Flash Note

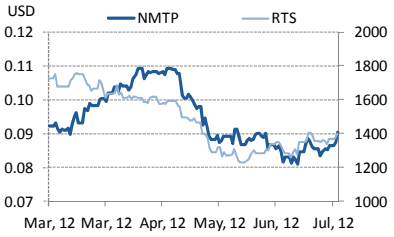
BCS FINANCIAL GROUP

Tuesday,
July 17, 2012

NCSP

1H12 mixed, 2H12 growth to improve

Equity price



Share data & recommendation

Ticker	NMTP RX
Last price, $	0.087
Target price, $	-
Upside, %	-
Recommendation	-

Market data

MCap, $ mn	1 681
Free float, %	0%
Free float, $ mn	0
EV, $ mn	4 063

Equity performance

1W chg., %	3.14%
1M chg., %	3.4%
3M chg., %	-9.7%
YTD chg., %	-10.7%

Company's multiples

	'11e	'12e
EV/EBITDA, x	7.3	6.5
P/E, x	13.2	4.8

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NCSP reported a mixed set of 1H12 operating results, revealing a contraction in handling volumes in 2Q12 compared with the previous quarter. The grain, cement and container segments were the engines of growth, while the mineral fertilizers and iron ore segments restrained growth. We expect 2H12 handling volumes to be driven by fertilizers and liquid cargoes.

Mixed results. NCSP posted 1H12 operating results, revealing a y/y increase in the handling of all types of cargoes (+6.2%), while for 2Q12, total cargo turnover dropped 1.6% q/q (vs. a 6.3% q/q rise in 2Q11). In 2Q12, the main underperformers were iron ore and ore concentrate (-61.6% y/y or -22.4% q/q) and mineral fertilizers (-59.5% y/y or -33.5% q/q).

Generally strong 1H12 y/y performance. The volume of liquid cargoes handled increased 2.8% y/y, bulk cargoes rose 41.7% y/y, general cargoes increased by 19.7% y/y and containers climbed 2.2% y/y. However, the strong 1H12 y/y performance came largely on the back of surging volume of grain handling (+50x), owing to the cancelation of the export ban in 2H11, as well as the handling of cement (+411% y/y in 1H12), ferrous metals (+26.8% y/y in 1H12).

Weaknesses intensified in 2Q12. Notwithstanding the resumption of handling operations in Novorossiysk in 1Q12, the 2Q12 results were weaker q/q – the decline stemming mainly from a 2.1% q/q decrease in the handling of liquid cargoes (owing to a seasonal 18.3% drop in petroleum products) and a 10.2% drop in bulk cargoes.

- **Low European demand undermines iron ore exports.** Iron ore and ore concentrate handling declined significantly (-48.7% y/y in 1H12), extending a downtrend (-22% q/q in 2Q12). The declines may be attributed to low demand from Europe, which continues to court recession.
- **Mineral fertilizer handling declined.** Mineral fertilizer handling volumes declined (-51% y/y in 1H12 and -34% q/q in 2Q12), driven by the world's largest fertilizer consumers (China, India, Brazil), which temporarily reduced or halted purchases in 1H12.

New grain ban feasible. Anecdotal evidence suggests the government could introduce a grain export ban. The hot, dry weather in May-June led agriculture experts in various countries to lower the grain production outlook for 2012. In Russia, as harvesting has already started, grain harvests notably contracted y/y. Meanwhile, the Russian Ministry of Agriculture lowered its 2012 grain production outlook from 94m tons to 85m tons (and compared with 94.2m tons in 2011), in line with the forecasts of other experts. The US Department of Agriculture recently cut grain harvest estimates, thus we expect the uptrend in grain prices to continue, which could lead the Russian government to introduce an export embargo for grains again should food security be threatened.

2H12 is expected to be stronger, though it is subject to external shocks. NCSP's 1H12 operating data revealed strong performance in the construction segment, which was reflected in the growth of cement handling volumes, as well as gaining momentum in container handling. We expect this trend to continue in 2H12, although external economic shocks could undermine these points of growth as both of these sectors are highly sensitive to consumer confidence and other macroeconomic factors. Another grain export ban would also negatively affect 2H12 handling performance, however, the imposition of a ban, in our view, is unlikely as the Russian government is seeking to re-establish a presence on the world grain market. On mineral fertilizer, our analysis suggests that handling volumes will rise in 2H12 as food producers are compelled to increase yields and soil fertility for the next season to offset reduced crop harvesting volumes this year. Net net, we expect handling volumes to grow further in 2H12.

NCSP 1H12 operating results

	1H12	1H11	1H10	(1H12 vs 1H11)	2Q12	1Q12	q/q	2Q11	1Q11	q/q
Cargo turnover, total	**81 556**	**76 819**	**77 909**	**6.2%**	**40 442**	**41 114**	**-1.6%**	**39 574**	**37 245**	**6.3%**
Liquid cargo, total	***66 704***	***64 863***	***63 242***	**2.8%**	***32 991***	***33 714***	***-2.1%***	***32 969***	***31 894***	***3.4%***
Crude oil	57 110	55 735	56 255	2.5%	28 627	28 483	0.5%	28 653	27 082	5.8%
Petroleum products	9 114	8 905	6 674	2.3%	4 097	5 017	-18.3%	4 168	4 737	-12.0%
UAN	149	220	226	-32.3%	89	61	46.3%	145	75	91.6%
Seed oils	331	3	87	10933.3%	178	153	16.9%	3	0	
Bulk Cargo, total	***6 390***	***4 509***	***7 093***	**41.7%**	***3 019***	***3 371***	***-10.4%***	***2 635***	***1 832***	***43.8%***
Grain	4 194	85	4 482	4834.1%	1 900	2 294	-17.2%	17	68	-75.7%
Mineral fertilizers	568	1 162	1 038	-51.1%	227	341	-33.5%	560	603	-7.1%
Sugar	466	1 238	1 042	-62.4%	356	110	224.8%	892	346	157.6%
Iron ore and ore concentrate	1 003	1 955	530	-48.7%	438	565	-22.4%	1 143	812	40.7%
Scrap Metal	21	42	0	-50.0%	13	9	47.1%			
Cement	138	27	0	411.1%	85	53	60.9%	24	3	717.2%
General cargo, total	***5 839***	***4 880***	***5 813***	**19.7%**	***3 036***	***2 803***	***8.3%***	***2 646***	***2 275***	***16.3%***
Ferrous metals	4 741	3 738	4 412	26.8%	2 448	2 293	6.8%	2 010	1 729	16.3%
Timber	344	309	597	11.3%	191	153	24.3%	169	141	20.1%
Timber. thsd. cubic meters	*623*	*562*	*1 054*	*10.9%*	*344*	*279*	*23.4%*	*307*	*256*	*20.0%*
Non-ferrous metals	575	579	543	-0.7%	291	284	2.5%	285	295	-3.4%
Perishable cargo	114	223	156	-48.9%	76	38	100.8%	96	54	79.1%
Other	65	31	104,2	109.7%	31	35	-11.6%	88	58	51.0%
Containers	***2 623***	***2 567***	***1 761***	**2.2%**	***1 396***	***1 227***	***13.7%***	***1 323***	***1 244***	***6.4%***
Containers, thsd. TEU	319	314	204	1.6%	170	149	13.8%	161	153	5.2%

Source: Company data, BCS

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