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Top story

Aeroflot agreed terms of the deal with Rostechnologies

UralSib

Aeroflot to pay 3.61% in stock for Rostechnologies' airline assets. Today, Kommersant reported that Rostechnologies will get a stake of 3.61% in Aeroflot (it currently has a 10.5% treasury stake) in exchange for its six airline assets, GTK Rossiya, Orenair, Kavminvodiavia, Vladi- vostok Air, SAT Airlines, and Saravia.

Prime Minister Vladimir Putin ap- proved the initial decision for the merger in February 2010, after reject- ing the plan to build Rosavia as a competitor to Aeroflot based on the above assets, as well as other assets controlled by Rostechnologies. Since February 2010, Aeroflot has been negotiating the terms of the deal with Rostechnologies and the state. Previously different scenarios were men- tioned in the media, with the most recent variant of Rostechnologies getting up to 5% in Aeroflot.

Terms should be value-creative for Aeroflot. We applied Aeroflot's current multiples to the projected revenues, EBITDA and RPK of the six airlines of Rostechnologies in order to estimate the affect of the deal on Aeroflot's valuation. We based our forecasts for the six airlines from Rostechnologies on the following assumptions: (1) 10% and 9% YoY RPK increases for the six carriers in total in 2011 and 2012, respectively; (2) 6% and 8% EBITDA margins; and (3) $819 mln net debt, based on Aeroflot's latest figures, including financial leases. Our preliminary estimates imply the deal would be value-accretive for Aeroflot on the above terms, with an average premium of about 20%+ to its current market valuation.

However, our analysis still excludes (1) potential economies of scale benefits for the consolidated entity, which should ex- pand with consolidation, and (2) potential synergies in terms of cost and capex. We are also waiting for more information from Aeroflot over the assets to be merged in order to accurately estimate the effect on Aeroflot's valuation.

News a clear trigger for the stock. We see the terms of the deal, if confirmed by the company, as value generative for Aeroflot and we consider the news should be taken positively by the market, which has been waiting for the details of this merger since last year. We reiterate our strong Buy on the name and wait for more details from Aeroflot regarding the assets to be merged. ●

Anna Kupriyanova

Aeroflot delays launch of first SuperJet flight, waiting for planes

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The first of 30 Sukhoi SuperJet 100s ordered by Aeroflot will be delivered to the airline by the end of May and will make the initial commercial flight with Russia's flagship carrier in June, a Sukhoi Civil Aircraft spokeswoman says, according to The Moscow Times.

Aeroflot reportedly scheduled the aircraft for its Moscow-Nizhny Novgorod route starting on May 15. The newspaper said an Aeroflot spokeswoman refused to comment on plans for the aircraft, which were originally scheduled to be delivered in 2008. ●

Aeroflot: Terminal D to be Spun-off in 2-3 months

© Aeroflot

UralSib, Russiai

Merger of Terminal D with joined Sheremetievo airport might close in 2-3 months. Yesterday Michael Vasilenko, the CEO of Sheremetievo airport, said consolidation of Aeroflot's Terminal D with other Sheremetievo terminals (under State control) should be complete in 2-3 months. Currently, Aeroflot (AFLT RX - Buy) owns 53% of Sheremetievo's terminal D (a 25%+ 1 share is owned by VTB and a 20% minus two share stake by VEB) and is a 100% owner of other Sheremetievo terminals - A, B, C, E and F. After consolidation, the new entity will be 83% owned by the State, while Aeroflot will get a 9% stake, and VEB and VTB a 4% share each of the consolidated entity. Six months after consolidation, the consolidated airport will invite a managing company. This will then complete the first step in terms of the proposed consolidation of Sheremetievo and Vnukovo airports.

The decision should speed up the spin-off of Terminal D from Aeroflot's balance sheet. We consider the timing and terms of the airports' consolidation, as a positive development for Aeroflot, as (1) we believe with a 9% stake in the consolidated entity Aeroflot (being state-controlled) will still have a precedence with regard to terminal services, versus other carriers; (2) after the deconsolidation of Terminal D, Aeroflot's net debt will decrease nearly 60% from the current $1,370 mln, implying a 2011E net debt/EBITDA of only 1.0 and 2011 EV/EBITDA down from current 6.7 to 5.1; and (3) we estimate Aeroflot will also improve its profitability, given Terminal D was loss-making in 9M10 (a net loss of $56 mln, and we assume it was likely loss-making on operating income as well), however the exact effect cannot be estimated due to a lack of details.

News supportive for the stock. We view acceleration of the spin-off of Terminal D from Aeroflot's balance sheet as a positive development for the company. We also think this can mean a potential speed-up with other state-negotiations, namely, the terms of the merger of the six companies from Rostechnologies. We, therefore, consider this news as supportive for the stock, which has been recently neglected by the investment community due to the delay in the announcement of the forthcoming consolidation of six airlines from Rostechnologies. We reiterate our Buy on the name. ●

Aeroflot Will Get a 9% Stake in the Consolidated Sheremetievo

Details on consolidation of Sheremetievo airport

	Equity Value, $ mln	Net debt, $ mln	EV, $ mln	Passengers, mln*	EV/pass
Sheremetievo airport	1,743	237	1,980	18	110
Terminal D	354	764	1,118	12	93
Total	**2,097**	**1,001**	**3,098**		
Shares in the joint entity:					
Sheremetievo airport	83				
Terminal D, incl:	17				
Aeroflot	*9*				
VTB	*4*				
VEB	*4*				

Source: Company data, URALSIB estimates, Kommersant

**Based on Ernst & Young valuation*

Almaty metro edges closer to completion

Clare Nuttall in Almaty

Almaty's metro has become known locally as the "golden metro" because of the amount of money sunk into the project over the last two decades. After many false starts, trains are now being tested, and the latest date for its opening is December 2011.

Construction of the metro started back in 1988, before the breakup of the Soviet Union. Construction continued with stops and starts through the cash-strapped 1990s and the pace was stepped up a little in the 2000s. Despite a push by the government and the Almaty city authorities to get the metro ready by February 2011, when Kazakhstan hosted the Asian Winter Games, the deadline was missed yet again.

One western engineer, examining the metro, said it looked like "a museum of technologies of the last 20 years". To the layperson, it is more like a miniature version of the Moscow metro, but with each station themed to illustrate a different aspect of Kazakhstan.

The launch is now scheduled for December 16, 2011, the 20th anniversary of Kazakhstan's independence. The first line will have seven stations, and seven trains, supplied by South Korea's Hyundai will initially operate on the line, with a capacity of around 300,000 passengers a day.

Speaking during an inspection of the second section of the first line, Almaty akim (mayor) Akhmetzhan Yessimov said that the Kazakh government was providing an additional 2.5 billion tenge ($17m) of funding for construction of the metro's second line.

The city authorities hope that when the metro opens it will ease congestion on Almaty's increasingly traffic-clogged streets and reduce air pollution. In a city originally designed for one million people, there are now double that number and more than 500,000 registered vehicles, with an additional 200,000 or more cars commuting daily to the city.

"Almaty is Kazakhstan's largest metropolis, but as the city grows so does the load on the environment. More than 80% of emissions in Almaty are from transport. The launch of the metro will help to solve this problem," Yessimov told a recent environmental forum in Almaty.

In addition to the metro, there are also plans to convert both buses and private cars to environmentally friendly CNG (compressed natural gas), in a bid to improve air quality. 50 CNG buses have already been purchased, and the city authorities are planning to increase the number to 200.

The Almaty authorities plan to give preferences to companies operating CNG busses and is setting up a micro-crediting company that will offer loans to citizens willing to convert their cars to CNG. "We would like to switch the entire Almaty transport system to CNG," Yessimov said. ●

Domodedovo to launch the next IPO testing appetite for specific Russia risks

bne

Domodedovo Airport operator DME Ltd announced on Wednesday that it is to launch an IPO, confirming rumours that have been doing the rounds for months. Perhaps taking a leaf out of Yandex's book, should the listing go forwards, DME will become the second company in recent weeks set to test investors' appetite for stocks in attractive sectors but with specific risk attached.

The holding company for Russia's biggest airport announced plans to issue GDR's in London, although stopped short of offering details. RIA Novosti points out that rumours last month had DME selling up to 25% of its shares for around $1bn, whilst Reuters quotes the same target for funds raised from a report in November, and - quoting unnamed sources - claims that pre-marketing will start today, with a roadshow beginning in the week starting on May 30.

Domodedovo has reportedly been facing pressure from the government for some time, with the state thought to be considering nationalization as part of a plan to create one Moscow air hub by merging it with Sheremetyevo and Vnukovo. That pressure has only grown since last winter, when thousands were stranded as ice storms shutdown the airport, and a terrorist bomb killed 36 people.

In late April, the Prosecutor General's Office criticised the fact that the airport is held by an offshore company and called the complex holding structure behind many of the assets a threat to national security. Presumably with that in mind, the Isle of Man-registered DME - which is part of umbrella management group East Line - revealed that the ultimate beneficiary of 100% of its shares is Chairman of the Board Dmitry Kamenshik. An opinion piece in today's Vedomosti claims that the state is simply trying to cash in on East Lines' hard work to develop Domodedovo into Moscow's busiest and best airport.

In similar manner, many view the risks to Yandex to stem from the avarice of those in or close to official circles. The internet company dedicated a large portion of the prospectus for its upcoming IPO in New York to the risk to the company of political pressure and possibly of takeover by oligarchs close to the state. A week later, the company revealed that the FSB had demanded access to information on its users. However, the word on the street is that the offer is already over-subscribed, with investors ready to push past these risks for well-priced exposure to a top company in an attractive, growing sector.

That's a description that could also apply to Domodedovo. Up to date transport infrastructure is rare in Russia, and Domodedovo would be the first Russian airport to go public. The airport has managed to tempt the majority of international airlines across from the scrubby Sheremetyevo over the past decade, and with 44% of the capital's passenger traffic is in pole position to benefit from the growing passenger numbers flowing through the country's airports as incomes rise and competition picks up amongst airlines.

However, as has been continually proven so far this year with at least five IPOs pulled to date, price remains the overwhelming factor for investors that demand a deep discount for Russia risk. Yandex's indicative range values the company at a maximum of $6.7bn, which is at the low end of most estimates. Domodedovo - with the risk hanging over it looking more specific - may need to be even more generous. According to Aton Capital, "based on the limited financial information available (FY10 revenue: $978mn; EBITDA: $418mn) and the valuation ratios of international peers" DME's enterprise value is estimated at $3.5-4.3bn. ●

Eastern European and Central Asian Governments Can Do More to Attract Private Investment

The World Bank - press release

World Bank study finds demand for public-private partnerships recovering; advocates governments go 'back to basics' in policy, design and implementation

The recent global financial crisis has set back ambitious infrastructure development plans in several Eastern Europe and Central Asia (ECA). Governments facing tight budgets were unable to fund these projects alone, while private investors were also severely affected and became increasingly selective about which projects and countries they chose to invest in. Total private sector investment in the region decreased by more than 40% between 2008 and 2009.

Yet, while projects in some countries have been delayed or cancelled, others, supported by strategic choices by governments, have achieved more success. These choices, and what they tell us about best practices for attracting private investment post-crisis are examined in Public-Private Partnerships in Europe and Central Asia; a new study released today by the World Bank in Washington, D.C.

Notably, the report finds that despite the challenges of the past three years, public-private partnerships (PPP) globally, and in the ECA region in particular, can still bring value to the economy. However, getting access to private funds requires that governments adapt to the "new normal" of the post-crisis environment.

"Even though we are seeing a timid resurgence of interest amongst private investors, what policy makers need to realize is that the days of easily attracting funding are essentially over. It's no longer as simple as preparing projects without close considerations of the capacity of the private sector to finance them,'" says Vickram Cuttaree, Senior Infrastructure Economist & Public-Private Partnership Coordinator for Europe and Central Asia, one of the report's co-authors. "Private investors still have limited access to long-term financing and need to reduce their risks. They are looking at countries with institutional, regulatory and financial frameworks that will minimize key risks and reduce the cost of doing business. They want smaller projects with established demand, and often need increased government support and more conservative risk allocation; all of which means that coming to a final deal is now more complex, expensive and time consuming."

Citing successful public-private arrangements that were able to successfully move forward after the crisis broke, such as the St. Petersburg's Pulkovo International Airport; the report recommends that governments in the region focus on three key areas for improvement in designing projects in order to make it easier to attract private investment and move projects from concept to completion:

1. Policy: Governments need to rethink the role of the private sector beyond simple off-balance sheet accounting and carefully assess the underlying investment on economic and social grounds. Projects are likely to require more support from the budget but private participation can also bring improvement in efficiency and quality of services. The overall institutional and legal framework may have to be adapted to provide additional flexibility to the private sector while ensuring transparency and competition in the selection of the private partner. The issues facing individual projects may benefit from a national policy or financing mechanism, which would require more coordination between line Ministries and the Ministry of Finance.

2. Strategic Design: Every project is unique. Governments will need to break from a traditional - "let's maximize private investment" - approach to designing projects and give higher priority to smaller projects that are more likely to be financed by the private sector; the bidding schedule and process should be flexible and allow sufficient time to secure financing. Adequate financial and human resources can increase the quality of projects and reduce the perceived risk for the private sector.

3. Implementation: Applying global "best practices" is now even more important given that the private sector is more selective in terms of country, project and risk allocation. Once financing is secured, projects will still require continuous supervision and mechanisms to adapt to unforeseen changes. These practices are not new but should not be overlooked during the post-crisis period.

The report also calls on governments in the ECA region to look not just at private investors; but to also seek a larger role for international partners. International Financial Institutions (IFIs) and the European Union (EU) will likely play a more crucial role in helping the design and financing of projects, strengthening institutional capacity and mitigating risks. IFI lending and guarantee instruments can help mitigate key Government and project risks, making them more attractive to private investors and improving financial sustainability. Meanwhile, technical assistance and advisory services offered by the IFIs can be helpful to governments in identifying and designing projects; helping them apply global insights and best practices from the outset. Likewise, EU regulations (including Eurostat accounting of PPP projects) will shape the future of PPPs across the region.

"The key takeaways for policy-makers in Europe and Central Asia are that private investment is improving, and that there are things they can do to attract it," says Cledan Mandri-Perrott, Senior Infrastructure Specialist, and co-author of the report. "What governments need to do now is take stock of their current PPP projects and programs; and design specific solutions to address the issues facing PPP in their countries." ●

Increases in property tax for natural monopolies put off, for now

Citi

Prime Minister Vladimir Putin, reports Vedemosti, has decided for now not to raise taxes on natural monopolies' property (i.e., oil & gas pipelines, electricity transmission lines, and railroads), as it would result in an immediate increase in various transport tariffs and therefore indirectly raise taxes on the economy as a whole. Instead, the Ministry of Finance will have to look elsewhere to raise the money it intends to from the various industries.

As far as gas is concerned, MinFin is on record as wanting another RUB150bn more from the sector in 2012, most of it naturally from Gazprom. We think it will not get to this number, but is likely to get at least some of it via, say, a 40% increase in the gas mineral extraction tax (although it has mooted a doubling), instead of the inflation-level increase scheduled. To reiterate a recent point we have been making: the Russian government is looking hard for extra revenues, and some will doubtlessly come from the gas industry, especially as Gazprom is looking to have a good export year (see related story on European exports).

Also, inherent in this story is a tentative read-across to gas tariff increases. The government has already been discussing amending the scheduled 15% annual gas tariff increases for 2012-2014, reducing them to only inflation rates of increases of 5-6%. While we think that unlikely, and that the worry about the burden of indirectly increased tariffs on the broader economy bodes ill for the scheduled gas tariff increases. ●

Kremlin seeks bankers to help build Russia's infrastructure

bne

The Kremlin is looking to hire as many as 30 investment bankers to run its new private equity fund, reports Bloomberg, as the PR drive to attract foreign investors to jump into bed with the state to help build Russia's infrastructure continues.

The fund, announced by President Dmitry Medvedev in January in a bid to encourage foreign investment and help reduce the economy's dependence on raw materials, will begin hiring in June, unnamed sources told the news agency. The state plans to put $10bn into the fund - which will be managed by state development bank VEB - over the next five years, with hopes that foreign buyout firms, pensions managers and sovereign wealth funds will pump in another $40bn, said Kirill Dmitriev, who was appointed to head the project on Wednesday.

"Foreign funds with several trillion dollars under management are hovering and considering making investment in Russian private equity," Dmitriev claimed, adding that names would be released in June. The fund will buy minority stakes in companies and offer the same share to investors from "a club," Dmitriev said. Investors will not be obliged to take part and can do so on a case-by-case basis.

Russia's government is finding it difficult to lure international private-equity firms, even as investors increasingly look to emerging markets. Russian private-equity managers raised $1.4bn over the last three years, the least among the Bric countries, but are seeking $4bn this year and next, according to the Washington-based Emerging Markets Private Equity Association. The figure for China in the same period was $28.6bn, followed by $15bn for India and $5bn for Brazil.

Dmitriev, who said the fund will focus on infrastructure, telecommunications, pharmaceuticals and aerospace, said one of the main goals of the fund is to reduce the "unfair perception" of Russia as risky. "Experienced investors understand that the Russian economy is growing very rapidly and can provide very higher returns," he claimed.

"There are major opportunities to modernize infrastructure and some very big checks will be written," Dmitreiv said. "Toll roads, ports, bridges need to be built and these might be more interesting for sovereign funds and pension funds who have a longer investment horizon."

Prime Minister Vladimir Putin, who is seeking investors to join the fund, yesterday introduced Dmitriev to representatives from Goldman Sachs, Blackstone Group LP (BX), Abu Dhabi Investment Authority and other funds from the US, Europe, Asia and the Middle East, Dmitry Peskov, the premier's spokesman, said. ●

Moscow to upgrade ring road and 18 main roads

bne

The mayor of Moscow says the city government will reconstruct the Moscow Ring Road, or MKAD, and upgrade parts of 18 major roads in the city, , ITAR-TASS reported.

Moscow Mayor Sergei Sobyanin said that initial engineering design works for these projects had already started.

Specifically, the Moscow authorities plan to fully reconstruct Volokolamsky Avenue, as the Spartak soccer stadium is expected to be built near the avenue prior to the upcoming 2018 FIFA World Cup, which is to be held in Russia.

A segment of the Leningradskoye Highway stretching from MKAD to the road that leads to Sheremetyevo Airport is also expected to be reconstructed, the mayor said. ●

Mostotrest wins two mid sized contracts

Troika, Russia

Mostotrest and subsidiary TSM have won two mid sized contracts worth a total of R11.1bn ($400m, including VAT), adding roughly 4.7% to Mostotrest's order book. The first contract is to build a bridge across the Sura River (second stage) in Chuvashia Region with a price tag of R3.7bn ($132m, including VAT). The contract will be completed in 2013. The second, won by TSM, is for a runway at Vnukovo airport, worth R7.4bn ($268m including VAT). The works will be completed by 2012.

Troika's view: There is no direct impact on Mostotrest's valuation, as we expected further expansion of its order book, but it is positive for market sentiment. The second contract strengthens the company's position in building airport facilities. To recap, $12bn is to be invested in airport and airport facility reconstruction in Russia through 2015. For example, a $1bn contract to build the third runway at Sheremetyevo airport should be announced next year. Mostotrest has a good chance to win this, as well. ●

Mikhail Ganelin

NCSP's charter now provides for the state's golden share

VTB Capital

technical and expected development necessary for privatisation of 20% - if Summa buys, would emerge as single controlling shareholder

News: Yesterday, NCSP announced that it had reflected the government resolution to introduce a golden share in the company in its Charter. This share gives the government the right to appoint one of the seven Directors to the Board as well as the power to veto: changes and amendments to the Charter of the Company and/or approval of a new Charter; the reorganisation of NCSP; the liquidation of NCSP, appointment of a liquidation commission and the approval of interim and final liquidation balances; changes in the Charter Capital; major and interested party transactions.

The next AGM is to elect a new Board of Directors on 30 June 2011.

Our View: Due to the strategic nature of the port's business and in view of the privatisation of the state's 20% stake, plans to introduce these powers have been mooted since August last year. So, the introduction of the golden share is a technical development that was expected. It was also necessary to proceed with the privatisation. There has been no guidance as to the new delays to the privatisation process, which at the end of last year was scheduled for 1Q11 (we expect it to take place in the summer or 3Q11).

The 20% stake is to be auctioned in a single lot and Summa has previously expressed an interest in it. Were Summa to acquire the stake, NCSP would have a single controlling shareholder, rather than two shareholders (Summa and Transneft) sharing control at par. ●

Privatization of state's 25.5% stake in Murmansk Shipping Company fails

bne

The privatization auction for a 25.5 percent stake in Murmansk Shipping Company, which includes Northern Shipping Company and Northern River Shipping, did not take place because no bids were received, Interfax reports, citing the Federal Property Management Agency.

The starting price was RUB958m ($34m), with bidders required to submit a 10% security deposit before May 11, the agency says. ●

Mikhail Ganelin

Russian Railways might soon submit capex plan for the 2018 World Cup

VTB Capital

News: According to Kommersant, one of the wholly-owned subsidiaries of Russian Railways that specialises in sector research has drafted a plan related to passenger rail transportation during the 2018 World Cup. The document suggests the construction of several high-speed service rail links, as well as the purchase of approximately 100 trains. There is still no valuation of the cost of such investments. Kommersant is quoting its source as saying that the cost for all the projects might be "over 1 trillion roubles" (over USD 35.7bn). The funding structure is also unclear, but the newspaper article suggests that Russian Railways is expecting direct financing from the budget. Private investors are unlikely to be invited. Russian Railways may submit the draft proposals to the government as soon as July 2011.

Our view: Capex risk related to the 2018 World Cup is, along with possible partial privatization, one of the few key uncertainties for the company's bondholders. We believe that one way or another, Russian Railways will manage to avoid a scenario where the bulk of the massive capex is debt-funded. In the case of Sochi-2014, this is exactly what happened. ●

Survey says Moscow lacks parking places

bne

Moscow should have one parking place for every 70 to 80 square meters of total space in a building according to the official guidelines, but this rule is outdated and often ignored, Penny Lane Realty said in a rating of Moscow's business centers' parking facilities.

The real average for the city's office buildings is one space for every 200 to 300 square meters, Maxim Zhulikov, head of the company's office real estate department, the Moscow Times reports.

Zhulikov suggested that one space for every 50 square meters of space rented would be the ideal proportion. The realtor ranked office complexes by this criterion and found that only one, Voentorg on Ulitsa Vozdvizhenka, conformed to it. Moskva-City's Tower 2000 met the criterion by 67 percent and North Tower by 57.6 percent. Tenth-ranked Novinsky Passazh conformed by a mere 31 percent. ●

Mikhail Ganelin

Russia infrastrcuture news

CAPEX to expand the cargo capacity of the Baikal-Amur Mainline (BAM) railroad line is estimated at RUB 3 trillion by 2020

Metropol

According to the Institute of Economy and Transport Development, a Russian Railways (RZD) subsidiary, the available cargo carried capacity of the Baikal-Amur Mainline (BAM) railroad is 14mn tonnes per year, which is currently almost completely loaded.

The current expansion of BAM cargo carried capacity, set to increase available cargo carried capacity to 32mn tonnes, will not meet demand from the consignors, which is expected to be 60mn tonnes by 2015 and 93mn tonnes by 2020.

Additional required CAPEX for the expansion of the railroad's cargo capacity was valued at RUB 3 trillion by 2020. RZD could finance RUB 1 trillion, while the company expects RUB 2 trillion to come from the private investors, mainly from the key consignors, including Mechel, Siberian Coal Energy Company, Rosneft, Surgutneftegas and Alrosa.

We believe that Bamstroymekhanizatsiya, a general contractor on large construction projects for Russian Railways for railroad construction in Siberia and the Far East, could benefit in the long term from the expected expansion of BAM cargo capacity, since the company could be one of main builders for the project.

Andrey Rozhkov

Federal funds to boost transport infrastructure in Southern Federal District

bne

The Federal government is to pump RUB100bn into upgrading the transport infrastructure in Russia's Southern Federal District in 2011-2013 Prime Minister Vladimir Putin told an interregional conference of the United Russia on Friday, reports Prime Tass.

Overall, around RUB85bn will be used to modernize the main federal highways in the district, whilst Putin added that over the next five years, the government plans to complete the full reconstruction of the Don, Kaspy, and Kavkaz highways. Roads approaching sea ports and boarder crossing points are also marked out for work.

A further RUB10bn or so will to to the upgrade of the main airports in the district, Putin claimed, reiterating that it is planned to build Yuzhny Airport near the city of Rostov-on-Don.

Meanwhile, the prime minister said that the combined capacity of Russia's sea ports in the district is expected to increase 50% over the next five years to total 270m tonnes.

In 2011, the government also plans to allocate 1.1 billion rubles to develop inland water transport in the Southern Federal District, Putin said. Specifically, it is planned to upgrade the Volga-Don shipping canal, connecting the Volga and Don rivers, he added.

Putin also added that state-owned Russian Corporation of Nanotechnologies, also known as Rosnanotech or Rusnano, plans to invest over 7 billion rubles into projects to be implemented in the Southern Federal District.

Global Ports preparing IPO?

Aton

Yesterday (17 May) Reuters cited an unnamed source as saying that Global Ports may begin IPO pre-marketing activities next week. Global Ports is a Russian stevedoring firm controlled by N-Trans Group, which also controls Globaltrans. Global Ports owns and operates several container terminals on the Baltic Sea and in the Far East and is also engaged in the transhipment of fuel oil. In 2010 it loaded 1.1mn TEU of containers (NCSP: 0.5mn TEU) and 18.1mn tonnes of fuel oil (NCSP: 12.8mn tonnes). These numbers allow us to estimate its FY10 revenue at approximately $250mn (NCSP: $635mn). No other information has been disclosed thus far. We think that if Global Ports conducts an IPO, it could become an interesting opportunity to gain exposure to the port services and container transportation market, as an alternative to NCSP and TransContainer.

Government cash for infrastructure projects lures big players to Russia

bne

French engineering conglomerate Alstom has done a spectacular job making inroads in Russia over the past 12 months after making a strategic change to produce things locally, Alstom's country president Philippe Pegorier said in an interview with The Moscow Times.

The paper says Alstom signed tentative agreements — or gained approval for deals — with nine major companies including RusHydro and Rosatom, chiefly seeking to develop technology and manufacture domestically rather than selling from abroad.

The country's enormous needs and willingness to pay to upgrade its key industries of railway transportation and power generation has persuaded the French company and some of its global rivals to put down roots here, in line with the government's expectations, Pegorier is quoted as saying. As the state controls many of the biggest corporate spenders, these commitments have been a two-way street, paying back with a swelling number of contracts.

The newspaper adds that Germany's Siemens, Canada's Bombardier, U.S.-based General Electric and Italy's Finmeccanica have in recent years all invested — or announced plans to invest — in local facilities to produce energy turbines or railway equipment.

Russia mulls random passenger checks in metro – paper

RIA Novosti

Russia's Interior Ministry has proposed conducting random checks for weapons and explosives on metro passengers to further increase transport security, the Rossiyskaya Gazeta daily said on Tuesday, citing police.

The proposal is the latest in a series of government measures to increase security in Russian transport hubs, which have been the target of several recent terrorist attacks "The new measure would mean that by buying a ticket and entering the metro system, any person a priori agrees to allow the police or security forces to search them for illegal weapons or explosives," the paper said.

Russian President Dmitry Medvedev signed into law on May 3 a bill that grants him to impose additional security measures in the event of an increased terrorism threat.

Under the bill, Russia adopted a color chart similar to that used in the United States to indicate the terrorism threat level at any given time. The president can decide which measures to take in accordance with the threat level.

The move came a month after Moscow marked the first anniversary of twin suicide bomb attacks in the city's metro and less than three months after a suicide bomb attack at Domodedovo international airport outside the capital.

The combined attacks left 77 people dead and scores wounded and prompted police to tighten security at public transport hubs across the city.

Both incidents were blamed on militants in Russia's North Caucasus, where federal security forces have been fighting an Islamist insurgency for the past decade.

Russia sells 55 pct stake in Pacific port Vanino for 10.8 bln rubles

RIA Novosti

The Russian government has sold a 55 percent stake in Vanino port on the Pacific coast for 10.8 billion rubles ($385 million) as part of the government's privatization drive, the State Property Management Committee said on Thursday.

The auction for the Vanino port was won by a little known local building company, Seltekhstroi, which paid more than ten times the auction's opening price. Its main rival in the auction was Siberia-based Sibuglemet coal mining company.

A total of 15 companies, including Russia's largest steam coal producer SUEK, and Universal Cargo Logistics Holding owned by Russian billionaire Vladimir Lisin, took part in the auction.

The Russian government has approved a privatization plan for 2011-2013, including 10 top companies, which could bring an extra 1 trillion rubles ($33 billion) to state coffers, although there are no firm dates for sales and the sizes of some stakes on offer are unclear.

Privatization was kicked off earlier this year with the sale of a 10 percent stake in the country's second largest bank VTB for about 96 billion rubles ($3.3 billion).

The sell-off list includes oil major Rosneft, where 25 percent minus one share is to go under the hammer, RusHydro hydropower generator, in which about 8 percent will be sold, and about 28 percent of the Federal Grid Company of Unified Energy System.

The government also plans to sell 7.58 percent of Russia's top bank Sberbank and a further 25.5 percent in the country's second largest lender VTB bank.

Russian ports show weak performance in 4M11 - Not supportive for NCSP

Renaissance Capital

Event: On Friday (13 May), the Association of Sea Trade Ports released data on port performance in 4M11. Total turnover at Russian ports was almost flat (-0.7% YoY) at 166.4mnt in January-April 2011, with bulk cargo volumes up slightly (+0.6% YoY) and liquid cargo down 1.4% YoY. Total turnover at Black Sea ports decreased 6.1% YoY to 52.4mnt, on the back of a 17.8% YoY drop in bulk cargo to 15.1mnt and flat liquid cargo volumes. According to the announcement, the negative dynamics at Black Sea ports were driven mainly by a decline in volumes at Port Novorossiysk in 4M11.

Action: Novorossiysk Commercial Sea Port (NCSP) has not released 4M11 operational results yet, but we expect a continuation of the negative trend in its volumes on a standalone basis (excluding Primorsk Trade Port) seen earlier this year.

Rationale: NCSP's operational results so far this year have shown a YoY decline in volumes, with lower crude oil (following a rather weak 2010), ferrous metals and grain transportation volumes. Ahead of the release of 4M11 operational results, we see no evidence of a reversal in this negative trend, although management guided for flat crude oil volumes in FY11.

Ivan Kim

Sheremetyevo Airport passenger traffic up 20% Jan-Apr

bne

Passenger traffic at Sheremetyevo International Airport was up 19.9% on the year to 5.889 million people in January-April, Prime Tass reports.

International passenger traffic increased 18.8% on the year to 3.767 million people in this period, while domestic traffic grew 22.1% on the year to 2.122 million people.

State's NCSP stake soon to be auctioned?

Renaissance Capital

Event: Prime-TASS yesterday (19 May) reported that the Russian government's 20% stake in Novorossiysk Commercial Sea Port (NCSP) will in the near future be put up for auction. NCSP's stake is included in the Russian 2011 state privatisation programme and will be put up for sale after the stake valuation is over, according to Russian State Property Fund (Rosimushchestvo) Head Yuri Petrov.

Action: We think this sale could be a major driver for the stock.

Rationale: The auction of the stake (announced in 2010) was previously scheduled for 1Q11 but was delayed. We think the auction could be held this year, although until there is an official announcement on the exact dates, uncertainty will persist. We believe that among the potential buyers are the NCSP shareholders Transneft and Summa Capital. According to Russian Railways (RZD) CEO Vladimir Yakunin, RZD will not participate in the auction (despite previously expressing an interest). In our view, a transfer of control, from the government to a large shareholder, will be supportive for NCSP, as it will increase shareholder incentive to help the port succeed and the stock appreciate.

Ivan Kim

STOXX launches 2 new infrastructure indices

bne

STOXX Limited, the market-moving provider of innovative, tradable and global index concepts, today introduced the STOXX Global Extended Infrastructure 100 and STOXX Global Infrastructure Suppliers 50 indices. The new indices are designed to act both as a proper benchmark for actively managed funds, and to underlie exchange-traded funds and other investable products, to enable investors to participate from the performance of the booming infrastructure sector.

The STOXX Global Extended Infrastructure 100 Index represents companies that generate their revenues directly from the infrastructure sector or companies that supply goods or services to it, while the STOXX Global Infrastructure Suppliers 50 Index represents only the supplier companies.

"The infrastructure sector is currently thriving and expected to continue to do so over the next decades. Amongst other factors, this is due to developing countries catching up to developed ones in terms of infrastructure standards, an overall shifting demography and a global trend towards greener and cleaner innovations," said Hartmut Graf, chief executive officer, STOXX Limited. "With the launch of the STOXX Infrastructure Indices, we offer market participants two innovative tools to participate from the performance of this booming sector. By including not only infrastructure companies but also suppliers to the sector, the new indices provide a wide diversification, while at the same time offering the well-known and transparent STOXX methodology."

The STOXX Infrastructure Indices offer various advantages. First, studies have shown that the stock prices of infrastructure suppliers and their customers are highly correlated. The STOXX Global Extended Infrastructure 100 Index also better captures those infrastructure companies that are typically difficult to represent. For example, the Water Utilities sector has a very low degree of privatization, and in order to offer market participants exposure to this sector, the index includes its suppliers.

The index universe for the STOXX Infrastructure Indices is defined as all stocks in the STOXX Global Total Market Index minus Chinese A-shares, which currently covers 53 countries. Currently, this is the largest country coverage among infrastructure indices in the market. To be included in the indices, companies must pass a complex set of screens. First, based on research by Revere Data, LLC, all companies in the STOXX Global TMI that generate revenue directly from the infrastructure business and those that supply it, are identified. Revere Data, LLC, is a leading provider of global sector classification, analyzing companies' lines of business, their key business relationships and their sources of revenue by geography. To enhance liquidity and tradability of the indices, a minimum three-month average daily trading value (ADTV) of 1 million U.S. dollars is then required for companies to be included in the indices. Next, the remaining companies are grouped into eleven infrastructure-specific sectors: Midstream, Wireline, Cable & Satellite, Rail, Road, Air, Water, Passenger Transportation, Energy, Water Utilities and Waste Management. In the STOXX Global Extended Infrastructure 100 Index, the top seven stocks by free-float market-capitalization from each of the above infrastructure-specific sector are selected as index components, and the remaining stocks are selected by free-float market-capitalization, irrespective of their sector belonging. In the STOXX Global Infrastructure Suppliers 50 Index, it is the top four stocks from each sector that are selected, with the remaining stocks being selected by free-float market-capitalization. In both indices, sectors' weights are capped at 20%, which automatically leads to a component capping of 20%. A components level capping is triggered should the second largest component hit a 15% weight mark in order to ensure UCITS III compliance of the indices.

The STOXX Infrastructure Indices are weighted by free-float adjusted market capitalization, available in price and net return versions, and are calculated in Euro and U.S. Dollars (USD). They are reviewed annually in March and rebalanced quarterly. Daily history is available back to December 31, 2004.

Russia infrastrcuture finance & statistics

Cargo traffic through Russian seaports down 0.7% in 1Q11

bne

Cargo traffic through Russian seaports fell by 0.7% to 166.4 million tonnes in the first quarter of this year, the Association of Commercial Seaports said according to reports.

Oil transport fell 4.0% on the year to 66.3 million tonnes, while coal transport rose 13.3% on the year to 23.7 million tonnes over the same period.

Cargo transportation by rail in Russia in January-April 2011 increased by 5.5% y/y

Alfa Bank

According to Russian Raiways, cargo transportation by rail in Russia from January through April 2011 increased 5.5% y/y to 446.7m tons. Transportation growth continues a trend of deceleration. In January the segment expanded at a rate of 15.6% y/y while in January-February the segment grew by only 9.7%. During the first quarter overall, the segment expanded 7%. The reason behind this trend is a base effect and decrease in oil export transportation.

We note that we use the volume of cargo loaded in Russia as a benchmark for cargo transportation and for analysis of operational performance of Globaltrans and Transcontainer. The volume of cargo loaded doesn't take into account transit cargos. Last week Russian Railways said cargo growth totaled 4.7% y/y in January-April, which is below our full year forecast of 6%. As a result, we view the news as NEUTRAL for Globaltrans as Transcontainer.

Georgy Ivanin

Moody's downgrades Novorossiysk Commercial Sea Port to Ba3 from Ba1; stable outlook

Moody's

Approximately US$300 million of debt affected

Moody's Investors Service has today downgraded to Ba3/Aa3.ru from Ba1/Aa1.ru (on review for downgrade) the corporate family rating (CFR) and probability of default rating (PDR) of PJSC Novorossiysk Commercial Seaport ("NCSP"). Concurrently, Moody's has also downgraded the USD300 million worth of 7% loan participation notes due in 2012 issued by Novorossiysk Port Capital S.A. (the "Loan Participation Notes") to B1/Loss Given Default assessment of LGD4 from Ba1/LGD4. In addition, Moody's has affirmed NCSP's 50% family-wide LGD assessment. The rating outlook is stable.

RATINGS RATIONALE
Moody's two-notch downgrade of NCSP's issuer rating follows its completion of the debt-financed acquisition of Primorsk Trade Port LLC ("PTP") and various changes to NCSP's share ownership structure, including the change of control of the company. This rating action concludes the review for downgrade of NCSP's ratings initiated on 27 September 2010 in response to the company's announcement that it intended to acquire PTP.

"More particularly, the rating downgrade reflects NCSP's increased debt burden and the terms of the USD1.95 billion term loan facility provided by Sberbank to finance the acquisition of PTP (the "Sberbank Loan")," says Andrew Blease, a Moody's Senior Vice President and lead analyst for NCSP. "This is offset somewhat by the larger scale of the NCSP group following its acquisition of PTP and its increased strategic importance," adds Mr Blease. As a rating methodology technicality, Moody's has also removed the specific one-notch uplift to NCSP's rating previously incorporated to reflect the likelihood of extraordinary support being provided by the Government of Russia (Baa1, stable) in the event that this were ever required by the company, NCSP's strategic importance now being factored directly into its rating.

However, more positively, NCSP's Ba3 CFR reflects: (i) the company's position as Russia's largest port and its successful transition over the past few years to a more modern provider of bulk cargo and container handling capacity at the Port of Novorossiysk; (ii) its proven ability to grow cargo volumes and maintain tariff levels appropriate to maintaining financial health, but which remains somewhat untested at PTP; (iii) its moderate capital expenditure (capex) plans and possible investment strategy.

The Ba3 CFR further reflects a PDR of Ba3 and a firm-wide LGD assessment of 50%. The national scale rating of Aa3.ru maps to Ba3 on the Moody's Global Rating Scale.

The B1 rating of the Loan Participation Notes and the Loss Given Default assessment of LGD4 reflect the current and anticipated group debt structure, which comprises the borrowers and guarantors pertaining to each of NCSP group's debt instruments.

Although the Russian government still owns 20% of NCSP through the Federal State Property Management Agency, Moody's notes that there is an increased likelihood of the shares being sold in line with previous announcements by the Russian government. Nevertheless, Moody's notes that following the change of ownership of NCSP, the company is 50.1% owned by Novoport Holding Limited ("Novoport"), itself jointly owned by the 100% Russian government owned Transneft and private interests. Furthermore, on 3 May 2011, NCSP reported that the Russian government has been awarded "golden share" rights with veto powers over major changes to the corporate structure of NCSP. While this emphasises the strategic importance of NCSP to Russia, Moody's concludes that the probability of direct extraordinary support being provided is a little less than has previously been embedded within NCSP's ratings given the possibility of a future sale of the Government's shares.

Prior to the acquisition of PTP, NCSP steadily reduced its debt burden by using revenue and cash flow generated from a successful investment and growth strategy at the Port of Novorossiysk. By the year ending December 2010, NCSP had debt of USD321 million and cash and cash equivalents of USD265 million. Consequently, the USD2.15 billion acquisition of PTP, mostly financed by the Sberbank Loan, has increased NCSP's indebtedness significantly. PTP is Russia's largest crude oil exporting port, and with the recent addition of capacity to handle oil products, would be expected to generate good cash flow over the coming years. The seven-year tenor of the Sberbank Loan suggests that a fairly rapid pay-down of the debt is possible. Nevertheless, NCSP is carrying significantly more debt leverage than previously.

Moody's notes that the Sberbank Loan benefits from a guarantee from PTP and has a charge over Novoport's shares in NCSP. Furthermore, as is common with domestic Russian bank loan agreements, a significant proportion of NCSP's revenues need to be paid into Sberbank bank accounts as a condition of the loan. Sberbank has power of attorney over such bank accounts to withdraw funds if NCSP misses a debt payment.

Overall, these features provide a level of protection and priority of claim that do not pertain to the Loan Participation Notes, hence the reason for Moody's more significant downgrade of the Loan Participation Notes to B1.

The stable outlook on the ratings reflects Moody's expectation that: (i) NCSP will see continued growth in its business; (ii) the company's capex programmes are appropriate for the expected growth; and (iii) cash flows generated will enable NCSP to deleverage in terms of debt/EBITDA, thereby allowing the company to meet its debt maturities on a timely basis and comply with the financial covenants of the Sberbank loan.

Moody's would consider upgrading NCSP's ratings if it were to see a material significant reduction in the company's expected debt levels, which would be evidenced by a sustained reduction in its debt/EBITDA ratio to below 3.0x, as calculated by Moody's. Alternatively, the rating agency would consider downgrading NCSP's ratings if the company were unable to deleverage in terms of debt/EBITDA, which would be evidenced by this ratio remaining over 4.0x over the medium term.

NCSP's ratings were assigned by evaluating factors that Moody's considers relevant to the credit profile of the issuer, such as the company's (i) business risk and competitive position compared with others within the industry; (ii) capital structure and financial risk; (iii) projected performance over the near to intermediate term; and (iv) management's track record and tolerance for risk. Moody's compared these attributes against other issuers both within and outside NCSP's core industry and believes NCSP's ratings are comparable to those of other issuers with similar credit risk. Other methodologies used include Loss Given Default for Speculative Grade Issuers in the US, Canada, and EMEA, published June 2009.

LAST RATING ACTION & PRINCIPAL METHODOLOGY
Following this rating action, NCSP has the following ratings outstanding with a stable outlook:

CFR (foreign currency) -- Ba3/Aa3.ru

CFR (foreign currency) and PDR -- Ba3

Novorossiysk Port Capital S.A. -- US dollar Loan Participation Notes -- B1

Novorossiysk Port Capital S.A. -- US dollar Loan Participation Notes -- LGD4

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks.

NSRs differ from Moody's global scale ratings in that they are not globally comparable to the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance August 2010 "Mapping Moody's National Scale Ratings to Global Scale Ratings."

PJSC Novorossiysk Commercial Sea Port is company providing stevedoring services at the Port of Novorossiysk, located on Russia's Black Sea coast. For the year ending 31 December 2010, the company had revenues of USD635 million and total assets of USD1.383 billion.

Moody's downgrades TransContainer's ratings to Ba3/ Aa3.ru; outlook stable

Moody's

Moody's Investors Service has today downgraded to Ba3 from Ba2 the corporate family rating (CFR) and probability of default rating (PDR) of JSC TransContainer ("TransContainer"). The outlook on the ratings is stable. Concurrently, Moody's Interfax Rating Agency, which is majority-owned by Moody's, has downgraded TransContainer's national scale credit rating (NSR) to Aa3.ru from Aa2.ru.

RATINGS RATIONALE
The ratings downgrade concludes Moody's analysis of TransContainer's rating positioning in the context of the preliminary decision of the company's major shareholder, JSC Russian Railways ("Russian Railways"), to sell a 25%-plus-one-share stake in TransContainer up to the end of 2011. This decision was taken by the Board of Russian Railways on 19 April 2011 and is yet to be approved by the Russian government, which is the sole shareholder of Russian Railways. However, it is Moody's expectation that the approval will be received and that the transaction is likely to be executed in the short term. The Ba3 rating therefore accounts for an anticipated reduction of support for TransContainer by Russian Railways. It also factors in TransContainer's improved post-crisis operating and financial performance in H2 2010, which Moody's believes the company is likely to sustain this year, driven by the market recovery. However, in Moody's view, the improvements delivered by TransContainer are so far insufficient to offset the removal of the one-notch uplift associated with Russian Railways' support and to leave TransContainer's ratings positioned in the Ba2 category on a standalone basis -- hence today's downgrade.

The stable outlook reflects Moody's view that TransContainer is reasonably positioned in the Ba3 rating category on a standalone basis.

Moody's recognises the company's solid business fundamentals and leadership of Russia's rail-based container transportation market, which has strong growth potential. For TransContainer to maintain the Ba3 rating, the rating agency would require evidence that the company were able to: (i) steadily improve its EBITA margin; (ii) sustain its debt/EBITDA ratio at around 2.0x or below; and (iii) increase its EBITA/interest coverage ratio to around 3.0x (all ratios include Moody's standard adjustments). In the rating agency's view, the company would also need to exhibit a solid liquidity profile. However, the ratings could be affected positively or negatively after upcoming changes in the shareholding structure, following the reduction of Russian Railways' stake in TransContainer.

Upward pressure could be exerted on the ratings as a result of a sustainable improvement in TransContainer's credit metrics (i.e. reaching an EBITA margin of 20% and EBITA/interest coverage and debt/EBITDA ratio of 3.0x and 1.5x, respectively) and a sustainably solid liquidity profile.

Downward rating pressure could develop if TransContainer's margins were to materially deteriorate and its debt/EBITDA ratio were to sustainably exceed 2.5x. A material deterioration in the company's liquidity profile could also exert downward pressure on the ratings.

Moody's assigned TransContainer's ratings by evaluating factors that it considers to be relevant to its credit profile, including: (i) its business risk and market position within key business segments; (ii) management's strategy; (iii) the company's financial profile; and (iv) its 2010 performance and projections over the short to medium term.

Having compared these attributes against those of other companies both within and outside of TransContainer's key business segments, Moody's concluded that the company's ratings were comparable to those of other issuers of similar credit risk.

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks.

NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

Headquartered in Moscow, TransContainer is Russia's dominant rail-based container transportation business. The company reported total revenue of around RUB22.8 billion (USD752 million) in 2010.

Russia's First Cargo company RAS net profit up 58% in 1Q11

bne

The net profit of Russian freight rail operator First Cargo Company increased 58.3% on the year to 2.84 billion rubles in January-March, as calculated under Russian Accounting Standards (RAS), Prime Tass reports.

Mostotrest to pay RUB845.2m divided for 2010

bne

The AGM of Russian road builder Mostotrest has recommended paying RUB845.2m, or RUB3 per common share, in dividends for 2010, the company said in a press release Monday.

Mostotrest paid RUB800.6m in dividends for 2009.

In 2010, Mostotrest's adjusted net profit increased 17.2% on the year to RUB4.4 billion, the company said in mid-April.

At present, Marc O'Polo Investments Ltd holds 38.8% in Mostotrest, Russian Railways-affiliated pension fund Blagosostoyaniye holds 26.5% and other shareholders own 34.6%.

Murmansk Shipping Company reports net loss in 2010

bne

Russia's Murmansk Shipping Company posted a net loss of RUB515.069m in 2010 against a net profit of RUB125.744m in 2009, Prime Tass reports.

SCEM: Positive Market Creates Upside Risks

VTB Capital

We see upside risks to our projections and valuation due to Sibirsky Cement's solid YTD operating results and other signs of the Russian cement market's recovery, which is likely to be further strengthened by positive seasonality in the coming months. We are reiterating our Buy recommendation for the stock, with our current 12-month target price of USD 33.9 implying 34% upside potential.

Solid trading update. According to Sibirsky Cement's latest trading update, the company's January-April cement sales increased 33% YoY to 791,307 tonnes, pointing to a solid recovery. We believe that full year growth is likely to be more moderate, as the beginning of 2010 was quite weak. Nevertheless, the company is well positioned to outperform our current forecast of 2011 cement sales rising 12% YoY to 3.6mn tonnes, all the more so since its sales will get an additional boost from positive seasonality over the next few months.

Siberian market offers attractive growth and prices. We highlight that so far this year Sibirsky Cement has strongly outperformed the Russian cement market, which saw a 16% YoY increase in volumes to 12.8mn tonnes in January-April. In our view, this is explained by the company's strong exposure to the Siberian market, which, though severely hit by the crisis, is currently demonstrating above average rates of recovery. According to our estimates, YTD cement consumption in Siberia increased by over 30%, with Sibirsky Cement controlling about 50% of the market.

We also highlight that YTD cement prices in Siberia (USD 82-85/tonne) have been higher than in Russia on average (USD 72-76/tonne). Moreover, we believe that prices will continue to increase in the coming months, which also creates upside risks to our current forecast of Sibirsky Cement's 2011 average cement price of USD 82 per tonne.

In our view, the coming months are likely to provide more evidence of a recovery in Russian cement markets, which is likely to help unlock Sibirsky Cement's value.

Elena Sakhnova

Russia roads

Mostotrest to build RUB3.7bn 2nd stage of Sura River bridge in Chuvash republic

bne

Russian construction company Mostotrest plans to build the second stage of a 1,242-meter bridge across the Sura River in the Chuvash Republic for RUB3.674bn after winning an open auction for the project, Prime-Tass reports, citing a press release from the company, which was the general contractor of the first stage of the project.

Mostotrest wins new USD 113mn contract

VTB Capital

News: Mostotrest has won the competitive tender for the government contract for the second phase of the construction of the Sura river bridge (1.2km, the longest bridge in Chuvashia), on the M-7 Moscow-Ufa highway. The contract is for USD 113mn (ex-VAT) and construction is due before the end of 2012.

The company has also announced that its subsidiary TSM signed the contract to overhaul Vnukovo airport's runway for USD 228mn (ex-VAT). This signature follows up on an announcement of 25 April.

Our View: The Sura river bridge is a fairly large project and a highly profitable contract. According to our forecasts, it equates to 1.5% of Mostotrest's backlog as of 31 December 2010 and 2.0% of the company's consolidated revenues over the contract period. We believe the construction will be highly profitable because bridge building is Mostotrest's key area of expertise and the most profitable segment in transport infrastructure. We also note that Mostotrest is completing phase 1 and has its own production forces in situ.

This confirms our view that Mostotrest is a strong competitor for projects of national importance in its key segment, bridges, including in a non-core region with a strong local player, Volgomost. We believe Mostotrest is well on track to perform in line with our projections. The stock currently implies 52% upside potential to our 12-month Target Price of USD 12 and so we are reiterating our Buy recommendation.

Russia trains

First Cargo freight traffic up 14.7% y-o-y in January–April

bne

The cargo traffic of Russia's First Cargo Company increased 14.7% year-on-year to more than 97.2m tonnes in January-April, Prime-Tass reports, citing a company statement that said the total included 38.6m tonnes of coal, up 29.1% on the year; 23.2m tonnes of oil and oil products, down 8.9%; and 8.4m tonnes of ore, up 10.8%.

Metrostroy reported strong revenue for both 2010 and 1Q 11

Metropol

Revenue. Metrostroy 2010 RAS revenue increased by 66.5% y-o-y to a record level of RUB 26bn. EBITDA grew by 68.8% y-o-y to RUB 1bn while net income increased by 9.6% y-o-y to RUB 534mn. The company highlights increased spending for tunnel construction in St. Petersburg as the main trigger for revenue growth. Revenue for 1Q 11 increased by 32.6% y-o-y to RUB 4.6bn. EBITDA and net income increased by 21.3% y-o-y and 52% y-o-y respectively.

Profitability is declining. EBITDA and net income margins decreased for 2010 and 1Q 11. Profitability has been gradually declining over the past five years as the St.Petersburg regional government has been decreasing project values. We expect metro building projects to carry low margins over the long term. Consequently, we believe that the results should have no impact on the stock price.

Andrey Rozhkov

Russia, Belarus in talks over Moscow–Kaliningrad high-speed railroad

bne

Russia and Belarus are holding talks over the launch of a high-speed railroad connecting Moscow and Russia's exclave Kaliningrad Region, Prime-Tass reports, citing a statement released by the region's government following a meeting between regional Governor Nikolai Tsukanov and Belarus' ambassador to Russia, Vasily Dolgolev.

"We have discussed the possibility of opening railway transportation connecting Kaliningrad and Moscow, including (through) Belarus," Tsukanov is quoted as saying. "The ambassador assured me that Belarus backs the project."

He added that the project was of particular importance to Russia's preparations to host the football World Cup in 2018.

Russian Railways cargo traffic up 5.5% on year in January–April

bne

State-owned railroad monopoly Russian Railways increased its cargo traffic 5.5% year-on-year in January–April to 446.663m tonnes, Prime-Tass reports.

The company said in a statement that domestic cargo traffic rose 5.3% on the year to 268.915m tonnes, while international cargo traffic increased 5.9% on the year to 177.748m tonnes.

Russia planes

Aeroflot: Eight additional Boing 777s to be purchased

UralSib

Aeroflot likely to use option to buy eight more Boeings ...
Today, Vedomosti reported that Aeroflot (AFLT RX - Buy) intends to exercise its option to buy an additional eight Boeing airplanes, based on a contract signed earlier. In particular, the company may buy the following long- haul airplanes: two Boeing 777-300ERs and six Boeing 777-200ERs, with the right for conversion into a B777-200LRs or B777-300LRs, which have a longer flight range, with deliveries due in 2013-2017. The initial catalogue contract value for the eight Boeings totals $2.17 bln. Vedomosti added that Aeroflot is likely to get a discount of up to 50% on this initial price with the contract totaling at $1.1 bln, or $136 mln per aircraft. Pricing and financing details have not yet been disclosed.

... fleet expansion essential to meet aggressive targets
We believe the company needs to expand its long-haul fleet in order to meet its ambitious plans to increase its passenger traffic by five times from the 2010 level to 72.5mln by 2020 (the latter is including the consolidation of six airlines from Rostechnologies). We think that the company is likely to finance the transaction through financial leasing. If so, the deal will increase Aeroflot's net debt to $2.5 bln, from $1.4 bln as of the end of 9M10 ($0.6 bln if excluding debt associated with Terminal D) and will also incur interest expenses on its P&L. Our current model does not include the additional aircraft purchase mentioned above or the potential traffic increase from the higher available capacity; we prefer to wait until Aeroflot announces its joint strategy with the six airlines, which are expected to be merged into it from Rostechnologies soon.

News in context of consolidation; option was mentioned earlier
We view this news as an indication of Aeroflot's ambitious outlook on higher passenger turnover, in terms of the forthcoming consolidation with the six airlines from Rostechnologies, which should add at least 15 ppt to the company's existing market share of some 25% and enable it to capture the strong expected growth in Russian air travel. However, we do not expect the news to act as a trigger for the stock, as the company had informed it has a purchase option earlier. We thus reiterate our Buy recommendation on the stock.

Anna Kupriyanova,

Aeroflot RAS revenue up 22.4% y-o-y in January–March

bne

The revenue of flag carrier Aeroflot Russian Airlines rose 22.4% year-on-year to RUB25.628bn in January-March, as calculated under Russian Accounting Standards (RAS), Prime-Tass reports.

The company attributed the increase in revenue to an improvement in its route network management, as well as measures taken to increase the efficiency of its fleet exploitation, and maintaining high level services on board.

Gross profit amounted to RUB783.2m in January-March, while pretax profit amounted to RUB2.676bn, Prime-Tass quoted a company statement as saying.

Domodedovo airport to sell 30 pct stock in London IPO in June

RIA Novosti

Moscow-based Domodedovo international airport may sell up to 30 percent of its stock in an initial public offering (IPO) in London in June this year, Kommersant business daily reported on Thursday, citing sources close to the IPO lead managers.

The stock will be sold by Domodedovo's sole owner and chairman of its board of directors Dmitry Kamenshchik who may raise over $1.1 billion from the offering, the paper said.

The placement is expected to be a success, even though seven Russian companies, including steam coal miner SUEK, Russian Helicopters and Evroset mobile phone retailer have abandoned overseas IPO plans since the start of the year, the sources told the paper.

"But in this case, investors will be offered an asset, which by growth rates and financial indicators can be regarded as a global European leader," a source close to the IPO lead managers told the paper.

Andrei Rozhkov, an analyst from Metropol investment firm, said, however, that the success of the placement was dependent on certain conditions.

"The IPO could be successful, if investors do not take seriously the risks of claims to Domodedovo airport from inspecting authorities and the airport's low value in case of the government's attempt to include Domodedovo into an air hub together with Sheremetyevo and Vnukovo," he said.

The Russian authorities have launched checks on the operation of Domodedovo airport and its ownership structure after operations were paralyzed for several days last December over power outages caused by severe freezing rain and following the suicide bomb attack at the airport in January that killed 37 people and injured dozens more.

In late April, media reported that Domodedovo planned to sell 20-25 percent of its stock for $1 billion in a private offering because the airport's beneficiaries likely intended to sell the shares to foreign investors to protect their business from possible nationalization and union with Sheremetyevo and Vnukovo.

Mostotrest unit inks RUB7.5bn deal to upgrade Vnukovo Airport

bne

Russian construction company Transstroymekhanizatsiya has concluded a RUB7.451bn state contract to carry out an upgrade project at Moscow's Vnukovo Airport, prime-Tass reports, citing a statement from parent company Mostotrest.

Under the contract, Transstroymekhanizatsiya plans to reconstruct the intersection of Runway 1 and Runway 2, as well as Runway 1 and taxiways from May till December 2012, the agency says.

Duma to consider levying fines for flight delays

Renaissance Capital

Event: Today (13 May), RBC Daily reported that new amendments to the airlines code, prescribing the levying of penalties for flight delays and cancellations, are almost ready to be reviewed by the State Duma. According to Duma deputy Anatoly Ivanov, the author of the draft law, the amendments are likely to be discussed in the Duma in the autumn, after feedback on the draft law from the government has been obtained. The amendments introduce increased liabilities and penalties for airline carriers, including greater fines of up to RUB24,000 per passenger for flight delays or cancellations. The new amendments also oblige carriers to make provisions for passengers stranded at airports due to delays, otherwise carriers will have to pay a fine of RUB30,000-40,000 (to the state budget) per passenger.

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

Rationale: The fines prescribed by the new amendments are more strict than the current penalty of RUB25/hour per passenger, but not more than 50% of passengers' flight expenses. However, large airlines do not expect delays and cancellations to occur on a regular basis; according to a consumer protection association representative, passengers reportedly are more concerned about delays to charter flights. If the additional costs are substantial, they could in any case be partly transferred to customers, though we do not expect this to occur in practice.
Ivan Kim

Russian court sides with Transaero in fine dispute with watchdog

bne

The Arbitration Court for St. Petersburg and the Leningrad Region has sided with Russian airline Transaero in its dispute with the Federal Service for Consumer Rights Oversight and Human Welfare over fines for delayed flights, Prime-Tass reports, citing an airline statement.

Specifically, the court rejected six of the 13 fines imposed on Transaero in March. The other seven fines were rejected by the court in April.

Transaero's revised RAS net loss widens 59% on yr Jan–Mar

bne

The revised net loss of major Russian airline Transaero widened 58.5% on the year to RUB380.678m million rubles in January-March, as calculated under Russian Accounting Standards (RAS), Prime-Tass reports, citing a company statement.

Ulan-Ude Aviation releases strong FY10 and 1Q11 results

Renaissance Capital

Event: Yesterday (12 May), Ulan-Ude Aviation (UUAZ) published FY10 and 1Q11 results. In FY10, revenue rose 46% YoY to RUB18,008mn ($593mn; we expected $527mn), EBITDA increased 55% YoY to RUB5,439mn ($179mn; we expected $148mn), and net income was up 80% YoY to RUB4,530mn ($149mn; we expected $111mn). The company improved its EBITDA margin from 28.5% in FY09 to 30.2% in FY10.

In 1Q11, revenue increased 5% YoY to RUB2,590mn ($88mn), while operating income was up 59% YoY to RUB1,149mn ($39mn). The operating margin rose to 44% in 1Q11, vs 29% in 1Q10. UUAZ's net income jumped 55% YoY to RUB860mn ($29mn) in 1Q11. The company ended the quarter with no debt and total cash at RUB6,382mn ($225mn).

Action: The results are positive for the company, in our view.

Rationale: The FY10 results significantly exceeded our expectations, due to sizeable revenue growth. In 2010, UUAZ increased its production volume 30%, while prices rose 15.8% YoY. Exports accounted for 37.1% of total revenue in FY10. The company continues to demonstrate the best operating margin among Russian helicopter producers, and trades at 2.1x EV/EBITDA 2010.

Vnukovo Airport posts net loss of RUB637.856m in 2010, RUB767.6m in Q1 2011

bne

OJSC Vnukovo Airport ended last year with net losses to Russian Accounting Standards (RAS) of 637.856 million rubles, an 18-fold increase on 2009, and posted a RUB767.6m net loss in the first quarter of 2011, against a net profit of RUB98.09m in the same period in 2010, Interfax reports.

The company said sales revenues were up 16.6% in 2010 at RUB2.717bn, and up 1.4% in January-March 2011 to RUB610.03m.

Russia ships

FESCO FY10 results review: Neutral (2010, Full Year)

Renaissance Capital

FESCO has published FY10 results, with revenues 1% ahead of our estimates and EBITDA 3% below. The results were distorted by several one-offs and the restatement of reported numbers, due to a change in accounting from proportionate to equity consolidation, affecting the port businesses.

Overall, we find the results neutral for the share price. We plan to publish an update on our rating and TP shortly.

Among the results, we note strong performance in the rail segment and Vladivostok Container Terminal, at which container throughput has been increasing steadily for the past year. The shipping business continued to struggle, showing a YoY fall in revenues. In fact, while the company is quite positive on container shipping and sees a recovery in charter rates, liner rates and bulker business as a whole remains difficult. The interesting part was FESCO's decision to invest $300mn, with more than half going for purchases of open gondolas, which is likely to increase its fleet by roughly 2,500 railway cars over the next 6-10 months. The liner and logistics business did well in 2010, and we expect it to continue to do so in 2011.

Northwestern Shipping Co net profit soars to RUB5m in 2010

bne

The net profit of Russia's Northwestern Shipping Company leaped to RUB5.177m in 2010 from about RUB2m in 2009, Prime-Tass reports, citing a company financial report.
The company also reported that its first quarter net loss narrowed 14.3% year-on-year to RUB186.432m in 2011.

Seven bids received for 55% stake in Vanino Commercial Sea Port

bne

Seven Russian companies have submitted bids to Russia's Federal Antimonopoly Service seeking to take part in an auction to buy a 55% stake in the Khabarovsk Region's Vanino Commercial Sea Port currently held by the government, Prime-Tass reports.

The antitrust service said that the bids were submitted by Russian coal producers Sibuglemet, Mezhdurechye, Siberian Coal Energy Company (SUEK), Kanopus, SDS-Ugol, as well as little-known companies Trade-Service and Tim Consult. The agency says the auction is scheduled for May 19.

(27.8645 rubles - U.S. $1)

CIS infrastructure

Railcar machinery 2011 outlook: Upgrading stakhaniv and reducing AZGM price target

Art Capital

Ukraine's machinery output rose by 60% to UAH 13 bn in 1Q2011
In particular, transportation and heavy machinery output gained 68% YoY and continues to lead the economy in terms of output growth in 2011. The current growth comes after more than a 60% rise in 2010. In particular, railcar output in Ukraine went up more than 3 times to 39.5 ths in 2010. In 1Q the output added 55% YoY to 12.1 ths cargo railcars.

In 2011 the demand for gondola cars will increase further
CIS transportation companies intend to buy 65 ths gondola cars in 2011, or 18% more than a year ago. The demand is driven by rising railway freight turnover, which retains an 11% upside to the 2008 level, after an 8% growth in 2010. Combined railway freight turnover in key CIS markets, Russia, Ukraine, and Kazakhstan, increased by 10.4% in 1Q2011.

The producers responded with higher production targets for 2011
Stakhaniv Wagon sees its output increase by 14% in 2011 to 8.5 ths units and plans to boost it further to 12 ths units by 2013. Kryukiv Wagon plans to raise monthly output to 1000 cargo railcars by the end of 2011 from 760 in 2010. Azovmash sees a 25% output increase this year, and Dneprovagonmash targets 29% growth. In Russia, the largest cargo railcar producer in the CIS, Uralvagonzavod, envisions a 24% railcar output growth in 2011.

New railcar production facilities to open in the CIS
The production at Tihvinskiy Wagon is gaining speed. At full capacity the new plant will produce 13 ths railcars. In addition, three other companies announced expansion plans totalling over 15 ths extra railcars in the next 3 years. These plans pose a significant threat to the ability of Ukrainian railcar manufacturers to sustain their production share, which now stands at 45%.

Easing railcar casting deficit removed some production bottlenecks
At the end of 2010, Kryukiv and Stakhaniv Wagon were affected by railcar casting deficit. Kryukiv lowered output by 17% in 4Q, while its net income margin went down by 4 pp in the last quarter. Stakhaniv experienced a similar 10 pp margin decrease in 3Q, while it negotiated with VTB Leasing to secure the supply of casting. Two additional large railcar casting facilities are scheduled to be opened in 2011, easing the deficit. In addition, Kryukiv Wagon tapped Chinese and US markets for cheaper railcar casting and Stakhaniv Wagon is eyeing a Czech manufacturer for acquisition to lower its dependence on casting obtained through VTB Leasing.

Azovmash plans to increase output by almost 50% in 2011

Art Capital

Azovmash Group plans to output around 20 ths cargo railcars in 2011, including 17-18 ths made by Azovzagalmash and at least 1.5 ths made by Poltavahimmash. Thus the output growth in its

Mariupol facilities will amount to almost 50%. According to the company's president, Alexander Savchuk, the growth in cargo railcar production is caused by an increase in the demand for tank cars due to growing prices for petrochemicals.

Oleksiy Andriychenko: The news is POSITIVE for Azovzagalmash since the company's guidance has significantly increased from 15.5 ths cargo railcars to 17-18 ths units. This way the company stresses the temporary nature of the disruption caused by defective railcar casting and the appearance of a new growth driver - increasing demand for tank cars due to rising oil prices. Since Azovzagalmash is the largest producer of tank cars in the CIS, the growing demand can result in a sizeable output growth for the company. We confirm our BUY rating for AZGM stock with a $3.6 target.

Interleasinvest to purchase 3000 cargo railcars - positive for domestic railcar producers

Art Capital

Interleasinvest, a transportation company from Dneprodzerzhinsk, controlled by P. Lebedev, plans to expand its stock of cargo railcars from 1200 units to 4200 units by spending $300 mln of its own and borrowed capital, including a $75 mln loan from EBRD.

Oleksiy Andriychenko: The expansion of private cargo railcar stock is POSITIVE for Ukrainian railcar manufacturers, including Stakhaniv Wagon, Kryukiv Wagon and Azovzagalmash as it shows yet another company is interested in substantially expanding its stock of railcars due to rising opportunities in railway transportation. The company priced in a generous valuation for a cargo railcar of $100 ths a unit versus $75 ths ongoing price. We reiterate our BUY rating for all actively traded Ukrainian railcar manufacturers.

Luganskteplovoz may benefit from UZ's change of plans

Foyil Securities

Ukrzaliznytsia (UZ), Ukraine's monopoly railway carrier, has decided to cancel its orders for electric locomotives at NPK Electrovozostoenie, reported Kommersant. UZ will now decide between Luganskteplovoz (LTPL, Buy), or Tbilisi electric locomotives plant. The total order for 400 electric trains is worth approximately USD 2.0bn.

Our view: The news is neutral for LTPL in our view as UZ does not have the necessary funds now. UZ cannot afford to pay USD 2.0bn right now and, unless it secures loans, in the nearest future. Therefore, we believe that UZ may be able to pay for several electric trains per year in amounts that will not significantly influence LTPL's production and financial situation. That said, we believe that LTPL is a fundamentally sound company and we maintain our Buy recommendation for the stock.

Alex Nekrasa

Rolling stock production up 48% in Jan-Apr

Foyil Securities

Freight rolling stock production in Jan-April increased 48.1% y/y in Jan-Apr, reported UGMK.info. The total production reached 16,000 units.

Our view: Russia continues to drive the demand and Ukraine's main rolling stock manufacturers remain key players on the market. We maintain our Buy recommendations for Stakhanov Carriage (SVGZ) and Kryukiv Carriage (KVBZ) with UAH 13.2 and UAH 45.9 target prices respectively.

Alex Nekrasa

Ukrainian Railways wants to spend UAH 23bn on rolling stock

Foyil Securities

Ukrzaliznytsia (UZ), Ukraine's monopoly rail carrier, would like to purchase 34,500 freight cars in 2011-2015. The total order, according to UZ's officials, may reach UAH 23bn (USD 2.9bn).

Our view: The main question is where the money will come from. This year UZ has financing for approximately 1,000-2,000 cars. Another problem besides financing for UZ has been the ability to place orders in Ukraine, since Ukrainian carriage makers generally fill order books with Russian orders and when UZ finds money few have capacities to spare for UZ contracts. However, if UZ does secure financing for this program, it appears to be willing to pay premium to the current market price (USD 73,000-75,000) as an average price for 34,500 railcars would exceed USD 83,000. Right now it is too early to tell how many carriages will be financed next year, we believe that Kryukiv Carriage (KVBZ, Buy) and Dniprovagonmash (DNVM, U/R) may be the frontrunners for the state orders.

Alex Nekrasa

Ukrzaliznytsia writes off electric locomotives

Astrum

According to Ukrzaliznytsia (UZ), in 2011, the company has to write off 181 VL8 mainline freight DC electric locomotives, built in 1957-1968, as well as 65 units of ChS-2 mainline pas- senger DC electric locomotives. In 2012, UZ plans to write off 101 VL8 and 38 ChS-2 locomo- tive units. In 2013-19, the railway monopoly intends to write off 340 VL8 DC electric locomo- tives.

Astrum's perspective: The need for UZ to replace these retiring obsolete locomotives coin- cides with growing freight and passenger transportation in Ukraine. This creates conditions for strong growth opportunities in the procurement of new locomotives over the next five years. This news is POSITIVE for Luganskteplovoz (LTPL: BUY) - the largest domestic manufacturer of railway locomotives. Earlier, UZ identified the priority freight electric locomotive models as be- ing 2EL4 (produced by Luganskteplovoz) and VL11M6 (produced by Electrovozostroitel, Geor- gia), which creates good preconditions for a substantial increase in orders for these products in 2011-16 (see Astrum Daily of May 16, 2011). According to our estimates, UZ orders will ac- count for 22% of LTPL net sales in 2011. We believe that the current prospects for Luganskte- plovoz have not been fully taken into account by the market and we maintain our BUY recom- mendation for the Company's shares.

Igor Bilyk

Ukrzaliznytsya plans to renovate its electric locomotive fleet - Positive for Luhanskteplovoz

Dragon Capital

News: Ukrzaliznytsya (UZ), the Ukrainian railway monopoly, has announced ambitious plans to renovate its fleet of electric locomotives (1,862 vehicles) by purchasing 400 new locomotives and modernize its existing fleet of diesel locomotives (2,488 units). The company plans to buy 50-80 electric trains annually starting 2012. (Company, Kommersant)

Dragon view: The news is positive for Luhanskteplovoz, which is a near-monopoly producer of electric locomotives in Ukraine and monopoly manufacturer of main-line diesel locomotives in the CIS. The news also supports Ukrzaliznytsya's earlier statement that it will buy 40 electric locomotives from Luhanskteplovoz in 2012. Still, as the rail monopoly has not yet disclosed financing sources for the planned fleet modernization (estimated to exceed $2bn), which used to be the main stumbling block for UZ's earlier similar programs, we are far from making overoptimistic conclusions with regard to Luhanskteplovoz's potential order book. Meanwhile, we maintain our positive view on the company and reiterate our Buy recommendation on the stock.

CE infrastructure

Head rolls at Slovak transport ministry

bne

Transport Minister Jan Figel (KDH) on Thursday dismissed Alan Sitar from the post of National Highway Company (NDS) general director, quoting overpriced purchases of training and consulting services for the state-run company as reason.

A stir has been caused recently by a whistle-blowing letter that NDS staff have sent to Figel in which the disaffected employees point to the case, reported TASR.

Sitar earlier on Thursday defended his decisions on providing training and consulting services for company staff via an external firm as the right and beneficial move for NDS.

According to Sitar, the services were important in terms of the demanding challenges with which NDS is faced when it comes to motorway construction in Slovakia.

Hungary opens state-of-the-art air traffic centre for CEE

bne

HungaroControl on Tuesday opened Central Europe's first air traffic control simulation centre in Budapest, rpeorts MTI.

The centre, dubbed Center of Research, Development and Simulation (CRDS), is only the second of its kind in Europe after one in Paris, said HungaroControl CEO Kornel Szepessy.

Szepessy declined to reveal the exact cost of the investment when asked by MTI, but he said the equipment was worth about EUR 1m at list price.

Mr Szepessy said the centre would support the "Functional Airspace Block - Central Europe" (FAB CE), established under an agreement signed last Thursday by Hungary, together with Austria, Bosnia-Herzegovina, the Czech Republic, Croatia, Slovakia and Slovenia.

The FAB CE is a step toward creating the Single European Sky.

State Secretary for Transport Pal Volner also noted the importance of the centre from the point of view of achieving the Single European Sky.

Joe Sultana, Eurocontrol's Chief Operating Officer, Directorate Network Management, said the centre could serve as a forum for air traffic control for all of Europe.

Latvia extends problematic train tender

bne

The Latvian rail passenger carrier Pasazieru Vilciens (Passenger Trains) has extended the deadline for submitting bids in the tender for supply of new electric and diesel trains until June 29.

Pasazieru Vilciens spokesman Egons Alers told BNS that the company had extended the deadline in order to comply with a decision by the Latvian Procurement Supervision Bureau (IUB) and to amend the tender regulations.

The tender has been fraught with claims and counter-claims by participants that it is at best ambiguous and at worst seriously skewed.

The IUB, acting on an additional complaint submitted by Latvian train maker Rigas Vagonbuves Rupnica (RVR), which is one of the bidders, has suspended the tender organized by Pasazieru Vilciens for supply of new electric and diesel trains and insists on certain amendments to the tender regulations.

Previously IUB rejected complaints filed by Swiss company Stadler and RVR and allowed Pasazieru Vilciens to continue the tender. All three bidders, who took part in the first round of the tender -- Swiss company Stadler Bussnag AG (Stadler), RVR together with France's Bombardier, and Spain's Construcciones y Auxiliar de Ferrocarriles SA -- were invited to take part in the second round of the tender. But the RVR filed an additional complaint with the procurement watchdog.

Pasazieru Vilciens has extended the deadline for completion of the second round in the train delivery tender several times already as several complaints had been filed about the first round of the tender. The latest deadline for the second round was May 16.

Pasazieru Vilciens started the tender to choose a supplier of 34 new electric trains and seven diesel trains, which have to be delivered by 2015. The winner of the tender will also have to provide maintenance of those trains for 30 years. Total costs of the project have been estimated around 144 million lats (EUR 205 mln), including some 100 million lats from the EU's Cohesion Fund.

New Estonian Air boss to be a foreigner

bne

The new chief executive of Estonian Air who takes office on June 1 comes from outside Estonia and has previously worked in the aviation sector, chairman of the state-owned airline's supervisory board Joakim Helenius said on Monday.

"The new CEO is not Estonian, has never worked in Estonia and has no connections with Estonia but has a deep knowledge and experience of aviation," Helenius told BNS.

The current president and chief executive of Estonian Air, Andrus Aljas, has decided to resign but will continue to work until the new CEO takes over on June 1. Helenius said the name of the new CEO will be revealed on June 1 when he takes up the appointment.

SE infrastructure

Turkey's canal dreams

David O'Byrne in Istanbul

With his party expected to win its third overall majority in general elections on June 12, Turkish Prime Minister Tayyip Erdogan appears to have set his sights on establishing his own legacy announcing his "crazy project" - "Kanal Istanbul", a 50-kilometre long, 120-metre wide canal that he plans to construct 100 km west of Istanbul between the Black Sea and the Sea of Marmara.

Capable of carrying ships of up to 300,000 deadweight tonnage, larger than the largest tankers currently in use, the canal will have no locks and will use passing places and a mooring basin midway to enable it to allow simultaneous traffic in both directions - in contrast to the Bosphorus strait, which needs to be closed in both directions to allow the largest tankers through.

The aim is a simple one. With oil production in the Caspian region expected to double to around 40m tonnes over the next decade, the number of tankers using the Bosphorus is also expected to double from a current average of 27 a day - a volume of traffic that both threatens to overload the strait and expose Istanbul to the threat of environmental disaster in the event of an accident.

A canal would both reduce the volume of traffic through the Bosphorus and, as the canal will contain none of the twists and turns of its natural neighbour, offer a safer and quicker route for tankers.

But that aim in itself is not new. Turkey has for some years been backing a project to build an oil pipeline that would bypass the Bosphorus, the Samsun Ceyhan pipeline, sponsored by a consortium of Turkey's Calik Energy and Eni, which would link the Black Sea with the Mediterranean.

Sources close to the project have confirmed to bne that the Samsum-Ceyhan pipeline remains firmly on the agenda, with the Turkish government confident in its projections that Caspian oil production will grow sufficiently to justify both the pipeline and the canal. But with Turkey obliged by the 1936 Montreux convention to allow free passage through the Bosphorus, Samsun-Ceyhan has so far failed to secure commitments of sufficient oil to ensure its viability. "The same problem applies to a canal as to a pipeline - if one is free and one has a tariff, then there has to be a group agreement between oil shippers as to how much oil they send through each," says John Roberts, Caspian energy specialist at Platts. "The only alternative is to renegotiate the Montreux treaty, which Russia for one would not be open to."

Again sources close to the project have confirmed to bne that Ankara does hope to renegotiate Montreux, despite the expected difficulties. But with Russia having apparently reneged on its promise to provide oil for Samsun-Ceyhan, many are viewing the canal as a bargaining ploy aimed to pressure Moscow to moderate its demands for a majority stake in the pipeline. Albeit one that doubles as a handy pre-election stunt.

Even so, many find the boldness of the project compelling, although many too question the rather low $10bn official cost estimate. "As a logistics engineer, I think it's a great idea," says Ergin Buyukbayram, a logistics consultant who last year produced a major report on logistics in Turkey. "But it will be very difficult to build and will cost a lot more than they predict - maybe $20bn-25bn at least."

Canal real estate

With shippers unlikely to pay to use the canal while transit through the Bosphorus is free, Turkey plans to offset at least part of the cost by selling real estate along the canal banks, with Erdogan himself pointing to continued migration to Istanbul as requiring bold plans to expand the city.

Many remain unimpressed with that idea, pointing to the tens of thousands of unsold properties on out-of-town estates built in the bubble of property speculation that pre-dated the global economic crisis. "Demand for out-of-town property is low because most jobs are inside the city, and transport links are abysmal," says one Istanbul property developer, who reckons it would take a major sea change to persuade employers to move 100 km into Thrace

Ultimately, though, the historic precedent for such massive infrastructure projects is not encouraging.

The Panama Canal was only built at the second attempt, after a massive financial scandal; the Manchester ship canal company went bankrupt twice before a rescue by Manchester City council allowed ships to sail direct to the landlocked industrial city; early income from the Suez Canal was so low that it required the development of a new way of calculating tonnage to rack up transit fees.

All this suggests that if Erdogan really does want his place in history, he may have to look to the Turkish taxpayer to foot the bill.