against the Russian ruble rather considerably, by 13.5%. As NCSP took a large dollar-nominated loan from Sberbank to acquire PTP (USD 1.95 bn), revaluation effect, reflected in P&L, is rather significant. In 3Q2011 it reached USD 293 mn, which accounts for more than 70% EBITDA for 9M2011.

Table 1. NCSP cargo turnover, '000 tons

	9M2011	9M2010	Change	3Q2011	2Q2011	Change
Crude oil	84 286	85 069	-0.9%	28 551	28 653	-0.4%
Oil products	12 997	9 569	35.8%	4 092	4 168	-1.8%
UAN	331	355	-6.7%	111	145	-23.1%
Seed oils	11	117	-90.5%	8	3	170.0%
Liquid cargo, total	97 625	95 110	2.6%	32 762	32 969	-0.6%
Grain	3 041	5 760	-47.2%	2 956	17	-
Mineral fertilizers	1 723	1 552	11.0%	561	560	0.1%
Sugar	1 470	1 336	10.0%	232	892	-74.0%
Iron ore and ore concentrate	2 527	1 318	91.6%	572	1 143	-50.0%
Cement	103	0	-	77	24	223.2%
Bulk Cargo, total	8 864	9 966	-11.1%	4 397	2 635	66.9%
Ferrous metals	5 403	6 199	-12.8%	1 665	2 010	-17.1%
Timber	431	862	-50.0%	121	169	-28.0%
Non-ferrous metals	846	823	2.8%	267	285	-6.2%
Perishable cargo	164	168	-2.4%	15	96	-84.9%
Other	221	226	-2.3%	75	88	-15.0%
General cargo, total	7 064	8 277	-14.7%	2 143	2 647	-19.0%
Containers	3 680	2 694	36.6%	1 113	1 323	-15.9%
Containers, thsd. TEU	448	326	37.4%	134	161	-17.0%
Total cargo	117 234	116 047	1.0%	40 415	39 574	2.1%

Source: NCSP, SOVLINK

Table 2. NCSP key balance sheet indicators, USD mn

	30.09.2011	01.01.2011	Change YTD	30.06.2011	Change
Total assets	3 802	1 383	175%	4 239	-10.3%
Total debt	2 528	321	687%	2 595	-2.6%
Net debt	2 473	56	-	2 547	-2.9%
Net debt/EBITDA	4.6	0.1	-	5.3	-14.1%

Source: NCSP, SOVLINK

Table 3. NCSP key income statement indicators, USD mn

	9M2011	9M2010	Change	3Q2011	2Q2010	Change
Stevedoring services	467.8	341.6	37.0%	183.0	142.1	28.8%
Bunkering services	170.6	50.0	241%	56.0	70.8	-20.9%
Fleet services	68.0	34.5	97.2%	23.7	21.1	11.9%
Other services	75.6	73.3	3.2%	25.3	27.0	-6.4%
Revenue	782.0	499.4	56.6%	287.9	261.1	10.3%
Cost of services	-381.2	-178.3	114%	-126.3	-137.6	-8.2%
Fuel costs	-171.6	-50.3	241%	-55.5	-70.3	-21.1%
Rent	-51.3	-7.8	555%	-19.1	-14.8	28.7%
Personnel costs	-48.5	-37.9	27.8%	-15.8	-16.9	-6.1%
Gross profit	400.9	321.1	24.8%	161.6	123.5	30.9%
Gross margin	51.3%	64.3%	- 13.0 pp	56.1%	47.3%	+ 8.8 pp
Administrative expenses	-52.5	-28.1	87.0%	-14.8	-17.8	-17.0%
Operating income	346.1	292.8	18.2%	147.0	103.1	42.6%
Operating margin	44.3%	58.6%	- 14.3 pp	51.1%	39.5%	+ 11.6 pp
EBITDA	406.1	343.8	18.1%	166.6	123.2	35.2%
EBITDA margin	51.9%	68.8%	- 16.9 pp	57.8%	47.2%	+ 10.6 pp
Finance costs	-107.2	-20.2	429.8%	-38.0	-36.8	3.3%
Foreign exchange gain (loss)	-150.0	-3.2	-	-293.4	30.3	-
Net income	71.8	233.0	-69.2%	-150.7	78.8	-
Net margin	9.2%	46.7%	- 37.5 pp	-52.3%	30.2%	- 82.5 pp

Source: NCSP, SOVLINK

Stock recommendations

STRONG BUY:	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
BUY:	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
HOLD:	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
SELL:	Target price at or below current price levels

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