

TransContainer

H1 results

Structural and cyclical locomotion

Our increased three-year EBITDA CAGR of 20% for TransContainer is driven by rising rates of 'containerisation' in Russian rail freight, a gathering pace of economic rebound in Russia and strong operating efficiency delivered by company management. Our increased forecasts are the main driver behind an increase in fair value to RUB4,900, which implies 23% upside to current levels. The stock offers investors unique exposure to attractive structural and cyclical growth factors in Russia as well as a management team that has shown its ability to manage the business and cash flows during difficult macroeconomic conditions.

Year end	Revenue (RUBm)	PBT* (RUBm)	EPS* (RUB)	DPS (RUB)	P/E (x)	Yield (%)
12/15	20,311	3,530	138.7	251.8	28.6	6.3
12/16	21,988	4,302	202.4	394.4	19.6	10.0
12/17e	26,708	7,702	443.2	177.3	9.0	4.5
12/18e	28,322	7,287	419.3	167.7	9.5	4.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Structural and cyclical growth drivers both positive

'Containerisation', or an increasing proportion of Russian rail freight transported by rail containers, continues to be the key structural component of TransContainer's investment case, with a 6.7% CAGR in the containerisation ratio since 2001. Additionally, the company is benefiting from an increasingly apparent cyclical upturn in Russian rail freight volumes. The resulting double-digit top-line growth trend, combined with the company's focus on operating efficiencies and continuing shift into integrated logistics, means TransContainer offers investors strong earnings growth, underpinned by attractive trends, at a reasonable valuation.

Earnings increased as outperformance continues

Since TransContainer has now reported a strong increase in half-on-half earnings driven by containerisation growth, we now feel it is appropriate to increase our forecasts and so upgrade our FY17 and FY18 EBITDA (company definition) forecasts by 26% and 21%, respectively. Given management's strong track record of controlling costs (witnessed once again in Q2 with EBITDA margins hitting 43%), we have confidence in our 40% (company definition) EBITDA margin in FY17.

Valuation: Fair value increased to RUB4,900

We use an average of EV/EBITDA multiples and DCF models in arriving at our fair value of RUB4,900 per share vs RUB3,580 before. Our three-year EPS CAGR is 25%, which looks undemanding given the stock trades on 9.0x FY17 earnings and should be supported by a 4.5% dividend yield. Our fair value offers investors 23% upside to current levels and is supported by strong post-period data from the Russian rail network showing that supernormal growth in rail-container volumes has accelerated since H117 (July 2017 was up 21.3% y-o-y).

Industrial support services

20 September 2017

Price **RUB3,970**
Market cap **RUB54.8bn**

RUB57.98/US\$

Net debt (RUBm) at 30 June 2017 1,292

Shares in issue 13.8m

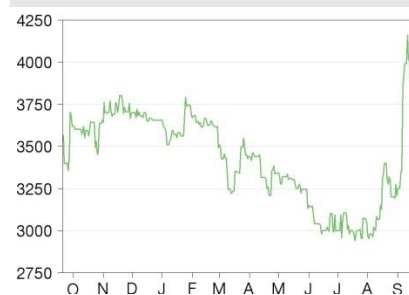
Free float 50%

Code TRCN

Primary exchange MCIX

Secondary exchange LSE

Share price performance



% 1m 3m 12m

Abs 15.9 31.3 8.7

Rel (local) 9.2 18.6 5.4

52-week high/low RUB4,160 RUB2,940

Business description

TransContainer owns and operates rail freight assets across Russia. Its assets comprise rail flatcars, handling terminals and trucks, through which it provides integrated end-to-end freight forwarding services to its customers.

Next events

9MQ3 results December 2017

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TransContainer is a research client of Edison Investment Research Limited

Investment summary

Company description: An increasingly integrated offering

TransContainer is the market leader in Russian rail container freight. In recent years it has expanded its customer offering to include truck deliveries and rail handling. On top of its legacy rail freight business this now means the company offers integrated end-to-end logistics services to Russian and international industry. It has revenue exposure to a broad range of industries with a particular exposure to chemicals, consumer goods, paper, construction materials and machine tools.

Valuation: Undemanding given high growth rates

We forecast TransContainer will grow (company definition) EBITDA at a CAGR of 20% in the coming three years. The stock's 6.0x one-year forward EV/EBITDA versus an average of global transportation and logistics peers of 9.0x looks undemanding in comparison to this growth rate. This is supported by our own DCF valuation of RUB5,051 and our multiple-based valuation RUB4,750, which, when averaged – RUB4,900 – offers equity holders 23% upside to current levels. In other words, trading at current levels, TransContainer's attractive earnings story, underpinned by structural and cyclical growth drivers, offers investors significant upside to its intrinsic fair value.

Financials: H117 confirms growth trends well established

Following a commodity-driven cyclical downturn in 2014 and 2015, TransContainer's earnings prospects have since materially improved. The company's 48% improvement at H117 in EBITDA, driven by top line expansion of 49%, coupled with the fact that end-markets are continuing to grow (+21% July 2017 vs July 2016) gives us confidence in our increased earnings forecasts. Our 52% FY17 year-on-year (company definition) EBITDA growth forecast and 20% three-year (FY16-19) (company definition) EBITDA CAGR are well-supported by current market trends and buttressed by the company's strong levels of operating efficiency. The result is that our underlying EPS forecasts for FY17 and FY18 are increased by 41% and 29%, respectively.

Sensitivities: Macro and geopolitical risk

TransContainer is principally exposed to macroeconomic risk and political risk.

- **Macro issues:** Given the nature of its end-markets, TransContainer is heavily exposed to economic output in Russia and neighbouring countries. Also, it has direct volume exposure to several commodities including non-ferrous metals. Exposure to both these risks led to a downturn in performance in 2015 and 2016.
- **Geopolitical issues:** The Russian economy has, in recent history, been subjected to economic sanctions. For TransContainer, as an importer and exporter of goods, further sanctions could disrupt its business model and damage its outlook.
- **Technical issues:** Given its concentrated ownership structure, should a large shareholder sell down its stake in TransContainer, there could be short-term pressure on the stock.

Company description: Full steam ahead

TransContainer, a former state-owned firm, was fully listed in 2010. In the intervening period it has transitioned from a rail container-focused operation to a fully integrated freight-forwarding business. TransContainer owns almost all of the assets it uses including 23,561 flatcars, 70,990 ISO containers, 62 rail-side terminals and 184 trucks. It currently has a 46.7% market share in Russian rail-based container transportation. Plus it is number three in rail-side container handling with 19.3% market share. The Russian rail network operator, JSC UTLC, owns 50% plus two shares of the issued equity.

A leader in a rapidly growing market

Two factors underpin TransContainer's strong current growth trajectory: GDP growth, which in turn drives rail freight volumes; and 'containerisation', or an increasing proportion of rail cargo shipped by container. Containerisation levels reached 6.2% in H117 according to the company. This implies a market share CAGR of 6.7% since 2001 and is well below the European average of 14%. This structural earnings driver is complemented by economic growth (currently trending at 2.5% in Q217 although volatile, as 0.5% expansion in Q1 shows) in supporting the observed 20% h-o-h rail container transportation volume growth seen in H117. Given its dominant market position, TransContainer has a strong competitive position from which to benefit from these current trends, although we note that its market share is trending downwards as the market opens up to competition.

Strong management with credentials built in the downturn

TransContainer's management team have continually shown their competence regarding managing costs and deploying capital, especially during the recent period of economic contraction. In 2014 and 2015, management reduced controllable costs to cushion the effects of the economic downturn (controllable costs declined by 14% in FY14). Likewise, management showed restraint in capital spending in 2015 and 2016 by cutting investment in flatcars as volumes contracted. It is to management's credit that it has been able to cope with increased flatcar demand in Russia during H117 by improving flatcar utilisation. Management's focus on cost efficiency and cash conservation underpin our forecasts for EBITDA (company definition) margins to recover to 40% this year.

Increasingly an end-to-end integrated service provider

TransContainer has transitioned its business from a disjointed point-to-point transportation operation to a fully integrated logistics business. In 2013, 41% of the company's adjusted revenues came from Integrated Freight Forwarding and Logistics. By H117, this figure had climbed to 71%. This is a function of management strategically building out the company's capabilities in rail-terminal handling and last mile transportation. Given most of the company's key customers and end-markets are complex and multinational in nature, this integrated offering makes sense from a competitive positioning perspective. Ultimately, this should allow TransContainer to grow market share in the overall transportation and logistics market in Russia and grow profitability too.

Operations and strategy: Well-managed growth

With a 46.7% market share in rail-based container transportation and a 19.3% share of terminal handling, TransContainer has a strong competitive position in key Russian rail segments and offers investors a solid means of exploiting strong rail cargo volume growth. Management has invested in the provision of a fully integrated end-to-end customer offering noted for high service levels and a strong focus on operating efficiency. For shareholders, TransContainer offers a unique way to play attractive growth trends with the protection of a well-regarded management team.

Exhibit 1: TransContainer operating activities



Source: Edison Investment Research, TransContainer data

Structural growth: Containerisation makes sense in Russia

Despite its suitability (ie, large land area and long shipping distances), Russia has always lagged other large economies in terms of rail containerisation rates. Currently, the rate of 6.2% compares to Europe on 14%, India on 16% and the US on 18%. This is a marked increase from 2.2% in Russia in 2001 but illustrates the potential for further growth. Given the cost advantage to Russian industry from transitioning away from either truck or rail boxcars, we believe the 6.7% CAGR in market share for containerised rail freight is likely to continue.

Cyclical growth: Commodity and economic recovery underway

In H117 Russian rail container volumes grew by 19.8% versus the same period a year earlier. In July, the growth rate was 21.3% versus July 2016. Management attributes the bulk of this growth to

increased rail containerisation. However, we should note that after slowing in 2014 and contracting in 2015, Russian economic output started to grow modestly in Q416 and in Q217 grew by a y-o-y rate of 2.5%. This has taken place against a backdrop of recovering commodity prices, which are important for the Russian economy and TransContainer's customers. Several of the company's most important verticals are heavily cyclical such as chemicals, construction and machine tools. This gives us confidence TransContainer will continue to see demand growth in the coming months.

Strategy: Steaming towards a more integrated offering

TransContainer's business model has transitioned to focus on 'Integrated Freight Forwarding and Logistics' in comparison to its more disjointed customer offering in the past. 71% of revenues in H117 came from 'integrated' services. This compares favourably with 41% in FY13. For customers, integration means goods can be shipped end-to-end and require only one freight handler rather than several with niche skillsets such as truck deliveries, terminal handling, etc. This has the twin effect of significantly enhancing TransContainer's competitive offering while allowing shareholders to benefit from superior returns via efficiency and scale gains.

Operations: Utilisation rates, investments and efficiency

In H117, management managed the operating fleet's performance very well. 79% of freight runs were 'profit making' rather than 'empty run'. This is in comparison to 77% in FY16 and 74% in FY15. Management were able to absorb the significant uplift in demand without any new flatcars, although capex is forecast to increase in FY17 to c RUB8bn with c RUB5bn to be invested in new flatcars, which is a sign of management confidence in continued recovery. In other words, TransContainer's management has proved itself capable of reducing controllable costs and investment to protect cash flow in the face of end-market weakness in 2014 and 2015 and has now shown the capacity to increase utilisation and investment as demand recovers.

Forecasts, cost management and investments

TransContainer will grow EBITDA (company definition) by a CAGR of 20% between FY16 and FY19 based on our earnings forecasts. The bulk of the growth will come from Integrated Freight Forwarding as this continues to be a focus area for management. The main driver of revenue growth is rail container volume growth, which has averaged 8.3% since 2001. This, in turn, is supported by rail containerisation – rail container cargo as a percentage of overall rail freight has grown at an average of 6.7% since 2001 – and GDP growth, which for several years has been patchy at best.

Exhibit 2: Divisional adjusted revenue growth forecasts

RUBm	2013	2014	2015	2016	2017e	2018e	2019e
Integrated Freight Forwarding and Logistics Services	10,437	11,352	12,518	14,126	18,929	20,538	22,284
Cargo Transport & Handling, with 3rd Parties	0	0	0	0	0	0	0
Rail-based Container Shipping Services	8,154	5,405	4,390	4,061	4,264	4,371	4,480
Terminal Services and Agency Fees	4,181	2,167	2,130	2,393	2,537	2,562	2,588
Truck Deliveries	1,367	978	848	875	350	210	214
Other Freight Forwarding Services	571	283	134	226	267	272	280
Bonded Warehousing Services	317	234	194	203	240	244	252
Other	301	119	97	104	123	125	129
Total Adjusted Revenue	25,328	20,538	20,311	21,988	26,708	28,322	30,226

Source: TransContainer data, Edison Investment Research

During H117, TransContainer managed to keep its controllable cost (controllable costs are defined by management as all internal costs less third-party costs associated with integrated freight forwarding) increase to 15% despite the 20% increase in the top line. Management said it managed to keep empty run rates, salaries and administration costs under control. It also attributed the efficient performance to improved fleet management and optimisation measures taken at terminals.

This enabled TransContainer to post H117 (company definition) EBITDA margins of 40% and Q2 margins of 44%. In this context, our 40% margin forecast for FY17 looks realistic. We base our cost forecasts on management guidance, the margin improvement witnessed over H117 and on a realistic (company definition) EBITDA margin target of c 40%.

Exhibit 3: Operating expense forecasts

RUBm	2,013	2,014	2,015	2,016	2017e	2018e	2019e
Third-party charges related to principal activities	13,836	16,027	22,194	29,495	35,452	38,193	41,146
Freight and Transportation Services	4,315	4,979	5,858	5,972	6,689	7,224	7,802
Payroll and Related Charges	5,048	4,609	4,507	5,244	5,611	6,004	6,424
Materials, Repair and Maintenance	2,985	2,419	2,275	2,605	2,787	2,857	2,928
Depreciation and Amortisation	1,943	2,461	2,470	2,528	2,488	2,982	3,123
Taxes Other than Income Tax	724	631	521	543	581	596	610
Rent	1,869	443	638	311	333	341	350
Other Expenses	2,139	1,628	1,579	1,596	1,708	1,750	1,794
Total Operating Expenses	32,859	33,197	40,042	48,294	55,648	59,947	64,178

Source: TransContainer data, Edison Investment Research

We forecast FY17 capex will increase to c RUB8bn in line with company guidance. The bulk of the investment (c RUB5bn) will be in new flatcars, which will be required due to high levels of current demand growth.

Exhibit 4: Capex split historic and forecast

RUBbn	2013	2014	2015	2016	2017e
Investments in Flatcars	3.7	2.7	0.0	0.0	5.0
Investments in Containers	0.9	0.3	0.8	0.8	1.0
Terminals Development	1.2	0.6	0.9	0.7	1.3
Other Capex	0.6	0.5	0.7	0.7	0.6
Total	6.4	4.1	2.4	2.2	7.9
As a % of sales	25%	20%	12%	10%	33%

Source: TransContainer data, Edison Investment Research

Management

TRC Chairman Andrey Starkov, a graduate of the Moscow State Textile University and the Moscow State University of Economics, previously carried out several roles at JSC RZD. General Director of TransContainer Petr Baskakov and his team have managed the business over the last decade. Mr Baskakov, in common with several other directors, has had a long career in the Russian rail industry. His 24 years in the industry started after graduating from the Moscow Institute for Railway Transport Engineers in 1986 with a degree in the management of railway transportation processes.

Sensitivities

TRC has sensitivities ranging from macro factors such as economic output to several technical factors such as illiquidity:

- The main earnings sensitivity is to Russian GDP growth. Rail container volume growth has traditionally moved within a range of 2.1x to 6.3x year-on-year GDP changes.
- TRC's market share fell from 60% in 2006 to 47% in 2015, reflecting market liberalisation and the introduction of competition. However, this has stabilised over the last couple of years.
- Valuation is sensitive to equity risk premium. Politics and geopolitics can change very rapidly in Russia, and do so without warning.
- Stock liquidity – UTLC retains its 50%+2 shares ownership stake so TRC has a low free float of 50%-2.
- Additionally, there are several other large shareholders so liquidity is restricted.

- Currency – The strength or weakness of the ruble versus other currencies, most notably the euro, affects import and export flows and hence TRC's freight volumes.
- Trade – Import, export and transit account for 45% of TRC's volumes and so are affected by Russia's trade volumes and balance.

Valuation

We take two valuation methodologies into account in arriving at our fair value of RUB4,900 per share, an increase of 37% from our previous fair value of RUB3,580. We compare TransContainer to its closest listed peers on an EV/EBITDA basis and apply a 7.0x multiple to the company's next full year EBITDA, which is a 23% discount to the global average, and implies a fair value of RUB4,750 per share. We also conduct a DCF analysis (WACC 9.8%, terminal growth 3%), which implies a fair value of RUB5,051 per share. The average of the two methodologies is RUB4,900 per share, which offers investors 23% upside. This fair value increase is primarily driven by the enhanced cash flow outlook for the business as well as a lower cost of capital in the case of the DCF and slightly higher multiple (7.0x vs 6.7x) in the multiple-derived model, as well as the benefit of a rolled-forward (and increased) EBITDA forecast.

Global peer comparison

As shown in Exhibit 6, the global average of transportation and logistics stocks is 9.0x next year EV/EBITDA. However, the same figure for Europe-listed names is only 5.2x, while in emerging markets the figure is 13.7x, albeit this is skewed by one outlier. Stripping out the effect of this one stock, the average is 7.6x. Furthermore Globaltrans, another Russian freight company, trades at 4.8x one-year forward EV/EBITDA. In this context and taking into account TransContainer's mixture of emerging and developed market exposure, in tandem with macro/commodity and geopolitical risk, we believe a 7.0x one-year forward EV/EBITDA multiple is appropriate. The fair value per share implied by this is RUB4,750 per share.

Exhibit 5: EV/EBITDA multiple-derived fair value per share

	RUBm
FY18e EBITDA (company definition)	11,143
Multiple	7.0x
EV	78,003
FY17 net debt	11,288
Pension liability	1,067
Equity value	65,648
Number of shares (m)	14
Equity value per share (RUB)	4,750
Current share price (RUB)	3,970
Current market cap	54,872
Upside/downside (%)	20%
Source: Edison Investment Research	

See Exhibit 6 for a global peer comparison.

Exhibit 6: TransContainer international peer comparison

			Market Cap (local m)	Current EV/ EBITDA	Next EV/ EBITDA	Current P/E	Next P/E	Div Yield This Yr
European Transport								
Globaltrans Investment PLC		RUSSIA	1,778	5.2x	4.8x	10.6x	9.8x	3.8%
PKP Cargo SA		POLAND	2,817	5.3x	4.2x	53.3x	14.1x	0.0%
VTG AG		GERMANY	1,325	8.6x	6.7x	26.2x	19.3x	2.2%
Average				6.4x	5.2x	30.0x	14.4x	2.02%
Emerging Markets Transport								
China Railway Tielong Container Logistics Co Ltd		CHINA	15,953	26.9x	25.8x	48.1x	43.6x	0.9%
Daqin Railway Co Ltd		CHINA	131,720	7.2x	7.0x	10.5x	10.2x	4.2%
Guangshen Railway Co Ltd		CHINA	29,731	9.0x	8.2x	33.7x	27.3x	1.9%
Average				14.3x	13.7x	30.8x	27.0x	2.36%
Developed Market Transport								
Canadian Pacific Railway Ltd		CANADA	29,090	10.9x	10.3x	17.3x	15.4x	0.9%
Union Pacific Corp		US	90,443	10.4x	9.7x	19.5x	17.5x	2.4%
Norfolk Southern Corp		US	36,830	10.4x	9.8x	20.2x	18.2x	2.5%
Canadian National Railway Co		CANADA	75,795	12.2x	11.6x	19.8x	18.4x	1.8%
Genesee & Wyoming Inc		US	4,418	9.8x	9.0x	23.8x	19.7x	0.0%
CSX Corp		US	47,291	11.2x	10.0x	23.0x	19.1x	2.6%
Aurizon Holdings Ltd		AUSTRALIA	10,207	8.9x	8.6x	18.8x	17.1x	5.8%
Average				10.6x	9.9x	20.4x	17.9x	2.28%
Overall Transport Average				9.7x	9.0x	23.2x	17.8x	2.08%
TransContainer PJSC		RUSSIA	54,468	6.2x	6.0x	9.0x	9.5x	4.5%

Source: Bloomberg data, Edison Investment Research. Note: Priced on 20 September 2017. TransContainer multiples based on Edison forecasts

DCF

Our DCF implies a fair value of RUB5,051 per share. We explicitly forecast four years of cash flows, discount them at 9.8% and apply a 3% terminal growth rate.

Exhibit 7: TransContainer discounted cash flow analysis

DCF valuation	(RUBm)					
EV	82,172					
FY17 Net debt	11,288					
Pension Liability	1,067					
Equity value	69,816					
Number of shares (m)	14					
Equity value per share (RUB)	5,051					
Current share price (RUB)	3,970					
Current market cap	54,872					
Upside/downside (%)	27%					
		2017e	2018e	2019e	2020e	Terminal value
EBIT		7,172	7,228	7,855	8,540	
Less cash taxes		(1,577)	(1,492)	(1,644)	(1,815)	
Tax rate		20%	20%	20%	20%	
NOPLAT		5,595	5,737	6,211	6,725	
Working capital		(342)	-74	(116)	(126)	
Add back depreciation		2,488	2,982	3,123	3,278	
Less capex		(7,900)	(5,098)	(5,441)	(5,811)	
Free cash flow		(159)	3,546	3,777	4,065	6,594
FCF growth		-	-	6.5%	7.6%	3.0%
WACC		9.8%	9.8%	9.8%	9.8%	9.8%
Discount factor		1.0	0.9	0.8	0.8	0.8
Discount cash flow		(159)	3,229	3,132	3,069	72,901
NPV		82,172				

Source: Edison Investment Research

Sensitivities

In Exhibit 8 we flex our DCF assumptions and find that for a 1% increase in our WACC assumption, our fair value per share decreases by RUB810 (16%), and for a 1% decrease in our WACC assumption our fair value per share increases by RUB1,089 (22%).

Exhibit 8: TransContainer discounted cash flow sensitivity analysis (RUB/share)						
		Discount rate				
		7.8%	8.8%	9.8%	10.8%	11.8%
Terminal growth rate	1.0%	7,587.3	6,062.4	4,986.2	4,186.7	3,569.8
	2.0%	7,635.9	6,101.6	5,018.7	4,214.3	3,593.6
	3.0%	7,684.5	6,140.7	5,051.3	4,241.9	3,617.4
	4.0%	7,733.1	6,179.9	5,083.8	4,269.5	3,641.2
	5.0%	7,781.6	6,219.0	5,116.3	4,297.1	3,665.1
Source: Edison Investment Research						

Financials

We increase our earnings across the forecast period to reflect the much enhanced reported operating performance at H117. Our 26% FY17 and 21% FY18 (company definition) EBITDA forecast increases are driven by 12% adjusted revenue forecast increases in both years together with operating cost control delivering a return to 40% EBITDA margins (company definition). This flows down the income statement resulting in an increase in underlying EPS of 41% in FY17 and 29% in FY18. We increase the dividend payout ratio to reflect the improved operating performance. Despite our capex forecast for FY17 remaining unchanged, our net debt estimate for FY17 is higher as a result of a higher than expected dividend payment (totalling RUB5.45bn).

Exhibit 9: Edison earnings forecast changes

RUBm	2017e	2018e	2019e
New Integrated Freight Forwarding and Logistics Revenues	18,929	20,538	22,284
Old Integrated Freight Forwarding and Logistics Revenues	15,750	17,089	18,542
± New vs old	20.2%	20.2%	20.2%
New Rail Based Container Shipping Revenues	4,264	4,371	4,480
Old Rail Based Container Shipping Revenues	4,163	4,267	4,373
± New vs old	2.4%	2.4%	2.4%
New Terminal Services and Agency Fees Revenues	2,537	2,562	2,588
Old Terminal Services and Agency Fees Revenues	2,417	2,441	2,466
± New vs old	5.0%	5.0%	5.0%
New Truck Deliveries Revenues	350	210	214
Old Truck Deliveries Revenues	893	910	929
± New vs old	-60.8%	-76.9%	-76.9%
New Other Revenues	629	642	661
Old Other Revenues	538	549	566
± New vs old	16.8%	16.8%	16.8%
New Adjusted Revenues	26,708	28,322	30,226
Old Adjusted Revenues	23,761	25,256	26,875
± New vs old	12.4%	12.1%	12.5%
New EBITDA (company definition)	10,795	11,143	12,161
Old EBITDA (company definition)	8,562	9,238	10,153
± New vs old	26.1%	20.6%	19.8%
New EBIT (company definition)	7,172	7,228	7,855
Old EBITDA (company definition)	4,938	5,234	5,752
± New vs old	45.2%	38.1%	36.6%
New EPS (RUB)	443	419	462
Old EPS (RUB)	315	325	364
± New vs old	40.8%	29.0%	27.1%
New DPS (RUB)	177	168	185
Old DPS (RUB)	79	81	91
± New vs old	125.3%	106.4%	103.4%
New net debt	11,288	10,943	10,199
Old net debt	6,215	5,401	4,366
± New vs old	81.6%	102.6%	133.6%

Source: Edison Investment Research

H117 results showed recovery well underway

H117 numbers showed TransContainer is operating in a very strong market and, through its focus on operating and cost efficiency, is able to convert this into strong earnings growth. Our three-year (company definition) EBITDA CAGR of 20% and underlying three-year EPS CAGR of 25% demonstrate its strong growth trajectory.

Exhibit 10: TransContainer half year earnings progression

RUBm	H115	H215	FY15	H116	H216	FY16	H117	H217e	FY17e
Integrated Freight Forwarding and Logistics Services	6,162	6,356	12,518	6,179	7,947	14,126	9,209	9,720	18,929
Rail-based Container Shipping Services	2,129	2,261	4,390	2,015	2,046	4,061	1,648	2,616	4,264
Terminal Services and Agency Fees	987	1,143	2,130	1,189	1,204	2,393	1,624	913	2,537
Truck Deliveries	399	449	848	419	456	875	346	4	350
Other revenues	70	64	425	155	71	533	158	471	629
Total Adjusted Revenue	9,747	10,273	20,311	9,957	11,724	21,998	12,985	13,723	26,708
EBITDA (company definition)	2,804	3,722	6,526	3,192	3,907	7,099	5,192	5,603	10,795
Adjusted EBITDA margin [%]	28.8%	36.2%	32.1%	32.1%	33.3%	32.3%	40.0%	40.8%	40.4%
Profit for the period	1,039	1,792	2,831	1,412	1,832	3,244	2,836	3,290	6,126
Adjusted net profit margin [%]	10.7%	17.4%	13.9%	14.2%	15.6%	14.8%	21.8%	24.0%	22.9%

Source: TransContainer accounts, Edison Investment Research

Cash flow and balance sheet

TransContainer will increase its capex spend during FY17 as it invests in new flatcars. Thereafter we forecast the group will reduce capex to the RUB5bn to RUB6bn range. We forecast the group



will payout 40% of underlying earnings to shareholders, which will equate to a cash payment of c RUB2.5bn (note this comes after a large RUB5.45bn dividend payment relating to FY16, paid in FY17). Therefore, from FY18, based on operating cash flows of just over RUB10bn, TransContainer will generate enough cash flow to finance its capital requirements and dividend obligations while also paying down a moderate amount of debt. That said, net debt to (company definition) EBITDA of 1.1x in FY17 and 1.0x in FY18 do not give cause for alarm and are, in fact, another indicator of a company positioned sensibly for cyclical end markets.

Exhibit 11: Financial summary

	RUBm	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		20,538	20,311	21,988	26,708	28,322	30,226
EBITDA (company definition)*		7,816	6,526	7,099	10,795	11,143	12,161
EBITDA		6,544	5,744	6,377	9,660	10,210	10,978
Operating Profit (before amort. and except.)		4,083	3,274	3,849	7,172	7,228	7,855
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		0	0	0	0	0	0
Other		0	0	0	0	0	0
Operating Profit		4,083	3,274	3,849	7,172	7,228	7,855
Net Interest		(497)	(356)	(216)	(206)	(750)	(715)
Share of assocs/JVs gains/(losses)		165	612	669	736	809	890
Forex gains/(losses)		938	0	(223)	0	0	0
Other		18	18	0	0	0	0
Profit Before Tax (norm)		3,751	3,530	4,302	7,702	7,287	8,030
Profit Before Tax (FRS 3)		4,707	3,548	4,079	7,702	7,287	8,030
Tax		(1,049)	(717)	(835)	(1,577)	(1,492)	(1,644)
Profit After Tax (norm)		2,702	2,813	3,467	6,126	5,796	6,386
Profit After Tax (FRS 3)		3,658	2,831	3,244	6,126	5,796	6,386
Average Number of Shares Outstanding (m)		13.7	13.7	13.8	13.8	13.8	13.8
EPS - normalised (RUB)		286.0	138.7	202.4	443.2	419.3	462.0
EPS - normalised fully diluted (RUB)		286.0	138.7	202.4	443.2	419.3	462.0
EPS - (IFRS) (RUB)		267.1	206.7	234.7	443.2	419.3	462.0
Dividend per share (RUB)		71.0	251.8	394.4	177.3	167.7	184.8
EBITDA margin (IFRS) (%)		31.9	28.3	29.0	36.2	36.1	36.3
Operating margin (before GW and except.) (%)		19.9	16.1	17.5	26.9	25.5	26.0
BALANCE SHEET							
Fixed Assets		42,012	41,739	40,822	48,234	50,350	52,668
Intangible Assets		210	246	290	290	290	290
Tangible Assets		37,900	37,827	37,485	44,897	47,013	49,331
Investments		3,343	3,023	2,685	2,685	2,685	2,685
Other		559	643	362	362	362	362
Current Assets		6,965	7,435	11,006	7,827	10,610	13,724
Stocks		340	315	209	254	269	287
Debtors		1,542	1,392	1,605	1,950	2,067	2,206
Cash		1,904	2,110	5,525	1,710	4,055	6,799
Other		3,179	3,618	3,667	3,914	4,218	4,431
Current Liabilities		(5,581)	(6,747)	(8,372)	(8,666)	(9,030)	(9,285)
Creditors		(3,084)	(3,405)	(4,279)	(4,573)	(4,937)	(5,192)
Short term borrowings		(919)	(1,893)	(2,762)	(2,762)	(2,762)	(2,762)
Other		(1,578)	(1,449)	(1,331)	(1,331)	(1,331)	(1,331)
Long Term Liabilities		(8,151)	(6,240)	(8,947)	(12,947)	(14,947)	(16,947)
Long term borrowings		(5,458)	(3,744)	(6,236)	(10,236)	(12,236)	(14,236)
Other long term liabilities		(2,693)	(2,496)	(2,711)	(2,711)	(2,711)	(2,711)
Net Assets		62,709	62,161	69,147	77,674	84,937	92,624
CASH FLOW							
Operating Cash Flow		7,617	5,437	7,421	9,318	10,136	10,862
Net Interest		(557)	(394)	(165)	(206)	(750)	(715)
Tax		(964)	(727)	(781)	(1,577)	(1,492)	(1,644)
Capex		(4,136)	(2,400)	(2,192)	(7,900)	(5,098)	(5,441)
Acquisitions/disposals		(75)	(12)	(128)	0	0	0
Financing		199	0	517	0	0	0
Dividends		(1,117)	(974)	(4,830)	(5,451)	(2,450)	(2,318)
Other		199	0	517	0	0	0
Net Cash Flow		967	930	(158)	(5,815)	346	744
Opening net debt/(cash)		6,004	4,473	3,527	3,473	11,288	10,943
HP finance leases initiated		0	0	0	0	0	0
Other		564	16	212	(2,000)	0	0
Closing net debt/(cash)		4,473	3,527	3,473	11,288	10,943	10,199

Source: Company accounts, Edison Investment Research. Note: *Company definition of EBITDA is PBT + interest expense + depreciation and amortisation.

Contact details	Revenue by geography
Oruzheyniy Pereulok 19 Moscow, Russian Federation 125047 www.trcont.ru/ +7 495 788 17 17	N/A
Management team	
Chairman of the Board of Directors: Andrey Starkov Andrey Starkov, a graduate of the Moscow State Textile University and the Moscow State University of Economics, previously carried out several roles at JSC RZD including company secretary.	Chief Executive: Petr Baskakov CEO since 2006, Mr Baskakov has over 24 years of experience in Russian railways. He is a graduate of the Moscow Institute of Railway Transport Engineers with a degree in the management of railway transportation processes. Prior to joining TRC, Mr Baskakov worked at Podolsk Production and Railway Transportation Enterprise and, from 1993, he was head of Moskva-TovarnayaKurskaya station, a Moscow rail-side cargo terminal.
Principal shareholders	(%)
UTLC	50.0%
FESCO	25.1%
TransFinGroup	15.7%
Companies named in this report	
Globaltrans (GLTR LSE), PKP Cargo SA (PKP WSE), VTG AG (VTG ASX), China Railway Tielong Container Logistics Co Ltd (0390 HKG), Daqin Railway Co Ltd (601006 SHA), Guangshen Railway Co Ltd (GSH NYSE), Canadian Pacific Railway Ltd (CP TSE), Kansas City Southern (KSU NYSE), Union Pacific Corp (UNP NYSE), Norfolk Southern Corp (NSC NYSE), Canadian National Railway Co (CNR TSE), Genesee & Wyoming Inc (GWR NYSE), CSX Corp (CSQ NASDAQ), Aurizon Holdings Ltd (AJZ ASX)	

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