bne:infrastructure

News
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Top story

Russia's use of sport in regional development policy

Ben Aris editor of bne

After nearly two decades of neglect Russia's infrastructure is in desperate need of renewal and repair. The Kremlin has aggressively bid for the right to hold several major sporting events which it is using as a vehicle for regional development. Russia has plenty of money for the investments, but what it lacks - and what the sporting events provide - is some discipline in making these investments effective. And Russia's successful bid to hold the 2018 World Cup will win Russia some sorely needed prestigue after over a decade of Russia-bashing by the international media.

"Russia loves football, Russia knows what football is and in our country we have everything to conduct the 2018 World Cup at a very worthy level," the Prime Minister Vladimir Putin told cameras following the announcement of Russia's winning World Cup bid. "The decision corresponds with FIFA's philosophy of developing football, especially in those regions of the world where that development is needed."

Before the current crisis struck in 2008 Russia's growth was close to being constricted by infrastructural bottlenecks. Russia ranks 125 of 139 countries on the quality of its roads according to the World Bank. Power supply and demand was evenly matched in 2008 and the first blackouts were a warning of problems to come.

Only two of the country's biggest ports along Russia's vast 37,000 km of shoreline are connected to the federal road grid. Most of the rolling stock on the rail network has reached the end of its useful life, or is close to being so. Only 60% of landing strips are paved while only 48% have lights. And despite the start of a new millennium, Russians still undergo the ignominy of cold showers for a month in the summer when all the country's hot water is turned off for annual repairs to the plumbing.

The economic contraction that followed the global meltdown in 2008 has brought some relief and bought the government more time, but as Russia's economy comes out the other side (growth in 2011 will be between 4% and 5% according to analysts) all these problems will come back - and soon.

The reason the infrastructure was allowed to fall into disrepair was since the fall of the Soviet Union in 1991 the government's number one priority has been to get inflation under control.

Tariffs were squeezed, cutting utilities (the so-called energos) off from investment capital. At the same time part of the Finance Ministry's motivation for siphoning off most of the windfall gains from the burgeoning oil export revenues was to sterilise the petrodollars and also contain inflation. Few of the hundreds of billions of petrodollars flooding into Russia in the last decade were actually spent.

Everything changed at the start of 2008 when inflation fell to single digits for the first time in Russia's modern history. The battle was won. The Kremlin immediately changed tack and announced a massive $1 trillion investment programme. This compares with the $16 trillion the US needs to spend and the $40 trillion all developed markets need to spend, according Renaissance Asset Managers (RAM).

The Kremlin has already done much of the necessary groundwork. The state-owned utilities monopoly United Energy Systems (UES) has been broken up and partly privatised. The rail monopoly Russian Railways (RZD) has also been transformed into a joint stock holding company and a start had been made in reorganising it into rational pieces. A road fund has been set up and is already functioning that will be financed by a new one ruble duty on gasoline sales. And plans to reorganise ports, airports and roads were also well in hand. Everything was more-or-less ready for investors.

Infrastructure investment

The Kremlin was cutting it fine. It has launched its infrastructure drive late but not late enough so that the lack of infrastructure had impacted growth.

The global gross fixed investment (which is largely made up of infrastructure investment) to GDP ratio is about 23%, says Russian investment bank Troika Dialog and in fast-growing emerging markets it was closer to 30% before the crisis struck. In general investment into infrastructure in the emerging markets has been accelerating over the last decade as these countries "emerge", while that in the developed markets is falling - and falling faster now that the developed world is struggling under a massive increase in debt.

However, in Russia the rate of growth of fixed investment fell to 15% in 1998 and only caught up to the global average in 2007. Then as the subprime debacle began to unwind in 2008 fixed investment started falling again going negative in 2009.

More specifically, the infrastructure investment/GDP in Russia has also been on the low side at around 4-5% of GDP compared with the Growth Commission's (a World Bank-sponsored organization) estimates of a necessary level of 5-7% for sustainable economic growth. For comparison, China spent 8% of GDP on infrastructure in 2007, according to Troika. In all, Troika estimates the infrastructure investment backlog is nearly three times GDP.

However, as Russia's economy starts to recover investment has picked up fast. Takouhi Tchertchian, who runs RAM's Infrastructure fund, takes cheer from the fact that for the next few years investment - and specifically infrastructure investment - is expected to grow a twice the pace of the overall economy. In other words spending on infrastructure will become a major economic driver in the near term and could add as much as a couple of percentage points to the underlying economic growth, according to figures from RAM.

Sporting chance

The challenge Russia faces is not how to finance all this spending or even making sure that the spending is efficient. Thanks to its oil revenues Russia can afford to waste money and spend poorly. The most important issue that Russia faces is spending effectively. Even if it costs ten-times as much to build a road in Moscow as it does in Berlin (which it does) the key is at the end of the process the road has be a good road.

And that is where the Russian government always falls down. The plans are good but the Kremlin has always had a problem with implementation.

The Kremlin is attempting to get round this problem by hosting major sports events. The beauty of this plan is that in addition to a major overhaul of the infrastructure in the region that will hold the event, there is a fixed deadline by when the work needs to be finished and external inspectors with international quality standards that must be met. Moreover, because of the presitgue attached to the events, the Russian companies doing the work understand that the glare from the international media that will follow any screw ups means the consequences of failing to meet these standards will be sever.

The programme was trialled with Russia's successful bid to host the 2014 Winter Olympics in Sochi on the shores of the Black Sea. Tchertchian, who recently travelled to Sochi to inspect the work, reports that most of the construction is well in hand.

"Progress has been good and most of the major works are well underway," says Tchertchian. "Moreover, some of the construction methods being employed are very progressive. Olympstroy [the state agency that is overseeing the work] says this will be the greenest Olympic complex ever built. Most of the stadiums are using solar panels for power. The materials are also high tech. And many of the facilities have been built in movable segments like giant Lego so after the games are over the foundations and utilities remain but the site can be redeveloped and turned into something else."

Prime Minister Vladimir Putin has personally spearheaded the effort and started preparations even before Russia was chosen in 2003. Most observers believe that Russia won the right to host the games only because of sheer will and power of Putin himself, who personally oversaw the presentation efforts. When he met with the Olympic committee panel to present Russia's case he was flanked by Oleg Deripaska and Vladimir Potanin, two of Russia's richest men.

After six years of planning and construction, Potanin, the controlling shareholder of Norilsk Nickel, had already invested $1bn in developing Roza Khutor, which evolved from a ski resort to the largest multifunctional complex for the 2014 Olympics.

Roza Khutor was supposed to host competition for ten sets of Olympic medals: downhill, super G, giant and combined slalom. Then, on the eve of the 2009 bid, the Putin administration instructed Potanin to prepare the complex for Olympic competition in two more disciplines - snowboarding and freestyle. Potanin will also build an Olympic village for 2,900 sportsmen, which constitutes almost half of all expected athletes; the other Olympic village, built by Oleg Deripaska in the Imeretinsky valley, is designed to accommodate three thousand, who has also bought the local airport which is being expanded to handle international flights.

There have been some reports of corruption and delays, but Putin knocked heads together and at this point the progress on the Sochi development seems to be going smoothly as more and more of Russia's business elite get involved.

Football and trains

But the real coup was Russia's successful bid to hold the 2018 World Cup. Football is a popular sport in Russia, but Russia (and the Soviet Union before it) has never done particularly well in the tournament, failing to qualify at all several times and never getting passed the quarter finals.

The Russian government promised FIFA it would spend at least $10bn to develop the infrastructure in 14 cities - all in European Russia where 80% of the country's population live, except Yekaterinburg in Siberia - however, the Kremlin is actually planning to spend at least five times that amount on related work that will all be done in the framework of preparations for the tournament.

The preparation for the World Cup represents a massive expansion of the Sochi model. Russia has been directly challenged by China that hosted the last Olympics and more recently the World Expo, winning acclaim for both by spending billions on these shows; the Shanghai Expo brought in a record 72m visitors - and that is the point: these events are supposed to be a coming-of-age party.

In Russia the roads, bridges, rail, airports, ports and sports facilities will all be brought up to world-class standards. "This will substantially increase productivity, employment and increase economic growth. Historically, large infrastructure spending has tended to add a 1-2% non-cyclical layer to trend growth. On the back of this and high commodity prices, Russia can re-join the club of the high-growth countries in the world," says RAM's Elena Kolchina.

Inevitably commentators are asking: "Will Russia pull it off?" There is not a lot of form to go on. So far the only big international event Russia has hosted is the Eurovision Song Contest a few years ago, (but that went very well indeed according to participants).

The new infrastructure should bring enormous material benefits to the local economies in these cities. The US Department of Transport estimate that each dollar of highway investment in America leads to $6.20 of GDP growth and given that Russia's roads are so far behind the multiplier in Russia will surely be a lot higher.

But just as important, and a lot harder to forecast, is the intangible benefits the event will bring, mainly connected to having hundreds of thousands of foreigners visiting Russia for the first time.

Putin pointed out following the World Cup decision that the Cold War had left an enduring stamp on the world's view of Russia, and this "flies all over Europe, all over the world, buzzing in people's ears and scaring them".

"We must show that we are open," he said. "People will come and see for themselves. The more contacts, the faster that stamp is destroyed."

A large part of Russia's bad image is connected to the sheer ignorance over what Russia is like. In a comparable case, Germany found that it earned a huge amount of credit form hosting the World Cup in 2006 that affectively counteracted much of the lingering prejudice against Germany. Football fans that visited Moscow a few years ago when Moscow hosted the European Championship, most had only good things to say about the trip.

While the western press constantly paints a picture of Russia as a fascist police state populated by paupers and under a perennial blanket of snow, the reality is that the people are intelligent, well educated, hospitable in the old school style, and fun. The huge influx of visitors that any World Cup will attract will do more for Russia's image than any amount of marketing can hope to achieve.

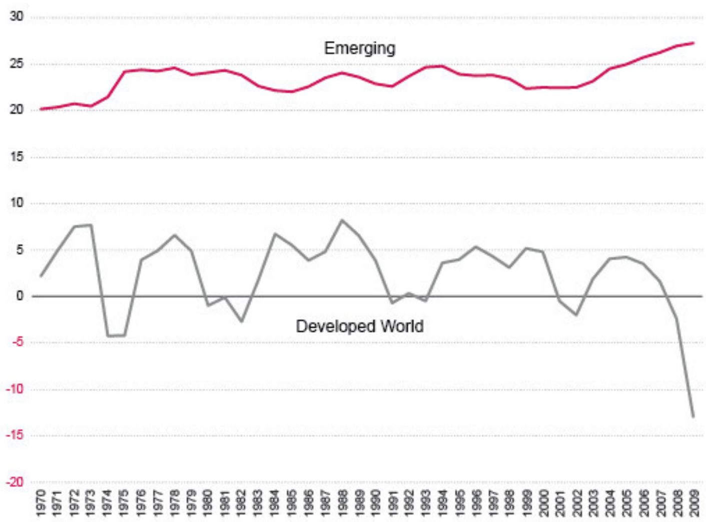
And the charm campaign has already started. The Kremlin has promised to waive visa requirements for anyone with a World Cup ticket and will also offer free internal flights to allow fans to travel the country to get to matches (which by itself will engender a lot of good will).

And the practical results are also materialising. After the power privatisation was finished the Kremlin turned its attention to rail reforms, which is well advanced. However, the World Cup decision was shortly followed by an ambitious plan to build Russia's high-speed rail network. The first Sapsam (Russian for Peregrine falcon) high speed train when into operation between Moscow and St Petersburg in December 2009 and plans for an extended network were rolled out in January.

The Moscow-St Petersburg train cuts the journey time between the Russia's two major cities (and the two biggest cities in Europe) to just 3.7 hours from 8 hours and RZD says it will spend a total of €50bn (€14m - €22m per km) on several more routes before 2018. Total investment into the Moscow-St Petersburg track will be €10bn-€15bn with a third coming from private sources.

The next high speed track planned will link Moscow and Nizhny Novgorod that is supposed to go online in April with several more routes due to appear this year.

Gross Fixed Capital Formation, % change y/y



Source: Thomson Reuters Datastream

Speaking to reporters on January 28, Denis Muratov, CEO of RZD's High-speed Rail Lines unit, said that 660km of new routes should be up and running by 2017 that will link the capital with the host cities of and Samara, Kazan and Yekaterinburg.

"The estimated cost of the high-speed train network suggest that the World Cup spending could reach about $85bn ($65bn for trains plus the roughly $20bn for stadiums and related infrastructure, as estimated in December 2010 by Minister of Finance Alexey Kudrin)," says analysts with VTB Capital in Moscow. "The announced preliminary estimates of the World Cup costs exceed our initial expectations of $50bn and support our view that the government's preferences are shifting towards higher infrastructure spending. This, coupled with the close to zero real interest rates, would help to boost investment, which we see as the key GDP growth driver in the near term." ●

Aeroflot considers moving to Domodedovo

www.aeroflot.ru

Alfa Bank

According to Kommersant, Aeroflot is considering the option to move all its flights from International Airport Sheremetyevo (IAS) to Domodedovo Airport. This idea was put on the table during a meeting with the Deputy Prime Minister Igor Shuvalov yesterday to discuss the development of the Moscow air-hub.

The current capacity of IAS does not allow Aeroflot to fully realize its ambitious expansion strategy. Therefore, the idea to move to Domodedovo Airport makes sense in the long-term. However, this is a large-scale and very complex project, which involves not only Aeroflot, but also all other airlines, that are currently based at Domodedovo.

Therefore, we view this step mainly as Aeroflot's attempt to push through the deconsolidation of Terminal D and influence IAS management, which is against the terms of the deal proposed by Aeroflot. To remind, Aeroflot planned to receive 25% of IAS in exchange for Terminal D, while IAS management is against such terms, stating that the value of Terminal D's net assets in 2010 was negative. ●

Cold shoulder: Russia's bad attitude hampers tourism

RIA Novosti - Vedomosti

Russia came 59th out of the world's 139 industrialized and emerging economies according to the 2011 Travel & Tourism Competitiveness Report due to its bad roads and poor security.

However, Russia's travel and tourism sector is expected to grow at an annual rate of 6.7% for the period 2011-2020, according to the report, released by the World Economic Forum at the 2011 Global Tourism Forum held in Andorra.

In this year's findings, Switzerland, Germany and France are the most attractive places for travel and tourism industry development. Russia's ranking has remained almost unchanged since 2009.

The report measures the factors and policies that make development of the tourism sector attractive. Russia has a wealth of cultural and natural attractions and a developed air transport network. However, bad roads and poor-quality but expensive hotels hamper its competitiveness. The country also ranks 13 from the bottom in terms of the complexity of its visa application process.

Although Russia ranks 96th in terms of the time needed to start up a business, the costs appear quite competitive (37th). However, rights protection is a problem, as is hiring foreign staff. But worst of all is security (at 113). Businesses have to spend a lot on anti-terrorist and security systems, while the reliability of law enforcement agencies is among the worst in the world.

Tourism is not one of the Russian government's priorities, judging by the level of spending, the report said. This sector accounted for a mere 6% of GDP and 5.1% of the workforce in 2010, down from 6.9% and 5.8% in 2008.

Tourism has become a priority over the past two years, a government source said. Therefore it is too soon to expect any tangible changes. A $10.5 billion federal program to develop tourism and travel will be adopted by the end of the year, with the government contributing $3.2 billion. Most of this money will be spent on infrastructure. The security can only improve through the country's overall development, he added.

The low security level has its roots in political problems, said Marina Udachina, head of the Institute for Innovation, Infrastructure and Investment. The authorities should focus on them rather than wait for overall development.

The government plans several infrastructure projects ahead of the 2018 FIFA World Cup, another government source said. Roads linking the cities that will host the games will be repaired and high-speed rail services may be established. More than 80% of spending planned for the 2014 Sochi Olympics will also go into infrastructure.

Russia has a lot going for itsaid Ivan Chakarov, Chief Economist for Russia and CIS countries at Bank of America Merrill Lynch. The country can offer a variety of tourist opportunities from visiting historical sites to skiing and fishing. But in order to sell all that, Russia needs to improve its infrastructure and the quality of services. ●

FESCO's CEO and controlling shareholder gives an interview

VTB Capital, Russia

ready to pay high market price for control in Transcontainer - looking for acquisitions in the railways segment, ports less likely - sale of control in FESCO no earlier than in 5-7 years

News: Vedomosti has published an interview with FESCO's controlling shareholder and CEO, Sergey Generalov. The key takeaways are as follows.

• FESCO is ready to pay the market price for control in Transcontainer (currently USD 510mn for the remaining 37.5% of shares) and a premium for control considering the potential debt (up to USD 500mn) and equity financing of the deal.

• Acquiring control in NSCP is not on the agenda at the moment.

• FESCO continues to look for acquisition targets in the railway industry.

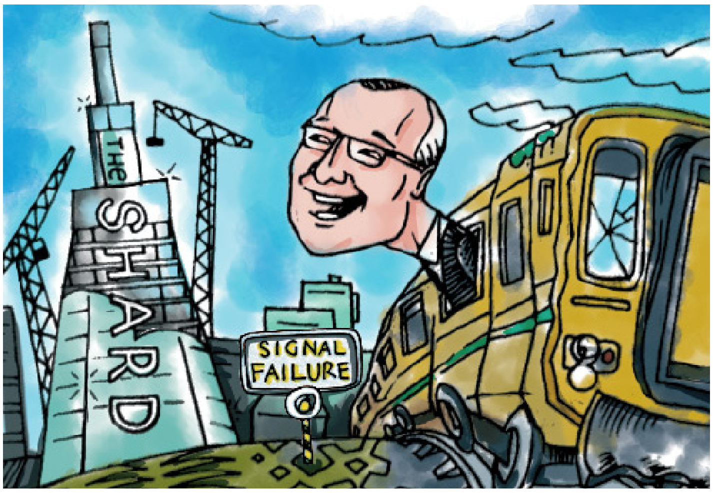
• Industrial Investors might consider selling a controlling stake in FESCO, but not earlier than in 5-7 years time.

Our View: The interview came broadly in line with previous statements but provided additional light on the company's current strategic priorities and M&A activities. Due to the unjustifiably high valuations of port assets, FESCO is shifting its M&A focus to the less profitable railways segment. However, given the 40% increase in railcar prices in 2010, and even higher increase in rail operators' valuations, we doubt that the company would be able to afford any investments except acquiring control in strategically important Transcontainer.

The fact that FESCO is ready to pay a lot for control in the company will be supportive for Transcontainer's share quotes. At the same time, we again highlight the risk of FESCO overpaying for the assets.

We also note that this is the first time that the owner of Industrial Investors has mentioned a potential time frame for selling control in FESCO. This means that in the next 5-7 years, Industrial Investors will continue investing in developing FESCO's business to increase its value (implying additional upside risks to our valuation). However, given that no specific new investment parameters were mentioned, we see the news as neutral at the moment. ●

Friday RAM:
Build it and they will come



Plamen Monovski, CIO of Renaissance Asset Managers

"If you want to be rich, you must first build roads." (Chinese proverb)

The epitome of the London "rat race" is the crowds of professionals clutching overpriced cappuccinos as they shuffle through the drizzle on their way to work every morning. The daily "Battle of London Bridge" is lost sometimes to signal failure on the Northern line as the capital's transport system continues to crumble. Yet it will take a couple of years to build the tallest building in Europe - the Shard - a testament to "build it and they will come," as it has already brought in a rumoured £60,000 per square metre in pre-sold space.

The London commuter's plight is hardly unique in the developed world. The 2007 collapse of a bridge over the Mississippi or the chaos caused by hurricane Katrina in 2005 exposed the sorry state of public works in the richest economy in the world, the United State of America. According to the consultancy Booz Allen Hamilton, American infrastructure still needs $16 trillion worth of repairs, while the number for all the leading developed economies is $40 trillion.

It is tempting to blame simple neglect for the sorry state of developed world infrastructure, but the problems run deeper than that. Perennial electioneering means western governments focus on pumping up current spending at the expense of long-term investment. The explosion of commercial construction contrasts with the glacial pace of public infrastructure improvements.

Moreover, infrastructure spending has a PR problem since several bridges-to-nowhere projects caused scandals in the noughties, so these days it has become a symbol of futile Japanese attempts to stimulate their ailing economy. The icing on this unpalatable cake was the humiliating bid by Ferrovial for UK airport operator BAA that ended in huge losses and jaded investors. The West seems to have lost interest in investing in infrastructure.

But the theory is clear and well understood by economists and government alike. The US Department of Transport estimates that each dollar of highway investment leads to $6.20 of GDP growth has become part of the Economics 101 syllabus. By contrast, a dollar tax cut will only "produce" a $0.67 GDP gain. But for most of the last decade, infrastructure investing has been an afterthought for politicians from both the left and the right, which stick to their budgetary dogma of spending or tax cuts respectively. No wonder then that productivity in the western world has been gently, but inexorably, declining.

Not so in emerging markets, where the opposite is happening (see Chart). Infrastructure spending has gone to the top of the agenda for those governments that can afford it - not just because of their prudence, but out of sheer necessity. Infrastructure bottlenecks are strangling fast growing economies. Loaded ships get stuck for weeks in overcrowded ports. Trucks are forced to reload cargos when crossing provinces or states. Power outages plunge factories into darkness. And crops wither because of water shortages.

Shoddy infrastructure is the biggest constraint on India's burgeoning growth, so successive governments have spent $350bn - a third of GDP - to get the wheels turning again. And despite the maddening bureaucracy, the Indian government defied sceptics to build the huge New Delhi terminal in 37 months.

Brazil is also not far behind. Presidente Lula launched the PAC- 1 investment programme (2007-2010) worth BRL500bn (216bn) that will go into housing, power generation, ports, etc. The next programme PAC 2 is even an more ambitious BRL1 trillion and supervised by the new president and "mother of the PAC programme", Dilma Rousseff herself.

However, the country that awes with the scale and speed of its infrastructure investment is China. No other country spends more and devotes as many resources to infrastructure projects as China.

The Middle Kingdom has a tradition of harnessing hundreds of thousands, or even millions of workers, to build gigantic projects.

The Great Wall and the Great Canal both required a million workers to complete. The Chinese achieve seemingly miraculous results by mobilizing a massive labour force. Recently, a 30-mile stretch of a road that had to be widened through a mountainous terrain (a project that would take a few years to complete in the US) was completed in a week by an army of 200,000 Chinese labourers.

The Chinese experience has validated the benefits of infrastructure investment. During the 2008 financial collapse, it provided a powerful counter-cyclical response on top of driving significant productivity gains throughout the decade. Arguably, the massive Chinese investment into infrastructure assets pulled the world out of recession and drove the redistribution of global influence. Only after this counter-cyclical push did the current Chinese Politburo earn its stripes on the global scene. Today, those nine men are viewed as can-do Supermen. It is fascinating that the world is prepared to trust a small bunch of autocrats, but continuously doubt the abilities of all democratically elected governments. Such is the power of effective infrastructure investment.

The Chinese experience has not been lost on its largest neighbour, Russia, which badly needs to invest more. Russia ranks 125th of 139 countries on the quality of its roads. Only two of the country's biggest ports along Russia's vast 37,000 km of shoreline are connected to the federal road grid. Most of the rolling stock on the rail network has reached the end of its useful life, or is close to being so. Only 60% of landing strips are paved, while only 48% have lights. And despite the start of a new millennium, Russians still undergo the ignominy of cold showers for a month in the summer when all the country's hot water is turned off for annual repairs to the plumbing.

Large infrastructure spending will also enable the Russian government to gradually change the composition of GDP and wean the country off its dependence on resource prices. It will drive productivity, introduce a non-cyclical layer of GDP growth and help employment. The Kremlin has already kick started the process. Like the Brazilian government, which is targeting a radical infrastructure upgrade prior to the World Cup in 2014 and the 2016 Olympics in Rio de Janeiro, the Russian leadership is using sporting events of similar significance to create investment momentum across its vast populated area.

The massive investment involved in infrastructure spending will, by necessity, be accompanied by institution building and the strengthening of the rule of law. Corruption, poor planning and substandard construction have plagued infrastructure projects in the past. But they are also a physical manifestation of the system's failures and highlight the needs for reforms in the most dramatic way. Collapsing buildings, bursting dams, cracked bridges and half-finished skyscrapers that lean to the side cannot be ignored by even the most cynical bureaucrat. The public outcry (and inevitable deaths that shoddy construction causes) will force the government to actively engage in institution building and lead to a more active civic society. And these changes are pre-requisites for infrastructure investment: as few countries have the wherewithal to raise the vast sums needed, foreign capital has to be mobilised and investors will demand improvements to the investment climate.

Investment in infrastructure has historically attracted long-term, conservative money. The monopolistic nature of the service providers, the ability to pass on variable costs to end users and the low usage volatility mean that the demand patterns are similar to those of non-discretionary services. It has been all about yield rather than capital appreciation.

However, the greenfield nature of investments in the most interesting geographies - Russia, Africa, Brazil - will require the presence of high-return seeking, risk-aware capital. History shows that the returns can be spectacular. Emerging market infrastructure companies have become some of the largest companies listed in the local bourses. Over the last decade, as the respective infrastructure cycles kicked off in earnest, the market capitalisation of United Tractors of Indonesia increased 140 fold, All America Latina Logistica of Brasil was up 65 times, Bharat Forge of India 27 times and Dongfang Electric 27 times.

Those eye-watering returns, combined with an ever improving investment environment, will leave no room for scepticism about emerging markets' prospects. Investors will flock in droves. Build it, we say, and they will come! ●

Moscow to spend $12.8bn on development in 2011

RIA Novosti

Some 25% of Moscow's 2011 budget will be used to develop the city, a deputy mayor of the Russian capital, Vladimir Resin, said.

Moscow's budget for 2011 is worth 1.4 trillion rubles ($49.7bn). About 360 billion rubles ($12.8bn) will be spent on development, he said. The French city of Cannes hosts an international trade show, MIPIM 2011, on March 8-11. Resin leads the Moscow government's delegation to the show.

Special attention is to be paid to development of transport, road and hotel construction, Resin said, adding that 75 km (47 miles) of subway lines is to be built in the next five years.

Moscow Mayor Sergei Sobyanin has identified solving the city's transport problems as a key issue on his agenda. In his first week on the mayor's post in late 2010, he pledged to take "extraordinary measures" to eliminate traffic jams. President Dmitry Medvedev said he would personally oversee the effort. ●

Mostotrest: Bigger and Better Bridges

VTB Capital

Mostotrest - the only liquid direct play on infrastructure development
We are initiating our coverage of Mostotrest, Russia's largest transport infrastructure company, with a Buy recommendation as our 12-month Target Price of USD 12 implies 50% upside potential from current levels. Its 2012F EV/EBITDA stands at 5.8x, implying 22% and 2% discounts to emerging and developed market peers respectively.

Large infrastructure spending is an absolute necessity
The poor condition of Russia's transport infrastructure, which is hindering economic growth, means that upgrading it is one of the government's top priorities. Even adjusted for our conservative implementation rates, the numbers look imposing, with up to USD 550bn potentially being spent over ten years (implying that annual spending will increase at a 16% CAGR, from USD 19bn in 2010 to USD 83bn in 2020). And we see this as achievable, since failing on already announced ambitious projects that are linked to major international events is not an option.

Mostotrest - the right company in the right segment
According to our calculations, Mostotrest's speciality (roads and bridges) will account for 41% of overall spending (or USD 226bn), so we see the company's revenues increasing at a 15% CAGR in 2010-20. While profitability might be dented by the increasing cost of construction materials, the government's desire to decrease the cost of construction and the company assuming the role of general contractor, we still see the ten-year EBITDA CAGR at an impressive 12%.

Major risks are government-related
The largest risk is the government's inability to finance infrastructure projects due to the adverse economic environment. Other risks include reduction in spending for any other reason. ●

Russia's Rail Garant wins tender to run container terminal at Tallinn Port

RIA Novosti

Russian transport holding Rail Garant has won a tender to operate the container terminal at Estonia's Tallinn Port, the port's board said on Tuesday.

Rail Garant, one of Russia's largest transport holdings, fought off nine over competitors, including Estonia's Transiidikeskuse AS to win the tender, which has been under discussion for the past year.

Rail Garant was successful because of its "innovative business plan," said chairman of the port's board, Neynara Seli.

"Rail Garant's plan will increase the potential of Tallinn Port in the region, attract more shipping lines and increase the attractiveness of the state in the eyes of foreign investors," Seli said.

Seli also praised Rail Garant's experience of working with big international transport carriers, such as Germany's Hoyer. ●

Russian Railways to decide on sale of another 30% in TCB to VTB

Troika Dialog

Vedomosti today reports on possible changes to the terms of VTB's purchase of the remaining stake (56.8%) in TransCreditBank (TCB), referring to unnamed sources close to the deal. The main takeaways are as follows.

Russian Railways will hold a BoD meeting on March 15, at which it will consider the sale of a further 29.4% to VTB. If, as likely, the sale is approved, Russian Railways will retain a blocking 25%+1 share, while VTB's stake would increase to 72.6%. According to VTB's recent SPO prospectus, it plans to increase its stake in TCB to 75% by end 2011; we currently model that VTB will acquire a 73% stake by end 2011, completing the remaining purchase in 2013.

The price for the remaining 56.8% stake will be based on valuator's estimate of R22.52 per sh are, or R29.1 bln ($1.0 bln) for the whole stake. This is apparently due to TCB's end-2010 Tier 1 capital being higher than previously expected. We do not know yet what VTB paid for the first 43% stake late last year, but the price for the remaining 56.8% stake implies an end 2010 P/BV of 1.9, in line with the maximum sum that VTB's management has previously guided it will pay of not more than a P/BV of 2.2 for TCB.

Russian Railways will also consider requesting a 15% prepayment from VTB for the remaining 25%+ 1 stake - around R1.9 bln ($67 mln).

Overall, news of the purchase of a further 30% stake in TCB is in line with our expectations, and we see a P/BV of around 2.0 for the whole bank as fair value given TCB's substantial captive customer base and high profitability (ROAE over 30%). ●

Sheremetyevo Airport to spend RUB300m on security program

bne

The board of directors of Moscow's Sheremetyevo Airport has decided to allocate about 300 million rubles on a program to upgrade security at the airport, including by setting up a permanent emergency situation room, Prime-Tass reports, citing a airport statement. ●

SOK Group sells Volgomost stake to Arkady Rotenberg

Metropol

Sources in the Volga Region reported on Saturday that SOK Group has sold its stake in Volgomost to Arkady Rotenberg, a major shareholder in Mostotrest.

Mostotrest could consolidate Volgomost
We believe that in the long term, Rotenberg would like to merge Volgomost with Mostotrest via a stock swap. In the short term, we think Mostotrest could buy 25% of Volgomost from Rotenberg in order to conduct an internal audit, the results of which should allow a more precise valuation of the remaining stake.

The Volgomost acquisition could help Mostotrest expand its reach from the Central Federal District to the Volga region as well as allow entry to the Ural region. Although the Volga Federal District is fiscally weaker than the Central Federal District, we estimate that the acquisition could add 30% to Mostotrest's bridge construction revenues.

Short-term outlook - boost for Volgomost
We believe that in the short term, Volgomost stock could get a boost from the sale. Currently, Volgomost trades at a 15% discount to Mostotrest on 2010E EV/EBITDA and a 20% discount on 2010E EV/S, according to Bloomberg. Taking into account a 19% correction in Mostotrest over the past four weeks, we believe that Volgomost's discount to Mostotrest could widen as Mostotrest recovers from the current lows.

Long-term outlook
In the long term Volgomost minorities could benefit from a share swap. We believe that such a swap could be made at a premium to Mostotrest given that Volgomost is predominantly a bridge construction company with higher profit margins than Mostotrest, which includes general contracting and road construction businesses that are less profitable. ●

Russia infrastrcuture news

Aeroflot buys eight long-haul Boeing 777s

Renaissance Capital

Event: Yesterday (9 March), Aeroflot officially signed an order to purchase two Boeing 777-200ER and six Boeing 777- 300ER aircraft. According to Reuters, Aeroflot got a 20% discount on the catalog price of the order. The airplanes will be delivered in 2012-2017. Aeroflot plans to use its new Boeings for existing and new regular flights, as well as on international routes during the 2014 Olympic Games in Sochi and the 2018 FIFA World Cup.

Action: The deal is supportive for Aeroflot's market position and operating performance in the medium term, in our view. Although no details on financing were disclosed, we think the airplanes will most likely come under financial leasing.

Rationale: Based on Boeing's official catalog prices ($232.3mn for the 777-200ER, and $284.1mn for the 777-300ER) and a 20% discount, the total cost of the order is roughly $1.7bn, vs Aeroflot's net debt as of September 2010 of $1.5bn. Eight new airplanes will bring the Aeroflot Russian Airways fleet up to 108, strengthening Aeroflot's position as the market leader, and leaving behind its closest rival, Transaero, with 59 airplanes (including 34 long-haul Boeings, among which are eight Boeing 777-200ERs).

Ivan Kim

Aeroflot considers creating a handling JV with Sheremetyevo and Vienna airports

VTB Capital

News: According to Kommersant, Aeroflot is considering creating a handling joint venture with Sheremetyevo and Vienna airports. It would be based at the company's core hub, Sheremetyevo, and service Aeroflot's aircraft as well as those from its Sky team alliance partners. Sheremetyevo's CEO estimates the JV's annual revenues at USD 30-60mn. Aeroflot's planes are currently serviced by own its handling subsidiary.

Our View: The Christmas collapse in Aeroflot's traffic clearly shows that there are serious problems in the company's own handling operations at Sheremetyevo. Given this, and the general idea of spinning off non-core businesses (such as Terminal-D), the creation of a JV looks logical.

However, we consider the chances of such a JV being created as low, since the government is considering inviting a foreign management company for Sheremetyevo airport as early as next year (after Terminal-D has been merged with other terminals). That is expected to bring global expertise and improve the quality of handling in the airport as a whole, thus removing the necessity to create an alternative handling company and reducing the economies of scale. Even if the JV were to be created, its impact on Aeroflot's financials would be marginal, while it is impossible to estimate what improvements there might be in operating efficiency. Therefore, we do not see any material impact for the stock.

Elena Sakhnova

City of Moscow allots RUB6.5bn for public transport upgrade

bne

The Moscow city government has allocated about RUB6.5bn to upgrade public transport vehicles in the city, replacing existing buses with ones meeting Euro-4 and Euro-5 emission standards and completely replacing the city's trams, Deputy Mayor for Transportation Nikolai Lyamov says, Prime-Tass reports.

Globaltrans - best position on reforming market

Troika, Russia

We raise our target price for Globaltrans from $18.80 to $20.58 per share and reiterate our BUY recommendation on the stock on the back of strong railroad cargo turnover growth and more aggressive organic growth. We continue to like the Globaltrans story due to the many existing opportunities for the company's long term development. These include aggressive organic growth, M&A deals, its expansion into the locomotive services market, and efficiency improvements (the empty run ratio declining), as well as strong cargo turnover and railroad tariff growth. The stock is trading at a 16% discount to EM rail operators on 2011E EV/EBITDA, albeit at a 2010E 12E EBITDA CAGR of 23.1%, which is one of the highest among its peers.

_ Catalysts in 2011. The company will report 2010 IFRS financials on April 4, after which the management will go on a road show, likely focusing on its outlook for 2011 12. We anticipate strong results and an appealing outlook. Secondly, the expected sale of Freight One this year to a strategic investor or the placement of the stock on the LSE via an IPO will increase interest in the sector and in Globaltrans in particular, especially if the deal is closed at a premium to the company's valuation.

Last but not least, the expected deregulation of locomotive services started this year, which will allow Globaltrans to start developing a new business segment and result in earnings upgrades.

_ Organic growth outlook reiterated. Globaltrans will stay ahead of the overall sector, supported by new railcar additions. We increase our average gondola car delivery forecast from 3,000 to 5,000 in 2011. We also raise our estimate for annual planned purchases of gondola cars in 2012 15 by 17% to 3,500. Therefore, by 2015, we predict the gondola fleet will grow to 38,700 cars (2011 15 CAGR of 11.9%).

_ Strong industry data improve company efficiency. The industry data for 2010 and early 2011 show solid growth in the transportation of scrap and ferrous metals, which are key cargoes for Globaltrans, providing room for feedstock efficiency improvement. We thus decrease our projection for the gondola car empty run ratio by 200 bps to 38%, resulting in a 4.3% increase in our 2011 EBITDA estimate. We are now looking for EBITDA growth of 28% to $466m this year.

_ Appealing multiples at the lowest PEG ratio. We employ a weighted average DCF approach and target multiples to 2011 estimates. We use a target 2011E EV/EBITDA of 7.5 and P/E of 14.0. Globaltrans' 2010E 12E EPS CAGR is 36%, compared with the peer group adjusted average of 15.7%, which gives the company one of the lowest PEG ratios in our coverage universe. Our DCF valuation returns a fundamental value of $21.54 per share at a 10.8% WACC and 3.0% growth rate.

For further details see today's desknote.

Mikhail Ganelin

Griffin Partners to build $1.4 billion bridge across Volga

RIA Novosti

Russian real estate company Griffin Partners announced on Tuesday plans to construct the first bridge across the Volga since the Soviet era.

Parner in the company, Oleg Gusakov, told investors at the MIPIM real estate fair in Cannes that the $1.4 billion bridge just east of the Russian city of Nizhny Novgorod would be completed in 2015, three years before Russia is due to host the world cup.

Nizhny Novgorod, Russia's fourth largest city, will host a number of games at the major sporting event. The bridge would be 4.7 km long and have capacity for 40,000 cars a day, Gusakov said.

Jet fuel price down in March, but cost pressure remains for Aeroflot

Renaissance Capital, Russia

Event: Vedomosti reported today (3 March), citing the Kortes information service, that the wholesale price of jet fuel fell 7.5% MoM in March to RUB21,700/tonne, following Prime Minister Vladimir Putin's debate with Russian oil producers in February. The price had been rising since September, and was up 34% in February vs January 2010. The government will reportedly continue to fight to hold down fuel prices, including by attempting to exclude intermediary businesses that tend to lift prices in fuel delivery.

Action: The increase in the jet fuel price is a major concern for Aeroflot, in our view.

Rationale: Fuel is the main expense item for Aeroflot, accounting for 37% of operating costs in 2011, on our estimates, under a conservative oil-price assumption. Currently, the situation in Africa and the Middle East remains tense, and is continuing to create anxiety about global oil prices. Therefore, we still see a significant threat to Aeroflot from rising fuel costs. We understand Aeroflot's hedging measures are limited, and raising ticket prices could affect demand. Margins this year could potentially be lower than expected if oil prices remain high.

Litigation between Sibirsky Cement and Ciments Francais over EUR 50mn continues

VTB Capital

News: Sibirsky Cement has issued a statement on the status of its litigation with Italcementi's subsidiary Ciments Francais over the return of an advance payment of EUR 50mn. According to the company, the negative decision by the Arbitration Court of the International Chamber of Commerce in December was not final and the company has already appealed it, while Sibirsky Cement's major shareholder Sibconcord (47%) is seeking to void the deal between Ciments Francais and Sibirsky Cement in the Russian courts.

Our View: The amount in question is the advance payment made by Sibirsky Cement within a deal to acquire Turkish assets from Ciments Francais in 2008, but the money was lost following the Russian company's decision to withdraw from the deal in late 2008. The parties have been in the Russian and international courts over this issue since Sibirsky Cement's decision to terminate the deal. Sibirsky Cement claims that it was misled by the seller as to the quality and financial standing of the assets which it planned to acquire.

We note that this advance payment was written off to expenses in the company's 2008 accounts. Therefore, even if Sibirsky Cement were to fail in its attempt to get the amount back, that would be neutral for the stock, in our view. However, were the company to be able to recover this amount, it could become a source of additional upside.

Vladimir Bespalov

Pulkovo Airport project awarded 4 Infrastructure Investor awards

VTB Capital - press release

The Pulkovo Airport reconstruction project has been awarded 4 Infrastructure Investor awards:

§ Global PPP Transaction of the Year

§ European PPP Transaction of the Year

§ #2 in the category of European Infrastructure Deal of the Year

§ #4 in the category of Global Infrastructure Deal of the Year

In an online poll hosted by Infrastructure Investor magazine, more than 35,000 votes were cast within the global infrastructure finance and investment community to determine the standout transactions and companies of 2010.

In July 2010, Northern Capital Gateway consortium (VTB Capital, Fraport AG _ Copelouzos Group), EBRD and IFC, a member of the World Bank Group, successfully closed the EUR 200mn syndication of the commercial bank B-loan tranche for the financing of the Pulkovo airport reconstruction project in St. Petersburg. The total cost of the Pulkovo airport modernization and reconstruction project is EUR 1.2bn, of which over EUR 700mn is financed through limited recourse long term senior debt with no government grants or subsidies involved in the financing.

Oleg Pankratov, Co-Head of Global Banking and Head of Infrastructure Capital & Project Finance at VTB Capital, said: "2010 was not the easiest year for infrastructure investment professionals. The global financial and economic crisis continued to cast a cloud over the sector. Of course, a challenging environment is also one in which successes stand out more markedly. We are proud that VTB Capital is part of a successful PPP project - the reconstruction of Pulkovo airport in St. Petersburg. VTB Capital, acting as both financial advisor and equity co-investor, has attracted EUR 1.2bn of investment into the project. This is the first major PPP project in Russia to be financed without government support".

Earlier this year, Project Finance magazine, a part of the Euromoney group, awarded VTB Capital with European Airport Deal of the Year for Pulkovo Airport financing. Infrastructure Investor is a leading infrastructure finance publication renowned by professionals.

TNK-BP closes deal to buy 74.9% in Sheremetyevo refueling complex

bne

TNK-Sheremetyevo, a subsidiary of Russian oil major TNK-BP's main unit, TNK-BP Holding, has closed a deal to acquire a 74.9% stake in the refueling complex of Moscow's Sheremetyevo International Airport for more than $200m, Prime-Tass reports, citing a TNK-BP statement.

TNK-BP intends to cover Sheremetyevo airport's demand for jet fuel and cooperate with the airport in a RUB2bn joint program to modernize its jet fuel supply system, TNK-BP said.

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Transneft, Gunvor plan fuel oil terminal in Novorossiisk

bne

Russian oil pipeline monopoly Transneft and Gunvor Group, a Swiss-based oil trading company, plan to build a fuel oil terminal at the Russian Black Sea port of Novorossiisk, Transneft's First Vice President Mikhail Arustamov says in an interview with Transneft's corporate magazine, Prime-Tass reports.

The annual transportation capacity of the terminal is projected at 4 million tonnes of fuel oil, Arustamov says, while Novorossiisk's Sheskharis terminal presently transports about 13 million tonnes of fuel oil per year.

Russia infrastrcuture finance & statistics

Aeroflot passenger traffic up 16.3% on year in Jan

bne

The passenger traffic of flag carrier Aeroflot Russian Airlines increased 16.3% on the year to 912,700 people in January, with passenger transportation up 19.2% to 2.894bn passenger kilometers, Prime-Tass reports, citing an airline statement.

International passenger traffic amounted to 610,500 people in the period, while domestic passenger traffic was at 302,200 people, the company says.

FESCO: Ahoy! Container Ahead!

Aton

In this note we upgrade our 12-month target price for FESCO to incorporate recent corporate events. We also provide the analysis that supports our view that FESCO's potential exposure to TransContainer could be value accretive for its shareholders.

Taking TransContainer in tow. In Nov 2010, FESCO bought a 12.5% stake in Russia's largest railway container operator TransContainer, paying around $140mn. Not only has this been a successful financial investment (up 20% to date), it may also be a potential catalyst for FESCO if it is able to obtain control of TransContainer, in our view.

Exposure to a unique asset base. We argue that via the deal, FESCO could gain access to TransContainer's vast customer base and nationwide terminal network on the rail-based container market. TransContainer yields an average EBITDA margin of 27% vs 17% for FESCO. FESCO's ultimate shareholder Sergei Generalov could fulfil his ambition of turning the company into one of Russia's biggest intermodal operators.

The hypothetical deal is distant, but worth putting on the radar screen. We believe the most realistic date for TransContainer's SPO, during which FESCO could potentially obtain control, is the end of 2012. In addition, we note there is limited visibility on the price FESCO would be willing to pay for control of TransContainer. To be conservative we do not yet incorporate any potential benefits that FESCO could reap from consolidating TransContainer into our model. However, we note that if the control transfer had already been agreed at a market-related price, we would increase our target price to $0.78/share or by a healthy 40% from our previous target price.

FESCO plans to continue working on the bulk cargo transportation market and to widen its presence in the railway segment through M&A. FESCO's Chairman Kirill Rubinsky said the company may buy a railcar operator comparable in size to its railway subsidiary Transgarant. Transgarant operates 15,600 railcars; a company of similar size and characteristics would be valued at $1-1.2bn, on our estimates. In our view, expansion into the railway market could boost the company's financial position.

FESCO offers a discount to peers on valuation ratios. A comparison of FESCO's key valuation ratios with international sector peers indicates that it trades at a 35-40% discount on

2011-12E EV/EBITDA on the back of improving profitability and revenue growth. On P/E ratio the company shifts to a discount in 2012E due to its continued deleveraging and improvements in bottom line. At the same time, the company offers a solid above-average revenue growth outlook.

As a result of forecast revisions to our DCF model and adjustments to our WACC, we update our target price to $0.72/share, an increase of 29% from the previous target of $0.56. Our new target price implies 36% upside potential and fully supports our BUY rating on the shares.

Infrastructure Ratings Remain Resilient During Downturn

Fitch

Link to Fitch Ratings' Report: Infrastructure Ratings Prove Resilient Through the Downturn <http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=604347>

Fitch Ratings-Paris/London/New York-09 March 2011: Fitch Ratings says in a newly-published report that its infrastructure and project finance ratings remained resilient from 2007 to 2010. On average, infrastructure and project finance ratings were downgraded less than one notch during one of the most severe financial and economic crisis in decades.

"Infrastructure assets are insulated in certain ways compared to other assets, but remain subject to the vagaries of the economy. They suffer downside risk and have a degree of correlation with GDP and other macro-economic indicators," says Olivier Delfour, Managing Director in Fitch's Global Infrastructure rating group. "However, the often essential services provided by these assets result in a better resistance to economic shocks."

Fitch identifies three main reasons for this relative stability. Firstly, core infrastructure assets often provide an essential public service, for example power generation, public transportation or healthcare, and are generally not overly exposed to discretionary spending. If market risk exists, it is often mitigated in various ways, in particular through third-party contracts with strong counterparties.

Secondly, project finance transactions typically include creditor-friendly features such as liquidity and tight covenants, helping a transaction to survive temporary shocks.

Thirdly, rating scenarios generally include conservative assumptions, for example, relating to traffic flows on a toll road, which already factor some downside into the analysis.

The report provides detailed explanation and examples of how these aspects have helped rating stability over the past four years. Some transactions experienced more severe negative rating actions than the portfolio average but these were generally triggered by transaction-specific issues, such as major operating problems at a power plant or a material overestimation of wind yield for a wind farm, rather than broader sector deterioration.

The report, entitled "Infrastructure Ratings Prove Resilient Through the Downturn", is available at www.fitchratings.com. your removal.

Infrastructure ratings remain resilient during downturn, says Fitch

bne

PRESS RELEASE. Fitch Ratings says in a newly-published report that its infrastructure and project finance ratings remained resilient from 2007 to 2010. On average, infrastructure and project finance ratings were downgraded less than one notch during one of the most severe financial and economic crisis in decades.

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Mostotrest: Bigger and Better Bridges

VTB Capital

Mostotrest - the only liquid direct play on infrastructure development
We are initiating our coverage of Mostotrest, Russia's largest transport infrastructure company, with a Buy recommendation as our 12-month Target Price of USD 12 implies 50% upside potential from current levels. Its 2012F EV/EBITDA stands at 5.8x, implying 22% and 2% discounts to emerging and developed market peers respectively.

Large infrastructure spending is an absolute necessity
The poor condition of Russia's transport infrastructure, which is hindering economic growth, means that upgrading it is one of the government's top priorities. Even adjusted for our conservative implementation rates, the numbers look imposing, with up to USD 550bn potentially being spent over ten years (implying that annual spending will increase at a 16% CAGR, from USD 19bn in 2010 to USD 83bn in 2020). And we see this as achievable, since failing on already announced ambitious projects that are linked to major international events is not an option.

Mostotrest - the right company in the right segment
According to our calculations, Mostotrest's speciality (roads and bridges) will account for 41% of overall spending (or USD 226bn), so we see the company's revenues increasing at a 15% CAGR in 2010-20. While profitability might be dented by the increasing cost of construction materials, the government's desire to decrease the cost of construction and the company assuming the role of general contractor, we still see the ten-year EBITDA CAGR at an impressive 12%.

Major risks are government-related
The largest risk is the government's inability to finance infrastructure projects due to the adverse economic environment. Other risks include reduction in spending for any other reason.

Elena Sakhnova

Rail cargo loading in February 2011

Renaissance Capital, Russia

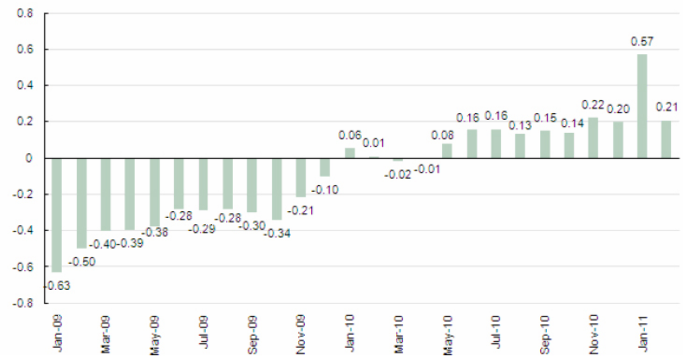
Event: According to a Russian Railways statement yesterday (2 March), total railway cargo loading in Russia increased 5.2% YoY in February 2011. Cumulative loading reached 189.9mnt YtD, up 7.9% YoY. The strongest performance was in basic materials and cement transportation, with cumulative loading up 36.8% and 23.6% YoY, respectively.

Action: Positive for Globaltrans, in our view, as the decrease in the company's empty run ratio is contingent upon the growth of basic materials and construction cargo loading. Positive for Transcontainer, in our view, as YtD rail container volumes look strong.

Rationale: The growth in rail transportation appears to have started decelerating, after the post-crisis recovery in 2010.

Loading volumes of the major transported cargoes - coal, and oil and oil products - were almost flat in February vs the previous year's volumes. Growth in ferrous metals loading volumes, one of Globaltrans's major categories, increased a robust 9% YoY in February 2011, after being up 13% YoY in January 2011. Solid growth in loading volumes for basic materials and construction cargo follows the underperformance before 2H10, and we believe is due to a revival in construction activity. We think large-scale infrastructure projects could add to rail volumes over the medium term, which will be positive for Globaltrans. Loading of container cargoes was up 12.4% YoY in February 2011, following the 10.9% YoY growth in January 2011. We expect a 9% increase in Transcontainer's volumes this year, and regard the market dynamics YtD as quite strong.

Basic materials – YoY growth in cargo loading, %



Rosmorrechflot forecasts that Russian sea ports' annual turnover will reach 770mnt in 2016

Renaissance Capital

Event: On Friday (4 March), Russia's Federal Agency for Sea and River Transport (Rosmorrechflot) summarised the results of sea and river transport performance in 2010. The Ministry of Transport reportedly plans to further develop the infrastructure of Russian sea ports under the 'Development of transport system in Russia 2010-2015' government programme, and furthermore intends to raise the total annual turnover of sea ports to 770mnt in 2016 (including 15% output reserve).

Action: Neutral for Novorossiysk Commercial Sea Port (NCSP) and FESCO, in our view.

Rationale: Given total cargo turnover for Russian sea ports of 526mnt in 2010, the announced 2016 target implies a 6.6% CAGR in 2010-2016, vs 5.9% and 9.2% growth in 2010 and 2009, respectively. According to our current estimates, NCSP's CAGR in cargo turnover for 2010-2016 will be 4.9%. A significant capacity increase at Novorossiysk port is unlikely. Vladivostok sea port will participate in the government infrastructure programme, which is potentially supportive for FESCO in the long term, in our view.

Ivan Kim

TransContainer RAS net profit soars to RUB404m in 2010

bne

The net profit of Russian container shipping company TransContainer jumped to RUB404.155m in 2010 from RUB22.101m a year earlier, as calculated under Russian Accounting Standards (RAS), Prime-Tass reports.

The company says its RAS revenue increased 39.2% on the year to RUB22.760bn and sales profit soared to RUB2.081bn from RUB775m in 2009, Prime-Tass reports.

The news agency says the company attributes the increase to the recovery of the container transport industry in Russia following the economic crisis.

Russia roads

Kabardino-Balkaria's $20m roads development plan

Marchmont

A total of $19.8m is to be spent on roads sector development in the Republic of Kabardino-Balkaria in 2011, regional officials report.

Of the total funding, $6.1m is reportedly to be allocated from the federal budget, $13m is to be assigned from the regional budget.

Lipetsk region's roads to get $31m overhaul in 2011

Marchmont

A total of $31.3m is to be spent to finance road works in Lipetsk region in 2011, regional officials report.

Of the total funding, $26.8m is reportedly to be allocated from the regional budget.

Under plans, specifically, the funds are to be used to start repairs of a bridge over the Don river on the road between Khlevnoye and Terbuny.

Russia denies Moscow-St. Pete highway will run through 2nd protected park

bne

Russia's Federal Road Agency has denied rumors that it plans to run the Moscow-St. Petersburg highway through the Zavidovo national park but environmental activists are bracing for a fresh fight similar to the unsuccessful attempts to force the road to bypass the Khimki forest north of Moscow, The Moscow Times reports.

The newspaper says the plans to build the road through the 125-square-kilometer Zavidovo national park came to light last at a public meeting about the section that will run through Klin and representatives of local green groups the agency's reassurance as a barefaced lie.

Samara region eyes $35.5m cable-way over the Volga

Marchmont

Authorities in Samara region have announced plans to build a $35.5m passenger cableway over the Volga river.

The investment project is reportedly to be carried out jointly with the Russian NGO Association Versivo, other partners in the project are SKADO and Austrian firm The Doppelmayr Group.

Under plans, the cableway is to link the city of Samara with the village of Rozhdestvenno.

The cableway is to have 19 cabins for 15 passengers each, the officials said. Its hourly capacity is estimated at 750 passengers.

Construction is scheduled to start in spring 2012 and last 1.5 years.

Tatarstan to get $207m budget loan on road construction

Marchmont

Authorities in the Republic of Tatarstan expect to take out a $207m budget loan with the federal government, Interfax reports.

The funds are reportedly to be loaned for five years at 2% interest rate.

Under plans, the funds are to be spent on construction of roads to prepare for the international sports event Universiada-2013, to be held in Kazan.

Tula eyes $122m transport junction by 2014

Marchmont

A $122m transport junction is to be built in the city of Tula, city officials report.

The project is reportedly to be financed from the federal, regional and municipal budgets, as well as bank loans.

Under plans, the transport junction is to link the city's Central, Proletarsky and Zarechensky districts with highways towards Ryazan and Moscow.

Construction is scheduled to be completed by 2014.

Voronezh roads to get $105m overhaul before anniversary

Marchmont

Over $105m is to be spent on street roads development in Voronezh before celebration of the city's 425th anniversary in September 2011, city officials report.

Of the total funding, $7.6m is reportedly to be allocated from the federal budget.

Under plans, the funds are to be spent on repairs of road surface in the historic part of the city - Bolshaya Streletskaya, Teatralnaya, Karl Marks and other streets.

Russia trains

Moscow Metro to add stations to Circle Line

bne

Two new metro stations will be added to the Moscow Metro's Circle Line, The Moscow Times reports, citing Moskovsky Komsomolets, which says one of the additional stations could be operational by 2016.

The tentatively named Suvorov Square station will be constructed between Novoslobodskaya and Prospekt Mira, and Konyushkovskaya is to be situated in the vicinity of the White House between Kievskaya and Krasnopresnenskaya, chief metro architect Nikolai Shumakov was quoted as saying. Suvorov Square may begin operations by 2016, with Konyushkovskaya to follow.

Gorky Railways to spend $75m on repairs in 2011

Marchmont

Interregional rail operator Gorky Railways has announced plans to invest a total of $74.8m in capital repairs of railroad in 2011.

Under plans, the funds are to be used to overhaul 250 kilometers of rail tracks.

Gorky Railways is a part of national rail operator Russian Railways.

Moscow to replace all metro cars by 2020 for RUB300bn

bne

Around 300 billion rubles is to be allocated to replace all rail cars currently being operated on the Moscow Metro with cars meeting modern standards and to acquire cars for new lines by 2020, Moscow Mayor Sergei Sobyanin says, Prime-Tass reports.

Around 4,000 rail cars are to be bought to replace existing ones, as well as 2,000 cars for newly-built metro lines, Sobyanin said.

Nizhny Novgorod region to get $104m budget loan to build metro

Marchmont

Authorities in Nizhny Novgorod region have announced plans to take out a $104m budget loan with the federal government.

The funds are reportedly to be loaned for three years at interest rate of 1/2 of the Central Bank's base rate (7.75% as of today).

Under plans, the funds are to be invested into construction of the metro in Nizhny Novgorod.

North-Caucasus Railways to invest $45m in train stations and platforms

Marchmont

Interregional rail operator North-Caucasus Railways has announced plans to invest $44.7m in capital repairs and reconstruction of train stations and passenger platforms by 2015.

Under plans, $28.4m is to be spent on repairs and reconstruction of passenger platforms and $16.3m is to be invested into train stations overhaul.

Specifically, the company intends to carry out repairs and reconstruction of 13 train station complexes by 2015, the firm said.

North-Caucasus Railways is a part of national rail operator Russian Railways.

Rail Garant wins tender to run container terminal at Tallinn Port

RIA Novosti

Russian transport holding Rail Garant has won a tender to operate the container terminal at Estonia's Tallinn Port, the port's board said on Tuesday.

Rail Garant, one of Russia's largest transport holdings, fought off nine over competitors, including Estonia's Transiidikeskuse AS to win the tender, which has been under discussion for the past year.

Rail Garant was successful because of its "innovative business plan," said chairman of the port's board, Neynara Seli. "Rail Garant's plan will increase the potential of Tallinn Port in the region, attract more shipping lines and increase the attractiveness of the state in the eyes of foreign investors," Seli said.

Seli also praised Rail Garant's experience of working with big international transport carriers, such as Germany's Hoyer.

Russian company chosen to run Tallinn port container terminal

bne

The Moscow government has drawn up a plan to construct a RUB208bn ($7bn) railway interchange complex called Kalanchevsky in the three stations area of northeast Moscow by 2016, a spokesperson for the capital's government said, Prime-Tass reports.

RUB98bn would come from investors, RUB80bn from the federal budget and the remaining RUB30bn from the city, the spokesperson said.

Russian Railways open $2.5m train station in Ulan-Ude

Marchmont

Interregional rail operator East-Siberian Railways has opened a new $2.5m train station in the Republic of Buryatia, the company reports.

The new trains station is reportedly opened at Zaudinskaya station in the suburb of the city of Ulan-Ude.

Construction of the station started in May 2010.

East-Siberian Railways is a part of national rail operator Russian Railways.

Russian Railways passenger transportation up 4% in Jan-Feb

bne

State-owned railroad monopoly Russian Railways' passenger transportation rose 4% in January-February, the company says, Prime-Tass reports.

Suburban passenger transportation rose 2.0%, while long-distance passenger transportation rose 4.4%, but \absolute figures were not provided, the news agency says.

Russian Railways to invest $100m in rail track in Zabaikalsky region

Marchmont

Interregional rail operator Zabaikalsky Railways has announced plans to invest $100m in reconstruction of a rail track Karymskaya - Borzya in Zabaikalsky region in 2011.

Under plans, the funds are to be used to lay second track and electrify rail section between station Karymskaya and station Zabaikalsk on the border with China.

Reconstruction is a part of oil transportation to China project, the firm said.

Reconstruction is scheduled to be completed in October 2013.

Zabaikalsky Railways is a part of national rail operator Russian Railways.

Russian Railways' cargo shipments up 7.9% on year in Jan-Feb

bne

Railroad monopoly Russian Railways' cargo shipments rose 7.9% on the year to 189.9 million tonnes in January-February, Prime-Tass reports, citing a company statement.

Transcontainer 2010 RAS numbers: Revenue ahead of expectations

Renaissance Capital

Event: Transcontainer reported 2010 RAS results yesterday (10 March). Revenues were up 24.5%, to RUB16.5bn. The operating margin stood at 12.6% in 2010, vs 5.8% in 2009. The revenue number under RAS is close to IAS financials. This is not the case for profitability indicators.

Action: Positive for the stock, in our view.

Rationale: Transcontainer's revenues, up 24.5% YoY, were ahead of our (+19%) and consensus (+20%) expectations of the top-line growth for 2010. Therefore, the reported revenue is good, and points to positive dynamics in 2H10. The revenue outperformance likely reflects better pricing and a better product mix (higher growth of integrated logistics segment), as well as higher growth in terminal and freight-forwarding services.

Ivan Kim

TransContainer: The Price for Potential Is Too High

Aton

TransContainer operates on Russia's railway container transportation market which is receiving a boost from recovering consumer demand and industrial production. Most of the products transported in containers are related either to private consumption or industrial output. Both industrial production and retail sales recovered most of their 2009 losses in 2010. Container volumes carried on railways in 2010 were only 6% below the 2008 level. Our forecasts suggest the Russian economy will continue recovering in 2011, supporting cargo base growth for the container market.

Limited containerisation of cargoes in Russia may allow a further boost in volumes. The containerisation level of cargoes in Russia is below the international average. In our opinion, this is linked to underdeveloped container infrastructure and the industrial sector's low share of the economy. Nevertheless, we believe that improvements in containerisation levels can be achieved in the future. We forecast that container volumes could reach a solid CAGR of 6% in 2011-15E.

TransContainer's vast and diversified asset base provides strong positions in every segment of the market. TransContainer's fleet comprises by far the largest number of fitting platform railcars in Russia, supported by a nationwide network of container railway terminals, a significant container inventory and a sizable truck fleet. TransContainer provides flexible and integrated logistics solutions on domestic, transit and import/export routes.

Container market is highly competitive. The company was spun-off from RZD in 2006 and became fully operational in 2007. Since then, its market share has shrunk from 61% to 52% in 2010 due to strong competition from smaller market participants.

Ageing fleet of railcars will require high replacement capex in the coming years just to retain market position. Replacement capex will take up about 40% of total capex, on our estimates.

TransContainer looks overvalued on valuation ratios vs international and Russian peers. TransContainer trades at a premium to foreign peers and local companies engaged in similar activities (FESCO and Globaltrans). Both Globaltrans and FESCO have strong investment cases and we believe the premium at which TransContainer is traded is unjustified.

TransContainer's current valuation implies that most of its growth potential and possible improvements in efficiency are already priced in. At current levels the company is vulnerable to any setbacks in the economy and its own development. Investors have already set a demanding target for the company and in our view it would be difficult for TransContainer to exceed these expectations. We therefore think that at current prices TransContainer does not offer a very attractive investment proposition.

We initiate coverage of TransContainer with a SELL rating and a 12M target price of $9.46 per share. Our DCF-based target price implies 4% downside potential.

Russia planes

51% shares in Tolmachevo Airport sold for $100m

Marchmont

The federal property management agency Rosimuschestvo has sold at an auction state-owned 51% shares in Novosibirsk region-based Tolmachevo Airport to Complex AeroService, affiliated with Novaport, for $100m, news agency RIA Novosti reports.

As Marchmont wrote earlier, the starting price for the lot was set at $39m (see news of January 11, 2011). During the auction the price reportedly went up 138 steps up.

There were reportedly seven participants bidding at the auction.

Aeroflot acquires eight Boeing B-777s at a 47% discount

VTB Capital

News: According to Vedomosti, the eight Boeing B-777 long-haul aircraft acquired by Aeroflot cost the company up to USD 1,156mn, implying that the carrier obtained a 47% discount from the aircraft manufacturer. The aircraft are due to be delivered between 4Q12 and 2Q16.

Our View: Large customers such as Aeroflot typically hope for discounts of 20- 30%. We remind investors that Aeroflot representatives had previously said the company would seek penalties for delays in the delivery of B-787 Dreamliners. The fact that Aeroflot obtained a larger than usual discount reflects the improvement in its relationship with Boeing (its normal supplier for long-haul aircraft).

Considering, though, that Rostekhnologii has agreed to acquire 50 medium-haul aircraft from Boeing for the carriers it is spinning off to Aeroflot, it was important for both parties to avoid a conflict. In itself, this is positive for them. However, it also indicates that Aeroflot is likely to be going through with the deal imposed by Rostekhnologii, which we view as an unpleasant development given the terms and implied high interest expense.

To recap, it was they that triggered our downgrade to a Hold recommendation, which we are reiterating now.

Elena Sakhnova

Aeroflot opens flight school

RIA Novosti

Russia's flagship airline Aeroflot opened its own flight school in the Moscow region on Friday. The school will allow the airline to cut its pilot training costs and reduce Russia's pilot deficit.

"The demand for pilots is constantly growing," Aeroflot Director General and CEO Vitaly Saveliev said at the opening ceremony. "Aeroflot alone needs to hire 250 new pilots a year, while the entire industry needs at least 800." The school will use advanced methodology and equipment to train pilots initially for the Airbus A320 plane, and later for the Sukhoi Superjet 100 and other passenger planes.

Aeroflot plans to train 160 pilots a year. A two-year training course will include an 18 month foundation course at the Ulyanovsk Higher Civil Aviation School and six months of contract-based training at the Aeroflot flight school. After 2013, Aeroflot will start training pilots for other Russian airlines, Saveliev said.

Aeroflot: 17% YoY passenger turnover growth in January

UralSib, Russia

Promising start to the year ... Yesterday, Aeroflot (AFLT RX - Buy) released strong January 2011 operational figures, which showed passenger and freight turnover rising 17% (13% for passenger traffic) and 20% YoY to 3.1 bln pkm and 0.33 bln tkm, respectively (the strong growth in the freight segment is mainly attributed to low base of January 2009). The passenger loading factor was 1 ppt up to 70.9% in January 2011 versus a year ago.

... with growth higher than the industry average. Aeroflot outperformed international air carriers worldwide in both the passenger and freight segments based on the recently published figures by the Air Transport Association (IATA). According to these figures, passenger and freight turnover increased 8.2% and 9.1% YoY, respectively, in January 2011. The passenger loading factor declined by 0.2 ppt YoY to 75.7% in January 2011. In the passenger segment, Africa region airlines performed the best with growth of 14.3%, while the best performer in the freight segment was North America with 14.1% YoY growth.

Too early to rely heavily on the data. Our current forecasts for 2011 are conservative and imply Aeroflot showing 10% and almost flat 1% YoY growth in the passenger and freight segments, respectively, in 2011. The foreseen operational growth coupled with projected 6% and 9% increases in passenger and freight yields, respectively, should translate into top-line growth of 15% YoY to $4.6bln in 2011. The reported figures indicate Aeroflot has started the year on a promising note and if annualized might exceed our expectations; however, we prefer to wait until the figures for February are published, which might reveal a trend, before making any conclusions.

Anna Kupriyanova

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Anna Kupriyanova

Koltsovo Airport passenger traffic up 17% in Jan-Feb

bne

The passenger traffic of Koltsovo International Airport in the Russian city of Yekaterinburg rose 17.3% on the year to 376,673 people in January-February, Prime-Tass reports.

The airport says domestic passenger traffic increased 14.6% on the year to 220,832 people in January-February, passenger traffic to countries of the Commonwealth of Independent States (CIS) soared 59.9% to 29,384 people, and passenger traffic to non-CIS countries was up 14.8% to 126,457 people, Prime-Tass reports.

Ministry of Transport plans to increase penalties for flight delays

Renaissance Capital

Event: Vedomosti reported today (1 March) that the Ministry of Transport is analysing the possibility of joining Montreal Convention 1999 and increasing fines for flight delays. Currently, fines are set at 25% of minimum wage, or RUB25/hour of delay per passenger, but not more than 50% of passengers' flight expenses. Under the Montreal Convention, fines can be up to $6,500 per passenger, or even higher if delays are proved to be the fault of the air carrier. The Montreal Convention would need to be ratified by the State Duma.

Action: Neutral for Aeroflot's stock price, in our view.

Rationale: Aeroflot was prosecuted following mass flight delays before the New Year's holidays, with total claims amounting to RUB10mn ($346,000, or 0.008% of 2010E revenues), which the company is preparing to contest. As for the future effects of the ministry's initiative, Russian air carriers say they are ready for the new regulations, and they claim that air carrier-caused flight delays are rare.

Alexandra Serova

Omsk Region to hold tender to build international airport by June

bne

The government of Russia's Omsk Region plans to hold a tender for the construction of the Omsk-Fyodorovka international airport near the city of Omsk by June, a spokesperson for the regional government says, Prime-Tass reports.

The final conditions of the tender are expected to be announced in the near future, the spokesperson is quoted as saying, with the project to start in June-August and construction to be completed in 2014.

Renova to invest $88m in Nizhny Novgorod airport overhaul

Marchmont

Total investment into reconstruction of the international airport in Nizhny Novgorod, including construction of a new passenger terminal, is estimated at about $88m, news agency RIA Novosti reports.

The project investor is Renova group of companies, the news agency said.

Under plans, as a result of investment, the airport's annual passenger traffic capacity is to triple to 1.5 million passengers, the area of the terminal is also to triple and reach 15,000 square meters.

Reconstruction of the airport is scheduled to be completed in 2015-2016.

Rosaviation Issues Operating Results of Passenger Airlines for January

Aton

Yesterday (1 Mar) Rosaviation published operating results for Jan 2011. Compared YoY, industry results (as measured in mn pkm) were worse than those in Dec 2010 (up 20% vs 25%). This is explained by the dissipation of the low_base effect and civil unrest in Egypt and North Africa, which reduced passenger turnover on tourist routes. The biggest impact from instability in the Middle East was experienced by companies that have a large share of charter flights (i.e. Transaero and Orenburg Airlines).

Aeroflot's results again came in below the market but were essentially flat MoM due to domestic turnover. The domestic market is becoming increasingly competitive with new companies (e.g. Avianova) entering the field and larger players such as UTair expanding their route networks. UTair reported strongly above_ market growth (29% YoY). Sibir Group was, as usual, the outlier, down _5.3% YoY.

Bottom line
We assess the results as neutral overall as they were within our expectations for the industry for 2011 (+16% YoY) and within the range of market estimates. At the same time we believe the results support our forecasts for the industry and our BUY ratings on Aeroflot and UTair.

Rosaviation liberalises regulation of charter flights

Renaissance Capital

Event: Today (2 March), RBC Daily reported that Rosaviation has withdrawn its previous directive that obliged airlines to obtain approval for charter flights from the designated carriers on their routes. The decision was driven by the cancellation of flights to Egypt. Now, airline companies can re-allocate their traffic from Egypt to other routes, without the need for permission from designated carriers. Rosaviation also announced a list of airlines that can operate charters on popular routes, including to Greece, Cyprus and Bulgaria.

Action: Negative for Aeroflot, in our view.

Rationale: The situation in Egypt and Tunisia adversely affected Russian airlines' passenger traffic in February, especially that of charter airlines. According to Domodedovo's director of marketing, Vladimir Kamynin, Egypt traffic fell 79.8% YoY, depressing total traffic 26% YoY. In the short term, charter liberalisation is aimed at the reallocation of charter flights following the reallocation of tourist traffic, and preventing significant ticket-price growth. In the longer term, however, the charter companies could depress prices and take traffic away from Aeroflot, in our view.

Ivan Kim

Russian arbitration court rejects bankruptcy motion of Rosavia

bne

The Moscow Arbitration Court has rejected a motion to declare Russian airline holding Rosavia bankrupt, according to the court, Prime-Tass reports.

Sheremetyevo leads Domodedovo in February passenger turnover

Renaissance Capital

Event: RBC Daily reported today (10 March) that in February, Sheremetyevo airport managed to outperform Domodedovo in terms of passenger traffic for the first time in several years. Sheremetyevo's passenger turnover in February reached 1.315mn (+21.8% YoY), vs 1.22mn at Domodedovo (-5% YoY).

Action: Neutral for Aeroflot's stock price, in our view.

Rationale: We think Sheremetyevo's outperformance was mainly the result of the poor operation of Domodedovo airport in February, after the cancellation of the Egyptian route, which in the past has accounted for 12% of Domodedovo's passenger traffic. In our view, Sheremetyevo has conceded its former status as the main Russian gateway airport to Domodedovo, and substantial improvement in terminal management will be required at Sheremetyevo to restore its position in the long term. Aeroflot planned to appoint a professional team to manage Sheremetyevo's terminals by YE10, but has not yet done so. As previously reported, Aeroflot is now ready to take prompt measures and at least arrange a JV for ground handling to eventually obtain new and professionally run facilities at its main airport.

Russia ships

Bolshoy Ussuriysky Island eyes $5m shore protection complex

Marchmont

Authorities in Khabarovsk region have announced plans to allocate $4.84m building shore protection facilities on the Bolshoy Ussuriysky Island.

Under plans, the funds are to be used to build a 505-meter shore protection facility and 165-meter dam.

The dam-road is reportedly to be built on the left bank of the Kazakevichevo Creek near the chapel-church on the Bolshoy Ussuriysky Island.

The facility is scheduled to be put into commission in Q4 2011.

Center-Invest loans $12m to Rostov Universal Port

Marchmont

Rostov Universal Port has taken out two loans worth a total of $12m with Rostov region-based Center-Invest bank, the port reports.

Under plans, the bank is to give the company two loans - for $8m and $4m.

The $8m loan is reportedly to be used to refinance the company's loan with Sberbank, and the $4m loan is to be invested into construction of the second cargo terminal.

Both loans are scheduled for repayment by November 23, 2015, the interest rate has yet to be disclosed.

Lisin increases stake in Russia's North-Western Shipping

bne

Passenger Port, which is part of Vladimir Lisin's Netherlands-based Universal Cargo Logistics Holding, has acquired 25.5 percent of the shares of North-Western Shipping Company for RUB934m ($32.3m), giving it an 87.92% stake in the company, The Moscow Times reports.

"Now nothing hinders stepping up the asset's development. We believe that the shares in the shipping company have been significantly revalued but, at the same time, we were unable to acquire them," Rishat Balutdinov, a spokesman for the buyer, is quoted as saying.

The Moscow Times reports that he said the shipping company plans to order 100 new vessels in the near future to upgrade its fleet.

Medevedev orders transfer of 75% in Abakan Airport to regional government

bne

Russian President Dmitry Medvedev has signed a decree to transfer the Federal State Property Management Agency's 75% stake in Abakan Airport to the government of the Russian republic of Khakasia, Prime-Tass reports.

The news agency says the decision on transferring ownership of the airport to the republic was seen a move to enhance air transportation efficiency and enable the republic's government to attract investment by 2015 to reconstruct and develop the airport's infrastructure. The investments are expected to be made on the basis of a state and private partnership.

North-Western Fleet to spend $174m on new ships

Marchmont

St. Petersburg-based North-Western Fleet has announced plans to invest $174m in fleet renovation.

The project is reportedly to be financed with a loan from Zenit Bank.

Under plans, the company is to get ten new ships under RSD-49 project of the river-sea class with deadweight of 7,000 tons, currently under construction at the Neva Shipbuilding Plant.

The ships construction started in 2010 and is scheduled to be completed in 2012-2013.

North-Western Fleet and the Neva Shipbuilding Plant are both a part of UCL Holding.

Russia's Imperial buys government stake in Rostov Port

bne

Imperial, based in the city of Rostov-on-Don, has acquired the Russian government's 25.5% stake in Rostov Port for 44.2 million rubles, the Rostov Region branch of the Federal State Property Management Agency says, Prime-Tass reports.

Russian company chosen to run Tallinn port container terminal

bne

Russian holding company Rail Garant has been selected as the operator of a new container terminal at the Tallinn port through a round of bidding, Interfax reports, citing an Estonian newspaper.

"There had been talks for a year with about 10 potential operators of the container terminal. The decisive factor in the final decision was the innovative plan of Rail Garant, under which the terminal would primarily be used for Russian exports, which, in turn, means new opportunities for Russian importers because it would be possible to carry fully loaded containers in both directions," the chairman of the Tallinn port board, Neinar Seli, was quoted as saying by the Postimees daily.

UCL Holding buys 25.5% in North-Western Shipping for $33m

Marchmont

The federal property management agency Rosimuschestvo has sold at an auction 25.5% shares in the North-Western Shipping Company, based in St. Petersburg, for the starting price of $33m, Kommersant reports.

According to Kommersant, the buyer is a firm named Passazhirsky Port (Passenger Port), which is a part of Volgo-Balt Transport Holding Limited (VBTH), owned by 80% by the logistics company UCL Holding.

As a result of the deal, UCL Holding has reportedly grown its shares in the North-Western Shipping to 87.9%.

UCL Holding buys 25.5% shares in Western Shipping for $3m

Marchmont

Logistics group UCL Holding has bought out at an auction state-owned 25.5%shares in Kaliningrad-based Western Shipping for $3m, news agency RIA Novosti reports.

As a result of the deal, the group's share in the shipping company is to reach 91.39% shares.

CIS infrastructure

Ukraine sells 61.6% stake in Ukraine International Airlines for UAH287.2m

bne

Ukraine's State Property Fund (SPF) has sold a state 61.58% stake in private JSC Ukraine International Airlines (UIA) to the company's private shareholders for UAH287.229m, Interfax reports.

The news agencys says the fund said in a statement that UIA Beteiligungsgesellschaft mbH had acquired an additional 36.09% stake in UIA, UIA Holding GmbH - 15.91%, and Capital Investment Project Ltd. - 9.58%.

Crimea to invest over UAH300m in road repairs in 2011

bne

The Council of Ministers of the Autonomous Republic of Crimea plans to spend more than UAH300m on the construction and repair of roads, with funds coming from both the national and local budgets, Interfax reports, citing the regional press service.

Azovmash boosts 2M11 output; MZVM reports poor 2010 NI

Dragon Capital

News: The Azovmash group, which controls freight car producers Azovzahalmash [Buy; PT $5.12] and MZVM [Not Rated], boosted its 2M11 output in value terms by 80% y-o-y to $138m. The group produced 2,123 railcars over the period (+25% y-o-y).

In other news, and in line with our expectations, MZVM reported a preliminary net loss of $23.7m for 2010 (vs. the $20.6m loss in 2009 and our estimate of $17.5m). The company plans to approve its 2010 financial statements at an AGM on Apr. 15. (Interfax)

Dragon view: The reported 2M11 operating results fall in line with our 2011 production forecast for Azovmash of 13,000 railcars (+5% y-o-y). However, we think the continued output growth will have limited impact on the Azovmash companies' financials due to the group's poor reporting standards.

British money to fly into Sumy Airport

bne

British company Shanti Capital Ltd may invest in a project to revitalize Sumy Airport in northeastern Ukraine, reports Ukrinform.

The head of the Regions Party faction at the regional council, Volodymyr Demura, says the company plans to bid for the lease of the entire property complex of the airport. "The British are ready to invest within 5-7 years around UAH500-700m in reconstruction of the airport, construction of a logistics center and a hotel complex," he claimed to reporters.

The project coordinator, Yevhen Sirash, said that plans include expanding the cargo hub to offer domestic and international passenger services.

EBRD to finance purchase of 40 subway railcars for Kyiv City Council

Millennium Capital

EBRD is ready to grant a loan of EUR 115mn to the Kyiv City Council, of which EUR 40mn will be allocated for purchasing 40 subway railcars for the Kyiv Subway, The Kommersant Daily reported Feb 24.

We consider the news as POSITIVE for Kriukiv Railcar, the only Ukrainian producer of subway railcars. The plant supplied 31 railcars to the Kyiv Subway in 2010. We estimate new order will bring an extra UAH 104mn in net revenues for KVBZ in FY11.

Ministry of Infrastructure confirms increase in cargo railway tariffs in March

Art Capital

Oleksiy Andriychenko: The increase in tariffs is a much needed move to provide funds for modernization of Ukrzaliznytsya's rolling stock. The tariffs went up by only 2% in 2010 and were not changed in 2009 due to strong lobby from metallurgical companies. Meanwhile the tariffs in Ukraine fell 50% behind those in Russia, which are further expected to increase by 8% this year. The approved tariff increase is roughly equivalent to a 10.8% increase in the beginning of 2011. The inflow of funds will allow Ukrzaliznytsya to finish the rest of the rolling stock purchases it planned for the year, including trains and locomotives from Luhanskteplovoz and passenger cars from Kryukiv Wagon.

Railcar manufacturers: Sale price exceeds input cost growth

Concorde Capital

Railcar prices grew to USD 70 ths in February vs. USD 60 ths in December.

Since our latest update on railcar manufacturers, prices for freight railcars have risen by 15% (USD 70 ths per gondola, the most popular model, from USD 60 ths in December 2010), an increase unmatched by input price growth. Drivers have been a combination of continued strong demand in Russia and emerging orders in Ukraine, where state-owned railway monopoly Ukrzaliznytsya upped freight transportation tariffs by 24% in 2011, making purchases more enticing. At the same, inputs remained fixed last quarter, with minor growth for wheels and rolled steel. Steel casting, the key margin eater in 2010, has been stable after the launch of a steel casting production line at Azovmash in late 2010.

Targets upgraded on improved outlook; BUY ratings maintained

• Incorporating the assumption railcar prices remain at USD 65-68 ths per gondola in 2011 (contract prices on large orders are a bit lower than open market rates), we improve our view on the profitability for both Kryukiv Wagon and Stakhaniv Wagon (though as the latter reported higher-than-expected margins for 2010, our view is more upbeat). In the long-term, we expect the companies to return to 10-14% EBITDA margins

• We increase our DCF-based targets for Kryukiv Wagon by 16% and Stakhaniv Wagon by 61%, which reflects our expectations of higher margins, accelerated top line growth and slightly lower cost of equity

Ukraine's Sumy Region to get UAH35m to repair roads in 2011

bne

The Sumy region of Ukraine will receive UAH35m from the national budget to repair local roads as a part of preparations for the Euro 2012 European football championship, Interfax reports.

The governor said the funds would be used to repair orbital roads of the Kyiv-Moscow highway, the news agency adds.

Eurasia infrastructure

Russian government OKs injecting $125m in Mongolian railroad JV

bne

The Russian government has approved injecting $125m into the charter capital of Russian-Mongolian joint venture Ulan-Bator Railroad, Prime-Tass reports, citing the government website.

The Russian government has ordered the Transportation Ministry to sign the relevant agreement with the Mongolian government, which is also expected to inject $125m into the railroad's charter capital.

CE infrastructure

Former US advisor says poor infrastructure impedes FDI in Poland

bne

Poland could become more attractive for FDI than it has been in recent years, claims Robert Shapiro, former economic advisor to Bill Clinton and Barack Obama, Polish News Bulletin reported. He says Poland is not using its full potential, and many areas can be improved, like for example infrastructure.

During a conference related to strengthening Poland's image abroad Shapiro said Poland is too focused on investors who are already present in the region. Instead it should look at companies which are not present on the local markets. However these companies require better infrastructure.

Professor Krzysztof Rybinski agrees with Shapiro regarding infrastructure. However in his opinion Poland's greatest assets are its workforce, as well as educated employees. Polish economist also points out Poland is the worst managed country in Central-Eastern Europe. The regulatory system is deteriorating, taxation is too complicated, and there is no strategic thinking in the public sector.

Poland govt finds road to Euro 2012 a bumpy one

bne

Poland's ambitious plans to modernise its lamentable road infrastructure before it co-hosts the 2012 European football championships are collapsing, and the government could pay the price in parliamentary elections later this year.

That is not how Donald Tusk, the prime minister, envisioned his road construction programme when he used the issue as the spearhead of his successful 2005 parliamentary campaign - promising that where every government since the end of communism in 1989 had failed, his team would succeed in finally creating a modern web of highways to link the country together.

The timing of programme was built around the 2012 football tournament, when hundreds of thousands of football fans will descend on Poland and Ukraine, and will demand decent roads to drive from stadium to stadium.

The initial ambitions were vast. Tusk trotted out plans to build more than 3,000 kilometres of new highways and expressways, as well as bypass roads around towns and cities, faster rail lines and revamped train stations. "We'll make it before the opening whistle of Euro 2012," assured Cezary Grabarczyk, the embattled infrastructure minister. During a 2008 news conference - a time when Poland had only 699 km of highway and 317 km of slightly lower-grade expressways - he promised that by the time of the championship, Poland would have 1,605 km of highway and 2,418 km of expressways.

Now it looks as though the number of expressways will come to 1,159 km, as the government cuts back on road-building expenditures, in large part because of its worsening fiscal situation. The budget deficit last year came to about 8% of GDP, and public debt is perilously close to the 55% of GDP limit set out in Polish law, and Jacek Rostowski, the finance minister, is keen to rein in spending as much as possible. In recent months, 45 expensive road projects have been killed off.

At a recent ceremony to mark the rapid progress in building Warsaw's new football stadium, Tusk admitted as much: "If today we see that the highways which we dreamed about will not be built in the way we had hoped in time for the Euro 2012, then of course on the day the championships end [it] does not mean the end of work on infrastructure projects."

Potholes

And the situation is getting rapidly worse - especially when it comes to the highways that were the backbone of the road building programme. Poland is to be intersected by two east-west highways - the A2, running from Berlin through Warsaw and on to the border with Belarus, the A4, running along southern Poland past Wroclaw and Krakow on to the border with Ukraine, and the A1, running north-south from Gdansk on the Baltic to the Czech border. Now it looks increasingly likely that none of the highways will be completed in time for 2012.

Grabarczyk had personally guaranteed that fans would be able to drive from Berlin to Warsaw on a highway, but now chunks of the A2 road being built between the central city of Lodz and the Polish capital are in danger, particularly two pieces being built by China's COVEC, which had dramatically underbid its competitors in order to win its first European contracts. The north-south A1 will have a 160-km-long break in the middle where the government now makes no pretence of being able to complete it on time. And in recent days the crucial A4, which is supposed to provide the only highway link between Ukraine and Poland, is in trouble. A Polish-Macedonian consortium has withdrawn from the construction of the 21-km section of the motorway over a financing dispute with the Polish road building agency, and other sections of that highway are also in danger.

Adrian Furgalski, a transportation analyst, says that a big part of the problem is the government's policy of accepting the lowest bid for highway projects, which drove many construction companies to lower their bids by unrealistic amounts. "Then there are two scenarios," he told the money.pl website, "either the companies will demand more money, or they will go bankrupt."

The costs of not completing the building programme in time are vast, not only in terms of economic costs - Furgalski estimates that Poland loses 1% of GDP annually through traffic jams - but also in terms of lives. Poland has the highest number of road deaths of all 27 EU countries, with 4,572 people killed on the roads in 2009, a death rate of 120 for every million citizens, while the EU average is 69 deaths per million.

The failure of the road-building programme is one of several factors impacting on the government's popularity. An opinion poll commissioned by Polish Radio in February found that support for PM Tusk's Civic Platform party has fallen over the last few weeks, with the ruling party now less than 4 percentage points ahead of the opposition Law and Justice. If elections were held now, Civic Platform would receive 32.0% of the vote nationwide, with Law and Justice picking up 28.2%.

Riga intl airport plans to invest EUR 95 mln in runway, infrastructure upgrading

bne

The Riga International Airport has planned upgrading of the runway and infrastructure that would cost 66.945 million lats (EUR 95.25 mln), the airport reported, BNS reported.

„This project is of vital importance to the airport for several reasons: first, the runway will have to be certified in 2013. Second, we must increase the runway capacity as much as possible and this can be achieved by constructing rapid exit taxiways," said

Arnis Luhse, the board chairman of the Riga International Airport.

The airport has signed the design agreement for development of a technical project. It is planned to renovate the runway pavement and strengthen the runway strip, upgrade the runway lighting system in conformity with the international standards, build additional taxiways and reconstruct the apron.

The plans also include building of aircraft anti-icing platforms, reconstruction of the storm water and underground drainage system, building of a new hangar for washing of the airfield service vehicles and another one for collection of waste.

„Thinking of the environment, a significant improvement will be gained by constructing a new waste collection hangar and anti-icing platforms," said Luhse.

The technical project documentation for the project „Development of Infrastructure of Riga International Airport" co-financed from the EU Cohesion Fund will be drafted by the general partnership NAMS/COWI Latvia/Aviaplan.

Design development is to be completed by the end of November 2011 and the construction and renovation works will be carried out in 2012-13.

The total costs of the project amount to 66.945 million lats, of which 41.114 million lats will be co-financed from the EU Cohesion Fund.

The Riga airport is the largest air traffic hub in the Baltics with 19 airlines offering flights to 82 destinations.

In 2010 the airport served a total of 4.664 million passengers at a 14.7 percent rise from 2009.

The Riga International Airport is a fully state-owned company.

SE infrastructure

Romania Chinese to start building Romanian highways in October.

Mirzon

Freshly back from China, the general mayor has big plans to make one of his election campaign promises come true: the suspended highway will be built in private-public partnership, Oprescu says.

"During my visit to China (March 2-6), we set concrete measures and a short, medium and long-term working calendar with the largest Chinese companies, Beijing Municipal Construction Group, Shanghai Construction Group, China Communications Construction Company, including with China's Development Bank," Oprescu told a press conference. He added that Chinese specialists will come to Bucharest the next three months to set up a working group.

Oprescu also said the suspended highway will be called an express road because legislation does not allow the existence of highways in the capital. The suspended highway still under construction in downtown Beijing is 9.6 km long so far, constructed in two years, the mayor said.

The total investment amounts to 7-8 billion Euro, 800 million of which might be allocated only for the median ring. Oprescu voiced hope that works on the express road will begin by the end of the year, with the first section ready in two years.

Oprescu also said that Chinese companies are interested in building a bridge in the 1 Decembrie area, an airport in the southern part of the capital and the development of magnetic trains that would connect the airport to the city center.

"To carry out all these projects I need two terms. Once I start all these works, I'm convinced that they will be continued," the general mayor added.

Romania Expressway, for consideration by Chinese investors

Mirzon

A Chinese delegation is expected in Bucharest in the following days to set a work calendar for several projects, one of which refers to the suspended motorway, to be designated as an expressway, the mayor of Bucharest, Sorin Oprescu, stated, yesterday, Mediafax reports.

He mentioned the fields in which City Hall would collaborate with the Chinese companies in question, namely, "the development of transport infrastructure and other ways of communication in the Capital, the building of the central ring, the development and equipment of medical units.

"As regards the suspended motorway project, the general mayor stated that it would be designated as an expressway, as "legislation does not allow the building of a motorway in the Capital."

The value of investments, including the central ring, amounts to a total EUR 7 to 8 bln, out of which approximately EUR 800 M could be allotted to the central ring.

On the other hand, the Basarab flyway will be ready by the end of March, and the first tests on the running path are underway, the mayor general of Bucharest further stated.

The contract amounts to a total EUR 160,738,329. Sorin Oprescu added that he would finalize the projects initiated, even if the City Hall budget has been reduced, and would present these achievements before the people of Bucharest, when running for a second mandate.