TKB Capital

EQUITY RESEARCH

Globaltrans

Delivery of freights, efficiency and growth

August 2010

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Globaltrans (GLTR)

Delivery of freights, efficiency and growth

Globaltrans	GDR	Preferred
Ticker	**GLTR**	-
Recommendation	**BUY**	-
Price, $	**15.30**	-
Target price 12M, $	**18.8**	-
Upside/downside 12M, %	**23%**	-

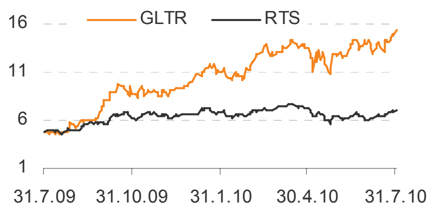
SHARE DATA		
Bloomberg	GLTR LI	
Reuters	GLTRq.L	
	GDR	Preferred
# of shares outstanding,mn	158	-
EV, $ mn	2 708	
MC, $ mn	2 419	
MIN 12 mnth., $	4.50	
MAX 12 mnth., $	15.30	
	Common	Preferred
Shares per GDR	1	-

SUMMARY FINANCIALS, $ mn			
IFRS	**2009**	**2010E**	**2011E**
Net revenue	684	807	997
Adj.EBITDA	281	330	433
Net income	120	189	269
EPS, $	0.76	1.20	1.70
Rev. growth, %	-12.2	17.9	23.5
EPS growth, %	-15.5	57.7	42.1
Adj.EBITDA margi	41.1	40.9	43.5
Net margin, %	17.5	23.5	27.0

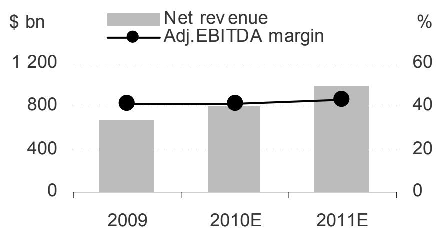
SUMMARY VALUATIONS	**2009**	**2010E**	**2011E**
P/E	20.2	12.8	9.0
EV/EBITDA	9.6	8.2	6.3

SHAREHOLDER STRUCTURE	
TIHL	50.1%
EIL	14.45%
Free-float	35.45%

PRICE DYNAMICS



Source: LSE, TKB Capital estimates



Source: TKB Capital estimates

We initiate coverage of Globaltrans (GLTR) with the 12 months target price of $18.8 and a BUY recommendation. We consider Globaltrans shares as a perfect theme to invest into transportation segment and for now the only opportunity to buy liquid stocks of a public Russian rail company. Fast recovery of transportation segment together with strong operating and financial performance of the company determine our positive view on Globaltrans. Relatively new balanced rolling stock, developed destination management and strong relations with the key customers provide competitive advantages of the company. Globaltrans targets to increase its market share through M&A activity and optimization of its routes that makes the stock attractive for investors.

Globaltrans is the largest private railway operator by the number of owned fleet. The primary business of the Group is freight rail transportation and operation of rolling stock. The company's business is well-balanced and diversified between different segments of Russian economy.

Balanced rolling stock and optimal routing increase return. Exposure to the transportation of oil and oil products, as well as to freight of cyclical goods (metals) make Globaltrans immune to the economic downturn and enable to gain on the back of economic recovery.

Economic recovery drives up volumes and efficiency. Total freight rail turnover in Russian grew by 13.8% in 1H10 thanks to recovery in metal segment. Further growth of import volumes and revival in construction segment will help to increase volumes and improve efficiency ratios of the Group.

Comfortable level of debt gives scope for further growth. As of the end of 2009, Net Debt to EBITDA ratio was at comfortable level of 1.0. In case of interesting M&A deals the company has an opportunity to attract financing on the market.

M&A deals to be a strong driver. Globaltrans is active in M&A deals aiming at expansion of its fleet and transportation routes. The company regularly monitors the market and we expect to see more deals in the coming future. Liberalization of locomotive segment will add value to the company's business in a long term.

Our forecast implies net revenue growth at CAGR 13% in 2010-2014 with adj.EBITDA margin at healthy 41-46%. Economic recovery and optimization of routing together with advanced management and fleet expansion determine higher price per trip, larger turnover volumes and reduce empty run costs.

Our DCF valuation implies 12 months fair value at $18.8 per GDR that means a 23% upside potential from the current market price and a BUY recommendation. Globaltrans' GDRs are traded at a 22% discount to its EM peers and in line with its DM peers on EV/EBITDA 2009-2010E. In 2009 EBITDA margin amounted to 41.2% and we expect it at healthy 41-46% in 2010-2014 that together with strong prospects of business development make the stock attractive as a mid- or long-term investment. Publication of 1H10 results and possible M&A deals may become short-term drivers.

Investment theses

Transportation segment grows faster than the Russian economy. In 1H10 railway cargo turnover in Russia grew by 13.8% y-o-y recovering from the bottom. In 2H10 growth rates will slow down due to stronger base in 2H09, but there is potential in certain segments to reach pre-crisis level.

Globaltrans is the largest private railway operator and the second largest after Russian Railways and its subsidiaries. Total fleet of Globaltrans exceeds 39,000 rail cars (taking into account 1Q10 numbers), which are split mainly between gondolas and rail tank cars.

Diversified fleet secures flows during economic downturn and drive growth and efficiency on recovery. Globaltrans managed to expand its market share during the crisis thanks to exposure into oil and oil products transportation and continues showing positive trend backed by recovery in metal and scrap segment in 2010. Construction segment still has a strong potential that will also drive up demand for freight services.

Strong customer relations bring stability. The key customers of the Group are TNK-BP, Magnitogorsk Steel, Evraz, Lukoil, Gazprom Neft, Severstal, Rosneft. Long history of close relationship with the clients gives better understanding of their transportation needs that allows to adjust existing management system to the clients requirements optimizing return.

High efficiency ratios thanks to routing optimization and modern fleet. Deep knowledge of the market and sophisticated information technologies and system used by the Group help to manage dispatch and routing of its fleet increasing commercial efficiency of the journeys. Modern and relatively new railcar stock is another advantage of the Group determining lower repair and maintenance costs and providing clients with high quality services. Recovery in different segments of economy together with routing optimization help to improve efficiency ratios reducing empty run costs.

Active position on M&A market serves as a driver of expansion. Globaltrans is constantly expanding its business through both acquisitions and organic development. We believe that coming M&A deals aimed at expanding of fleet and the market share may become a strong driver for the stock.

Discount to EM and DM peers proves DCF valuation. Globaltrans' GDRs are traded with EV/EBITDA 2009 9.7 and 2010E 8.3 that gives discount to EM at 25-20% respectively, at the same time company traded in line with DM. This comparison fully justifies our estimates based on DCF method, which gives 12 months fair value estimate at $18.8 per GDR.

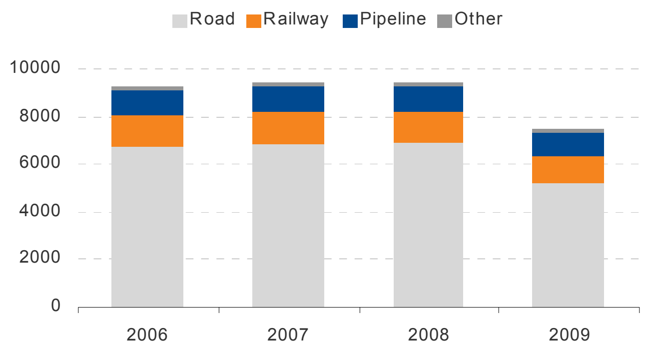
Risks

Slower economic growth, competition in rail freight transportation and higher metal prices as the core risks to our valuation. Among the main risks, which may affect our valuation model, we would mention slower economic growth, while stable oil and oil products transportation business protect the company from downturn. The key clients provide more than 70% of the Group's revenue, and increasing competition in the segment may have negative influence on the company's flows. Capital expenditures depend on the rail car price, which may grow faster than we expect in our valuation model.

Key role of railway transportation in Russia

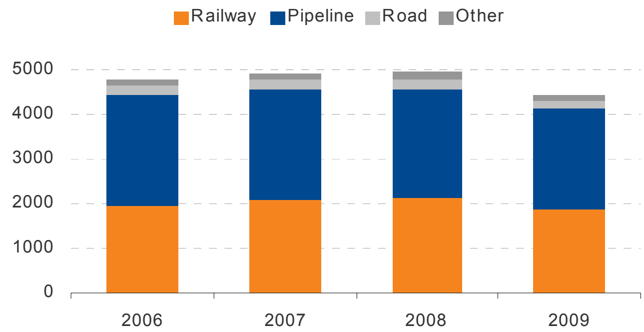
42% of cargos transported by railways. Due to the structure of the Russian economy and geographically spread industrial centers, railways along with pipelines take a key place in transportation segment in Russia. The Russian railway system is the second largest network in terms of track length (85,200 km) after the USA and third largest by the volume of freight rail transportation (after the USA and China) in the world, according to Russian Railways (RZhD). Rail freights form 42% of the total freight turnover in Russia (in 2009), and account for 85% of freight turnover volumes excluding pipelines. Rail transportation keeps the largest share (89%) in commercial freight turnover in Russia. However, due to large territory the level Russian's railway density is lower than the world's leaders.

Cargo load, m n t



Source: Federal State Statistical Service

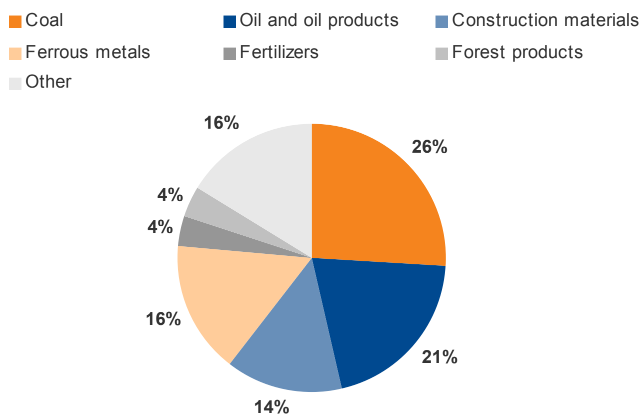
Freight turnover, bn t-km



Source: Federal State Statistical Service

Major part of the total railway turnover in Russia falls on commodities such as coal, oil and oil products, construction materials, metals and ores. In 2009, coal freight dominated with a 25% share of the total volume of cargo transported in Russia, oil and oil products gave 21%. The share of ferrous metals, scrap and iron ore equaled 16%, while construction materials (including cement) accounted for 14%. Strong growth of production volumes in these segments in Russia contributed to a compound annual growth rate in freight rail turnover of 5.5% between 2000 and 2009, according to the Federal State Statistical Service (Rosstat). But the same factor of transportation structure led to strong reduction of transportation volumes during the crisis periods.

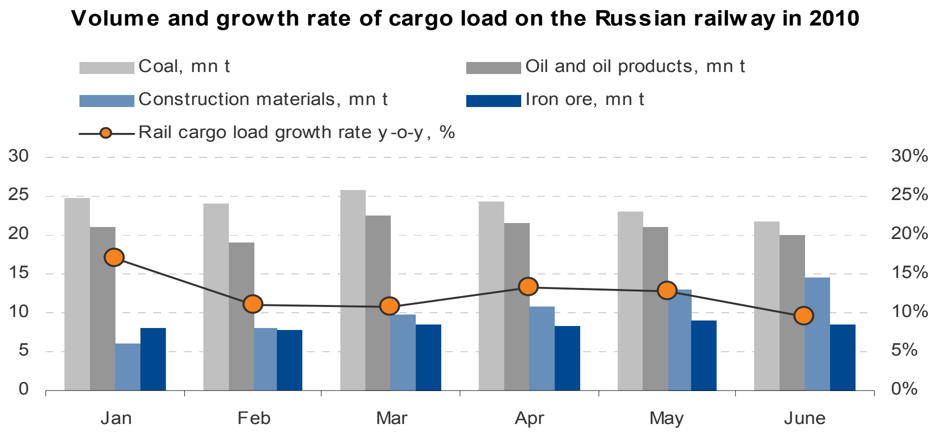
Rail freight transportation by cargo types in 2009, %



Source: Federal State Statistical Service

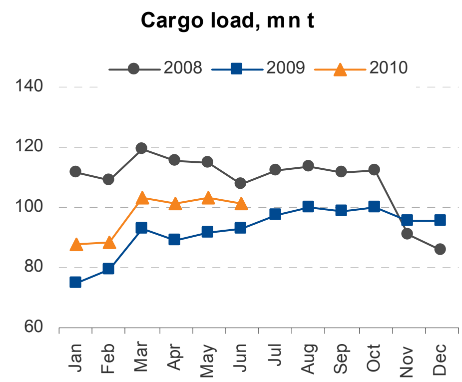
Recovery of transportation segment – outperforming macro indicators

The turnover volume of freight transportation is gradually increasing, but the recovery is still export-led. Rail transportation was one of the Russian sectors most severely affected by the economic downturn in 1H09, however starting from 2H09 economic recovery determined improvement of its operating results. Russian railway transportation volumes continued reviving in 1H10, so the rail freight turnover increased by 13.8% y-o-y to 970 bn t-km, meanwhile cargo load rose 12.2%. The main contributors to this growth were increasing volumes in the metals and mining segment, fertilizers and oil sector, which increased by 18%, 22% and 10% y-o-y, respectively. Activity remains subdued in the construction materials segment, where volumes were almost flat and still roughly a half of pre-crisis levels (increased by 2% y-o-y).

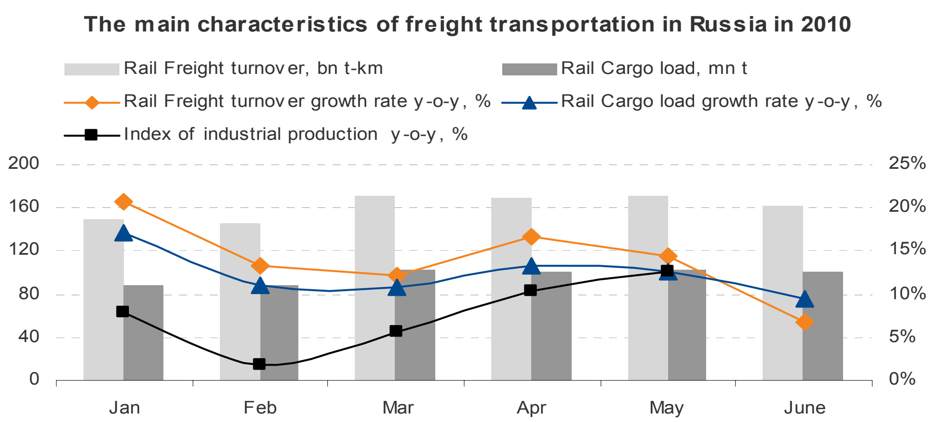


Source:RZhD, TKB Capital Estimates

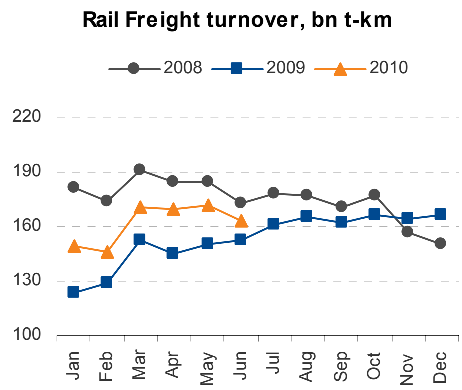
Recovery of transportation segment – would outperform macro indicators. The high rates of freight turnover growth in 1H10 were mainly determined by the low base in 1H09 (decrease of the cargo load volumes in 1H09 on some commodities reached 30-35% y-o-y). As a result, we expect to see slower traffic growth in 2H10. Though, in spite of the slowdown of growth rate, rail freight transportation will recover faster than industrial production and the economy as a whole. We anticipate an increase in turnover volume of rail freight transportation of 6-8% y-o-y in 2010, at the same time both Russia's GDP growth and Index of Industrial production would rise slower and would increase by 3.1% and 2.8%, respectively (according to the Ministry of Economic Development).



Source: Russian Railways



Source:Federal State Statistical Service, TKB Capital Estimates



Source: Federal State Statistical Service

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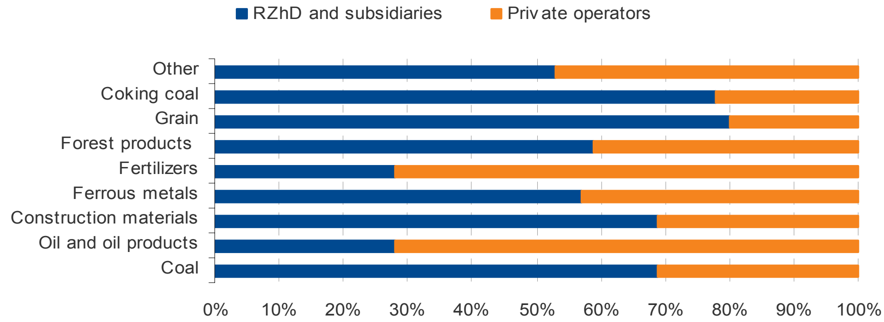
Reform of transportation segment – more private operators, higher efficiency and competition

Reformation process brought new players in the segment. From 2000 to 2008, freight rail turnover of the Russian railways increased by 54% to 1,865 bn t-km (although the peak level of traffic in 1990 at 2,523 bn t–km has not reached yet). Cargo turnover growth was backed both by stable economic development and the Reform of Russian railways which was initiated by the government in 2001. The key aim of the reform of rail transport in Russia is the maintenance of the infrastructure and attracting investments to the industry. In the course of reform in order to separate regulatory and business functions on the railways the company Russian Railways (RZhD – a 100% state–owned company) was founded in 2003. Next stage of the reform brought private operators into railway freight segment, which received rights to access to the infrastructure and locomotive services provided by the Russian Railways operating their own and leased railcar stock. The last stage of the reformation process implies selling of licenses on selected passenger services and privatization of RZhD subsidiaries.

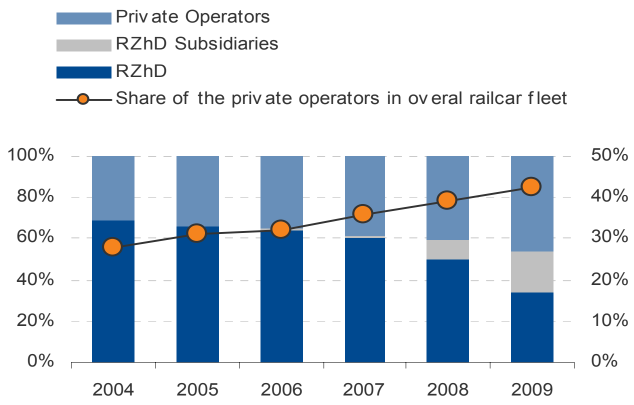
Market share of private operators in rail transportation by segments in 2008



Source: RZhD

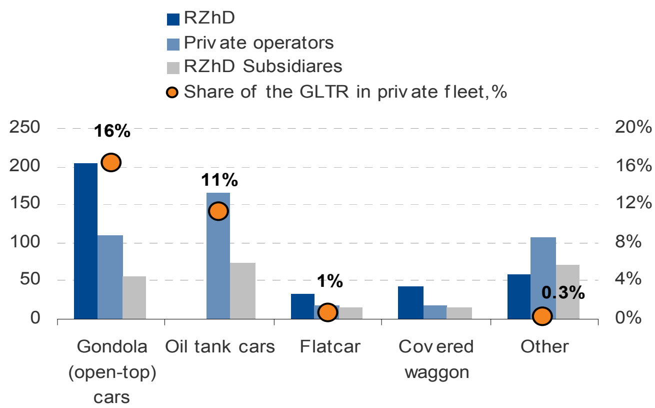
Private operators as the future of rail transportation industry. RZhD with its subsidiaries is still the largest railway company, but thanks to the reform a share of private freight rail operators and RZhD subsidiaries in rail transportation showed rapid growth since 2003 and reached almost 71% in 2009 (near 1,300 bn t-kn). Key market participants include independent operators (Globaltrans, Transoil, Transgarant, etc.) and “captive” freight rail operators owned by large Russian industrial groups (Metalloinvesttrans, Gazpromtrans, MMK-Trans, etc.). Private operators and RZhD subsidiaries set their prices in accordance with Russian Railways tariff policy paying infrastructure and locomotive components for the related services. Thus, these companies compete for the carriage component, which is determined both by benchmark RZhD tariffs and by the market factors and competition among operators. In oil and oil products transportation carriage component is hardly affected by RZhD as it plays minor role in the segment.

Structure of rail freight turnover by ownership



Source: RZhD

Russian railcar fleet in 2009, '000



Source: RZhD, Globaltrans, TKB Capital Estimates

Segmented market gives scope for consolidation. As a result of significant growth in the number of railcars owned by private companies, currently the industry is highly fragmented, with the top 10 Russian private freight rail operators accounting for approximately 40% of the whole private fleet, while the total number of private operators exceeds 2000. However, due to a significant strengthening of competition and economic downturn in the industry the number of such companies has decreased in recent years (from 2500 to 2000). We expect to see further sector's consolidation as large operators of railcars have more competitive advantages that allow them to attract the largest customers of rail transportation services. Globaltrans is constantly studying the market to find an interesting object for M&A deals that will allow further expansion of its market share and routing optimization.

Long-term targets – competitive carriage segment with efficient monopoly on infrastructure. According to the reform, the target model of the rail freight segment implies 100% of carriages will be operated by private companies (now 45%). Russian Railways will keep monopoly on infrastructure and traffic control as well as locomotive component. Later liberalization of locomotive segment will create additional opportunities for operators and increase competition, but at this stage RZhD is not planning to undertake any further step increasing share of private companies in locomotive business. Currently private operators own approximately 200 locomotives, which are able to operate at short distances and development of this segment will depend on the Russian Railways initiatives (RZhD owns 11,000 freight locomotives). Liberalization of locomotive segment will create new opportunities for the companies and investors.

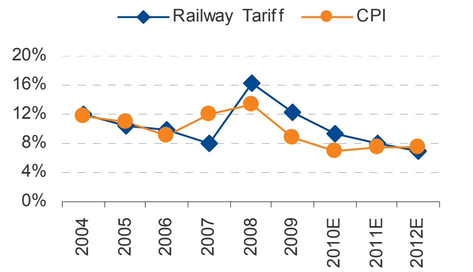
Tariff regulation

RZhD tariff as a benchmark. Currently RZhD is the sole operator of the rail network in Russia and the largest provider of freight rail transportation services. RZhD tariffs are fixed by Federal Tariff Service (FTS) and revised according to inflation and other economic factors. Prices for freight transportation are set with regard to cargo weight, distance traveled, destination and cargo class (Class 1 cargo attracts the lowest tariff and Class 3 – the highest). Tariff consists of three parts, which are infrastructure, locomotive and carriage. The main component of the tariff (around 80%) of freight rail services for end users – infrastructure and locomotive tariff for loaded trips. The price set by private freight rail operators and RZhD subsidiaries for their customers is not regulated, while infrastructure and locomotive tariff for loaded trips is paid to RZhD. Operators also have to pay an empty-run tariff for unloaded trips included indirectly in price of transportation for end users.

Examples of types of cargo in each tariff class

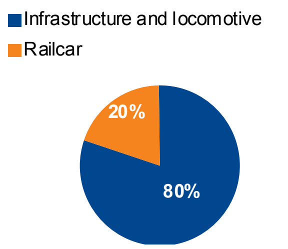
Class 1 Cargo	Class 2 Cargo	Class 3 Cargo
Thermal and coking coal	Oil, gasoline, kerosene, diesel fuel, heating oil	Ferrous and non-ferrous metals, scrap metal
Iron ore	Fertilizers	Construction materials for industrial production
Natural construction materials (including crushed stone and sand)	Bricks	Metal construction products
Cement	Agricultural machinery	lubricants and oils
Wood	Agricultural products	Automobiles
	Asphalt	Soft goods
	Cast iron	Alcohol products

CPI and regulated freight rail transportation tariff growth in 2004-2012E



Source: RZhD, FTS, Ministry of Economic Development

Railway tariff structure, %

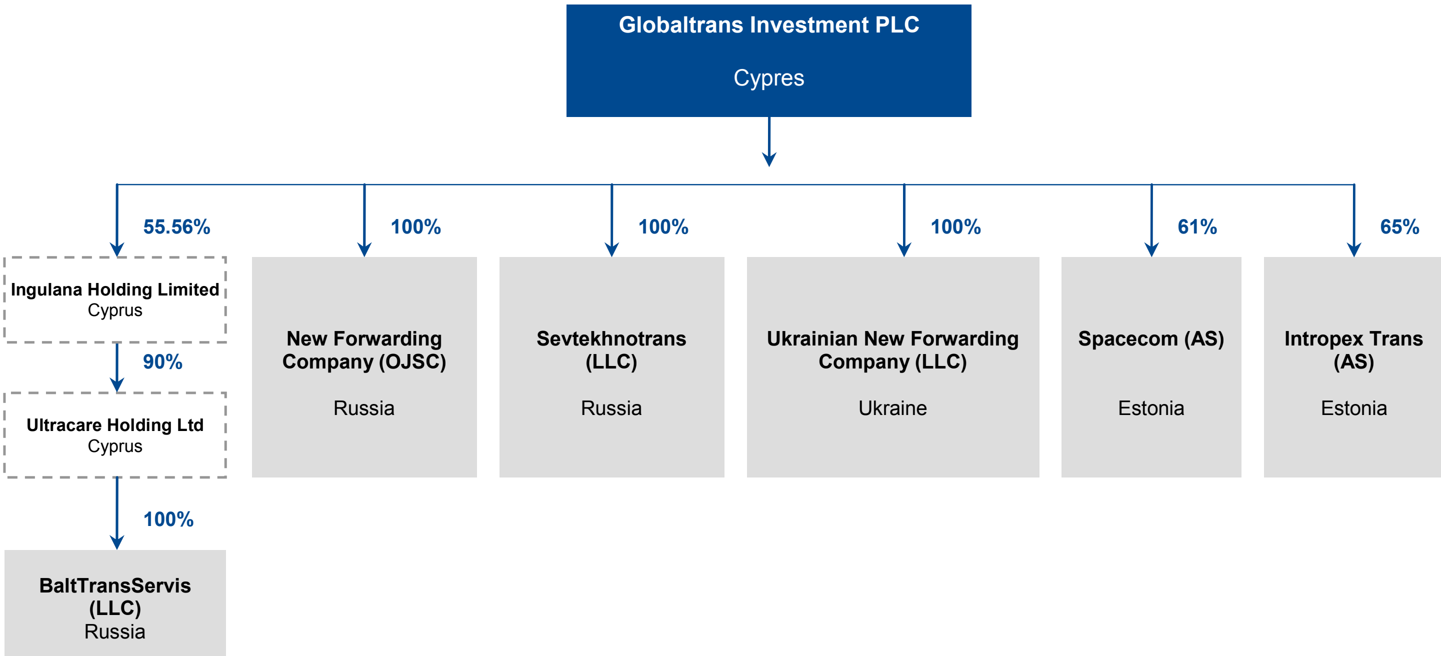


Source: RZhD

Carriage component of tariff reflects market competition and amounts to 15-20% of the total price for end-users. Usually tariffs set by RZhD play role of a benchmark in the segment. Russian Railways manage 35% of the rail cars in Russia, while 23% of rail cars belong to RZhD subsidiaries, and set prices according to the market trend. Thus, owners of 65% of the total fleet in Russia compete for the rail car part of tariff. The phase III of the Russian Railways reform is aimed at increasing competition in the sector from private rail operators through partial privatization of Russian Railways and some of its subsidiaries.

Slower growth of tariffs for rail transportation is proposed for 2011 that will increase the influence of market factors. As a result of policy aimed at reducing inflation to maintain economic growth, the government proposed to decrease the growth rate of tariffs for rail transportation from 9.2% to 8.0% in 2011. The final decision will be made in December this year. Now owners of 65% of the railcar park compete for a carriage component in the tariff (private operators and Russian Railway subsidiaries). With lower tariffs this part of transportation price will be determined by the market conditions together with companies' ability to compete and to optimize their transportation routes. If the Russian economy shows faster recovery, prices on railway transportation will grow stronger on the back of increasing demand for freight operations.

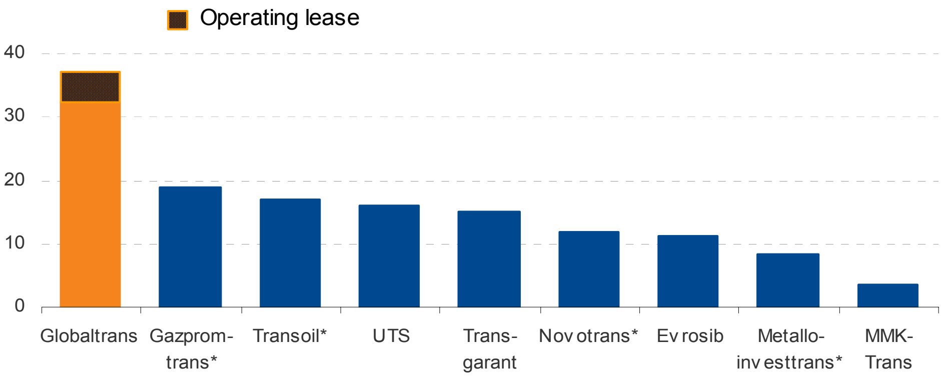
The Group's structure



Globaltrans on the rail freight market

Globaltrans is the largest privately owned railway Group in Russia by the number of owned fleet. The primary business of the Group is freight rail transportation or operation of rolling stock. 90% of Globaltrans sales come from transportation services, while the rest is related to operating lease and resale of railcars. The company's business is well-balanced and diversified. Traditionally the main share of the company's freight rail turnover was in metallurgical segment. With acquisition of BaltTransService in 2009, Globaltrans increased its presence in oil and oil products transportation. According to the company's consolidated results over 2009, metallurgical segment amounted to 48% of the freight rail turnover, oil and oil products to 38%, while the rest fall in coal and construction segment.

Key private freight rail operators by number of railcars in 2009, '000

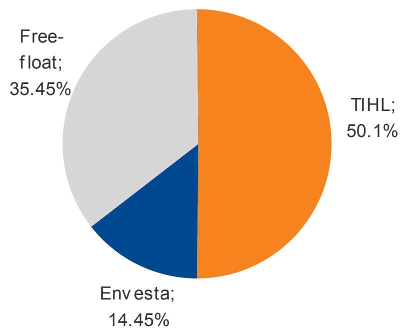


**include own fleet and finance lease*

Source: RZhD, companies data

Ownership structure

Current shareholders' structure



Source: Globaltrans

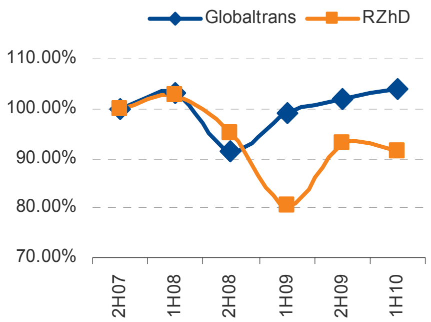
The core shareholder of the Group is Transportation Investments Holding Limited (TIHL), which is one of the largest privately-owned transportation groups in Russia. The group has strategic interest in rail transportation and port operations and carries on business under the name of N-Trans (Severstaltrans until 2008), which is jointly controlled by Nikita Mishin, Konstantin Nikolaev and Andrey Filatov.

Another core shareholder is Envesta Investment Limited, which is beneficially owned by the management of Globaltrans. Sergey Maltsev, CEO and member of the BoD of Globaltrans, beneficially owns 51% of shares of EIL, Alexander Eliseev, Chairman of the BoD, Non-Executive Director of Globaltrans owns 49%.

Additional issues to finance development and expansion. Globaltrans used to attract financing on the stock market. After the stock split and additional share issue Globaltrans held an IPO in May, 2008 and placed 30.1% of authorized capital (include shareholders' shares) on the LSE at $13.25 per GDR. The proceeds from the IPO were used to fund the purchase of additional rolling stock and debt refinancing. Later in December, 2009 the number of ordinary shares of Globaltrans increased by 35% (or by 41.17 mn shares). For the purpose of the deal financing to acquire a 50% stake in BaltTransServis railway operator issued new ordinary shares in two steps: 1) 29.4 mn shares ($250 mn), which TIHL received as a payment for BTS' stake. 2) 11.7 mn shares, which with TIHL's 8.8 mn shares, were offered at the SPO (at price of $8.5 per GDR). As a result, the company's free float increased to 35% (up by 5%).

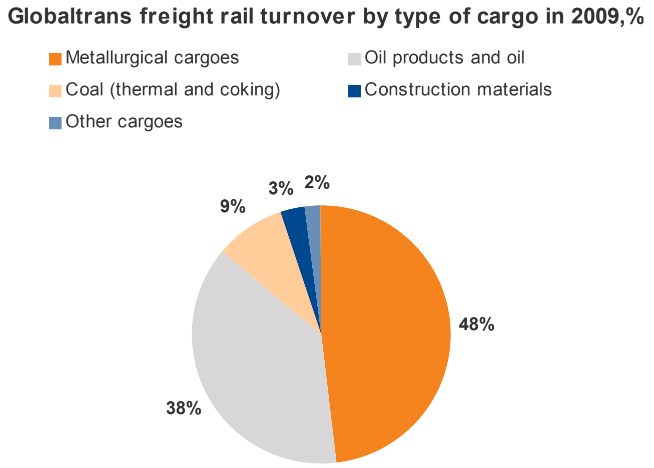
Share Capital	Number of shares, '000	Share capital, $'000	Proceeds, $ mn	Event	Free float
1 January, 2008	10,000	10,000			0%
Change of nominal value	90,000	-			30%
Issue of shares	16,959	1,696	224.7	IPO	
1 January, 2009	116,959	11,696			
Issue of shares:					35% (+5%)
I part	29,412	2,941	250	M&A (BTS purchase)	
II part	11,764	1,176	100	SPO	
1 January, 2010	158,135	15,814			

Globltrans'* and RZhD freight turnover dinamics in 2008-2009**



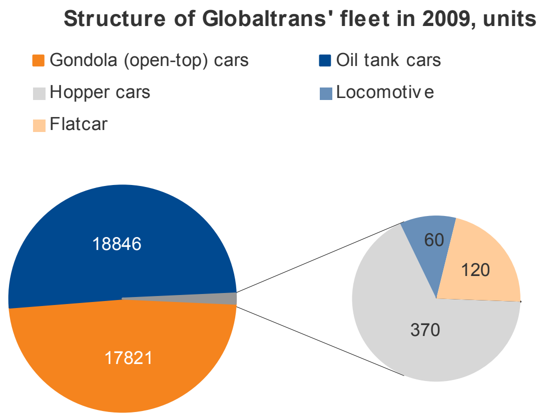
**for 2H07-1H09 estimates Globaltrans and BTS*
***total rail freight turnover*
Source: RZhD, Globaltrans, TKB Capital Estimates

2009 brought larger share of freight rail volumes and stable prospects for the future. In 2009 Globaltrans increased its share of the total freight rail turnover in Russia from 3.9% to 4.8%. The Group's total freight rail turnover over the year amounted to 80.9 bn t-km that was 3% above the numbers over 2008. Globaltrans transported 52.8 mn t of freights. These results outperformed the numbers shown by the Russian Railways and overall transportation volumes in Russia. Limited expansion of the company in construction and container segments helped to beat the total numbers. 6M10 showed that recovery is going fast in metallurgical segment, while oil and oil products showed stable numbers. Coal segment (due to accident at Raspadskaya) may show weaker performance, but it will have a minor effect on Globaltrans taking into account its low exposure in coal transportation from Raspadskaya. According to the latest statistics from RZhD, construction sector is still lagging the others in terms of recovery that determines strong potential in the future.



Source:Globaltrans

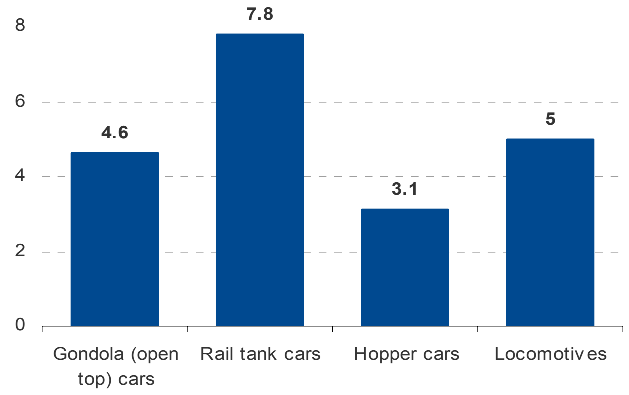
Balanced fleet of rolling stock – optimizing business portfolio. Globaltrans' fleet of rolling stock is well-balanced. At the end of 2009, 48% of fleet was represented by universal gondola cars, which are more exposed to the cyclical demand. That allows the Group to benefit from cyclical growth and flexibly react to the downturn on certain markets redirecting cars to the better routes. 51% of the total fleet is rail tank cars. This part of business provides stability through exposure to the oil and oil product segment, which is immune to the cyclical trend.



Source: Globaltrans

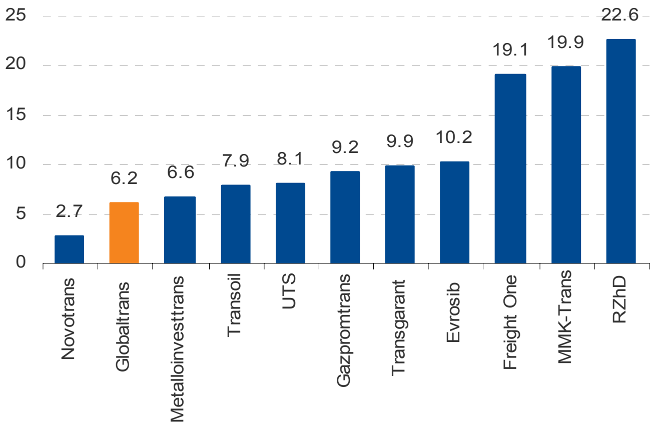
New fleet as competitive advantage. Average age of Globaltrans railcars is 6.2 year (as of the end-2009). The company is among leaders in the segment regarding relatively new fleet. RZhD railcar park is approximately. 22 years old. Globaltrans investment program implies expansion of its fleet and freight operations, while the age of railcars is not in the focus for now.

Average age of Globaltrans' fleet as of end 2009, years



Source:Globaltrans

Key freight rail operators by average age in 2009, years

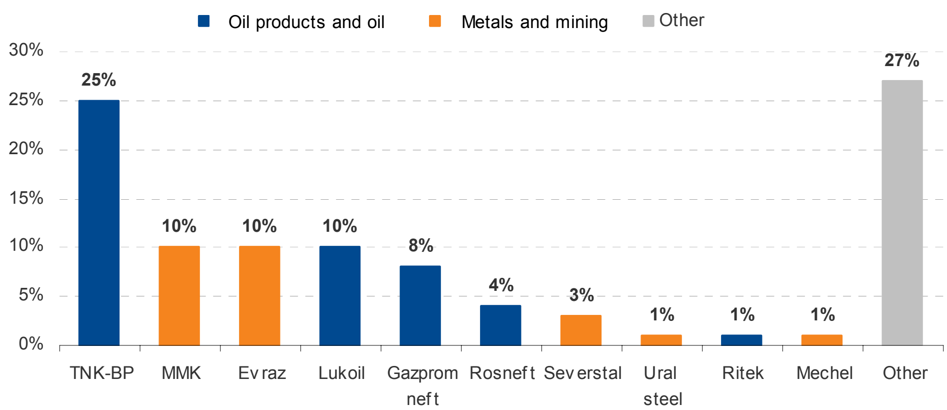


Source:RZhD, companies data

Advanced destination and management system as another core strength. Deep knowledge of the market and sophisticated information technologies and system used by the Group help to manage dispatch and routing of its fleet increasing commercial efficiency of the journeys. The Group aims at reducing empty run costs using advance management system and wide geographical coverage. Close relations with the clients situated in different parts of Russia and CIS also help optimizing routes and quickly responding to the customers demand.

The key customers bring 73% of net revenue. The key customers of the Group are TNK-BP, Magnitogorsk Steel (MMK), Evraz, Lukoil, Gazprom Neft, Severstal, Rosneft. Long history of close relationship with the clients gives better understanding of their transportation needs that allows to adjust existing management system to the clients' requirements optimizing return. The Group is constantly expanding the number of clients within medium and small companies in order to widen its geographical presence and to diversify route structure reducing the number of empty runs.

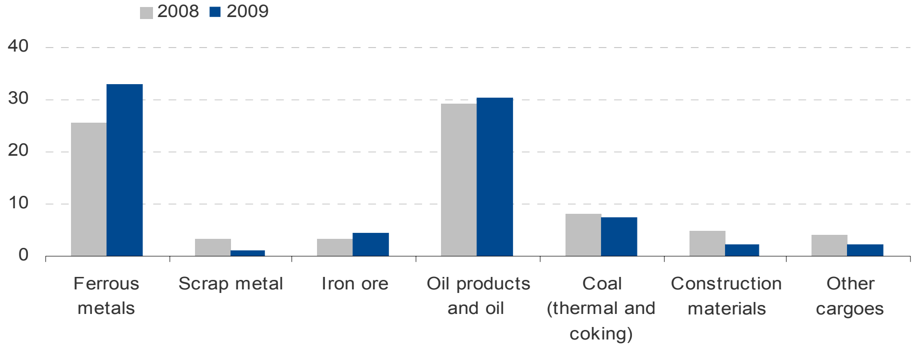
Structure GLTR's net sales by customers in 2009, %



Source: Globaltrans

Key segments – growth on recovery. The key segments of Globaltrans operations are oil and oil products as well as metals and mining, which provide 73% of the total Group revenue. Oil and oil products segment showed stable results in 2009 and will continue posting moderate growth in the coming years. Metals and mining segment recovers fast after the downturn in 2009 (output declined by 12%). In 2010 we expect total production in metals and mining segment to grow by 7% y-o-y, while in 2011-2012 we will see almost pre-crisis levels. That will drive Globaltrans freight turnover up and will help to reduce empty run costs. Other transported goods represent mainly construction segment, which is far from its best shape and recovery will continue for 2-3 years. Higher freight rail turnover in ferrous metals segment are attributed mainly to growing volume of export due to weak demand on the domestic market.

Globaltrans' freight rail turnover by type of cargo 2008 - 2009 (bn t-km)



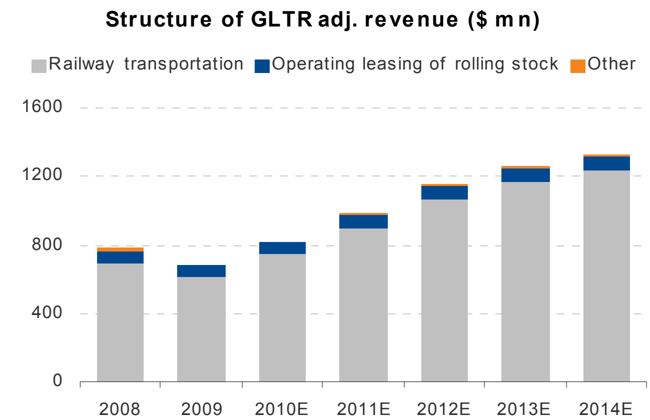
Source:Globaltrans

1Q10 – recovery continues supporting volumes and efficiency. In 1Q10 Globaltrans received 1,982 railcars, which will give positive effect on operating level and will reach their full profitability already in 2-3Q10. In terms of growth rates Globaltrans was lagging the numbers shown by Russian Railways in 1Q10 due to higher base in 2009 and stable results. Improvement of efficiency ratios will be determined by recovery in scrap segment, revival of construction industry and higher volumes of import as well as stronger outlook for small and medium enterprise customers. Prices grew slightly in 1Q10 and stronger growth rates are expected through the year on the back of demand recovery for transportation services.

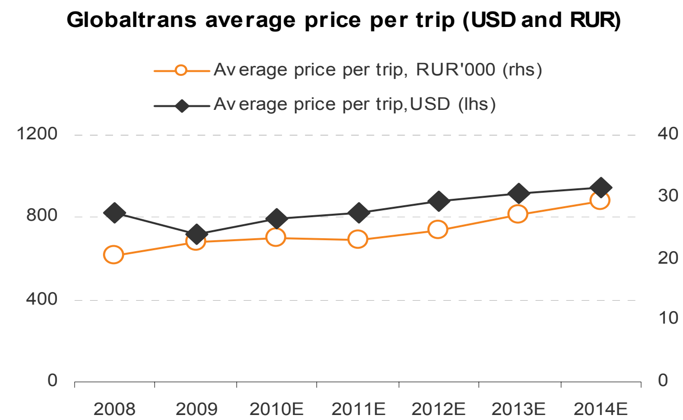
Financials

Operating services as the core revenue component. The group net adjusted revenue grew by 12.3% in 2008-2009 in ruble terms, while in dollar terms sales were lower due to ruble depreciation. The core revenue of the Group comes from operator's services, while the rest is related to leasing of rolling stocks and other services such as freight forwarding and sale of wagons and locomotives. Net adjusted revenue represents total revenue of the Group less infrastructure and locomotive tariffs on loaded trips, which are paid by the Group's clients to RZhD through the Group and which are accounted in equal amounts both in revenues and costs over the period.

Leasing as second major service. Second important service provided by the Group is leasing of railcars to third parties. In 2008 the Group increased its exposure to leasing business through acquisition of stakes in two leasing companies Spacecom and Intopex, the combined fleet of which amounted to 4,152 rail tank cars and 8 locomotives (at the moment of the acquisition). Expansion of leasing business helped to diversify revenue structure of the Group and provides stable mostly dollar-denominated cash flows. As of the end of 2009, the total number of leased out rail cars amounted to 6,007 units that is 16% of the company's total fleet. In 2009 leasing business brought 9% of the total Group's revenue.

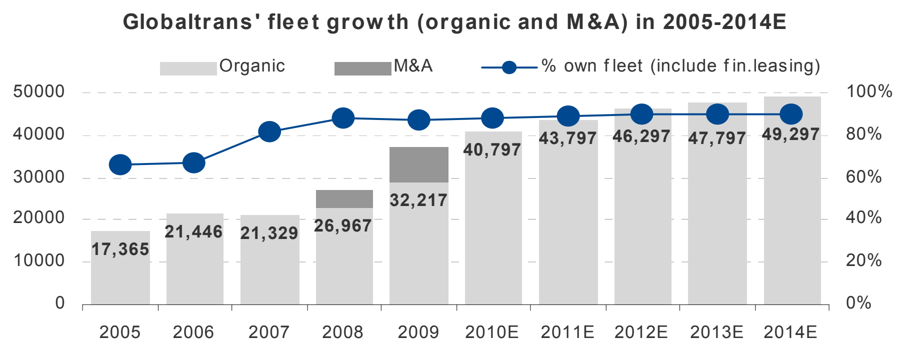


Source:Globaltrans, TKB Capital Estimates



Source: Globaltrans, TKB Capital Estimates

Business expansion and economic growth drove performance. The main drivers of the Group's revenue were expansion of its rolling stock fleet, extension and optimization of routing, and higher price per trip backed by increasing tariffs of the Russian Railways. Total fleet of the Group increased by 38% during 2008-2009 thank to consolidation of BTS in 2009 (the company added 8.3 thou rail cars to Globaltrans) and organic growth. Consolidated fleet grew by 5.1% in 2008-2009 (here and below we use consolidated numbers). Average price per trip increased by 11% in ruble terms in 2008-2009, posting decline in dollars at 13% due to ruble depreciation. Average number of rolling stock operated grew by 41% in 2008-2009 due to BTS consolidation (based on consolidated figures (Globaltrans and BTS) average number of rolling stock operated was up by 2%).



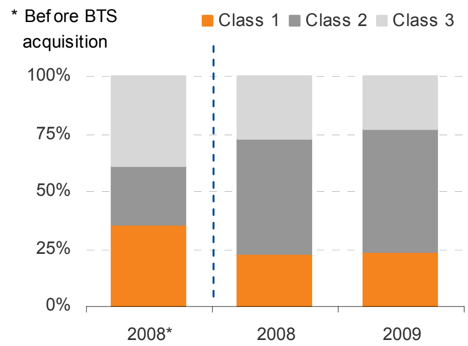
Source: Globaltrans, TKB Capital Estimates

Own locomotives and block trains as additional advantage. Another important advantage of Globaltrans transportation business is the use of so-called “block trains”, which consist of rolling stock bound for the same destination. These trains allow increasing efficiency of the transportation operations and improving delivery time as they do not require spending time for attachments and detachments of rolling stock at stations as it happens with trains consisting of rolling stock operated by various companies and headed to various destinations. Globaltrans uses its own locomotives (operated mainly by BTS) for the “block trains” that allows improving delivery time and turnover of railcars. Currently locomotive traction provided by private operators is used at short routes as this segment is regulated by RZhD. Liberalization of locomotive traction will widen the scope for development and efficiency improvement.

Pricing of the orders – with tariff base and market component. Prices for the Group’s services are set upon a request or under annual framework contracts with monthly adjustments. As 35% of railcar park in Russia belongs to RZhD, prices set by Russian Railways according to the tariff regulation serve as a benchmark for private operators in certain segments. Other factors determining prices are competition among freight rail operators on the relevant routes and their ability to manage empty run costs. As infrastructure and locomotive tariff is set by the Federal Tariff Service (FTS), private operators compete for the carriage component, which amounts approximately to 15-20% of the total price. Carriage component is determined by the economic situation and competition on the market. Despite positive dynamics of railway tariffs prices declined in 2009 due to weak market conditions and low demand for transportation services in certain segments. Economic recovery will drive demand up with higher prices for transportation services and higher efficiency of routing.

Cargo mix – diversification into profitable classes. Cargoes are divided into three classes depending on revenue they generate for an operator. Transportation of metals (ferrous metals and scrap) represents Class 3 (the highest revenue class) and accounted for 34% of the Group net revenue in 2009. Class 2 cargoes (freight mostly of oil and oil products) amounted to 56% of the net sales, while the lowest revenue Class 1 (mainly coal) equaled to 10% of net revenue. Over the recent years the Group successfully targeted higher prices transportation segments that helped to achieve higher average price per trip and to show higher efficiency of operations.

Globaltrans' transportation volume by cargo class

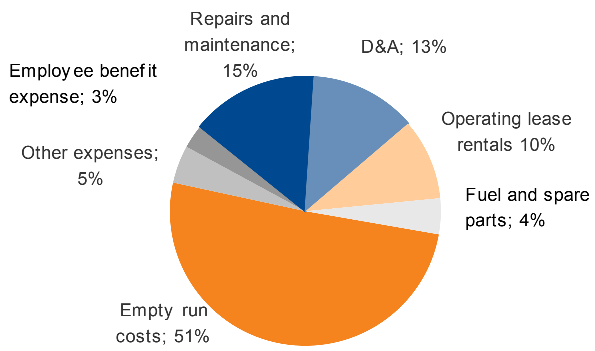


Source: Globaltrans

Sales to grow by 56% in 5 years. We expect net adjusted revenue to grow by 56% through 2010-2014 years thanks to fleet expansion, increasing transportation prices, optimization of cargo mix and routing. Tariff increase and higher demand for transportation services will drive average price per trip up. Economic recovery supports demand for freight services with metal segment giving a scope for volume increase determined by recovery in construction segment, while exposure into oil and oil products segment provide stable cash flow. Expansion of railcar park and geography of transportation routes will also contribute to the sales growth. Additional revenue is coming from operating leasing of rolling stocks, which accounted for 9% of the total net sales in 2009. Exposure of the Group into oil and oil products transportation through freight services and operating leasing of rail tank cars provide stable revenues resilient to the economic downturn.

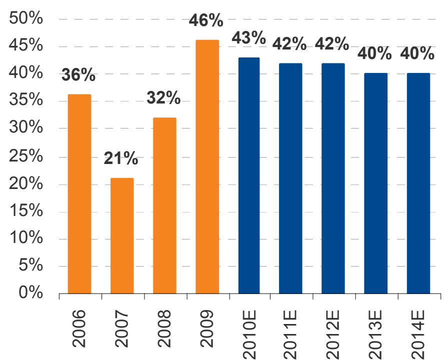
Cost structure. Total costs of sales amounted to $396 mn on 2009. This figure does not include infrastructure and locomotive tariff paid by the clients to RZhD as a “pass-through” item extracted both from revenue and costs. The major part of operating costs is infrastructure and locomotive tariffs paid on empty run trips (empty run costs), which amount to 51% of the total costs of sales. Second large item is repair and maintenance costs amounting to 15-17% of costs of sales, while DD&A total 10-13%. Optimization of routing allows minimizing costs of empty run trips, while relatively new fleet determines lower repair and maintenance costs.

Cost of sales structure in 2009



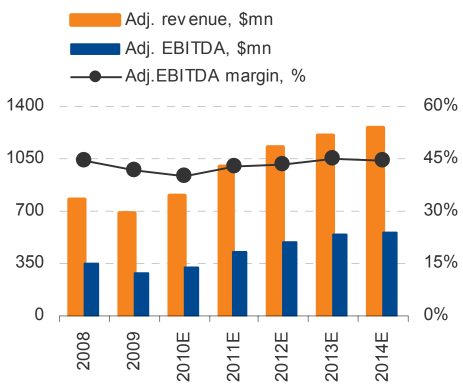
Source:Globaltrans, TKB Capital Estimates

Globaltrans' empty run ratio for gondola cars



Source:Globaltrans, TKB Capital Estimates

Key financials and EBITDA margin in 2008-2014E



Source: Globaltrans, TKB Capital Estimates

Empty run costs. When a rail car moves without cargo, operator pays infrastructure and locomotive tariff for this empty run to RZhD, which in turn is included in price for the end-user. Ability of an operator to manage empty runs, its cargo mix and routing optimization determine empty run costs. Infrastructure and locomotive tariffs on unloaded trips are revised according to RZhD tariffs set by FTS. In rail tank segment empty run costs are usually high (100-110%) as optimization opportunities are limited due to specific nature of rail tank car logistic pattern. Empty run ratio in gondola segment was equal to 46% in 2009 vs. 32% in 2008. The main factor of this growth was economic downturn that led to reduction of cargo volumes of raw materials in metal segment (iron ore and scrap), weak situation in construction segment and decline in import (that means reduction of inbound traffic in ports) as well as weak business activity in SME segment. Empty run costs amounted to $167.9 mn in 2009 vs. $150.3 mn in 2008.

Economic recovery will help to optimize routing. 2010 results on efficiency are expected to be better than a year ago thanks to economic recovery, growth in cargo of metal segment as well as scrap and iron ore volumes. Reduction of empty run costs is one of the core drivers of efficiency ratios. Economic recovery and higher business activity will help to optimize routing. Important strengths of the company are large Russian corporations among its clients, which business is geographically spread in Russia. In 2010 we estimate empty run ratio at 43% in gondola segment, where the company is able to manage empty trips. For rail tank cars this ratio is expected at 110% routs looping is hardly possible there. In a long-term period we expect empty run ratio in gondola segment at 40-42% and at 110% in rail tank car segment. We consider our estimates as conservative, which implies downside potential in the future.

Repair and maintenance costs. Repair and maintenance of the rolling stock determine the Group's success in providing reliable and efficient functioning of the fleet. Related costs are the second largest item of costs of sales. In 2009 repair and maintenance costs amounted to $62 mn vs. $84 in 2008. Cost reduction was mainly attributable to cost saving initiatives as the most part of rail cars was transferred to a mileage-based repairs system. Scheduled repair and maintenance works can be performed based either on the period of operations or on the mileage of operations and the latter is considered to reduce the number of repairs required during the year. As of the end of 2009, 68% of the Group's fleet was transferred to the mileage-based repair scheme. Relatively new fleet of the Group determine lower costs of repair, which will slightly grow through 2010-2014, according to our estimates.

Adjusted EBITDA margin to stay at healthy 41-46%. Routing optimization, increasing share of high revenue classes and economic recovery determine high efficiency of Globaltrans operations. In 2009 EBITDA declined by 10% to $261.6 mn mainly due to ruble depreciation over the year. At the same time, EBITDA margin stood at 41.1% in 2009 vs. 44.8% a year ago reflecting the Group's ability to show high efficiency despite economic downturn. Adjusted EBITDA was at $284.5 mn posting a 18% decline y-o-y due to weaker ruble, while in ruble terms adjusted EBITDA grew by 5% reflecting high operating results and stable efficiency. In 2010-2014 we estimate adj.EBITDA margin at 41-46%. In 2010 adj. EBITDA will grow by 18% to $330.5 mn following economic recovery.

Financials forecast

BALANCE SHEET

$ mn	2009	2010E	2011E	2012E	2013E	2014E
TOTAL CURRENT ASSETS	300	328	431	628	815	1,010
PP&E, net	905	1,019	1,111	1,179	1,241	1,308
Other non-current assets	56	58	72	59	62	65
Total NON-CURRENT ASSETS	965	1,081	1,185	1,241	1,306	1,375
TOTAL ASSETS	**1,265**	**1,409**	**1,616**	**1,868**	**2,121**	**2,386**
Short-term borrowings	153	147	121	154	158	130
Trade and other payables	64	93	109	121	127	133
Other short-term liabilities	1	2	2	2	3	3
Total CURRENT LIABILITIES	**218**	**241**	**232**	**278**	**288**	**266**
Long-term borrowings	296	271	280	236	187	171
Other non-current liabilities	39	34	27	19	20	21
Total NON-CURRENT LIABILITIES	**335**	**305**	**307**	**255**	**207**	**191**
Minority interest	101	139	193	257	330	406
Share and additional capital	278	278	278	278	278	278
Retained earnings	332	445	607	800	1,018	1,245
Total EQUITY	**610**	**723**	**885**	**1,078**	**1,296**	**1,523**
TOTAL EQUITY & LIABILITIES	**1,265**	**1,409**	**1,616**	**1,868**	**2,121**	**2,386**

INCOME STATEMENT

$ mn	2009	2010E	2011E	2012E	2013E	2014E
Net revenue	684	807	997	1,133	1,209	1,258
Cost of production	(396)	(472)	(559)	(619)	(650)	(679)
EBITDA	281	330	433	504	552	574
Adjusted EBITDA	285	330	433	504	552	574
DD&A	(53)	(60)	(67)	(73)	(78)	(82)
EBIT	228	270	366	431	474	492
Net interest income/(expenses)	(79)	(35)	(30)	(28)	(20)	(19)
EBT	150	236	336	404	455	473
Income tax	(30)	(47)	(67)	(81)	(91)	(95)
Net income	120	189	269	323	364	379

CASH FLOW STATEMENT

$ mn	2009	2010E	2011E	2012E	2013E	2014E
Net CF from operating activities	271	286	324	446	471	486
Net CF from/(used in) investment activities	(167)	(177)	(161)	(144)	(140)	(149)
Net CF from/(used in) financing activities	(81)	(145)	(146)	(155)	(203)	(184)
Net Debt	289	295	262	105	(67)	(264)

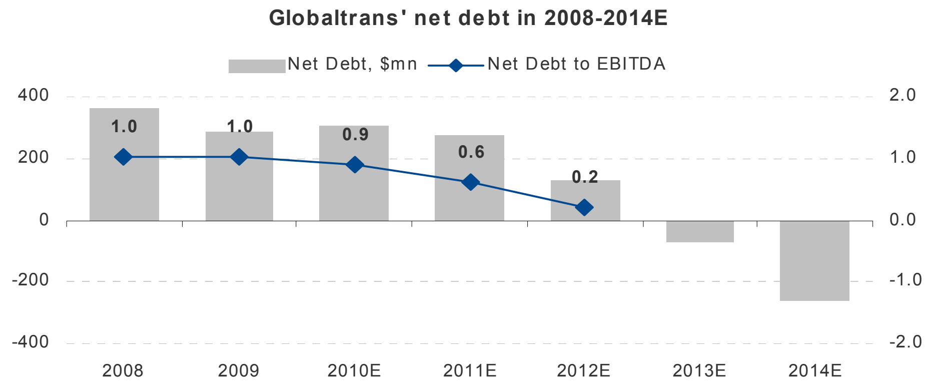
RATIOS

%	2009	2010E	2011E	2012E	2013E	2014E
Net adjusted revenue growth	-12%	18%	24%	14%	7%	4%
Adj. EBITDA margin (to net revenue)	42%	41%	43%	45%	46%	46%
Net margin (to net revenue)	18%	23%	27%	29%	30%	30%
Net Debt/Adj. EBITDA	**1.0**	**0.9**	**0.6**	**0.2**	**neg**	**neg**

Source: Globaltrans, TKB Capital estimates

Debt

Comfortable level of debt gives scope for further expansion. Total debt of the Group at the end of 2009 amounted to $448.9 mn, while cash and cash equivalents were equal to $160 mn. Thus, net debt amounted to $288.9 mn vs. $360.6 mn in 2008. In 2009 the Group managed to reduce the volume of debt and to lower costs of funding. Globaltrans is also aiming at lesser share of US dollar denominated liabilities in the debt structure. Short-term debt borrowings amounted to $253.5 mn, while long-term borrowings to $195.4 mn. In 2009 net debt to EBITDA was equal to 1.0, and in 2010 we estimate this ratio at 0.9.

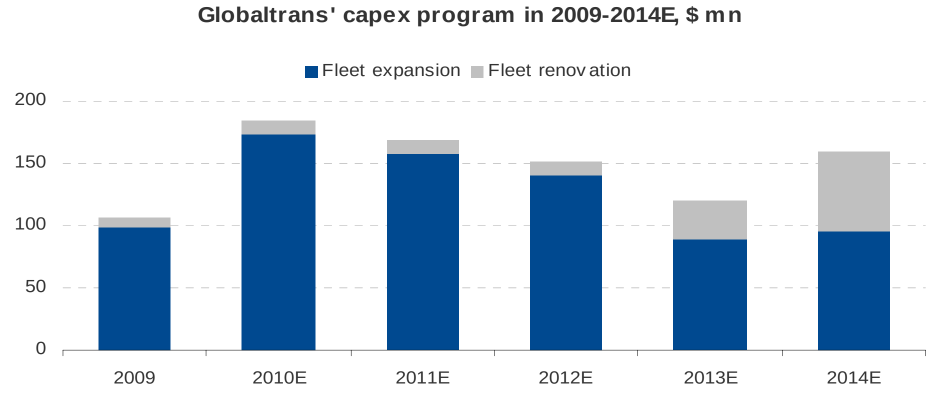


Source: Globaltrans, TKB Capital Estimates

NPK bond placement proves investors interest. OJSC New Forwarding company (NPK), the Russian subsidiary of Globaltrans and one of the largest rail carrier, successfully placed its ruble denominated bonds. The total volume of placement is RUR3 bn, duration is 5 years with a call option in 2.5 years. The book was oversubscribed 2.7 times. The bond was priced below the initial price guidance at a coupon rate of 9.25% per annum. The announced price gives 140 bps premium to the similar issues of Transcontainer and Aeroflot that proves investors interest to the securities. The attracted funds will be used to refinance the current debt and to increase Russian ruble denominated debt in the portfolio.

Capex

Fleet expansion – delivering value and stable position. We estimate Globaltrans capex at $600 mn in 2011-2014. The major part of funding will be used to finance fleet expansion (80%), while the rest will be spent on renovation of the rolling stock. We expect that Globaltrans to expand its fleet by 1,500-2,500 rail cars per year in 2010-2014, while in 2014 the total number of own and leased under financial leasing rail cars will reach 44,464 units. Taking into account relatively new fleet of the Group higher spending on maintenance is likely to happen in later periods. According to our estimates, the company will be able to finance its capex program by own funds. At the same time, we do not exclude more aggressive development of the company aimed at market share expansion that will be positive driver for Globaltrans' stocks. If locomotive segment is liberalized, we expect Globaltrans to expand its fleet of locomotives optimizing its routes and gaining additional profit using its own locomotive traction.



Source: Globaltrans, TKB Capital Estimates

DCF Valuation

We used DCF model to estimate fair value of Globaltrans' shares. We forecasted cash flows of the company for 2010-2014 based on fleet expansion, recovery of the transportation segment and further optimization of routing. We applied WACC at 12.6% for the forecasted period with terminal growth rate at 3%. Fair value according to the DCF model is evaluated at $18.8 per GDR that means 23% 12 months upside potential to the current market price and a BUY recommendation.

$ mn	2010E	2011E	2012E	2013E	2014E
FCF	108.1	239.6	280.1	315.1	327.7
WACC	12.6%	12.6%	12.6%	12.6%	12.6%
Discounting factor		0.95	0.85	0.75	0.67
Discounted FCF		228.2	236.9	236.7	218.7
Total discounted FCF in 2010-2014					**920.5**
Terminal growth rate					3%
Terminal FCF					3 518.3
Discounted terminal FCF					2 347.5
EV					**3 268.0**
Net debt					295.4
Market Cap					**2 972.6**
N of Shares, '000					158 136
12 months GDR, $					**18.8**

Source: TKB Capital estimates

WACC calculations	
Beta	1.2
Risk free rate	6.5%
Risk premium	7.0%
Cost of equity	**14.9%**
Share of equity capital	0.6
Cost of debt	12%
Tax rate	20%
Cost of debt adj for taxes	**9.6%**
Share of debt	0.4
WACC	**12.6%**

Source: TKB Capital estimates

Sensitivity Analysis	
WACC	**TP 2010E**
11.5%	21.4
12.0%	20.1
12.5%	19.0
12.6%	**18.8**
13.0%	18.0
13.5%	17.1
14.0%	16.2
14.5%	15.5
15.0%	14.8

Comparison with international peers

Globaltrans is traded with a discount 20-40% to its DM peers and with a 0-22% discount to its EM peers on 2010E P/E and EV/EBITDA basis. The latter companies are more expensive on multiple basis betting on stable industry growth rates and increasing demand for transportation services, which we believe also the case for the Russian market thanks to further recovery in construction segment and import volumes. Comparative analysis justifies our estimates based on DCF valuation.

		P/E			EV/EBITDA		
Bank	**Country**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**
Globaltrans		**20.0**	**12.8**	**9.0**	**9.7**	**8.3**	**6.3**
Developed Markets							
Union Pacific	USA	19.99	14.48	12.63	9.50	7.27	6.61
Norfolk Southern	USA	20.50	14.80	12.63	9.74	7.89	7.12
CSX Corp	USA	17.76	13.74	12.09	8.59	7.26	6.66
East Japan Railway	JAPAN	20.19	15.12	13.33	8.26	7.43	7.10
West Japan Railway	JAPAN	27.88	20.10	17.47	7.72	6.67	6.08
Central Japan Railway	JAPAN	17.78	14.29	12.41	8.46	7.78	7.63
Canadian Pacific Railway	CANADA	19.05	16.41	13.72	11.38	8.74	7.79
Canadian National Railway	CANADA	18.12	15.64	14.21	12.59	9.45	8.60
VTG AG	GERMANY	11.78	12.24	10.59	5.32	5.47	5.23
Kansas City Southern	USA	56.24	19.19	14.33	12.62	8.59	7.71
Genesee & Wyoming	USA	27.44	23.42	18.65	10.28	11.01	8.99
Average		**23.34**	**16.31**	**13.82**	**9.50**	**7.96**	**7.23**
Emerging Markets							
China Railway Tielong	CHINA	41.85	34.16	28.81	25.04	21.83	18.75
Guangshen Railway	CHINA	18.20	17.34	16.24	9.42	8.33	8.13
Sinotrans	CHINA	17.00	12.91	9.89	8.29	8.33	4.43
Average		**25.68**	**21.47**	**18.31**	**14.25**	**12.83**	**10.44**

Source: Bloomberg, TKB Capital estimates

Asset-based approach

In addition to the DCF and multiple models, we also used asset-based approach to evaluate the company. The main assets of Globaltrans are the rail cars, which are relatively new (average age is 6.2 years). Based on the rail park as of the end of 2009 (owned and leased under financial leasing) and the number of rail cars acquired in 1Q10 total fleet amounts to 39,139 rail cars and 60 locomotives. Adjusting for the age and using average price of $55,000 per rail car and $2 mn per locomotive we estimate EV of the Group at $2,270 mn. Thus, extracting net debt equity value is estimated at $1,980 mn or $12.5 per GDR that gives a discount of 17% to the current market price. We believe that this valuation is justified with our DCF estimates taking into account cash flow generated by the Group.

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