

Konstantin Romanov, CFA, Senior analyst,  
RomanovK@sovlink.ru

# Transcontainer: very good 3Q2011 IFRS results

## TRCN

**Target price: -**  
**Upside: -**

### Stock data

Ticker, GDRs	TRCN	M.Cap, \$ mn	1 195
Shares Ords	13 894 778	EV, \$ mn	1 378
Shares in 1 GDR	0.1	Free Float	10.6%
Price, GDR, \$	8.6	Free Float, \$ mn	127

### Market performance

		1 month	6 months
Absolute	GDRs	10.8%	-26.0%
Relative to RTSI	GDRs	3.5%	-2.1%
Price range, \$			
High	GDRs	8.7	12.1
Low	GDRs	7.8	7.4

### Financials, RUB mn

	2010	9M2011	2011E
Revenue	22 841	21 971	30 138
Adjusted revenue	16 502	16 088	22 001
EBITDA	4 330	6 288	8 906
Operating income	2 093	4 392	6 328
Net income	928	2 992	4 362

### Margins

	2010	9M2011	2011E
EBITDA margin	19.0%	28.6%	29.6%
Operating margin	9.2%	20.0%	21.0%
Net margin	4.1%	13.6%	14.5%

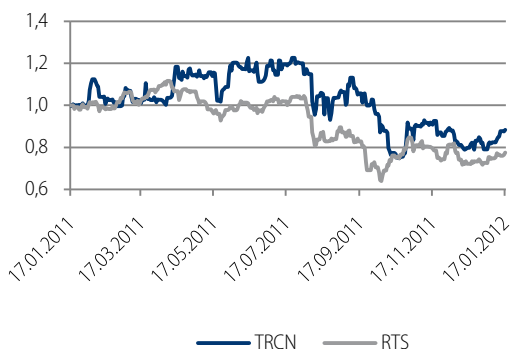
### Adjusted margins

	2010	9M2011	2011E
Adj. EBITDA margin	26.2%	39.1%	40.5%
Adj. operating margin	12.7%	27.3%	28.8%
Adj. net margin	5.6%	18.6%	19.8%

### Ratios

	2010	2011E
EV/S	1.9	1.4
EV/EBITDA	10.1	4.9
P/E	40.7	8.7

### Relative performance



Source: RTS

On January 17, 2012 Transcontainer published 9M2011 IFRS results. In our opinion, the published results, which significantly outperformed the consensus, look very strong and should be reflected in its share prices soon. The company showed healthy increase in revenue due to both volumes transported and tariffs growth. Its management continued to work on efficiency, which resulted in the drop in empty run of both flatcars and containers. We also highlight that Transcontainer margins in 3Q2011 exceeded pre-crisis levels.

### Among key positive factors we highlight the following:

- **Healthy revenue growth.** In 9M2011 Transcontainer revenue grew 33.4% y-o-y to RUB 22.0 bn. Adjusted revenue followed the same dynamics and increased to RUB 16.1 bn. In 3Q2011 total and adjusted revenue reached RUB 8.2 bn (+25.0% y-o-y) and RUB 6.1 bn (+33.3% y-o-y) respectively. Good revenue dynamics was mainly attributable to significant growth in demand for container transportation due to increase in imports and rise in consumer demand in Russia. This allowed the company to enlarge both volumes transported and its tariffs. In 9M2011 revenue-generating transportation grew by 18.3% y-o-y to 1 mn TEUs and in 3Q2011 it increased by 13.5% y-o-y. Good market conditions allowed Transcontainer to increase tariffs three times in 2011. In 9M2011 the average tariff grew by 12.5% y-o-y, according to company data.

- **Significant decrease in empty run.** In 2011 Transcontainer continued to work on efficiency. Consequently, empty run for containers declined by 5.5 pp y-o-y in 9M2011 to 34.4%. Empty run for flatcars also decreased from 9.2% in 9M2010 to 8.6% in 9M2011. This resulted in 8.8% y-o-y decline in freight and transportation services costs in 3Q2011. Despite the significant increase in transportation volumes (+18.3%) in 9M2011, freight and transportation services costs grew by only 3.2% y-o-y in this period.

- **Decline in interest expenses.** In 9M2011 interest expense decreased by 13.5% y-o-y to RUB 576 mn mainly due to decrease in the average interest rate. Total debt in 9M2011 increased by 32% YTD to RUB 9.3 bn due to Kedentransservice acquisition (the largest operator of railway terminals in Kazakhstan). However, the debt load of Transcontainer remains low and decreases. Net debt-to-EBITDA ratio was only 0.7 at September 30, 2011 vs. 1.3 at the beginning of the year.

- **Margins have almost reached pre-crisis levels.** In 3Q2011 adjusted EBITDA margin reached 46.5%, which is higher than 41.0% in 1H2008. 9M2011 adjusted EBITDA margin also looks rather strong at 39.1%. Thus, Transcontainer business recovered 1-2 years earlier, than expected by both market and company management. Adjusted net income margin in 9M2011 was at healthy 18.6% level.

- **Transcontainer results significantly outperformed the consensus.** Company's adjusted revenue was 2.3% higher, than consensus, EBITDA was 11.8% better, than expected. 9M2011 net income beat the consensus by almost 25%, which should positively affect shares of the company.

### Among factors, which could be negatively perceived by investors, we point out the following:

- **Significant increase in payroll costs.** Payroll and related charges increased by 32.0% y-o-y in 9M2011 to RUB 3.0 bn. Despite this figure looks rather considerable, it is justified by unbiased factors. Firstly, the acquisition of Kedentransservice in March 2011 resulted in increase in number of employees. Secondly, in the beginning of 2011 the social tax rate increased from 26% to 34%. Thirdly, the option program for company management was launched and recognized in the reporting period.

**Table 1. Transcontainer: key operating results, '000 TEU**

	9M2011	9M2010	Change	3Q2011	3Q2010	Change
Domestic routes	576	522	10.3%	197	187	5.3%
Export	244	192	27.1%	85	66	28.8%
Import	161	134	20.1%	57	55	3.6%
Transit	19	21	-9.5%	7	8	-
<b>Total container transportation</b>	<b>1 000</b>	<b>869</b>	<b>15.1%</b>	<b>346</b>	<b>316</b>	<b>9.5%</b>
Revenue-generating transportation	744	629	18.3%	261	230	13.5%
Empty-run transportation	256	240	6.7%	85	86	-1.2%
<b>Terminal handling</b>	<b>1 177</b>	<b>1 102</b>	<b>6.8%</b>	<b>393</b>	<b>412</b>	<b>-4.6%</b>
<b>Empty-run rates*</b>						
Empty run for containers	34.4%	39.9%	- 5.5 pp			
Empty tun for flatcars	8.6%	9.2%	- 0.6 pp			

\* - calculated as an average empty run in kilometers divided by an average total run in kilometers

Source: Transcontainer, SOVLINK

**Table 2. Transcontainer key balance sheet indicators, RUB mn**

	30.09.2011	01.01.2011	Change YTD	30.06.2011	Change 3Q2011
Total assets	40 497	33 631	20%	37 951	6.7%
Total debt	9 295	7 026	32%	9 341	-0.5%
Net debt	5 800	5 735	1%	7 277	-20.3%
Net debt/EBITDA	0.7	1.3	-48%	1.1	-34.6%

Source: Transcontainer, SOVLINK

**Table 3. Transcontainer key income statement indicators, RUB mn**

	9M2011	9M2010	Change	3Q2011	3Q2010	Change
Integrated freight forwarding and logistics services	10 343	7 992	29.4%	3 561	3 395	4.9%
Rail-based container shipping services	6 669	5 083	31%	2 617	1 860	40.7%
Terminal services	2 366	1 483	59.5%	903	542	66.6%
Truck deliveries	1 269	1 114	13.9%	429	429	0.0%
Other	1 324	803	64.9%	657	307	114.0%
<b>Revenue</b>	<b>21 971</b>	<b>16 475</b>	<b>33.4%</b>	<b>8 167</b>	<b>6 533</b>	<b>25.0%</b>
<b>Adjusted revenue</b>	<b>16 088</b>	<b>12 061</b>	<b>33.4%</b>	<b>6 121</b>	<b>4 592</b>	<b>33.3%</b>
Cost of integrated freight forwarding and logistics services	-5 883	-4 414	33.3%	-2 046	-1 941	5.4%
Freight and transportation services	-3 469	-3 362	3.2%	-1 214	-1 331	-8.8%
Payroll and related charges	-3 029	-2 295	32.0%	-892	-757	17.8%
Depreciation and amortization	-1 896	-1 680	12.9%	-695	-566	22.8%
Other	-3 302	-3 250	1.6%	-1 169	-1 246	-6.2%
<b>Operating expenses</b>	<b>-17 579</b>	<b>-15 001</b>	<b>17.2%</b>	<b>-6 016</b>	<b>-5 841</b>	<b>3.0%</b>
<b>Operating income</b>	<b>4 392</b>	<b>1 474</b>	<b>198.0%</b>	<b>2 151</b>	<b>692</b>	<b>210.8%</b>
Operating margin	20.0%	8.9%	+ 11.1 pp	26.3%	10.6%	+ 15.7 pp
Adjusted operating margin	27.3%	12.2%	+ 15.1 pp	35.1%	15.1%	+ 20.0 pp
<b>EBITDA</b>	<b>6 288</b>	<b>3 154</b>	<b>99.4%</b>	<b>2 846</b>	<b>1 258</b>	<b>126.2%</b>
EBITDA margin	28.6%	19.1%	+ 9.5 pp	34.8%	19.3%	+ 15.5 pp
Adjusted EBITDA margin	39.1%	26.2%	+ 12.9 pp	46.5%	27.4%	+ 19.1 pp
Interest expenses	-576	-666	-13.5%	-197	-193	2.1%
<b>Net income</b>	<b>2 992</b>	<b>552</b>	<b>442.0%</b>	<b>1 575</b>	<b>355</b>	<b>343.7%</b>
Net margin	13.6%	3.4%	+ 10.2 pp	19.3%	5.4%	+ 13.9 pp
Adjusted net margin	18.6%	4.6%	+ 14.0 pp	25.7%	7.7%	+ 18.0 pp

Source: Transcontainer, SOVLINK

## Stock recommendations

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

### SOVLINK LLC

Tel.: +7 495 967-1300

Fax: + 7 495 967-1311

Kremlin embankment 1. bld. 2.

Moscow. 119019. Russia

[www.sovlink.ru](http://www.sovlink.ru)

[research@sovlink.ru](mailto:research@sovlink.ru)

©2012, SOVLINK LLC. The information in the enclosed Report (the "Information") is not an advertisement for any security or particular issuer and should not be interpreted as such. The Information is intended solely for the personal use of SOVLINK LLC's clients or other parties pre-agreed to with SOVLINK LLC. The Information is not intended for use by citizens of the USA or legal entities registered in the USA. Nothing contained in the Information is, or should be interpreted as being information intended for an undetermined audience.

The Information is exclusively of an informational/analytical nature, and should not be interpreted as a recommendation to take any particular investment action. The Information should not be relied upon as a justification for the execution of any transactions, and should not be referred to as such. SOVLINK LLC takes no responsibility for any actions taken on the basis of the Information. The enclosed Report does not contain an offer or an invitation to make an offer to buy or sell any securities or any options, futures or other derivatives related to such securities.

This Report does not have regard to any specific investment objectives, financial situation and the particular needs of any specific person who may receive this Information. Investors should seek financial advice from SOVLINK LLC, regarding the appropriateness of investing in any securities mentioned and should understand that statements regarding future prospects of the issuers may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may earn less than originally invested. Past performance is not necessarily a guide for future performance. Foreign currency exchange rates may adversely affect the value, price or income of any security mentioned in the Report. Please bear in mind that investment activity in emerging markets is very risky, and investors should conduct their own due-diligence prior to making an investment decision.

The individual(s) responsible for the preparation of this Report (the Author(s)), or SOVLINK LLC may hold short- and long-term positions in any of the securities mentioned in the Report, and may take part in investment activities with companies mentioned in the Report.

In preparing this Report, the Author(s) assumed that the issuers mentioned in the Report disclose information in the amount and under the procedure stipulated by the securities legislation of the Russian Federation for issuers who publicly place securities.

This Report and the Information is based exclusively on publicly-available information, which is deemed to be reliable, however SOVLINK LLC makes no representation that this Information is accurate or comprehensive, and it should not be relied upon as such. SOVLINK LLC makes no representation that this Report has been released to all readers simultaneously, nor that SOVLINK LLC will update this material on a regular basis, or that it will correct inaccuracies contained in this Report.