Research analysts

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RESULTS PREVIEW

# NCSP

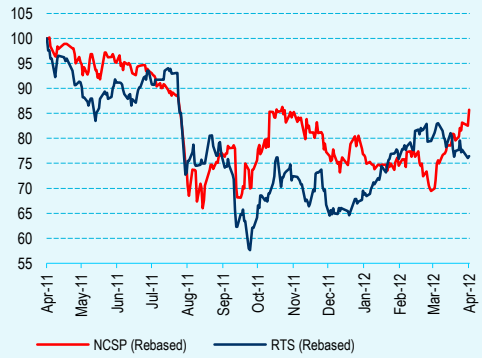
## 4Q11 IFRS preview: misleading comparisons

### BUY

| | |
|---|---|
| Ticker | NCSP LI |
| Target price, $ | 11.7 |
| Last price of GDRs, $ | 8.15 |
| Upside | 44% |
| Number of GDRs, mn | 249.9 |
| Market cap, $mn | 2,036 |
| Net debt, $mn | 2,121 |
| EV, $mn | 4,160 |
| Free float | 23% |
| 52-week min, $ | 6.27 |
| 52-week max, $ | 9.52 |

Sources: Bloomberg, Otkritie Capital Research

### Share price performance




Sources: Bloomberg

**We anticipate weaker financials in QoQ terms, due to lower handling volumes and negative cargo mix drift. However, we do not expect any substantial stock price reaction to the results due to very wide consensus range.**

**4Q11 IFRS financials are due out on Monday (16 April).** NCSP will release the results at 1pm Moscow time, and the conference call will start at 5pm Moscow time. NCSP also intends to publish FY11 financials of its subsidiary Primorsk Trading Port (PTP).

**YoY comparisons are not relevant.** NCSP has considerably expanded the scope of its business through the PTP acquisition in January 2011. Besides, NCSP did not handle grain in 4Q10 due to the grain export embargo.

**Bunkering is the key source of uncertainty.** NCSP reports its operating statistics on a monthly basis, but bunkering volumes are not disclosed. Thus, this low margin business requiring high fuel oil purchases may either inflate or deflate both NCSP's revenues and operating costs. We forecast bunkering volumes at 155kt (in line with 3Q11) and we expect an improvement in the bunkering margin to 4% in 4Q11 from 3.7% in 3Q11.

**Weaker QoQ, but margin still high.** NCSP's 4Q11 turnover was down 2% QoQ to 39.8mnt. Apart from the absolute volume reduction, we note a negative cargo mix drift from the profitability view point, with oil volumes (lower margin) replacing oil products (higher margin), and the growth in container volumes (high margin) unable to compensate for the reduction in grain and ferrous metals volumes (both high margin). Thus, in 4Q11 we expect revenue to decline 3% QoQ to $279mn, EBITDA -5% QoQ to $159mn and adjusted net income -14% QoQ to $75mn (with the bottom line additionally affected by bond interest payments, which were absent in 3Q11) – Figure 3. Although we expect NCSP's EBITDA margin to contract by 1ppt in QoQ terms to 57%, it should remain high relative to the 1H11 level of 49%.

**FY11 financials to suffer from high forex loss.** We estimate that, while 4Q11 saw a small FX gain, the $293mn FX loss posted in 3Q11 will push down FY11 net income to only $150mn (vs $266mn after FX adjustment) – Figure 4.

**Consensus range is very wide**. The currently available Bloomberg consensus range (Figure 5) is very wide, especially for revenue (different bunkering assumptions) and net income (FX adjusted or not). We believe that this may hinder the results interpretation and suppress the market reaction.

**Conference call focus.** Our key questions for the conference call will be the progress of NCSP bonds refinancing ($300mn bonds mature in May 2012) and any update on the potential liberalization of the port's tariffs, which was recently proposed by Russia's Transportation Ministry.

### Figure 1. Key metrics ($mn)

| | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|
| Revenues | 635 | 1,061 | 1,238 | 1,281 |
| EBITDA | 415 | 565 | 647 | 670 |
| EBIT | 346 | 485 | 568 | 587 |
| Net Income | 262 | 266 | 347 | 373 |
| Net Debt | 9 | 2,350 | 2,121 | 1,899 |
| EPS, $ | 1.02 | 1.06 | 1.39 | 1.49 |
| CEPS, $ | 1.29 | 1.38 | 1.70 | 1.83 |
| BVPS, $ | 3.85 | 5.51 | 6.74 | 7.99 |
| DPS, $ | 0.06 | 0.06 | 0.14 | 0.15 |

Sources: Bloomberg, Otkritie Capital estimates

### Figure 2. Valuation

| | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|
| P/E | 8.0 | 7.7 | 5.9 | 5.5 |
| EV/EBITDA | 4.9 | 7.8 | 6.4 | 5.9 |
| EV/Sales | 3.2 | 4.1 | 3.4 | 3.1 |
| P/BV | 2.1 | 1.5 | 1.2 | 1.0 |
| *EBITDA margin* | *65.3%* | *53.3%* | *52.2%* | *52.3%* |
| *Net margin* | *41.2%* | *25.0%* | *28.0%* | *29.2%* |
| *Revenue growth* | *-6%* | *67%* | *17%* | *3%* |
| *EPS growth* | *-3%* | *4%* | *31%* | *8%* |
| *Div Yield* | *1%* | *1%* | *2%* | *2%* |

Sources: Bloomberg, Otkritie Capital estimates

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## Figure 3. NCSP 4Q11 IFRS preview, $mn

| | 4Q11E | | | | Difference of Otkritie estimate relative to | | |
|---|---|---|---|---|---|---|---|
| | Otkritie estimate | Median consensus | 3Q11 | 4Q10 | Consensus | 3Q11 | 4Q10 |
| Revenues | 279.0 | 260.0 | 287.9 | 135.9 | 7% | -3% | 105% |
| EBITDA | 158.9 | 140.9 | 166.6 | 71.2 | 13% | -5% | 123% |
| *EBITDA margin* | *57%* | *54%* | *58%* | *52%* | *3ppt* | *-1ppt* | *5ppt* |
| Net Income | 81.0 | n/a | (151.8) | 26.4 | n/a | n/a | 206% |
| Adjusted Net Income* | 74.6 | 56.1 | 87.0 | 35.0 | 33% | -14% | 113% |

* adjusted for FX losses/gains and other one-off items
Source: Company data, Bloomberg, Otkritie Capital estimates

## Figure 4. NCSP FY11 IFRS preview, $mn

| | FY11E | | | Difference of Otkritie estimate relative to | |
|---|---|---|---|---|---|
| | Otkritie estimate | Median consensus | FY10 | Consensus | FY10 |
| Revenues | 1,061 | 1,042 | 635 | 2% | 67% |
| EBITDA | 565 | 547 | 415 | 3% | 36% |
| *EBITDA margin* | *53%* | *52%* | *65%* | *1ppt* | *-12ppt* |
| Net Income | 150 | n/a | 253 | n/a | -40% |
| Adjusted Net Income* | 266 | 247 | 262 | 8% | 1% |

* adjusted for FX losses/gains and other one-off items
Source: Company data, Bloomberg, Otkritie Capital estimates

## Figure 5. NCSP FY11 IFRS consensus range, $mn

| | Low | Median | High | Difference between Low and High |
|---|---|---|---|---|
| Revenues | 776 | 1,042 | 1,070 | 38% |
| EBITDA | 465 | 547 | 596 | 28% |
| Net Income | 75 | 247 | 325 | 333% |

Sources: Bloomberg

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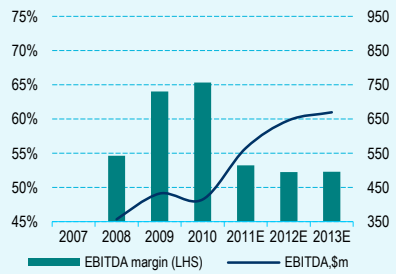
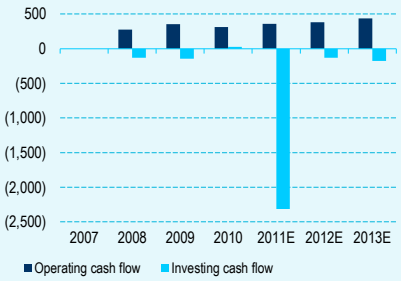
# Appendix: Financial forecasts

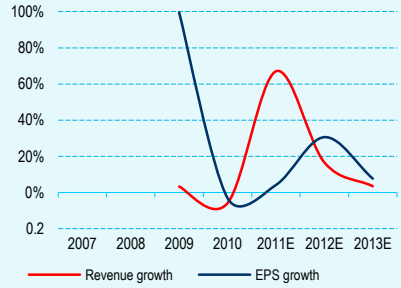
## Profitability



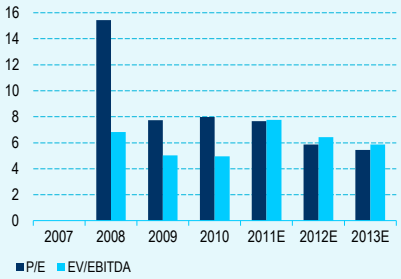

## Cash flows, $m




## Momentum, %




## Valuation




$mn unless otherwise stated (base case scenario)

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|
| Income Statement | | | | | | |
| Revenues | 654 | 675 | 635 | 1,061 | 1,238 | 1,281 |
| Depreciation | 123 | 64 | 69 | 80 | 79 | 83 |
| EBITDA | 357 | 432 | 415 | 565 | 647 | 670 |
| Operating profit (EBIT) | 234 | 368 | 346 | 485 | 568 | 587 |
| Net Interest expense | (35) | (20) | (12) | (149) | (141) | (126) |
| Non-op. expenses | (79) | (27) | (12) | (152) | 6 | 6 |
| Pretax Profit | 121 | 321 | 323 | 184 | 433 | 467 |
| Taxes | (25) | (69) | (64) | (37) | (85) | (91) |
| Minority interest | (5) | (2) | (6) | (4) | (2) | (2) |
| Net Profit | 136 | 270 | 262 | 266 | 347 | 373 |
| **Cash Flow Statement** | | | | | | |
| Net Change in work. cap. | 5 | 9 | (5) | (18) | (24) | 5 |
| Provisions and write-offs | 4 | 10 | (9) | 3 | 0 | 0 |
| Other | 8 | 0 | (7) | 27 | (19) | (25) |
| Operating cashflow | 275 | 354 | 310 | 357 | 382 | 437 |
| Capex | (88) | (65) | (83) | (130) | (169) | (202) |
| Disposals (Acquisitions) | 44 | (0) | (14) | (2,100) | 0 | 0 |
| Investing cashflow | (130) | (144) | 28 | (2,314) | (132) | (179) |
| Equity | (125) | (43) | (84) | (103) | (15) | (35) |
| Debt | (34) | (55) | (135) | 1,874 | (104) | (98) |
| Financing cashflow | (159) | (98) | (219) | 1,772 | (119) | (133) |
| Net Change in Cash | (13) | 112 | 119 | (185) | 132 | 124 |
| **Balance sheet** | | | | | | |
| Cash & equivalents | 129 | 328 | 312 | 189 | 314 | 439 |
| Current Assets | 196 | 396 | 372 | 357 | 488 | 615 |
| PP&E | 576 | 550 | 564 | 2,234 | 2,300 | 2,389 |
| Goodwill and other | 434 | 416 | 447 | 1,776 | 1,768 | 1,773 |
| Total Assets | 1,206 | 1,362 | 1,383 | 4,368 | 4,555 | 4,777 |
| Current Liabilities | 79 | 176 | 50 | 227 | 203 | 697 |
| S-T Debt | 42 | 130 | 16 | 104 | 98 | 584 |
| L-T Debt | 463 | 325 | 305 | 2,435 | 2,337 | 1,754 |
| Other L-T Liabilities | 49 | 44 | 38 | 328 | 329 | 331 |
| Shareholders Funds | 615 | 817 | 989 | 1,377 | 1,686 | 1,996 |
| Total Liabilities & Equity | 1,206 | 1,362 | 1,383 | 4,368 | 4,555 | 4,777 |
| Net Debt | 377 | 127 | 9 | 2,350 | 2,121 | 1,899 |
| **Margins and profitability** | | | | | | |
| EBIT Margin | 35.8% | 54.5% | 54.5% | 45.8% | 45.9% | 45.8% |
| EBITDA Margin | 54.6% | 64.0% | 65.3% | 53.3% | 52.2% | 52.3% |
| Net Margin | 20.7% | 40.0% | 41.2% | 25.0% | 28.0% | 29.2% |
| ROE | 22.0% | 33.1% | 26.5% | 19.3% | 20.6% | 18.7% |
| ROA | 11.2% | 19.9% | 18.9% | 6.1% | 7.6% | 7.8% |
| ROIC | 18.8% | 34.3% | 27.2% | 9.8% | 11.3% | 12.9% |
| **Momentum** | | | | | | |
| Revenue growth | - | 3% | -6% | 67% | 17% | 3% |
| EBITDA growth | - | 21% | -4% | 36% | 14% | 4% |
| EPS growth | - | 99% | -3% | 4% | 31% | 8% |
| **Liquidity and solvency** | | | | | | |
| Cash Ratio | 1.6 | 1.9 | 6.2 | 0.8 | 1.5 | 0.6 |
| Current Ratio | 2.5 | 2.2 | 7.4 | 1.6 | 2.4 | 0.9 |
| Interest Coverage | (6.8) | (17.9) | (29.4) | (3.3) | (4.0) | (4.7) |
| Debt/Equity | 0.8 | 0.6 | 0.3 | 1.8 | 1.4 | 1.2 |
| Debt/Total assets | 0.4 | 0.3 | 0.2 | 0.6 | 0.5 | 0.5 |
| Net debt / EBITDA | 1.1 | 0.3 | 0.0 | 4.2 | 3.3 | 2.8 |
| **Valuation** | | | | | | |
| P/E | 15.4 | 7.7 | 8.0 | 7.7 | 5.9 | 5.5 |
| P/CE | 8.1 | 6.2 | 6.3 | 5.9 | 4.8 | 4.5 |
| P/BV | 3.4 | 2.6 | 2.1 | 1.5 | 1.2 | 1.0 |
| EV/Sales | 3.7 | 3.2 | 3.2 | 4.1 | 3.4 | 3.1 |
| EV/EBITDA | 6.8 | 5.0 | 4.9 | 7.8 | 6.4 | 5.9 |
| Dividend yield, (ords) | 1.0% | 3.6% | 0.7% | 0.7% | 1.7% | 1.8% |
| Dividend yield, (prefs) | - | - | - | - | - | - |
| **Per Share Data** | | | | | | |
| EPS | 0.53 | 1.05 | 1.02 | 1.06 | 1.39 | 1.49 |
| DPS, ords | 0.08 | 0.30 | 0.06 | 0.06 | 0.14 | 0.15 |
| DPS, prefs | - | - | - | - | - | - |
| BVPS | 2.40 | 3.18 | 3.85 | 5.51 | 6.74 | 7.99 |

Source: Company data, Otkritie Capital estimates

Net profit is shown net of one-off items

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