

Research

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Ports

Remaining possibilities

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Bullet moments

➤ Active energy resources export policy of Russia gives a serious boost for development of transport infrastructure. Over half of country's extracted oil is exported abroad and to CIS. The primary share of oil transportation is held by Transneft, whilst export of oil products is made through ports mostly. Share of Krasnodar Krai's ports in export of oil and oil products forms 25%. Over last 3 years coal export also grows at a fast pace. Back in 2007 the share of export coal formed 30% out of total extracted coal. Though about 80% of Russia's coal is exported by sea. Over half of domestic transport hubs (about 46%) are located at Far East of Russia. Second place (42%) is held by ports of Baltic. Though coal export growth rates are faster than the actual extraction's, within country. We tend to think that soon such trend will not only continue, but will also expand.

➤ Coal prices doubles over last year, oil is currently traded above 120 USD per barrel. By the end of the year the average price of "black gold" could increase versus similar value of past year, upping +50%. The positive price environment supports accumulation of additional incomes by extracting companies, allowing the ports to raise prices of their services.

➤ The development of RF's transport infrastructure found support of the government. At the end of last year, some corrections to law of "Special economical zones in RF" were made. Resulting decisions are set to establish special economic harbor zones (SEHZ). Establishment of SEHZ should speed up the process of integrating Russia's transport system into global transport system. According to ideas of officials – a more developed port infrastructure should relocate world cargo flows on Russia's behalf, attracting foreign consumers of transport services into the country. The preferences in this issue are given to Murmansk, Ust-Luga, Vostochny, Novorossiysk, Kaliningrad and Olya port: these ports hold a strategic importance within country's scale and are competitive, which is confirmed by the increasing flow of cargo.

➤ In our report we review activities of Novorossiysk, Murmansk and Vostochny trade sea-ports. The focus was set at Murmansk port. For now it is seen as the most underestimated and promising, from financial values and business effectiveness standpoint. We recommend "BUY" stocks of Murmansk trade sea-port.

Principal estimates

Company's shares dynamics vs RTS



Market multipliers

	EV/S	EV/EBITDA	P/E	P/BV	ROIC/WACC
Novorossiysk Commercial Sea Port	6.56	15.57	33.14	4.02	0.97
Murmansk Commercial Seaport	2.33	10.25	19.72	2.13	1.41
Vostochny Port	2.93	10.64	19.08	0.91	0.47

Effectiveness values

	ROE, %	ROA, %	ROIC, %	EBITDA margin, %
Novorossiysk Commercial Sea Port	2.22	6.38	10.59	42.16
Murmansk Commercial Seaport	17.60	6.25	18.83	22.71
Vostochny Port	7.40	3.34	6.40	27.50

Our recommendations

Ticker	Last price, USD	Target price, USD	price, Growth potential, %	Recommendation	
Novorossiysk Commercial Sea Port	NMTP	0.1825	0.199	9.23	ACCUMULATE
Novorossiysk Commercial Sea Port	NCSP LI	13.48	14.95	10.91	ACCUMULATE
Murmansk Commercial Seaport	mscp	1,025.0	1,305.4	27.35	BUY
Murmansk Commercial Seaport	mscpp	277.6	979.0	252.67	BUY
Vostochny Port	vopt	61.00	114.58	87.83	BUY
Vostochny Port	voptp	80.00	85.93	7.42	ACCUMULATE

Brief investor's guide

Methods, used for company's share evaluation					
Income approach			Comparables approach	Expenses approach	
		DCF method	EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *		FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **		FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of unified object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{SI})^i} + \frac{TV}{(1+k_{SI})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{SI})^i} + \frac{TV}{(1+k_{SI})^n} + Cash + NA$

Signs:

EV	- Enterprise Value
SV	- Shareholders Value
TV	- Terminal Value
Cagr	- development rates within the target period
BV, E	- Balance Value, Equity
EBIT	- operational profit from selling, profit before payments of credit interest and income tax
EBITDA	- operational profit before payment of credit interest, income tax and amortization
EBT	- Earnings Before Tax
EAT	- Earnings After Tax
EPS	- Earnings Per Share
NOPAT	- net operational profit, free from effects of debt financing NOPAT = EBIT * (1 - income tax effective rate)
FCFF	- Free Cash Flow to Firm FCFF = gross cash flow - gross investments Gross cash flow = NOPAT + amortization
FCFE	- Free Cash Flow to Equity FCFE = gross shareholders' cash flow - gross investments Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) - annual debt coverage + attracted borrowed assets + amortization
EVA	- Economic Value Added EVA = economic profit spread * IC = (ROIC - WACC) * IC
SVA	- Shareholders Value Added SVA = spread * E = (ROE - k_s) * E
WACC	- Weighted Average Cost of Capital
k _s	- required shareholders' yield
D	- fair (market) cost of net debt
Cash	- cash assets, along with market securities on thee balance
NA	- non-operational assets
IC	- Invested Capital
ROIC	- Return on Invested Capital ROIC = NOPAT / IC
ROE	- Return on Equity
ROA	- Return on Assets

Information disclosure

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

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