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# Top story



## 1. Aeroflot implementing expansion strategy: Eight more Boeings ordered

### Renaissance Capital

**Event:** Yesterday (21 June) Aeroflot announced an order for eight long-haul Boeing 777-300ER planes. Kommersant reported today that the company will obtain aircraft worth \$2.3bn with a 50% discount to catalogue prices. The Boeings will be delivered in 2013-2018. We believe the aircraft are likely to be financially leased. There is widespread media speculation that Aeroflot is tightening its relationship with Boeing and experiencing a deterioration in its relationship with Airbus.

**Action:** Positive for Aeroflot's long-term operational performance, in our view. The news on the new order would not have come as a surprise to the market.

**Rationale:** It had been reported before that Aeroflot had the option to order an additional eight Boeings. Eight new aircraft will strengthen Aeroflot's long-haul operations, which are expected to require additional flights due to Sochi-2014 and the FIFA World Cup 2018. Another positive issue is the significant discount on the ordered aircraft. There was no official reason given for such a generous discount to Aeroflot, although Kommersant reported that Boeing is seeking to strengthen its relations with Aeroflot. Despite huge media speculation on the company's possible problems with Airbus, we expect Aeroflot to maintain relations with both aircraft makers and diversify deliveries, as the company announced during its FY10 results review conference. ●

Ivan Kim

## 2. Russia Transportation, construction and infrastructure - Trends in March- April 2011

### Renaissance Capital

On the 21 of June we released Russia: Transportation, construction and infrastructure - Trends in March-April 2011.

- Manufacturing is slowing and inflation is subsiding. Economic growth in 1Q11 was largely driven by the utilisation of a low-base effect in manufacturing, which posted 12.9% YoY growth while the majority of other sectors showed moderate growth rates of between 1.5-3%. This, we believe, will not be repeated in 2Q11 since manufacturing has already slowed to 5.3% YoY in April 2011. The global weakening of demand for commodities does not bode well for either Russia as a whole or for its export-oriented industries and as a consequence for rail, ports and shipping. The 9.6% headline inflation figure for May is likely to tail off from August and RC forecasts 7.5% CPI for 2011. Surprisingly, food prices fell in May and if indeed inflation moderates, we expect to see more 'money' available for discretionary spending. Thus far, consumers were spending more as a hedge against high inflation despite the fall in real disposable income levels YtD.

- Commodities flat. Both production and consumption of main commodities were flat in March-May with some categories, like iron ore for example, showing a fall in domestic demand. Transportation has not reflected these trends yet and it might be that bulk rail transportation and bulk port-throughput in June-July will weaken. With more bulkers and container ships coming on stream, there is no recovery in sight for sea-freight rates.

- Robust consumer spending. The growth in the three categories where consumer spending is the most visible either strengthened or remained strong in March-May. Auto sales, which moved into the mid-range car category, have been getting stronger from March fuelled by delayed consumption and better availability of car credits.

Container shipments into Russia slowed down somewhat in the past three months but remained robust, fuelled by the demand for imports while airlines saw a recovery in travel after April especially to international destinations. The start of the holiday season, while especially beneficial for charter carriers, is also strongest for Aeroflot.

- Encouraging construction data. The strongest positive data in the past three months came from the construction sector which



showed continued strength. Basic and construction material transportation remained strong, the prices of basic materials that started to grow from 2011 for the first time since the economic crisis, continued to grow in March-May. The value of signed construction contracts are rising as well which, together with sluggish completion of residential dwellings, indicates either a revival in commercial activity and/or spending on infrastructure. The only category of leased railcars seeing an increase in prices in March-May was for cement hoppers.

- Autos and construction. We highlighted rail operators in our previous issue as the best pick in the sector and these companies have indeed done well especially Transcontainer - we think its 'for sale' status contributed to the share strength more than its results or even the strength of the container market. We now believe that auto producers of mid-range cars, where sales have been growing most rapidly, are worth a look. Sollers, which fits well into this category and is one of only a few auto producers which declared an increase in domestic production and actually received funding from VEB, finalised its JV with Ford and plans to start new production from January 2012, is trading at very attractive multiples and has a lot of tailwinds from strengthening consumer spending.

Construction companies, which we don't cover at the moment, showed good performances already but are still worth a look as the market continues to show increased demand for construction materials, rising prices and increased value of contracts signed.

- Ports. Lastly, the market may pay attention to NCSP, whose share price performance has been disappointing YtD. While neither overall throughput dynamics nor strong rouble support the share price revaluation, the ongoing placement of Global Ports done at valuations which are around 15-25% above those of NCSP on our estimates, may suggest some short-term rerating potential for NCSP shares. We expect 2H11 to bring more activity to the stock with grain export bans set to be lifted from 1 June and grain transportation through NCSP expected to be encouraged. Grain transportation previously accounted for around 10% of total volumes and around 15% of revenue in 2009 (however, grain export forecasts currently are not that high, so the final effect for FY11 may not be that significant). At the same time, the privatisation of a 20% stake in the port remains an issue on the agenda for 2H11 as well. ●

# Russia infrastructure news

## 4. Putin sees invest in Yekaterinburg logistics center at RUB12bn

**bne**

Investments in a yet-to-be-created large-scale logistics center in the city of Yekaterinburg are expected to amount to RUB12.3bn, Russian Prime Minister Vladimir Putin said in Yekaterinburg, Prime reports.

Of the total, around RUB10bn is to come from non-budget sources, Putin said, adding that the center is planned to be created by 2015.

# Russia roads

## 5. Moscow city government to hold tender for intersection construction

**bne**

The Moscow city government has announced a tender to construct a road intersection in the northwest of Moscow, RIA Novosti reports, citing the official government procurement web site.

The timeline for the tender was not provided. The Moscow authorities are ready to invest 16.7 billion rubles in the project. The intersection is to be completed in 11-15 months.

# Russia trains

## 6. Russian Railways sale of 25% more in Elteza to Bombardier approved

**bne**

The Russian government has cleared state-owned railroad company Russian Railways to sell another 25% minus three shares stake in its subsidiary, railway equipment maker United Electrical Engineering Plants (Elteza) to Canadian aircraft and train manufacturer Bombardier, Prime reports, citing a government ruling.

Under the ruling, the price for the stake must not be lower than its market price, which is to be determined by an independent estimation, the government says.

## 7. Russian Railways unit to sign maintenance deal with Talgo soon

**bne**

Russia's Federal Passenger Company, a subsidiary of state-owned railroad company Russian Railways, plans to sign a 40-year agreement on train maintenance services with Spanish railway vehicle manufacturer Talgo by the end of 2011, Federal Passenger Company CEO Mikhail Akulov told reporters, according to Prime.

Akulov did not provide the value of the agreement, saying that it is to be specified by Talgo.

# Russia planes

## 8. Investigators search Domodedovo Airport in security probe

**bne**

Russian investigators conducted searches in Moscow's Domodedovo International Airport as part of a case over a failure to fulfill transport security requirements, Prime reports, citing Vladimir Markin, an official representative of Russia's Investigative Committee.

Specifically, the investigators are searching the offices of the airport's management companies, Markin is quoted as saying.

## 9. Moscow's Vnukovo Airport completes runway renovation

**bne**

Moscow's Vnukovo Airport has completed renovating its first runway, resurfacing the runway and extending it by 500 meters, Prime reports, citing the Federal Air Transport Agency.

## 10. Putin says government to invest in development of Urals airports

**bne**

The Russian government plans to invest "significant funds" in the development of airport infrastructure in the Urals Federal District, Prime Minister Vladimir Putin said in Yekaterinburg, Prime reports.

The agency says that current plans provide for upgrades to the Palladino Airport in the Chelyabinsk Region and airports in the cities of Tyumen, Kurgan, Khanty-Mansiisk, Magnitogorsk, Noyabrsk, Salekhard, Novy Urengoy, Nizhnevartovsk, Nefteyugansk, among others.

## 11. Sky Express has highest flight delay rate in May

**bne**

Russian airline Sky Express had the highest rate of flight delays in May, Prime reports, citing Russia's Federal Air Transport Agency. The airline delayed 18% of a total of 855 flights in May.

Sky Express was followed by Kogalymavia, which delayed 13% of a total of 298 flights, and Avianova, which delayed 10% of 781 flights, the agency said.

National flag carrier Aeroflot Russian Airlines, Kuban Airlines, and Grozny Avia had the lowest flight delay rates in May, the agency said.

# Russia ships

## 12. EBRD buys 3% in Russia's Global Ports during IPO for \$70m

**bne**

The European Bank for Reconstruction and Development (EBRD) acquired a 2.98% stake in Russian container terminal operator Global Ports Investments PLC for \$70m during the company's initial public offering (IPO), Prime reports, citing a bank press release.

## 13. Global Ports puts London IPO at \$534m

**bne**

Russian port operator Global Ports says the total offer size for its initial public offering in London is \$534m with \$15 per global depository receipt, Reuters reports.

"The total offering size is \$534m and may increase up to \$588m if the over-allotment option is fully exercised," the company is quoted as saying in a statement, adding that the offer price implies a market capitalisation of \$2.35bn.

## 14. Russian businessman Timchenko's fund to buy 30.5% in Russian Sea Group

**bne**

Volga Resources, an investment fund controlled by Russian businessman Gennady Timchenko, is expected to buy a 30.5% stake in Russian fish and seafood wholesaler and producer Russian Sea Group, Prime reports, citing a group statement. The agency says Volga Resources and RS Group, a company owned by Maxim Vorobyov, the founder and the majority shareholder of Russian Sea, plan to set up a joint company that will own 60.94% in Russian Sea. Volga Resources and RS Group are expected to own the joint company on a parity basis and plan to complete the deal within the next two months. The agency says the deal is expected to cost Volga Resources about RUB1.65bn.

# CIS infrastructure

## 15. Lukashenko approves agreement on \$150m World Bank loan to rebuild M5 road

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**bne**

Belarusian President Lukashenko has approved the loan agreement for a \$150m "Road Upgrading and Modernization Project" for Belarus provided by the World Bank, Prime reports. The first component of the project, with an allocation of \$131m, will finance the upgrading of a total of 53 km of existing two-lane road sections between Minsk and Bobrujsk into a modern 4-lane motorway. The road sections to be upgraded are part of the Trans-European Transport Corridor IX, connecting the Black Sea with the Baltic countries.

## 16. Poland to invest EUR40m in logistical center near Minsk

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**bne**

Poland will invest about EUR40m in a trade and logistical center dealing in fruit cultivation, processing and sales near Minsk, head of the department for promotion of trade and investment of the Polish Embassy in Belarus, Wieslaw Pokladek, told reporters in Minsk, according to Prime.

In March 2011, Minsk Region Administration signed an investment agreement with Lower Silesian Economic Co-operation Agency to build a trade and logistical center near Minsk, the agency says, adding that the project will be implemented on a par basis by a joint venture between Belarusian trading house Zhdanovichi and, possibly, Lower Silesian agricultural and foods house.

## 17. Ukrzaliznytsia to create company to manage high-speed trains

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**bne**

The State Railway Administration of Ukraine (Ukrzaliznytsia) will create a structure to manage high-speed trains, Ukrzaliznytsia Deputy Director General Leonid Loboiko says, Interfax reports. He is quoted as saying that the structure will at first manage only Hyundai trains, which the Korean company will make for Ukraine. It is planned that the structure will expand its management in the future.

Loboiko did not disclose when the structure will be created.



# CE infrastructure

## 18. Czech roads authority drops EU funds bid

**bne**

The Czech Road and Motorway Directorate (RSD) has withdrawn an application for CZK620 million from the EU to finance the completion of the motorway from Brno to Mikulov, southern Moravia, reportedly due to irregularities in the preparation of the project and fears that Brussels could cut other funding or issue a fine as a result, Czech Position reported. There is also a danger the Czech Republic will forfeit EU funding of CZK8.2 billion for the D8 motorway in Northern Bohemia due to planning issues.

# SE infrastructure

## 19. Romania Chinese keen to invest in Romanian infrastructure

**Mirzon**

The Ambassador of the People's Republic of China to Romania, Liu Zengwen, stated, on Friday, during a press conference marking the inauguration of the Mures branch of the Romanian-Chinese Friendship Association, that Chinese entrepreneurs were interested in investing in Romanian road infrastructure projects, Mediafax reports.

Mr. Liu added that Romanian and Chinese officials had discussed a possible collaboration in this sector and representatives of a Chinese company had even embarked on a number of preliminary visits and discussed technical matters, but, in his opinion, "for now, this process is too slow and needs to be stepped up". "We have to admit there are a number of problems which need to be solved, after both parties seek the right solutions," Liu Zengwen further stated. According to the latter, Chinese investors have to study in-depth the legislative frame and the term within which they can get a return on their investment, to ensure there are mutual advantages. "Investment is not something you get for nothing," the ambassador added. "According to the Chinese official, for larger investments, state guarantees or commercial guarantees should be provided, and, at the moment, the Romanian state is unable to offer them, as it is conditioned by

the budget deficit target agreed with the IMF and the European Union.

Liu Zengwen argued that Romania should, by all means, meet this term, which creates "a dilemma", but added that both parties - the Romanian and the Chinese - had agreed to look for solutions "together, making all necessary efforts". "As regards the volume of commercial trade between Romania and China, figures are on the rise, amounting to USD 1.24 bln after the first four months of 2011. "The volume of trade rose by 12 pc compared to (the same interval of) the preceding year," the ambassador stated.

According to the latter, the Romanian-Chinese Friendship Association is meant to strengthen ties between the Romanian and the Chinese people and to bring the business communities in the two countries closer together. Mr. Liu added that Mures County had a potential to draw Chinese investors in sectors like healthcare, spa tourism or Chinese herbal medicine - which could help to developing tourism in the county.

Moving on to another topic, the ambassador Liu Zengwen refused to comment on the fact that Romania does not have an ambassador in China, arguing that this was an internal matter of the Romanian state.



## 20. Romania Highway to link Black Sea and Baltic Sea

### Mirzon

The plan to build a highway that would link the Black and Baltic seas will be discussed this autumn in Cernauti, 'Ziarul Financiar' informs.

According to Helmuth Meelich, UNECE Trans-European Railway and Trans-European Motorway project coordinator, "the initiative to finance the corridor that would link the Black Sea and the Baltic Sea has started and detailed talks having to do with the stances of the countries involved - Poland, Ukraine and Romania - will take place on October 6-7 in Cernauti."

According to the project presented by Romanian and Ukrainian authorities, the highway will follow the E85 route from Marasesti towards Siret and then through Cernauti and Ternopil and will be linked with the Krakow-Lvov-Kiev Highway that is currently under construction, thus interlinking European Corridors III, IV and IV.

Mihai Gainiceru, deputy governor of the Cernauti region, explained that this corridor will link northern EU to southern EU through Ukraine towards Poland and Belarus and then towards the Baltic States. He underlined that the route is already mapped out, pointing out that traffic on E85 doubled every year since 2002 and EU transporters prefer this route because Ukraine eliminated its visa regime for EU member states.