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NCSP

Analyst meeting highlights; new NCSP strategy provides more clarity over the long term growth prospects - ALERT

Overweight

NCSPq.L, NCSP LI

Price: $6.80

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Russian Transportation

Sergey V Arinin AC
(7-495) 967-7031
sergey.v.arinin@jpmorgan.com

Nadezhda Timokhova
(7-495) 967-7037
nadezhda.a.timokhova@jpmorgan.com

J.P. Morgan Bank International LLC

NCSP held an Analyst meeting. We see the new NCSP strategy as positive news as it provides more clarity over the long term growth prospects.

- **In 2012 the company expects to handle 170mn tons of cargo.** The company does not expect the launch of BTS-2 to affect its crude oil volumes in 2012; however, it does not rule out that going forward the volumes of crude oil would decrease. At the same time, management forecast that the decrease in crude oil volumes would be offset by the volumes of oil products. Management appear confident that Russian Railways will develop rail infrastructure near Primorsk Oil Terminal (PTP), which should result in oil products handling growth in PTP. Management expect the construction of the essential rail infrastructure to be finished in 2-3 years.
- **Revenues should reach $1.2-1.3 bn in 2012, according to the business plan** (which assumes handling of 170 mn tons in 2012). Management expect 2012 EBITDA to reach $620-640mn, which is in line with Bloomberg consensus of $639 mn.
- **NCSP may pay RUB400-450mn dividends.** This should result in a quite modest dividend yield of 0.86%, based on price COB 13 March 2012. The company plans to develop a dividend policy, which would fix a dividend payout ratio, based on net income; however, management did not disclose how soon this policy would be approved.
- **The company estimates its capex at ~$1.1 bn by 2020.** In 2012, capex will reach ~$200 mn, according to management, 50% of which would be maintenance capex and the rest would be spent on modernization of the container terminal at NLE, reconstruction of Sheskharis oil terminal and IPP, completion of the construction of the fuel-oil facility (management expect the facility to start commercial operations at the end of March 2012). Management suggested a new project – construction of the iron ore terminal, which will allow NCSP to handle an additional 12mn tons of ore p.a. The terminal would be constructed over 2015-2016, would cost $250-290mn and increase EBITDA margin on this type of cargo from the current 35% to 60-65%. Expansion of its grain terminal by 2mn tons should be done in 2012-2014, and would cost $53 mn, according to management. For more details on investment program please see Table 1.
- **We see the new NCSP strategy as positive news as it provides more clarity over the long term growth prospects.** In our view management presented a comprehensive development plan which is focused on increasing the efficiency of operations and NCSP's facilities as well as the construction of high-margin facilities (grain and ore terminals). However we believe the market may remain cautious on the stock until the government proceeds with the privatization of its 20% stake.

Table 1: New investment program

	Start/ Commission	$ mn	Additional capacity
NLE	2012/14	207.1	+500k TEU
NCSP	2015/18	350	+530k TEU
Grain terminal	2012/14	52.9	+2 mn tons
Ore terminal	2015/16	250-290	+12 mn tons
Other		~200	+1mn TEU '+33mn tons
Total		**1,058-1,118**	**+2mn TEU '+47mn tons**

Source: Company data.

See page 3 for analyst certification and important disclosures, including non-US analyst disclosures.

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Sergey V Arinin
(7-495) 967-7031
sergey.v.arinin@jpmorgan.com

- **Debt load.** NCSP plans to decrease its debt to $2.3 bn by end-2012, which would result in gross debt/EBITDA of ~3.7x, based on company's EBITDA guideline. The company also has $300mn Eurobond outstanding, which is due May 2012, and management plan to partially refinance it with debt.

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Sergey V Arinin
(7-495) 967-7031
sergey.v.arinin@jpmorgan.com

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NCSP (NCSPq.L, NCSP LI) Price Chart

Date	Rating	Share Price ($)	Price Target ($)
03-Jun-10	N	13.00	13.99
25-Oct-10	N	9.15	10.93
04-Oct-11	OW	7.00	9.47

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 03, 2010.

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Sergey V Arinin
(7-495) 967-7031
sergey.v.arinin@jpmorgan.com

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Sergey V Arinin
(7-495) 967-7031
sergey.v.arinin@jpmorgan.com

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