NCSP (BB-/Ba3/-)

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Credit Metrics Improve, Offer Not Particularly Generous

2011 IFRS Review

Debut ruble bond issue. Novorossiysk Commercial Sea Port (NCSP) plans to open and close the book between 25 and 27 April for its three-year series CP-02 bond for RUB4 bln. There is no put attached to the issue and it is preliminarily planned to be placed on the exchange on 2 May. The company currently has one outstanding issue, a Eurobond for $300 mln, which matures on 17 May. We therefore assume that the proceeds from the new issue will be used to refinance the Eurobond. The new issue meets the criteria for inclusion in the Central Bank's Lombard list. Coupon guidance has been set at 9.5-10.0%, which corresponds to a YtM of 9.73-10.25%.

Moderately positive results, profitability remains high. Yesterday, the company published moderately positive 2011 IFRS results. In 2011 revenues increased 65.2% YoY to $2.0 bln. However, we note that the growth was primarily driven by the consolidation of PTP, as total freight turnover (based on PTP's handling capacities) increased by a mere 2.3%. EBITDA grew 32.3% to $550 mln, as PTP's business, which was consolidated in 1Q11, is less marginal. Net profit fell 49.7% to $130 mln due to currency revaluation losses of $168 mln and interest expense growth of 400% as a result of the increased debt. In 4Q11, the company's revenues fell 7.1% QoQ and EBITDA was down 9.1% QoQ; we attribute this to the effect of the implementation of pent-up demand in 3Q11, when grain exports were resumed after a one-year break. Thus, EBITDA margin contracted 1.2 ppt to 54.7% in 4Q11 from 55.9% in 3Q11 (50.5% in 2010 and 65.5% in 2011).

Debt load declining gradually, but still high. In 4Q11, total debt fell a mere 0.9% to $2.5 bln. However, due to the noticeable growth of EBITDA and the cash balance in 4Q11, the net debt/LTM EBITDA ratio dropped to 4.3 from 5.4 in 3Q11. However, we believe that the company will no longer be able to reduce its debt load at such an impressive pace, as EBITDA had increased in 4Q11 on the consolidation of PTP; and this effect will not be present in 1Q12.

Own funds should now be sufficient to service debt. In 2011 cash flow from operating activities (before interest payments) amounted to $465 mln, which corresponds on average to the annual payments on redeeming the company's debt, both principal and interest payments. However, we believe that the company could replace part of its bank debt, which is secured against a 50.1% stake in NCSP, by bonds; currently, the company has registered bonds for RUB18 bln. Thus, we believe that the new NCSP CP-02 will be followed by other new issues.

Issue Information

Issuer	NCSP
Issue	NCSP CP-02
Credit ratings	BB-/Ba3/-
Volume	RUB4 bln
Coupon	Semi-annual
Maturity	3 years
Put	-
Book building	25-27 April 2012
Placement	2 May 2012 (preliminary)
CBR's Lombard list	Meets criteria for inclusion
Lisiting on MICEX	List B
Coupon guidance	9.5–10.0 (YtM 9.73–10.25%)

Debt Load Gradually Declining; Remains High

NCSP Key IFRS Financials, $ mln

	2010	9M11	2011
Revenues	635	782	1,050
EBITDA	416	404	550
Net profit	258	72	130
Total debt	321	2,528	2,506
ST debt	16	*391*	392
Cash	265	*55*	128
Net debt	56	2,473	2,379
Equity	989	918	964
Assets	1,383	3,802	3,833
Ratios			
EBITDA margin/Int. payable	65.5	51.7	50.5
EBITDA/Int. payable	13.7	3.8	3.7
Debt/EBITDA	0.8	5.5	4.7
Net debt/EBITDA	0.1	5.4	4.5
Debt/Equity	0.3	2.8	2.6

Source: Company data, URALSIB estimates

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NCSP Key IFRS Financials, $ mln

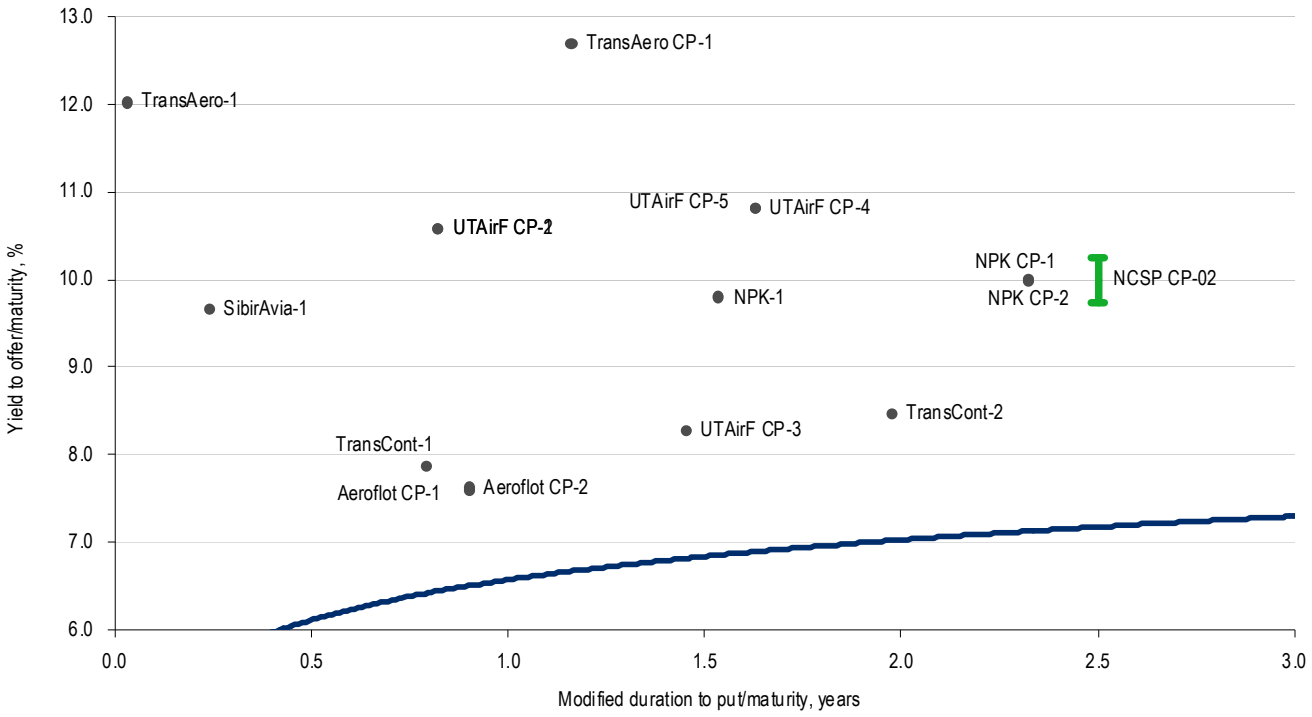
	2008	2009	2010	1Q11	1H11	9M11	2011	YoY, %
Revenues	654	675	635	233	494	782	1,050	65.2
EBITDA	376	431	416	118	243	404	550	32.3
Net profit	96	252	258	144	222	72	130	(49.7)
								QoQ, %
Total debt	505	455	321	2,632	2,595	2,528	2,506	(0.9)
ST debt	*42*	*130*	*16*	*122*	*408*	*391*	*392*	*0.3*
Cash	*43*	*159*	265	45	*48*	*55*	128	130.5
Net debt	463	296	56	2,588	2,547	2,473	2,379	(3.8)
Equity	615	817	989	1,118	1,194	918	964	5.0
Assets	1,206	1,362	1,383	4,159	4,239	3,802	3,833	0.8
Ratios								
EBITDA margin, %	57.5	63.8	65.5	50.5	49.2	51.7	52.4	
EBITDA/Int. payable	9.4	13.5	13.7	3.6	3.5	3.8	3.8	
Debt/EBITDA	1.3	1.1	0.8	6.4	6.3	5.5	4.6	
Net debt/EBITDA	1.2	0.7	0.1	6.3	6.2	5.4	4.3	
Debt/Equity	0.8	0.6	0.3	2.4	2.2	2.8	2.6	

Source: Company data, URALSIB estimates

Offer not particularly generous; more attractive alternatives available on the market. Despite the quite positive results for 2011, the company's debt load raises some concerns. Moreover, the term of the new issue covers the company's peek redemption period in 2014-16, when it will need to redeem $1.8 bln, including principal and interest payments. Yield guidance for the new NCSP CP-02 offers a spread of 260-315 bps to the OFZ curve. We prefer the NPK CP-1/2 (YtM 10% for 35 months), which are guaranteed by Globaltrans Group, as, based on comparable revenue and EBITDA indicators, Globaltrans' debt load is much lower (the net debt/EBITDA ratio was 0.5 for 2011). At the same time, NCSP's advantage over Globaltrans lies in its status as a strategic company in which the state owns a 20% stake (which is likely to be transferred to state-owned Rosneft in 2012). Considering that NPK is traded at a spread of about 295 bps to the OFZ, we find the new issue interesting only at the upper end of guidance.

Offer Not Particularly Generous, More Attractive Alternatives Available

Selected bonds issued by companies in the transportation sector, as of yesterday



Source: MICEX, URALSIB estimates

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