

# TransContainer

FY18 results update

FY18 results beat our estimates, forecasts raised

We have raised our FY19 and FY20 revenue forecasts by 3% and net income c 20%, following strong FY18 results that were above our expectations. We expect TransContainer to continue achieving sustained volume growth, benefiting from the structural trend towards growing containerisation and economic growth in Russia. We have increased our DCF-based valuation by 13% to RUB6,100/share.

Year end	Revenue (RUBm)	EBITDA* (RUBm)	EPS** (RUB)	DPS (RUB)	P/E (x)	Yield (%)
12/17	27,782	10,252	448.2	293.0	11.7	5.6
12/18	31,288	13,342	560.9	342.2	9.3	6.5
12/19e	34,352	16,138	660.5	330.2	7.9	6.3
12/20e	37,833	18,065	742.3	371.1	7.0	7.1

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

## Forecasts raised on the back of strong FY18 results

TransContainer posted strong growth in FY18, with adjusted revenues and net income respectively 3% and 15% higher than our forecasts. Results were better than our expectations, even though we recently upgraded net income by 26% following strong Q3 results. Adjusted revenues were up 12.6% to RUB31.3bn boosted by an increased share of higher value-added Integrated Freight Forwarding and Logistics Services. Operating profit grew 49% y-o-y to RUB11,559m, reflecting the strong revenue growth and expanding profit margins. We have raised our forecasts for FY19 and FY20, with revenues up 3% and net income up c 20%. We also expect net debt significantly lower than before, mainly due to lower-than-expected capex in FY18.

## GDP growth and containerisation supports growth

Containerisation is a structural trend for the Russian market, and should support revenue and profit growth for TransContainer, in our view. Currently, only 7.2% of Russia's potentially containerisable rail cargo is transported in containers and, although this figure rose from 2.2% in 2001, it is still much lower than in the US (18%), India (16%) and Europe (14%). GDP growth forecasts for Russia remain supportive with the World Bank estimating +1.5% for 2019 and +1.8% for 2020.

## Valuation raised to RUB6,100/share

Even following the recent pick-up in the share price, we see room for further upside. We have raised our DCF-based valuation to RUB6,100/share (from RUB5,400) on the back of higher earnings estimates and lower than expected FY18 net debt. The stock is trading at a large discount to international transportation companies on P/E and EV/EBITDA multiples, respectively, which however may be at least partly explained by the limited liquidity of the stock and the higher country risk premium.

General industrials

5 April 2019

**Price** RUB5,230

**Market cap** RUB72,174m

Net debt (RUBm) at end FY18 1,779

Shares in issue 13.8m

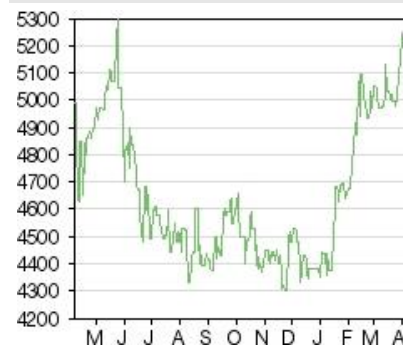
Free float 0.66%

Code TRCN

Primary exchange MICEX

Secondary exchange LSE

### Share price performance



%	1m	3m	12m
Abs	3.8	17.9	8.0
Rel (local)	1.2	11.9	(3.5)

52-week high/low RUB5295 RUB4300

### 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

Q119 IFRS results May 2019

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## FY18 results beat our expectations, forecasts raised

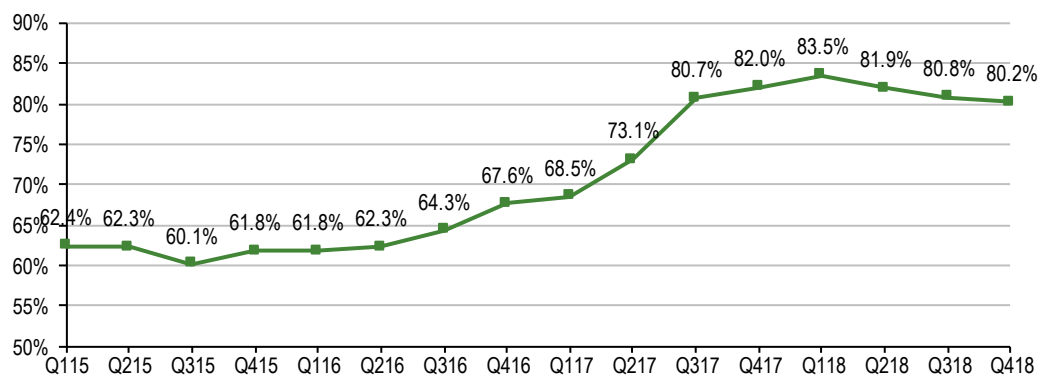
We raise our forecasts (FY19 and FY20 adjusted revenues up 3%, net income up c 20%) following FY18 results that were above our expectations. Our DCF-based valuation increases to RUB6,100/share (from RUB5,400/share) and we highlight that the stock trades at a large discount to international peers.

### FY18 results above our forecasts

TransContainer posted strong growth in FY18, with adjusted revenues and net income respectively 3% and 15% higher than our forecasts. Results were better than our expectations even though we recently raised net income by 26% following strong Q3 results (see [Growth accelerating in Q3, forecasts raised](#), published on 6 December 2018).

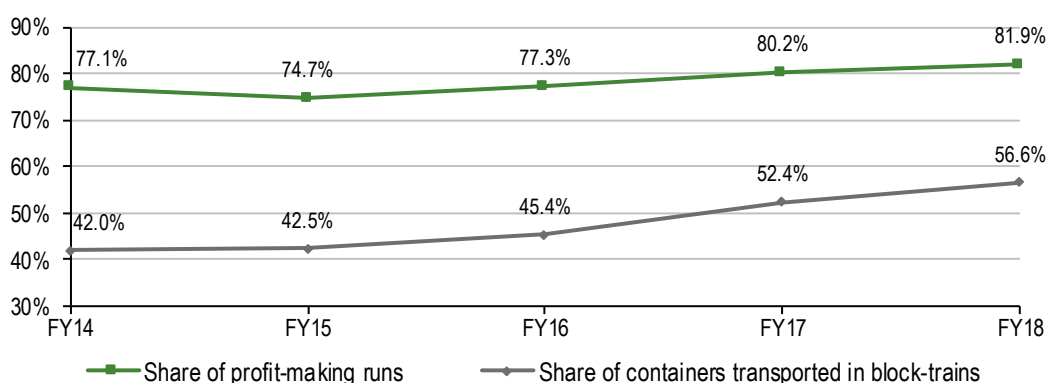
Adjusted revenues were up 12.6% to RUB31,288m, boosted by an increased share of higher value-added Integrated Freight Forwarding and Logistics Services, which represented 81.5% of FY18 revenues (vs FY17: 76.5%; FY16: 64.2%). However, we note that the transition to integrated services has softened in the most recent quarters (Exhibit 1).

**Exhibit 1: Integrated Freight Forwarding and Logistics services as % of adjusted revenues**



Source: Company data

Operating profit grew 49% y-o-y to RUB11,559m, reflecting the strong revenue growth as well as expanding profit margins. We calculate that FY18 operating profit margin increased to 36.9% from 28.0% in FY17. We believe this expansion was driven by economies of scale (an overall increase in transportation volumes of 6.1% y-o-y), a shift to higher-margin integrated services activities (representing 81.5% of group revenues from 76.5%) and efficiencies, including an increase in the share of 'profit-making' runs (81.9% in FY18 vs 80.2% in FY17), as well as a higher proportion of containers transported in block trains, for which TransContainer receives a discount from Russian Railways as these trains use less capacity on the railway. Overall adjusted operating expenses increased by 2.8%, well below adjusted revenue growth of 12.6%. We see room for optimisation in empty runs in FY19 as their share rose in FY18 due to container cargo flow imbalances. However, the recent increase can be explained by the geographical expansion of the company rather than by inefficiencies. The internationalisation process forces the company to spend on empty containers' transportation from foreign countries. Over time, as the business grows, we see room for lower spending.

**Exhibit 2: Share of profit-making runs and share of containers transported in block trains**


Source: Company data

Reported net income grew 46% y-o-y to RUB9,509m. Excluding exceptional items (FX, gains from acquisitions/disposals), we calculate that net income increased 25% y-o-y to RUB7,794m.

Net debt was also significantly lower than our expectations (RUB1,779m vs RUB5,331m), due to both stronger than expected cash flow from operations and lower investments.

### Forecasts raised: Revenues up 3%, net income c 20%

We have incorporated FY18 results into our model and raised forecasts for FY19 and FY20, with adjusted revenues up 3% and net income up c 20%. We also expect net debt to be significantly lower than before, mainly because of lower-than-expected capex in FY18.

**Exhibit 3: Forecasts changes**

RUBm		2018	2019e	2020e
Adj. revenue	<b>New</b>	<b>31,288</b>	<b>34,352</b>	<b>37,833</b>
	Old	30,249	33,313	36,822
	% change	3%	3%	3%
EBIT	<b>New</b>	<b>10,415</b>	<b>12,925</b>	<b>14,526</b>
	Old	10,122	11,046	12,612
	% change	3%	17%	15%
Net income	<b>New</b>	<b>9,509</b>	<b>9,177</b>	<b>10,314</b>
	Old	8,242	7,841	8,228
	% change	15%	17%	25%
Net debt	<b>New</b>	<b>1,779</b>	<b>7,002</b>	<b>15,686</b>
	Old	5,331	17,564	27,566
	% change	-67%	-60%	-43%

Source: Company data, Edison Investment Research

Our FY19 and FY20 estimates are based on an adjusted revenue CAGR (FY18–20) of 10% (which compares to an FY16–18 CAGR of 19%), reflecting continued volume growth translated into higher revenues for Integrated Freight Forwarding and Logistics Services. On the one hand, growth is driven by a supportive outlook for the Russian economy, with the World Bank estimating GDP expansion of 1.5% for 2019 and 1.8% for 2020. On the other hand, a structural trend towards containerisation should continue to represent a tailwind for TransContainer. According to company estimates, only 7.2% of Russia's potentially containerisable rail cargo is transported in containers and although this figure rose from 2.2% in 2001 it is still much lower than in the US (18%), India (16%) and Europe (14%).

Higher revenues combined with a forecast small operating profit margin expansion (from 36.9% in FY18 to 38.4% in FY20e) are expected to drive a 12% operating profit CAGR, on our estimates. At the bottom line, this growth is partly offset by an increase in financial expenses (we expect a material increase in net debt, reflecting significant new investments). Management has previously said that capex will increase over the next years, mainly invested in new flatcars, to support an

improved trading outlook (spending on flatcars stopped during the last recession). The company guides for RUB13.3bn capex in FY19, broadly double the level of FY18.

## Valuation: Raised to RUB6,100/share

We have raised our valuation by 13% to RUB6,100/share, from RUB5,400/share, reflecting our higher profit forecasts and lower net debt. Hence, even following the recent pick-up in the share price, we see room for further upside. Our valuation is based on a DCF methodology, with unchanged assumptions of a WACC of 10.4% and a terminal growth rate of 1% (we obtain an EV of RUB91.9bn and an equity value of RUB84.9bn). As a sensitivity, a WACC that is higher/lower by two percentage points reduces/increases the valuation by RUB1,300/2,100 per share. Our valuation implies 5.7x FY19e EV/EBITDA and 9.3x FY19e P/E.

As shown in Exhibit 4, TransContainer is trading at a substantial discount to international peers, both in emerging markets and developed markets (albeit at a premium to Russian freight logistics company Globaltrans). We believe at least part of the discount to international peers reflects the limited liquidity, as well as a higher perceived country risk.

Exhibit 4: Key valuation metrics for TransContainer and international peers											
Company	Country	Market cap (US\$m)	EV/EBITDA (x)			P/E (x)			Dividend yield (%)		
			2018	2019e	2020e	2018	2019e	2020e	2018	2019e	2020e
<b>European Transport</b>											
Globaltrans Investment	Russia	1,761	4.01	3.85	3.95	6.32	6.21	5.77	14.51	14.85	13.79
PKP Cargo	Poland	494	3.29	3.36	3.37	7.36	6.47	6.21	0.00	2.76	6.21
VTG	Germany	1,720	9.78	8.37	8.08	28.85	18.99	16.08	1.86	2.40	2.69
<b>Average</b>			<b>5.69</b>	<b>5.19</b>	<b>5.13</b>	<b>14.18</b>	<b>10.56</b>	<b>9.36</b>	<b>5.46</b>	<b>6.67</b>	<b>7.56</b>
<b>Emerging Market Transport</b>											
China Railway Tielong Container Logistics	China	1,567	13.48	11.32	8.76	21.36	18.65	16.08	1.19	1.20	1.50
Daqin Railway Co	China	18,643	4.95	4.63	4.47	8.58	8.47	8.42	6.66	6.31	6.28
Guangshen Railway Co	China	3,649	6.95	5.89	5.68	20.35	15.53	17.05	2.57	3.33	3.10
<b>Average</b>			<b>8.46</b>	<b>7.28</b>	<b>6.30</b>	<b>16.76</b>	<b>14.22</b>	<b>13.85</b>	<b>3.47</b>	<b>3.61</b>	<b>3.63</b>
<b>Developed Market Transport</b>											
Canadian Pacific Railway Co	Canada	28,677	13.65	11.99	10.85	18.83	16.44	14.67	0.92	1.04	1.14
Kansas City Southern	US	11,556	11.00	9.86	9.09	19.18	17.00	14.94	1.26	1.32	1.39
Union Pacific Corp	US	120,598	13.23	12.41	11.71	21.09	18.40	16.22	1.83	2.12	2.33
Norfolk Southern Corp	US	48,086	11.63	10.98	10.16	18.91	17.19	15.04	1.69	1.88	2.03
Canadian National Railway Co	Canada	64,069	14.61	12.67	11.87	21.28	18.74	17.00	1.55	1.80	1.94
Genesee & Wyoming	US	4,873	10.72	9.57	8.58	22.28	19.44	17.07	0.00	0.00	0.00
CSX Corp	US	60,332	12.12	11.49	10.95	19.21	17.40	15.55	1.19	1.31	1.44
Aurizon Holdings	Australia	6,366	8.18	9.34	8.78	16.36	20.68	18.34	6.16	4.85	5.48
<b>Average</b>			<b>11.89</b>	<b>11.04</b>		<b>19.64</b>	<b>18.16</b>	<b>16.10</b>	<b>1.83</b>	<b>1.79</b>	<b>1.97</b>
<b>Overall average</b>			<b>9.83</b>	<b>8.98</b>		<b>17.85</b>	<b>15.69</b>	<b>14.18</b>	<b>2.96</b>	<b>3.23</b>	<b>3.52</b>
TransContainer	Russia	1,114	5.15	4.62	4.13	8.04	7.93	7.06	6.53	6.30	7.08

Source: Refinitiv, Edison Investment Research

Key risks to our valuation are a stronger or weaker economic environment, higher or weaker than expected earnings margins and higher or lower than expected structural growth of the industry.

**Exhibit 5: Financial summary**

December year end (RUBm)	2017	2018	2019e	2020e
	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>				
Adjusted revenues	27,782	31,288	34,352	37,833
EBITDA (company definition)	10,252	13,342	16,138	18,065
EBITDA	10,163	13,342	16,138	18,065
Operating Profit (before amort. and except.)	7,495	10,415	12,925	14,526
Intangible Amortisation	0	0	0	0
Exceptionals	306	1,715	0	0
Other	704	268	201	213
Operating Profit (post exceptionals)	8,505	12,398	13,126	14,739
Net Interest	(333)	(420)	(1,509)	(1,683)
Profit Before Tax (norm)	8,147	10,263	11,617	13,056
Profit Before Tax (FRS 3)	8,213	11,978	11,617	13,056
Tax	(1,638)	(2,469)	(2,439)	(2,742)
Profit After Tax (norm)	6,228	7,794	9,177	10,314
Profit After Tax (FRS 3)	6,575	9,509	9,177	10,314
Average Number of Shares Outstanding (m)	13.9	13.9	13.9	13.9
EPS - normalised (RUB)	448.2	560.9	660.5	742.3
EPS - normalised and fully diluted (RUB)	448.2	560.9	660.5	742.3
EPS - (IFRS) (RUB)	473.2	684.4	660.5	742.3
Dividend per share (RUB)	293.0	342.2	330.2	371.1
EBITDA Margin (%) (company definition)	36.9	42.6	47.0	47.8
Operating Margin (before GW and except.) (%)	27.0	33.3	37.6	38.4
<b>BALANCE SHEET</b>				
Fixed Assets	45,983	52,139	62,666	78,043
Intangible Assets	384	269	269	269
Tangible Assets	42,196	48,500	59,027	74,404
Investments	3,403	3,370	3,370	3,370
Current Assets	9,756	15,973	16,604	17,321
Stocks	287	222	244	268
Debtors	1,323	1,744	1,915	2,109
Cash	4,171	9,527	9,527	9,527
Other	3,975	4,480	4,919	5,417
Current Liabilities	(7,493)	(8,246)	(8,341)	(8,450)
Creditors	(6,068)	(7,920)	(8,015)	(8,124)
Short term borrowings	(457)	(931)	(931)	(931)
Long Term Liabilities	(7,879)	(13,805)	(19,028)	(27,712)
Long term borrowings	(4,987)	(10,980)	(16,203)	(24,887)
Other long term liabilities	(2,892)	(2,825)	(2,825)	(2,825)
Net Assets	40,367	46,061	51,901	59,203
<b>CASH FLOW</b>				
Operating Cash Flow	10,670	14,267	16,942	18,951
Net Interest	(440)	(268)	(1,509)	(1,683)
Tax	(1,483)	(2,144)	(2,439)	(2,742)
Capex	(6,974)	(6,166)	(13,741)	(18,916)
Acquisitions/disposals	33	(1,868)	0	0
Financing	92	372	279	296
Dividends	(650)	(4,072)	(4,755)	(4,589)
Net Cash Flow	1,248	121	(5,223)	(8,684)
Opening net debt/(cash)	3,534	2,241	1,779	7,002
HP finance leases initiated	0	0	0	0
Other	45	341	0	0
Closing net debt/(cash)	2,241	1,779	7,002	15,686

Source: Company data, Edison Investment Research

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