

# TransContainer

Q1 growth trend exceeds our expectations again

Q1 results update

General industrials

Following TransContainer's strong Q1 results, with adjusted revenues growing by more than 30% y-o-y, we have further increased our forecasts for FY19–20 (revenue up 6–9%). The growth in Q1 was boosted by increased sales to customers located outside Russia. We have increased our valuation to RUB7,100/share on the back of higher forecasts.

Year end	Adj. revenue (RUBm)	EBITDA* (RUBm)	EPS** (RUB)	DPS (RUB)	P/E (x)	Yield (%)
12/17	27,782	10,252	448.2	293.0	14.6	4.5
12/18	31,288	13,342	560.9	480.4	11.7	7.3
12/19e	36,480	17,717	751.8	375.9	8.7	5.7
12/20e	41,090	20,745	868.8	434.4	7.5	6.6

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

## Strong growth in Q1; forecasts increased

TransContainer continued to grow strongly in Q119, with 20% y-o-y revenue growth (implying more than 30% y-o-y adjusted revenue growth) and net income more than doubling to RUB2.6bn. The revenue growth rate in Q1 is above the trend we forecast previously for FY19 (+13% y-o-y or +10% for adjusted revenues). Integrated Freight Forwarding and Logistics Services revenues continue to be the key growth driver for TransContainer (up 18.5% y-o-y in Q1). On a geographical basis, Russian revenues continued to post healthy growth (+11% y-o-y), but sales to customers located in China and Korea demonstrated particularly strong growth (up 213% and 61% y-o-y respectively). We have raised our FY19–20 forecasts, with a 6–9% increase in revenues and a 14–17% increase in net income on the back of the Q1 results. Our forecasts assume a moderation of growth going forward as, following the more than 30% y-o-y increase in adjusted revenue in Q1, we now assume 12.5% y-o-y growth in Q2–Q419.

## Containerisation supports growth trend

Although we see economic growth as a key driver for TransContainer, we also believe that containerisation is a structural trend for the Russian market, and should support company's revenue and profit growth. 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%). The structural growth from containerisation might have been evident in Q119 when Russian GDP disappointed with 0.5% y-o-y growth, but Russian revenues for TransContainer grew 11% y-o-y.

## Valuation: Increased to RUB7,100/share

Although the stock has re-rated over the last few months following a series of positive results announcements, TransContainer's valuation multiples do not appear demanding and it is trading at a large discount to peers in both emerging markets and developed markets (albeit more in line with European peers). Our DCF-based valuation has increased to RUB7,100/share (from RUB6,100/share) on the back of the higher forecasts. Our valuation implies 6.0x FY19e EV/EBITDA and 9.4x FY19e P/E.

31 May 2019

**Price** RUB6,545  
**Market cap** RUB90,943m

Net debt (RUBbn) at 31 March 2019	1.57
Shares in issue	13.9m
Free float	0.66%
Code	TRCN
Primary exchange	MICEX
Secondary exchange	LSE

### Share price performance



### 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

H1 results August 2019

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## Growth trend exceeds our expectations again

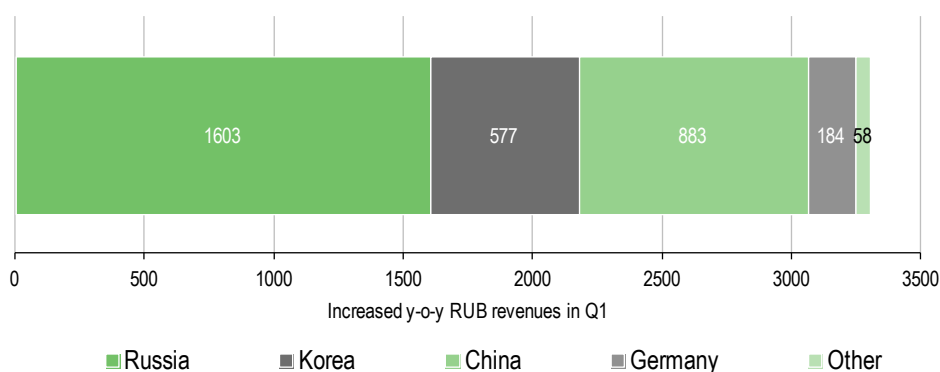
Following strong Q1 results, with adjusted revenues growing by more than 30%, we have further increased our forecasts for FY19–20 (adjusted revenue up 6–9% and net income 14–17%). The growth trend was better than our expectations, even though we have recently increased our forecasts twice, after the Q318 and FY18 results. The growth in Q1 was boosted by increased sales to customers located outside Russia. If confirmed, this trend should support TransContainer's growth in a time of uncertainty about the country's economic outlook. We have increased our valuation to RUB7,100/share on the back of higher forecasts.

## Q1 growth rate stronger than our forecast FY19 trend

TransContainer continued to grow strongly in Q1, with 20% y-o-y revenue growth (implying more than 30% y-o-y adjusted revenue growth) and net income more than doubling to RUB2.6bn, thanks to expanding profit margins. The revenue growth rate in Q1 is above the trend we forecast previously for FY19 (+13% y-o-y, or +10% for adjusted revenues). Integrated Freight Forwarding and Logistics Services revenues continue to be the key growth driver for TransContainer (up 18.5% y-o-y in Q1).

On a geographical basis, Russian revenues continued to post healthy growth (+11% y-o-y), but sales to customers located in China and Korea demonstrated particularly strong growth (up 213% and 61% y-o-y respectively). Overall, as set out in Exhibit 1, sales to customers outside Russia made up more than 50% of incremental revenues in Q119.

**Exhibit 1: Y-o-y incremental revenues in Q1 – breakdown by customer location**



Source: Company data, Edison Investment Research

In line with expectations, capex picked up significantly with RUB3.4bn investments, which puts the company on track to achieve its RUB13.3bn forecast for FY19 capex (broadly double the level of FY18). Management has previously stated that capex will increase over the next few years, mainly invested in new flatcars, supporting an improved trading outlook (spending on flatcars stopped during the last recession).

## Structural growth from containerisation, economic outlook more uncertain

TransContainer expanded significantly in Q1, helped to a large extent by sales to customers located outside Russia. Russian economic growth in Q1 disappointed – according to preliminary Rosstat figures, GDP grew by only 0.5% y-o-y in Q1. Industrial production data was mixed, with very strong growth in February (+4.1% y-o-y, according to World Bank data) followed by a weaker March (+1.2%). The OECD recently cut its GDP forecast for Russia in 2019 to 1.4% (from 1.5%),

but increased its 2020 forecast to 2.1% (from 1.8%). Other economic forecasts are more pessimistic, with Russia's Ministry of Economic Development recently cutting 2019 growth to only +0.8%. Most forecasts expect a rebound in economic growth next year, thanks to increased government spending as Russia targets an extra RUB25.7tn (c US\$390bn) by 2024 to boost infrastructure, healthcare and education. However, there are significant uncertainties around the timing of the increased government spending and, in our view, risks to economic forecasts are skewed to the downside after the weak Q1. In this respect, the ability to grow internationally through increased sales to other Asian customers (as in Q1) increases the resilience of TransContainer's business model and reduces risks for the company.

Although we see economic growth as a key driver for TransContainer, we also believe that containerisation is a structural trend for the Russian market, and should support revenue and profit growth for the company. 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%).

## Forecasts increased; growth trend confirmed

We have raised our forecasts following the strong Q1 results, with a 6–9% increase in revenues for FY19–20 and a 14–17% increase in net income (also reflecting lower financial expenses). Our forecasts assume a moderation of growth in the coming quarters as, following the more than 30% increase in adjusted revenue in Q1, we assume 12.5% y-o-y growth in the remaining quarters of FY19 to reflect potential risks for the Russian economy.

<b>Exhibit 2: Forecast changes for TransContainer</b>				
RUBm			2019e	2020e
Adj. revenue	New		36,480	41,090
	Old		34,352	37,833
	% change		6%	9%
EBIT	New		14,304	16,901
	Old		12,925	14,526
	% change		11%	16%
Net income	New		10,445	12,072
	Old		9,177	10,314
	% change		14%	17%
Net debt	New		8,256	17,064
	Old		7,002	15,686
	% change		18%	9%
Source: Edison Investment Research.				

Overall, we now forecast an adjusted revenue CAGR (FY18–20) of 15% (which compares to an FY16–18 CAGR of 19%), reflecting continued volume growth translated into higher revenues for Integrated Freight Forwarding and Logistics Services. Higher revenues combined with a forecast small operating profit margin expansion are expected to drive a 21% operating profit CAGR, on our estimates (vs >70% in FY16-FY18). 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). The company's leverage/gearing levels are currently extremely low, with only 0.1x net debt/EBITDA at the end of Q119. The utilisation of balance sheet headroom could provide additional growth opportunities (not included into our forecasts).

## Valuation increased to RUB7,100/share

Our valuation has increased to RUB7,100/share (from RUB6,100/share) on the back of higher forecasts following strong Q1 results. Our valuation methodology (DCF) and assumptions are unchanged, with WACC of 10.4% and a terminal growth rate of 1% (we obtain an EV of

RUB106.5bn and an equity value of RUB98.3bn). As a sensitivity, a WACC that is higher/lower by two percentage points reduces/increases the valuation by RUB1,600/2,300 per share. Our valuation implies 6.0x FY19e EV/EBITDA and 9.4x FY19e P/E.

As shown in Exhibit 3, following the recent re-rating, TransContainer trades more in line with its European peers, but still at a large discount to both emerging markets and other developed markets. We believe at least part of the discount to international peers reflects the stock's limited liquidity, as well as higher perceived country risk. In this respect, we note that the sale by Russian Railways of a 50% stake in TransContainer to a Russian investor at an upcoming auction (in June or July, according to WorldCargo News, 23 April 2019) may result in an increased free float for the stock, which we would view positively and may lead to a further re-rating of the stock.

The key downside/upside risks for the stock are a slowdown/pick-up in economic activity in Russia and, globally, higher/lower margins.

**Exhibit 1: Valuation table for TransContainer and global peers**

Company	Country	Price (US\$)	Market cap (US\$)	EV/EBITDA (x)			P/E (x)			Dividend yield (%)		
				2018	2019e	2020e	2018	2019e	2020e	2018	2019e	2020e
European Transport												
Globaltrans Investment	Russia	8.9	1,592	3.64	3.65	3.64	5.64	5.49	5.89	15.89	16.53	18.97
PKP Cargo	Poland	11.0	497	3.19	3.14	3.25	5.95	5.93	7.23	4.53	5.57	5.31
VTG	Germany	59.6	2,021	9.84	9.52	7.65	19.22	15.72	11.45	2.00	2.18	2.88
Average				5.56	5.44	4.85	10.27	9.04	8.19	7.47	8.09	9.05
Emerging Market Transport												
China Railway Tielong Container Logistics	China	1.0	1,332	9.65	8.90	6.79	16.12	14.20	11.69	1.43	1.48	1.95
Daqin Railway Co	China	1.2	17,992	4.07	3.68	3.61	8.34	8.02	8.21	6.14	6.22	5.76
Guangshen Railway Co	China	0.5	3,100	5.87	5.26	5.46	16.66	17.26	17.88	2.99	3.20	2.87
Average				6.53	5.94	5.28	13.71	13.16	12.59	3.52	3.63	3.52
Developed Market Transport												
Canadian Pacific Railway	Canada	224.5	31,426	14.73	13.27	12.17	20.64	18.34	16.21	0.84	0.96	1.06
Kansas City Southern	US	120.6	12,132	11.44	10.38	9.47	20.20	17.69	15.58	1.19	1.24	1.33
Union Pacific Corp	US	169.8	120,198	13.19	12.66	11.83	21.47	18.68	16.42	1.80	2.13	2.34
Norfolk Southern Corp	US	197.7	52,574	12.51	11.65	10.79	20.79	18.08	16.00	1.54	1.73	1.88
Canadian National Railway Co	Canada	91.2	65,942	14.98	13.28	12.28	22.00	19.69	17.61	1.50	1.75	1.85
Genesee & Wyoming	US	94.7	5,393	11.47	10.45	9.31	24.60	21.83	19.07	0.00	0.00	0.00
CSX Corp	US	74.5	60,299	12.12	11.44	10.94	19.36	17.02	15.49	1.18	1.32	1.46
Aurizon Holdings	Australia	3.6	7,108	8.86	10.23	9.55	18.27	22.80	20.42	5.51	4.35	4.91
Average				12.41	11.67		20.91	19.27	17.10	1.70	1.68	1.85
Global average				9.68	9.11		17.09	15.77	14.22	3.32	3.47	3.75
TransContainer	Russia	104.8	1,463	7.21	5.43	4.64	9.93	9.04	7.82	7.07	5.53	6.39

Source: Refinitiv, Edison Investment Research. Note: Prices as of 29 May 2019.

**Exhibit 4: Financial summary**

RUBm	2017	2018	2019e	2020e
December	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>				
Adjusted revenues	27,782	31,288	36,480	41,090
EBITDA	10,252	13,342	17,717	20,745
EBIT	10,163	13,342	17,717	20,745
Operating Profit (before amort. and except.)	7,495	10,415	14,304	16,901
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	14,505	17,114
Net Interest	(333)	(420)	(1,283)	(1,834)
Profit Before Tax (norm)	8,147	10,263	13,222	15,281
Profit Before Tax (FRS 3)	8,213	11,978	13,222	15,281
Tax	(1,638)	(2,469)	(2,777)	(3,209)
Profit After Tax (norm)	6,228	7,794	10,445	12,072
Profit After Tax (FRS 3)	6,575	9,509	10,445	12,072
Average Number of Shares Outstanding (m)	13.9	13.9	13.9	13.9
EPS - normalised (RUB)	448.2	560.9	751.8	868.8
EPS - normalised and fully diluted (RUB)	448.2	560.9	751.8	868.8
EPS - (IFRS) (RUB)	473.2	684.4	751.8	868.8
Dividend per share (RUB)	293.0	480.4	375.9	434.4
EBITDA Margin (%) (company definition)	36.9	42.6	48.6	50.5
Operating Margin (before GW and except.) (%)	27.0	33.3	39.2	41.1
<b>BALANCE SHEET</b>				
Fixed Assets	45,983	52,139	63,318	80,019
Intangible Assets	384	269	269	269
Tangible Assets	42,196	48,500	59,679	76,380
Investments	3,403	3,370	3,370	3,370
Current Assets	9,756	15,973	17,043	17,992
Stocks	287	222	259	292
Debtors	1,323	1,744	2,033	2,290
Cash	4,171	9,527	9,527	9,527
Other	3,975	4,480	5,223	5,883
Current Liabilities	(7,493)	(8,246)	(8,408)	(8,551)
Creditors	(6,068)	(7,920)	(8,082)	(8,225)
Short term borrowings	(457)	(931)	(931)	(931)
Long Term Liabilities	(7,879)	(13,805)	(20,282)	(29,090)
Long term borrowings	(4,987)	(10,980)	(17,457)	(26,265)
Other long-term liabilities	(2,892)	(2,825)	(2,825)	(2,825)
Net Assets	40,367	46,061	51,671	60,370
<b>CASH FLOW</b>				
Operating Cash Flow	10,670	14,267	18,570	21,707
Net Interest	(440)	(268)	(1,283)	(1,834)
Tax	(1,483)	(2,144)	(2,777)	(3,209)
Capex	(6,974)	(6,166)	(14,592)	(20,545)
Acquisitions/disposals	33	(1,868)	0	0
Financing	92	372	279	296
Dividends	(650)	(4,072)	(6,675)	(5,223)
Net Cash Flow	1,248	121	(6,477)	(8,808)
Opening net debt/(cash)	3,534	2,241	1,779	8,256
HP finance leases initiated	0	0	0	0
Other	45	341	0	0
Closing net debt/(cash)	2,241	1,779	8,256	17,064

Source: Company data, Edison Investment Research

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