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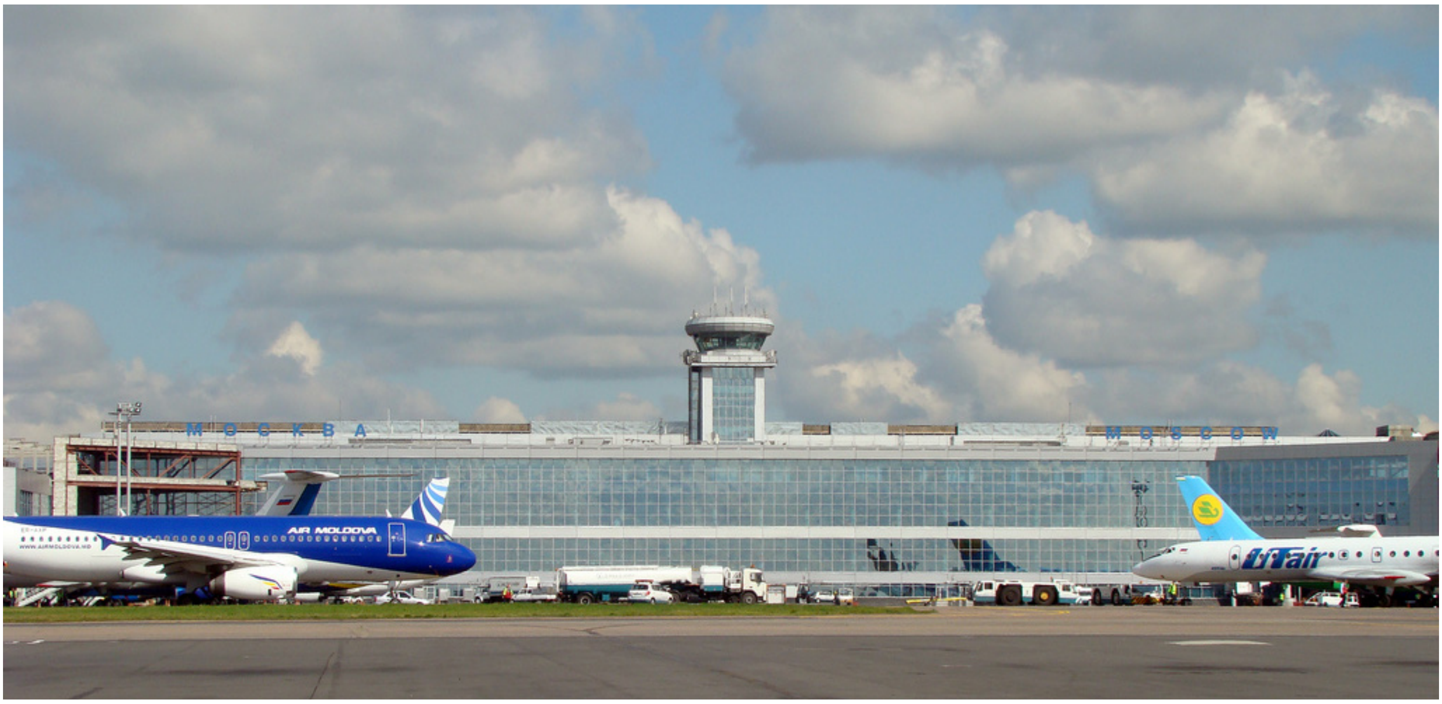

'Peacemaker' in talks for Domodedovo blocking stake?

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The struggle over ownership of Domodedovo Airport has taken a new twist, with reports on Monday suggesting that Igor Yusufov, a former energy minister, and until April the president's special envoy for energy cooperation, is looking to buy a blocking stake for $1bn, Vedomosti reported on Monday.

The airport has been at the centre of a struggle between the state and the owner - named as solely Dmitry Kamenschik earlier this month, although the market had assumed chairman Valery Kogan also held a stake - since it become Moscow's busiest airport. The authorities have been pushing to merge Domodedovo with the capital's other major airports: Sheremetyovo and Vnukovo, and raised the pressure after the bombing in January which killed 36 people. Domodedovo holding company DME Ltd announced on May 18 that it plans to launch an IPO in London, confirming rumors that have been doing the rounds for months. Aton Capital estimated DME's enterprise value at $3.5-4.3bn.

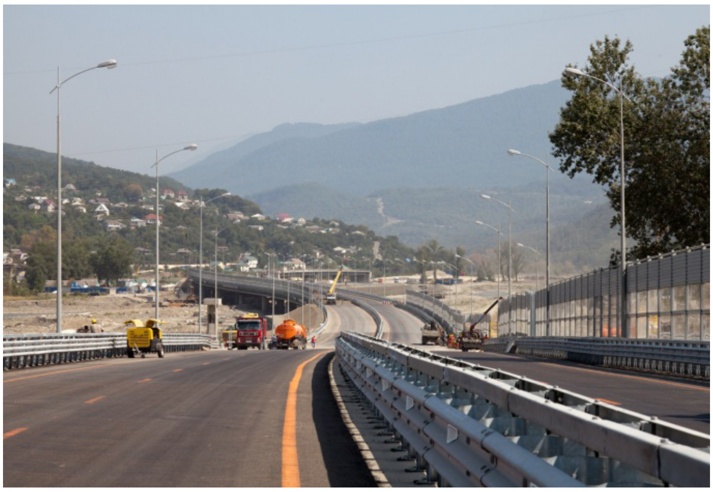
Sources cast Yusufov as a peacemaker, telling the newspaper that Yusufov is in discussion with Kogan about buying a stake and is "prepared to resolve the problems between the airport's management and the authorities." In other words, Yusufov is being presented as a third party to the disputes, although some suspect otherwise. "If Yusufov wants to buy the shares, he buys them for someone else," Andrey Rozhkov, senior transport analyst at Metropol Bank told The Moscow News.

The report in Vedomosti noted also that Yusufov is already talking with banks about raising the $1bn for the purchase. Rozhkov suggests those talks will most likely be with a state-owned bank, as few others would take the risk, and: "If he borrows money from a state-owned bank, it means the stake will end up being owned by the Russian state after all."

A source close to DME said that Yusufov's interest in the stake was only revealed to the airport owners shortly ahead of the article in Vedomosti, reports the FT. That suggests that a swift move may have been provoked by the IPO announcement.

The holding company for Russia's biggest airport said on May 18 that it plans to issue GDR's in London, although it stopped short of offering details. RIA Novosti reported that rumors in April had DME selling up to 25% of its shares for around $1bn, while Reuters quoted the same target for funds raised in November. Sources at the time claimed that pre-marketing would start on May 18, with a listing as early as May 30. ●

Mostotrest wins unique contract



www.mostro.ru

Troika Dialog

Mostotrest subsidiary TSM has won another sizable contract, this one arguably unique, worth R19.3 bln ($680 mln including VAT), adding around 6% to the company's order book. The contract is for the reconstruction and maintenance of a 25 km section of the M4 Don highway near Voronezh. The contract is due for completion by October 2013 and will be financed by Avtodor, a state-owned corporation established in 2009 to develop highway infrastructure.

Troika's view: The contract is unique, as it is the first to include not only construction, but also maintenance and repair for 16 years after completion. We do not know how lucrative the contract is for Mostotrest, neither do we know the breakdown between construction and maintenance, but we anticipate further details soon. As such, the contract has no impact on our valuation at this juncture.

The government has combined road construction and long-term maintenance work to encourage contractors to improve the quality of their work. This fits with Mostotrest's strategy of pursuing sizable contracts. We expect Mostotrest to compete for similar contracts going forward.

Mostotrest has increased its order book by around 15% ($1 bln) over the past few months. Although there is a reasonable risk that not all the contracts will be financed on time, at the very least, these events help create positive sentiment around the construction sector and Mostotrest in particular. ●

Mikhail Ganelin

Novaport to sell stake, mulls IPO

bne

The Novaport airport holding company plans to sell a 25% stake to a strategic investors, and is mulling an IPO after that, as it seeks capital to invest in the upgrade and development of its assets, reports Bloomberg.

Novaport chief executive Mikhail Smirnov told the news agency that owner Roman Trotsenko is in talks with several European and US infrastructure funds and expects to conclude a deal to sell the 25% stake in two to three years.

The company may follow that up with an IPO in 2014 or 2015, he added. Novaport plans to upgrade all of its facilities to provide passengers with a higher level of service, Smirnov said. "That requires investment."

Prime Minister Vladimir Putin said in April that Russia will spend more than RUB300bn ($11bn) by 2015 on airport infrastructure to spur economic development. Novaport, which owns majority and minority stakes in airports in Novosibirsk, Barnaul, Chita, Chelyabinsk, Tomsk and Astrakhan, plans to spend several hundred million dollars on expansion in the next five years as passenger numbers swell and Moscow becomes increasingly overloaded as a connecting destination.

Smirnov, who estimates the company's assets to be worth around $400m, says the company is focusing its investment on Tolmachyovo Airport in Novosibirsk to attract more passengers and cargoes from routes between Southeast Asia and Europe. Novaport built an 11,000 sqm cargo terminal at a cost RUB300m, and plans to spend another RUB250m further on facilities to allow it to offer refueling stops on Europe-Southeast Asian routes, which currently use neighboring Kazakhstan as a stopover.

The company hopes to see Tolmachyovo raise the 2.2m passengers it served last year by 1m more by 2015 through targeting Siberian travelers - particularly to Asia - who connect to their final destination via Moscow. "It would be more economically feasible," Smirnov said. "Plus, Moscow is choking. The runway capacity of Moscow airports is close to saturation."

Smirnov said there are no plans to hold an IPO for Novaport parent company AEON, which owns stakes in about 30 companies in sectors including shipbuilding and river ports. He said AEON values its assets at $1bn. ●

Russian Railways wants slower privatizion

RIA Novosti

Russian Railways should start its privatization with a sale of 10-15 percent to a strategic investor after 2013, not the 25 percent minus one share as the government wants, the rail monopoly's head Vladimir Yakunin said late on Wednesday.

"I think we should sell less than a blocking stake. It will be better to sell a small stake at first," Yakunin said.

The government has approved a $33 billion privatization plan for 2011-2013, which includes the sale of shares in Russia's top ten companies, although there are no firm dates for the sales and the sizes of stakes are often undefined. The state wants to privatize a quarter of Russian Railways by 2013-2015.

Transport Minister Igor Levitin has said it would be reasonable to offer up to 10 percent of Russian Railways shares to investors before 2015. ●

Russian roads to get $285bn revamp

bne

Prime Minister Vladimir Putin pledged to sink RUB8 trillion ($285bn) into the country's dilapidated roads over the next decade on Monday, to double the rate of road building. However, the PM accompanied his announcement with a call for measures designed to prevent the cash leaking out of the tarmac and into various pockets.

The World Bank has said the country's road infrastructure is one of the key restrictions for economic growth, with only a third of all federal roads meeting quality standards. However, with road building notoriously corrupt - even by Russian standards - even the limited investment that has gone into it over the last decade has struggled to make an impact.

"We need to eliminate factors that lead to artificial increases in cost and construction delays," the PM insisted, calling for an improvement in regulations and the hiring of contractors, among other measures. Putin specifically demanded proposals to improve procedures for procuring land to cut out speculation and abuse, whilst FAS will probe the prices of bitumen and other materials. Deputy Prime Minister Sergei Ivanov meanwhile was charged with finding measures to fight dumping by foreign companies on the domestic road construction machinery market.

In 2002-2010, around 25,000km of federal and regional automobile roads were built in Russia, Putin said, adding that 18,000km of federal roads were planned to be constructed by 2020, reports Prime Tass.

"The state of our roads is a real problem, constraining business activity, investment and development of the Russian territories," Putin told a local government meeting in Tver, before explaining: "Our financial resources allow us to double road construction volumes in the next 10 years."

This year, the government set up a budget for motorway building at federal and regional levels, which will accumulate revenue directly from sources such as petrol excise duty and vehicle licensing tax. That has allowed it to raise planned spending this year by 40% to $25bn.

The increased focus appears a reversal of the trend over the last decade, with data published by the World Bank showing spending on roads fell from 2.8% of GDP in 2000 to 1.5% in 2009. ●

Siemens, Hyundai offer to expand Moscow metro

RIA Novosti - Vedomosti

Germany's Siemens and South Korea's Hyundai are looking to build metro lines in Moscow in addition to supplying railcars, city hall sources told Vedomosti.

"We can deliver up to 15 km of new metro lines per year in Moscow," said Konstantin Gologrudov, project manager for rolling stock at Hyundai's Moscow office.

"We have railway automation systems in our portfolio, as well as electrical distribution systems and automated security systems for underground stations," a Siemens spokesperson said without elaborating.

Russian developers do not have the capacity to take on all of city hall's plans, said Alexander Ovanesov, a partner at Strategy Partners consultancy.

Therefore, some concessions will probably have to be granted to foreign companies. Moscow plans to build 82.5 km of metro lines by 2017, as well as to replace 64 escalators and 1,296 cars. The total investment is estimated at 562 billion rubles (almost $20 billion), most of which will be funded by the city.

The South Korean company is organizing a consortium which will include a management company, Hyundai Corporation; a rolling stock producer, Hyundai Rotem; and a developer, Hyundai Construction, Gologrudov said. Hyundai is prepared to design and build metro lines as well as to raise financing and negotiate loans from Korean banks.

A concession typically gives an operator the long term right to use the property conferred on it, including responsibility for its operation and investment. Asset ownership remains with the operating authority. The operator obtains its revenue directly from the consumer, in this case ticket sales, or through property leases at metro stations. The Moscow city government needs to draft the legal framework and the financial terms, Ovanesov said.

"Private business is involved in surface and underground transit around the world," said Oleg Badera from the Business Russia association. "In Seoul, there are no municipal carriers at all. Private companies operate specific metro lines. They use common electronic tickets. In Moscow, private carriers account for about 50 percent of all surface transportation." Hyundai representatives have held a series of consultations with Moscow officials, reaching only a general understanding.

Moscow officials are also in talks with VEB, Sberbank and several European banks about financing concessions, Deputy Mayor Andrei Sharonov said, adding that VEB has agreed to finance transit concessions while Sberbank has not responded yet. ●

Russia infrastrcuture news

Corporate governance standards at Mostootryad-19 appear to be deteriorating

Metropol

Anker, a Mostootryad-19 subsidiary, sold a 23% in the parent company to Building Group, an entity that we believe may be affiliated with Mostootryad-19 management. The company did not disclose the sale price and we assume that the stock was sold below the market value.

Negative impact on stock. The news is value destructive for Mostootryad-19, in our view, as the sale is an indication of deteriorating corporate governance standards. Profitability has also fallen sharply in 2010, with operating margin decreasing by 4.8ppts to 0.7%. In our view, such a drop in profit is not justified by market conditions. We believe that Mostootryad-19 stock will be under pressure, with the price falling in the medium-term.

Andrey Rozhkov

FESCO realises railcar business expansion: Transgarant to acquire a railcar operator in July

Renaissance Capital

Event: Prime-TASS yesterday (2 June) reported that Transgarant (a subsidiary of FESCO) plans to acquire a railcar operator, with a railcar park of approximately 1,500 railcars, by the end of July 2011. The company reportedly intends to spend not more than $100mn on the acquisition. No other details regarding the potential target were provided.

Action: From a strategic perspective, positive for FESCO, in our view. The valuation requires more details regarding the acquisition target.

Rationale: The acquisition of a railcar operator by a fully consolidated subsidiary is in line with FESCO's announced rail business expansion plans (the rail segment contributed 26% to 2010 revenue, and 33% to the company's total segment EBITDA). As announced during the 2010 full-year results conference call, more than half of FESCO's $300mn target 2011E capex is to be devoted to purchases of open gondolas. The decision to acquire an existing railcar operator, instead of buying new railcars, appears to be logical to us, given the high and increasing prices for new railcars (approx. $79,500/new open gondola in April 2011). Announced reference numbers for the acquisition imply the acquisition target railcar operator is priced only at the cost of its fleet, implying $67,000/railcar vs an approximate $69,000 secondary market price for open gondolas produced in 2003-2007 (source: PG-online), which is lower than the price of new open gondolas and the Globaltrans and TransContainer EV/railcar park.

Ivan Kim

Globaltrans may use SPO to finance potential purchase of First Freight

Renaissance Capital

Event: Today (2 June) RBC Daily, citing Globaltrans CEO Sergey Maltsev, reported that Globaltrans is ready to pay up to $6bn for a 75% stake in First Freight. Russian Railways plans to auction off a 75% stake in First Freight in 3Q11, with a starting price of RUB115.5bn ($3.8bn). Maltsev said the company is considering raising $1.7bn in debt from state banks (VEB, VTB and Sberbank), and also does not rule out an SPO of $1.2bn to finance the acquisition. One of the options to finance the remaining part, in our view, is to leverage up First Freight. According to Maltsev, the payback period of the purchase of control in First Freight at $6bn is five years. According to Kommersant, the stake to be sold could increase to 100%, and among other bidders for First Freight are NefteTransService, Gennady Timchenko, Vladimir Lisin, Brunswick Rail and Summa Capital.

Action: The price indicated by Maltsev is 50% ahead of the starting auction price, and hence looks less attractive.

Rationale: Assuming no debt and $1bn EBITDA generated by First Freight, the valuation indicated by Maltsev puts the company at an 8.0x EV/EBITDA, vs 7.3x for Globaltrans for 2011E. Russian Railways previously clarified that RUB115.5bn is just the starting bid, and that it expects to get more for the stake to cover a deficit in its investment programme. Although we think investors will likely perceive the potential SPO as a substantial overhang, the scope for an operational and financial turnaround at First Freight is substantial, in our view. For comparison purposes, Globaltrans generates around $500mn EBITDA operating approximately 50k railcars, while First Freight generates $1bn EBITDA operating approximately 230k railcars. We do not rule out a joint bid being made for First Freight.

Ivan Kim

We view the news as POSITIVE for Globaltrans, as liberalization of the locomotive traction market is one of the catalysts for the stock. New regulations would improve the competitive position of private rail service companies, including Globaltrans, allowing them to provide more flexible and cheaper services, further increasing their market share, taking it away from Russian Railways. However, the details of the new regulations have not been disclosed yet.

Iouli Matevossov

Mostotrest won a RUB 3.52bn contract for the Northern Bypass around Ryazan

Metropol

Mostotrest won a RUB 3.52bn project for the 4.5 km Northern Bypass around Ryazan. The project is scheduled for completion by the end of 2013. Included in the project will be a 3.8 km, four-lane highway, including a pivot-span bridge over the Trubezh River, a 772m flyover, a viaduct, and two interchanges, as well as three overpasses.

No impact on stock price expected. The news is positive, but we belive it is unlikely to have much impact on the stock price since the company's RUB 244bn backlog will increase by only 1.4%. We reiterate our HOLD recommendation and our fair value of USD 7.81 per share.

Andrey Rozhkov

Note: Prime-Tass cites a Mostotrest statement as saying the tender is worth RUB4.154bn.

New rail cargo transportation regulations may be introduced as of January 1, 2012

Alfa Bank

According to Kommersant, Federal Tariff Service (FTS) is going to develop new rail cargo transportation regulations in 3Q11 and these may become effective as of January 1, 2012. New regulations will lay a foundation for the liberalization of the locomotive traction services in Russia, which was proposed by the target model for the development of the freight rail transportation market in Russia until 2015, approved earlier in 2011.

Putin to hold meeting on road construction

Ria Novosti

Russian Prime Minister Vladimir Putin will on Monday pay a working visit to the city of Tver north of Moscow to hold a meeting on road construction, the government reported.

"The current state of the public road system, the problems and development prospects of the road and transport infrastructure, as well as the implementation of relevant federal target programs will be discussed at the meeting," it said.

Deputy Prime Minister Sergei Ivanov, Finance Minister Alexei Kudrin, Transportation Minister Igor Levitin and other officials and businessmen will attend the meeting.

MOSCOW, May 30 (RIA Novosti)

Russian government may sell 100% stake in First Cargo Company

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The Russian government may decide to sell a 100% stake in First Cargo Company that currently belongs to state-owned Russian Railways, Prime-Tass reports, citing a company source.
The source stressed that the Russian government has approved selling a 75% minus two share stake in First Cargo Company so far, "but it may be 100%, as it is easier to attract funds for 100%."
Prime-Tass adds that Russian Railways did not confirm the information provided by the source.
The source is also quoted as saying that five companies had shown interest in acquiring First Cargo Company, namely Neftetransservis, Globaltrans, Independent Transportation Company, Transoil, and Novotrans.

RZD auction of TransContainer stake may be postponed to 2012

Renaissance Capital

Event: Kommersant today (25 May) reported that Russian Railways (RZD) may abandon plans to auction a 25% stake in TransContainer in 3Q11, in favour of selling in 2012 the entire 50% stake it owns in the company. According to Kommersant, this has been provoked by RZD's need to offset losses from lower-than-expected railway transport tariffs in 2012. In addition, RZD may have to sell Second Freight Company shares. The Russian Transport Ministry is reportedly insisting on the sale of the 50% stake in TransContainer in 2012.

Action: Despite official approval for the auction of 25% of TransContainer in 3Q11 by the RZD board, we believe uncertainly over the sale this year will continue until an official statement is made by the government on the issue. In our view, the 3Q11 auction would be supportive for TransContainer and its most likely buyer FESCO, and potentially positive for Globaltrans.

Rationale: According to Kommersant, RZD is analysing the option of auctioning 50% in 2012 (as proposed by the Ministry of Transport) instead of 25% in 3Q11, in order to receive a higher control premium for each share in the stake sold. The revenue raised will be used to finance losses in 2012, which are expected to increase following a recent government decision to keep transport price growth in line with inflation (currently expected at about 6%). At the same time (and as previously reported by Reuters), proceeds from the auction of stakes in TransContainer and First Freight Company (scheduled for 3Q11) are planned to be used in 2011 to finance RDZ's investment programme deficit.

Ivan Kim

Prime-Tass reported on May 24 that Russian Railways' Senior Vice President Valery Reshetnikov told reporters that the state-owned railroad monopoly plans to sell a 25% minus two share stake in TransContainer by September. The plans approved by the board in April were for the sale of 25% plus one share in 2011.

Siemens to build regional trains in Russia: Joint venture with Sinara Group to supply railway operator RZD

Siemens - press release

Siemens has formed a joint venture in Russia with its Russian partner Sinara Group to deliver regional trains. The new company Train Technologies has entered into an agreement on main terms for delivery of Desiro RUS electric trains with Russian Railways (RZD). The preliminary contract covers 240 trainsets comprising 1,200 railcars, with a total value of about EUR 2 billion. The underlying agreements were signed today during the Forum 1520 congress in Sochi by RZD President Vladimir Yakunin, Hans-J rg Grundmann, CEO of the Mobility Division of Siemens, and Dimitry Pumpyanski, CEO of the Sinara Group. Final contract details will be agreed during the following negotiations.

Starting in the year 2013, the trains will be produced at a manufacturing facility close to Yekaterinburg. Initially, the joint venture will produce the remaining 16 trains from an order encompassing a total of 54 railcars that was placed with Siemens by RZD in 2009. The contract had a volume of approximately EUR 580 million. In connection with that order acquired in 2009, RZD and Siemens already agreed on a partial train production in Russia. The Siemens plant in Krefeld has recently started producing the first 38 of these trains of the model Desiro RUS in Germany. Now the legal basis is being laid for producing the remaining 16 trains in Russia.

Siemens' Desiro-model trains, which are designed for regional transit, can reach speeds of up to 160 km/h. In Russia, they are known by the name of "Lastochka," which means "little sparrow." The first units are planned to go into service in Sotchi starting in the autumn of 2013. Russia has a great need for modern rail technology. Over the next 30 years, the country plans to invest roughly EUR 300 billion in new trains and infrastructure. "Russia is a strategic growth market for rail technology. Cities in Russia are likewise faced with the challenge of having to increase the quality of life and the competitiveness while conserving resources and protecting the environment at the same time. Our green infrastructure technologies are helping Russia to reach its goals of energy efficiency and climate protection," said Hans-J rg Grundmann, CEO Siemens Division Mobility.

Russia infrastrcuture finance & statistics

Aeroflot: 4Q10 IFRS review: top line delivers positive surprise despite seasonally weak quarter

UralSib, Russia

4Q10 top line surprises positively. Aeroflot (AFLT RX - Buy) reported 4Q10 and 2010 IFRS results, which surprised positively despite what is a seasonally weak quarter, exceeding expectations on both revenues and EBITDA. The significantly higher top line in 4Q10 (13% above our estimates and 17% above the consensus) was due: (1) mainly to non-core and cargo revenues, which together exceeded our estimates by 42% and were 25% higher QoQ at $298 mln; (2) also to the underestimation of the effect of euro appreciation against dollar on Aeroflot's revenues (5% for the quarter), as we had assumed a lower share of eurodenominated passenger revenues than about 50% reported by the management at the analyst meeting. Nonetheless, excluding the effect of the stronger euro, Aeroflot's 4Q10 average passenger yield was up 2% (5% if including effect from stronger euro), a very solid result for a seasonally weak quarter. The EBITDA margin was 9%, in line with our estimate, though EBITDA was 13% higher (162% above the consensus) due to higher revenues. The bottom-line was slightly better than the consensus but below our estimates. The latter can be ignored due to the low predictability of the effect of Aeroflot's subsidiaries (this should improve next year with sale of Nordavia, the spin-off of Sheremetievo Terminal D, and completion of bankruptcy of Aeroflot Cargo). Net debt was $1.4 bln at the end of the year, almost in line with the end of 9M10. (We will issue a note later today).

Anna Kupriyanova

Fitch says PPPs Are No Panacea for Rail Funding

bne

Fitch Ratings says in a special newly-published report that Public-Private Partnerships (PPP) should not be viewed as some miraculous substitute of public monies with private capital to fund European rail networks.

As European governments come under increasing financial pressure, the sustainability of subsidies directed to rail networks becomes questionable and consequently raises the issue of the need for replacement funding.

Fitch believes rail subsidies may shrink as a result of tensions over public finances, although they are in less danger than other infrastructure segments, notably because the sector has become stronger politically and increasingly popular with both elected officials and the general population.

Because of the current public financing pressures, some infrastructure managers expect the private sector to step in to bridge the funding gap through PPPs. Fitch believes PPPs are no panacea and must not be considered a funding method, but rather a procurement method. As such they are helpful where they can bring better value for money. This is particularly true where private partners are incentivised to perform better. In some cases, such as extremely large and complex projects, PPPs may not be appropriate at all.

When PPPs are implemented, it is generally difficult to attract private investors, because rail projects are particularly complex. Investors are concerned with managing risk and in rail projects even more than for other infrastructure segments, this needs to be transparently documented, thoroughly analysed and wisely allocated. Since most debt investors are not familiar with rail projects, a lot of project preparation and investor education will be necessary to ensure a strong understanding of the sector and the projects by the financial community.

Glavmosstroy reported weak 2010 results, although 1Q 11 results rebounded strongly

Metropol

2010 results. Glavmosstroy reported that 2010 RAS revenue increased by 14% y-o-y to RUB 17.63bn. EBITDA and operating income decreased by 42% y-o-y and 42% y-o-y respectively, while EBITDA margin declined by 6.9ppts y-o-y to 7.2% and operating margin declined by 6.7ppts y-o-y to 7.0%. The company did not disclose the factors negatively impacting EBITDA profitability, the level of which was higher than in the pre-2009 period. We believe that the pressure could be attributable to lower margin social projects (schools, for example), built for the Moscow authorities and completed in 4Q 10.

Net income decreased by 81% y-o-y to RUB 132 mn. Net income decreased more significantly than operating income likely due to financing costs, which grew by 40% to RUB 468mn.

1Q 11 results. 1Q 11 revenue increased by 44% y-o-y to RUB 3.67bn. EBITDA and operating profit grew by 192% and 197% respectively. Both margins were higher than figures in 1Q 10 and 1Q 09. The improvement in margins likely indicates that the company undertook more commercial projects, including residential real estate.

Debt position. Net debt increased to RUB 18.42bn for end 2010 compared to the RUB 16.71bn at the end of 2009, but was lower than the RUB 19.89bn at the end of 3Q 10. The debt position deteriorated with the net debt to EBITDA ratio increasing to 10.3x for the end of 2010 compared to 7.7x for the end of 2009, which was mainly due to a steep decrease in EBITDA in 2010. However, the company has RUB 12.1bn classified as long and short term financial investments. With these investments, which could be credits from the company to sub-contractors or subsidiaries, actual net debt is lower than reported.

Outlook. Results are weak, in our view, and could have a negative impact on the stock in the short term. However, we reiterate our BUY on the stock given the company's strong positions in Moscow and the Moscow Region and encouraging 1Q 11 results.

Andrey Rozhkov

KamAZ reports FY10 revenues up 26% YoY, EBITDA up 3.2x, net losses at USD 25mn

VTB Capital

News: KamAZ has published its FY10 IFRS results, featuring revenues up 26% YoY to USD 2.4bn, EBITDA up 3.2 times to USD 142mn and net losses of USD 25mn.

Our View: Revenues came 14% below our forecast while EBITDA beat it by 3% on the back of impressive cost control. Thus, the EBITDA margin recovered faster than we expected. Net losses were affected by one-offs and the move towards rouble-denominated debt (to reduce exposure to forex risks), while the rouble strengthened.

Management said that it was targeting 2011 revenues up 37% to RUB 96bn (USD 3.3bn), with EBITDA forecasted to rise 70% to RUB 7bn (USD 241mn) and net income at RUB 660mn (USD 23mn). The company's long-term financial goals include revenues growing to RUB 213bn (USD 7.0bn) in 2015 and RUB 374bn (USD 10.7bn) in 2020, with EBITDA at RUB 24bn (USD 0.8bn) and RUB 44bn (USD 1.3bn) in the respective years. While we tend to agree with management that the FY11 goals are quite manageable, the long term goals are 10-44% higher than our forecasts on revenues. However, they are 0.5-0.9pp below our forecasts on the EBITDA margin.

Another theme which might create major news in the coming months is the acquisition of MAZ. Management was laconic on the subject, simply saying that negotiations are under way and the only hurdle is the valuation of MAZ.

We believe that KamAZ is to benefit from the strong recovery of the truck market, driven by investment demand, the recovery of the economic and its further growth. Hence, we are reiterating our Buy recommendation on the stock.

Elena Sakhnova

Metrostroy free float unlikely to decrease following repurchase offer

Metropol

Our source at Metrostroy said that shareholders voting against the company's participation in a tender for a RUB 4.5bn project at the June 24 AGM could sell their shares back to the company at RUB 10,700 (USD 380) per common share and RUB 4,600 (USD 162) per preferred share. Given a net asset value of RUB 3,188mn at the end of the first quarter, the company could buy back shares with a total value of RUB 318mn. The record date for the AGM was set as May 10, 2011.

Small impact on free float, in our view. According to our estimates, common shares have a current free float of 7.8% while preferred stock has free float of 45%, for RUB 337mn at the repurchase price. Consequently, the company may buy back most of the free float (94% of common and preferred shares) if shareholders accept the repurchase offer.

However, the current RTS offer price for common shares exceeds the repurchase price by 15% while the market price for preferred stock is 22% higher than the repurchase price. The six month average price for common stock is just 3% higher than the repurchase price and 2% lower for preferred shares, so we believe few shareholders will choose to accept the offer. Therefore, we believe there will be little change in free float following the repurchase offer.

Andrey Rozhkov

NCSP's cargo turnover dropped 1.4% y/y in January-April

Alfa Bank

Yesterday, NCSP Group published its January-April operating results. Total cargo turnover dropped 1.4% y/y, with bulk cargo decreasing 40% y/y and general cargo declining 18% y/y.

Liquid cargo posted its first positive results since the beginning of the year, increasing 2.7% y/y owing to growth in petroleum products of 27% y/y.

In bulk cargo, iron ore and concentrate volumes continued to rise, increasing 4.5 times y/y in January-April, and sugar and mineral fertilizers grew strongly. However, the overall results in the segment remain weak due to the grain export ban, which is set to be lifted as of July 1. We expect this will improve the segment's results and will contribute to the turnaround in operating results of the company as a whole.

The decline in the general cargo segment was caused mainly by a 20% y/y decrease in ferrous metals, which is a result of continuing tensions in North Africa and the Middle East, the primary destination for ferrous metals export from Novorossiysk.

Container volumes remained strong, increasing 56.8% y/y.

Overall, we view the results as NEUTRAL for NCSP; however, they indicate a gradual improvement in the company's operating results from a 4.1% y/y drop in 1Q11. Nevertheless, we believe that the major turnaround will come with the lifting of the grain export ban, which will likely support investor's interest in the stock, which has remained under pressure since the beginning of the year and has gone far below the level seen after the sell-off last October, when the news about the acquisition of PTP broke.

Iouli Matevossov

Russia roads

Rostov Region sees 3 transport projects built by 2017

bne

The government of Russia's Rostov Region plans to have three transportation objects totaling RUB18bn to be constructed in the city of Rostov-on-Don for the 2018 FIFA World Cup that Russia is to host, Prime-Tass reports, citing the regional transportation ministry.

Specifically, the regional government plans a bridge worth RUB6bn to be built across the Don River, connecting the city's center with its left-bank, where a soccer stadium is to be built; a 10-kilometer highway worth RUB10bn on the left-bank of the city; and a bridge across the Don River as part of the reconstruction of a highway leading to Rostov-on-Don from the south.

Russia's Mostotrest, Kapsch TrafficCom set up traffic management JV

bne

Russian construction company Mostotrest and technology company Kapsch TrafficCom Russia, a unit of international company Kapsch TrafficCom, have set up a joint venture to implement automated traffic management systems to operate roads in Russia, Prime-Tass reports, citing a Mostotrest press release.

Mostotrest holds 51% in the joint venture, called United System of Toll Collection, which is expected to study the potential of the automated traffic managment system market in Russia and design technological solutions to implement such systems to operate toll roads.

Russia's TransContainer, German company to set up JV in Kaluga Region

bne

Russian container shipping company TransContainer and Germany's DB Schenker Rail Automotive GmbH have signed an agreement to set up a joint venture to provide logistics services to automobile parts suppliers and car manufacturers in the Kaluga Region, Prime-Tass reports, citing the Russian company's Wednesday.

The value of the deal was not provided.
The agreement was signed in an effort to meet demand from a growing number of automobile parts suppliers and car manufacturers in the region.

Established in 2006, TransContainer is one of the largest Russian companies operating in the field of multimodal container transportation. Russian Railways currently owns a 50% plus two share stake in TransContainer.

DB Schenker Rail Automative GmbH is a division of DB Schenker, which focuses on the transportation and logistics activities of German state-controlled railway company Deutsche Bahn.

Transportation Ministry mulls extra RUB8bn for transport leasing company

bne

Russia's Transportation Ministry has proposed providing an extra 8 billion rubles over three years to State Transport Leasing Company (STLC), which provides leasing services on the road machinery market, to purchase road construction machinery, Transportation Minister Igor Levitin says, Prime-Tass reports.

Russia trains

Antitrust clears Transmashholding to up stake in rail car plant

bne

The Federal Antimonopoly Service has cleared Russian railway equipment maker Transmashholding to increase its stake in Tver Carriage Works to 93.11%, Prime-Tass reports, citing the service as saying it has cleared Transmashholding to purchase 42.47% in the plant.

East-Siberian Railways to invest $5m in the rail tie utilization complex

Marchmont

Interregional rail operator East-Siberian Railways has announced plans to invest $5m expanding production capacities of the rail tie utilization complex at the Tagul station in Irkutsk region's Tayshetsky district.

As a result of investment, the complex's annual capacities are reportedly to double to 7,320 tons or 120,000 rail ties.

The complex is scheduled to be put into commission in December 2012.

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

First Container Terminal cargo handling up 6.6% January through May

bne

The cargo handling of St. Petersburg's First Container Terminal, part of the National Container Company (NCC), rose 6.6% on the year to 484,671 twenty-foot equivalent units (TEUs) in January-May, Prime-Tass reports, citing the NCC said.

In May, the cargo handling of the terminal increased 13% on the year to 115,295 TEUs.

Of the May total, the terminal handled 58,613 TEUs for export and 56,682 TEUs for import, the NCC is quoted as saying without providing comparisons.

Russian Railways passenger unit to buy 6 trains from Spain's Talgo

bne

Russia's Federal Passenger Company, a subsidiary of state-owned railroad monopoly Russian Railways, plans to sign an agreement in June to buy six trains from Spanish railway vehicle manufacturer Talgo, Russian Railways Vice President Valentin Gapanovich says, Prime-Tass reports.

The trains are expected to be supplied over the next two years, he said, adding that the price of one train could amount to between EUR14m-20m.

Federal Passenger Company and Talgo plan to subsequently set up a joint venture to provide maintenance services for these trains, the Russian company's CEO Mikhail Akulov is quoted as saying.

Russian Railways sets additional requirements for buyer of First Freight

Renaissance Capital

Event: Today (23 May), Kommersant reported that Russian Railways is preparing a shareholders' agreement for the future buyer of 75% in First Freight Company (PGK), which will be auctioned off in 3Q11, with the starting bid set at RUB115.5bn. The agreement will reportedly prohibit the sale of shares in the short term and the use of shares as collateral without Russian Railways' approval. Russian Railways plans to complete a draft of the agreement by 15-20 June, and also expects to receive the government's approval to sell the stake by then.

Action: According to a Russian Railways representative, the terms of the agreement have not been finalised, but the new conditions will be more stringent for bidders. We think obligatory approval from Russian Railways for using PGK shares as collateral will not be necessary, but could potentially be an additional obstacle for Globaltrans to acquire PGK, which may need to raise additional funds for the purchase.

Rationale: The shareholders' agreement is likely meant to protect Russian Railways' interest in PGK after the sale. It would establish additional requirements for the potential buyer, besides those previously set (the buyer should be a non-state, profitable company with more than 10-15,000 railcars). We think Globaltrans would most likely need a combination of an SPO and a debt offering to buy a stake in PGK and, thus, can be affected by the agreement. It is reported that almost none of the current potential buyers can easily pay for PGK in cash.
Ivan Kim

Russian Railways to get 200 cargo locomotives from Transmashholding

bne

State-owned railroad company Russian Railways has signed a contract with Russian railway equipment maker Transmashholding for 200 electric freight locomotives of the 2ES5 model, Prime-Tass reports.
The deal, worth about $1bn, was signed by Russian Railways' President Vladimir Yakunin and Andrei Bokaryov, chairman of Transmashholding's board of directors.
The agency says the locomotives are to be produced by Transmashholding unit Novocherkassk Electric Locomotive Plant, located in the Rostov Region, with deliveries set for 2013-2020.

Russian Railways to sell 75% stake in First Non-Metallic Co in 2011

bne

State-owned rail monopoly Russian Railways plans to sell a 75% stake in its subsidiary First Non-Metallic Company in 2011, Russian Railways' Senior Vice President Valery Reshetnikov says, Prime-Tass reports.

First Non-Metallic Company's total value may exceed $100m, Reshetnikov says, adding that Russian Railways plans to keep a blocking stake in its subsidiary.

Russian Railways to shave hour off Moscow-Kyiv train journey

bne

Russian Railways (RZD) and Ukrzaliznytsia will shorten the travel time of trains No. 1 and No. 2 on the Moscow-Kyiv route by 53 minutes by eliminating stops at the border for document checks, Interfax reports, citing the Russian rail monopoly.

Border rormalities will be performed on the platform and train starting an hour before departure from Moscow, while the checks on the Kyiv-Moscow journey will take place after departure, the agency says.

Train No. 1 will depart from Moscow at 2317 Moscow time and arrive in Kyiv at 0659 Moscow time, depart from Kyiv at 2117 Moscow time and arrive in Moscow at 0643 Moscow time.

Sinara Group to supply 40 locomotives to Russian Railways

bne

Russian multi-industry holding Sinara Group has signed a contract to supply 40 TG16M model locomotives produced by its Lyudinovsky Diesel-Locomotive Building Plant in the Kaluga Region to state-owned railroad company Russian Railways by 2015, Prime-Tass reports.

Russia planes

Aeroflot receives another Airbus A320 on lease

bne

Flag-carrier Aeroflot Russian Airlines has received its 42nd Airbus A320 under an operational leasing deal concluded in 2008 with U.S.-based leasing company GE Capital Aviation Service, Prime-Tass reports, citing an airline statement.

Aeroflot Reports Positive Operating Results for 4M11

Aton

Yesterday (24 May) Aeroflot reported positive operating results for Apr 2011 and 4M11. Despite the diminishing low-base effect the group posted 20.6% YoY growth in Apr 2011, an improvement from 15.7% in Mar 2011. At the same time, in Apr 2011 cargo turnover growth unexpectedly dropped into the negative zone (-16.5% YoY) from 13.1% reported in March. However, the historical share of revenues from cargo is insignificant in Aeroflot's total revenue (5.6% in 9M10).

Meanwhile, the passenger load factor was up 0.9 ppt YoY in 4M11. We note that this factor is one of the key drivers for the company's operating and financial efficiency so its improvement may be seen as a positive factor for Aeroflot.

Bottom line
While Aeroflot posted strong operating results for April and 4M11, in our opinion they are unlikely to have any effect on the stock price given current uncertainty surrounding major corporate actions, such as the Terminal subsidiary's deconsolidation and the acquisition of Rosavia airlines.

Aeroflot seen getting first Sukhoi Superjet 100 in mid-June

bne

Flag carrier Aeroflot Russian Airlines is expected to receive its first Sukhoi Superjet 100 passenger plane in mid-June, Prime-Tass reports, citing Sukhoi Civil Aircraft, the developer of the plane.

Aeroflot ordered 30 of the much-delayed planes, and is now due to receive 10 this year, 12 in 2012, and another eight in 2013.

Aeroflot to hire deputy CEO from Alitalia

VTB Capital

News: Aeroflot plans to name Alitalia Vice President Giorgio Callegari as its Deputy CEO for Strategy, Kommersant reports.

Our View: Even though Russian companies' experience with Western managers has not always been a success, we welcome Aeroflot's attempts to bring in foreign expertise. Callegari, who has worked for over 20 years in the global aviation industry and has held various positions with Sky Team and IATA, could provide a new impetus to Aeroflot's strategic development.

Elena Sakhnova

Aeroflot: Solid FY10 Results Confirm O/W

Alfa Bank

Aeroflot's FY10 results were very strong, with improved operating efficiency and tight cost control. Revenue increased 29% y/y, and EBITDA and net income were up 58% and 195% y/y, respectively, beating both our and consensus forecasts. We believe the company's ability to deliver strong growth on high margins makes it a compelling investment in the Russian transportation sector. We reiterate our O/W rating and target price of $3.18 per share.

Results Review
Strong top-line growth of 29% y/y to $4,319m in 2010 exceeded our expectation by 4%. While yield remained the same as in 2009 at $0.087/pkm and ASK rose 19.3% y/y, Aeroflot managed to significantly increase its fleet efficiency, with passenger load factor rising 7pp y/y to 77% vs. the average of 70% in 2005-09. As a result, RPK surged 31% y/y to over 39bn pkm.

Positive surprise on EBITDA: EBITDA increased 58% y/y to $727m, above our forecast and consensus by 16% and 9%, respectively, owing to slower-than-expected growth in expenditures. Specifically, fuel costs increased only 30% y/y, in line with RPK, despite the more than 21% y/y rise in the average jet fuel price in 2010. Aeroflot managed to decrease fuel consumption by 20% y/y, from 392 g/tkm to 312 g/tkm, and also saved around $37m on fuel expenditures as a result of competitive tenders among fuel suppliers in airports. EBITDA margin increased 3pp y/y to 16.8%.

Net income almost tripled y/y to $253m: The company managed to reduce effective tax rate from 58% in 2009 to 28% in 2010 after revising certain expenses from previous years and using the resulting tax savings to reduce tax liability in 2010.

Better performance at subsidiaries also contributed to the strong EBITDA and net income numbers. Specifically, the net operating loss at Aeroflot-Cargo decreased from $62m in 2009 to $8m in 2010. Terminal D moved from an $18m loss in 2009 to breakeven in 2010.

Healthy balance sheet: Aeroflot decreased net debt by 16%, from $1.78bn to $1.49bn. Accordingly, Net Debt/EBITDA dropped to 2.0x in 2010 from 2.3x the previous year and would have been only 0.9x if Terminal D had been deconsolidated, which it is expected to be in 2H11. The post-consolidation ratio will allow the company to comfortably add around $700m in debt (including leasing) to be taken on with the acquisition of six Rostekhnologii airlines, also expected in 2H11.

Domodedovo Airport indefinitely postpones making IPO

bne

DME Ltd., the holding company of Moscow's Domodedovo Airport, has indefinitely postponed making an initial public offering (IPO) of the airport, Prime-Tass reports, citing a DME statement. The airport's management and shareholders believe that the value of the company could not be fairly estimated under current market conditions, DME is quoted as saying. Denis Nuzhdin, DME's CEO, says an offering could be considered in the future when market conditions improve.

Donavia says to re-equip fleet with Airbus 320 jets by 2014

bne

Russian airline Donavia plans to fully re-equip its fleet with Airbus 320 airplanes by mid 2014, Donavia CEO Vitaly Golovin says, Prime-Tass reports.

Golovin is quoted as saying that its parent company Aeroflot would transfer used Airbus aircraft to Donavia while uprgading its fleet with new planes.

He adds that the Rostov-on-Don-based carrier was not renewing a leasing deal for four of its 10 Boeing 737s that expires in 2012.

First stage of Koltsovo Airport logistics terminal seen at RUB900m

bne

Investments in the construction of the first stage of a logistics terminal at Koltsovo International Airport in Russia's Sverdlovsk Region are expected at RUB900m by 2013, Prime-Tass reports, citing the reginal governor's press department.

The agency says the terminal is to be constructed in two stages, with around 17,000 square meters to be built 2011-2012 and 22,000 square meters in 2018-2022.

Moscow's Sheremetyevo starts construction of multi-cargo complex

bne

Moscow's Sheremetyevo International Airport has started the construction of a multimodal cargo complex meeting international standards for cargo handling in cooperation with Russian holding company Interros Group, Prime-Tass reports, citing an airport statement.

Initial investments in the project are estimated at around $50m, the agency says. The complex, with a projected capacity of 250,000 tonnes of cargo annually, is planned to be partially operational by September, while it is to be fully built by the end of 2012.

Passenger numbers in Russia increased 11.8% y/y in April

Alfa Bank

Rosaviation yesterday released April statistics for Russia's aviation sector. Total RPK grew 10.6% y/y to 11.1bn pkm while the number of passengers increased 11.8% y/y to 4.3m.

We view the news as NEUTRAL for Aeroflot, as the company published its April operating results last week. Aeroflot has managed to outperform the market. We remind that in April the company boosted RPK by 20.6% y/y and increased the number of passengers by 21.6% y/y, which is almost twice as high as the industry growth numbers.

Moreover, the published numbers indicate that Russia's aviation sector has started to recover after the decline in February and March due to the cancellation of flights to certain international destinations (primarily due to political unrest in Egypt and Tunisia). Accordingly, passenger traffic on international flights has rebounded from -1% y/y in March to 8% y/y in April. Domestic flights posted only slight growth ahead of the summer season, rising to 14.9% y/y, from 13.5% y/y.

Iouli Matevossov

Passenger traffic of Russia's five major airlines:

Airline	Passenger traffic in Jan-Apr, 2011, mln people	Passenger traffic in Jan-Apr, 2010, mln people
Aeroflot	3.823	3.137
Transaero	1.767	1.564
Siberia Airlines	1.407	1.346
UTair	1.329	1.288
Nordwind Airlines	0.401	0.284

Source: Federal Air Transport Agency, Prime-Tass

Russian ministry sees need for 3rd runway at Domodedovo after 2020

bne

The construction of a third runway at Moscow's Domodedovo International Airport would make sense sometime after 2020 as a result of increased passenger traffic, Russia's Transportation Ministry said in a statement, Prime-Tass reports.

The ministry provided no exact figures for the projected passenger traffic. It has approved the construction of a new runway at Domodeovo, but only to replace the airport's second runway, which is to be phased out in 2015.

Siberian regions to get subsidies for air transport in 2011

bne

The Russian government is to provide subsidies to Russia's Transbaikal and Krasnoyarsk regions and the republic of Buryatia for the development of regional air transportation in 2011, Prime-Tass reports.

The agency quotes Sergei Naryshkin, the Russian president's chief of staff, as saying it is the first time the three Siberian regions have been included in the government's air transportation subsidy program, which he expects to help increase the mobility of the region's population and boost business activity.

Russia ships

Construction of Taman cargo port seen starting in 2013

bne

The construction of a dry cargo port on the Black Sea's Taman Peninsula is expected to be launched in 2013, says Igor Freidin, director of state-run Russian Transportation Modernization, Prime-Tass reports.

The construction of the port, in Russia's Krasnodar Region, is to be completed by 2018, Freidin adds, with the government planning to allocate about RUB50bn from the federal budget for the construction and private investors expected to provide RUB100bn.

The port's projected capacity amounts to 66 million tonnes and may be increased to 100 million tonnes, Deputy Transportation Minister Andrei Nedosekov said, Prime-Tass reports.

Global Ports plans to make IPO - sources

bne

Russian container terminal operator Global Ports plans to make an initial public offering (IPO), Kommersant business daily reports, citing sources in financial circles. Prime-Tass quotes the newspaper report as saying that the sources gave no details on the parameters or timeline of the proposed IPO.

Grain bans could be lifted in July: Mildly supportive for NCSP

Renaissance Capital

Event: Interfax reported yesterday (23 May) that grain export bans from Russia, which have been in force since August 2010, may be lifted on 1 July.

Action: Potentially positive for Novorossiysk Commercial Sea Port (NCSP), in our view, but unlikely to be a major catalyst for the stock.

Rationale: Before the export bans were introduced, grain volumes accounted for 10% of NCSP's turnover on a standalone basis. NCSP's volumes have continued to show negative growth YoY since the beginning of the year, depressed by low grain volumes, as well as weak crude oil prices (which continue to decrease, despite management's flat forecast for FY11) and a decrease in transport volumes for ferrous metals. If grain export bans are indeed lifted on 1 July (we note there has been some media speculation they will remain in force until the autumn), the increase in grain turnover should be supportive for NCSP's operations in 2H11, although we do not expect the stock to rebound significantly until uncertainty surrounding the sale of a 20% state-owned stake in NCSP is resolved. We believe this sale will be the main catalyst for the stock.

Ivan Kim

Grain export could reach 20mnt: Supportive for NCSP

Renaissance Capital

Event: On Saturday (28 May) Prime Minister Vladimir Putin officially announced that grain export bans will be lifted from 1 July. Russian Grain Union Head Arkady Zlochevsky said yesterday (30 May) that grain exports could reach 20mnt this year, with a harvest of 85-90mnt.

Action: Positive for Novorossiysk Commercial Sea Port (NCSP), in our view.

Rationale: In 2009, grain volumes contributed roughly 5-6% to NCSP's consolidated volumes and about 15% to revenue, as grain is a high-tariff cargo commodity. According to the Russian Association of Sea Ports, NCSP grain volumes are estimated to have accounted for 43% of the 21mnt total grain exports through Russian ports in 2009. We expect the lifting of the export bans to be supportive for NCSP, whose volumes are weak YtD, depressed by low grain as well as crude oil and ferrous metals volumes. However, a strengthening rouble could have an impact on revenue growth, as tariffs are set in dollars. On our very conservative estimates, after the bans are lifted in 2H11 an increase in grain volumes could add 3% to NCSP's consolidated revenue in 2011, and up to 5% on consolidated EBITDA if the port manages to ship half its 2009 volumes.

Ivan Kim

Russia's non-CIS oil exports via seaports seen at 11m tonnes in June

bne

Russia's oil exports to countries outside the Commonwealth of Independent States (CIS) via Russian seaports are expected to amount to 10.753m tonnes in June, Prime-Tass reports, citing TsDU-TEK, an agency that provides data and analysis to Russia's Energy Ministry.

CIS infrastructure

AeroSvit more than doubles passenger transport over 4 months of 2011

bne

Kyiv-based AeroSvit increased passenger transportation by 2.6 times in January-April 2011 compared to the same period in 2010, to 762,000 people, Interfax reports, citing the air carrier's press service.

The agency adds that number of flights in the period grew by 2.6 times as well, to 11,080, while average occupancy of passenger seats rose three percentage points to 68.7%.

Interfax reports that the upward trend in the first four months of the year means the company feels able to make optimistic forecasts for the whole of 2011.

It quotes an AeroSvit public relations offical as saying the company plans in 2011 to transport 2.5 million passengers, more than 40% up on 2010.

Belarusian Railway ups international passenger fares

bne

Belarusian Railway has increased international passenger fares denominated in Belarusian rubles to account for the devaluation of the currency, Prime-Tass reports, citing Belarusian Railway First Deputy Chairman Vladimir Laptinsky.

International and interstate passenger fares originally quoted in foreign exchange will be set in accordance with the new official rates of the National Bank of Belarus (NBB), with the dollar calculated at a rate of 4,930 Belarusian rubles for the entire route, the agency says.

American Chamber of Commerce calls for changes in port sector law

ACC Ukraine - press release

The American Chamber of Commerce in Ukraine's Logistics & Transportation Committee believes that the Draft Law # 0881 "On Sea Ports of Ukraine" cannot be recommended for adoption by the Parliament and supports the development of a new draft law that shall provide for the conditions of private investments attraction into the sea port industry of Ukraine.

The Draft Law # 0881 "On Sea Ports" does not reflect the sector's needs in general and does not resolve the outstanding issues specified in the President Yanukovych's Economic Reforms Program with respect to further development of transport infrastructure.

In particular, a law on sea ports should provide for:

1. Clear instruments and mechanisms for attraction of private investments into the sea port sector as well as for the guarantees of such investors' rights and mechanisms of compensation for private investments into the port infrastructure facilities;

2. Possibility to lease, concession and other Public Private Partnership (PPP) activities on the territory of sea ports as provided by Laws of Ukraine (the Law "On PPP" and the Law "On Concession");

3. Development of efficient port management model that supports fair competition and prevents the creation of unjustified advantages for particular subjects of business activities;

4. Flexible approach to forming of tariff policy and port charges that increase the freight turnover in Ukrainian ports.

On May 18th the American Chamber of Commerce conducted a Joint Logistics & Transportation and Legal Committees Meeting devoted to the discussion of sea ports infrastructure development in Ukraine and perspectives of adoption of a law on sea ports within the framework of the Public-Private Partnership implementation.

As this Meeting's aim was to establish a dialogue between governmental authorities, private investors and representatives of sea logistics/shipping industry, among the participants were representatives of the Ministry of Infrastructure and Sea Trade Port Authorities as well as American Chamber of Commerce member companies. Starting the meeting, Ms. Victoria Papenkova, Senior Lawyer, CMS Cameron McKenna LLC, Chamber Logistics & Transportation Committee Secretary, delivered a presentation titled

"Draft Law "On Sea Ports" and Incorporation of Private Investors' Interests" that outlined the most problematic issues related to the current situation in sea ports in Ukraine and the necessity to attract the private investments into the industry. She emphasized inconsistence of the Draft Law provisions with the norms and rules of applicable Ukrainian legislation, including the Law of Ukraine "On PPP" and "On Concession".

The Chamber invited Ms. Lina Tarasova, Deputy Director of the Department of State Property, Ministry of Infrastructure, to inform the participants on activities of the Working Group on preparation of normative acts regarding use of port infrastructure facilities that are not subject to privatization by private investors. As a result, American Chamber of Commerce Logistics & Transportation Committee decided to address Ministry of Infrastructure with a request to include the Committee Leadership into the Working Group under the Ministry.

Boxcar sales up 56% y/y in Jan-Apr

Foyil Securities

In the first four months of this year, boxcar sales increased by 56% y/y reaching 1,208 units, reported PG-Online. The total sales of boxcars this year is expected to reach 4,400 units (the level of 2007). Among Ukrainian companies, the main producer of this type of railcar was Kryukiv Carriage (KVBZ, Buy) with 300 units. The company plans to deliver the total of 1,200 boxcars this year (12% of expected output in 2011).

Our view: Boxcars are not in as much demand as gondola cars, but are USD 10,000 more expensive on average (selling for USD 85,000-95,000 per unit). With 93% of boxcars in the CIS rapidly approaching the end of their service lives, we can expect demand to remain strong, which will a lead to even higher prices, which exceeded USD 120,000 in 2008, which, in turn, will lead to the topline growth of the carriage makers. We maintain our Buy recommendation for KVBZ.

Alex Nekrasa

Crimea to buy 56 trolleybuses - Positive for Bohdan Motors

Dragon Capital

News: Krymtrolleybus, the trolleybus operator in Crimea, announced a tender to buy 56 trolleybuses in 2011. The vehicles, together worth an estimated UAH 115m ($14m), will likely be supplied by Bohdan Motors, the largest domestic producer of trolleybuses. The company already supplied 60 trolleybuses to Crimea last year and should it win the new tender, its market share in Crimea will reach 25%, giving it a firm foothold in the region. (Ekonomicheskiye Izvestiya)

Dragon view: The news is positive for the stock and in line with Bohdan's earlier announced plans to expand in the domestic trolleybus market by increasing 2011 bus and trolleybus output by 26% y-o-y to 1,100 vehicles. We maintain our positive view on the company and confirm our Buy recommendation.

EIB supports with EUR 450 million upgrade of roads in Ukraine

EIB - press release

The European Investment Bank (EIB) is providing the largest loan to date in the Eastern Partners: EUR 450 million for the rehabilitation and quality improvement of roads in Ukraine. EIB funds will help to improve some 350 km of five sections of highways branching out from the Ukrainian Capital Kiev, representing crucial European and national transport corridors largely on the extended Trans-European Transport Network (TEN-T).

The project is being co-financed by the European Bank for Reconstruction and Development (EBRD) with a loan of EUR 450 million. The works, predominantly covering the road corridors interconnecting Dresden-Katowice-Lviv-Kiev and Moscow-Kiev-Odessa as well as key national corridors in Ukraine, will be implemented in two phases by Ukravtodor, the State Roads Administration of Ukraine.

EIB Vice-President Eva Srejber stated: "The current project is significant for the further development of the economic cooperation between the European Union and the Eastern Partner Countries. It will upgrade Ukraine's priority transport links with the neighbouring EU Member States and the adjacent Belarus and Russia. It is also a good example of collaboration with the EBRD, our partner financial institution, in implementing important projects of mutual interest to Ukraine and the EU".

This is the second EIB loan provided for the rehabilitation of the Ukrainian road network. The previous loan of EUR 200 million financed the upgrade of the M-06 road linking Kiev with EU Member States Hungary, Slovakia and Poland.

Infrastructure development needed to boost budget

bne

The development of Ukraine's transit facilities could boost budget revenues by up to 35%, an expert claims, calling for investment to upgrade the country's transport corridors between east and west, reports UkrInform.

Speaking at a recent roundtable, Volodymyr Shchelkunov, president of the Ukrainian National Committee of the International Chamber of Commerce stressed that close to half of European transit corridors run through Ukraine. Noting the powerful role these corridors play in export services, Shchelkunov called for increased development of logistics and infrastructure.

"We have conducted a series of powerful events with Russian partners about the transit of goods through the territory of Ukraine. We are also working with Asian countries," Shchelkunov added.

However, he noted that due to the current economic climate in the country development of the transit sector has been delayed, and that Ukraine is falling behind the competition. "Some countries have offered better conditions, in particular, more flexible rates and a developed infrastructure, and more efficient work of the customs office."

In particular. Shchelkunov called for the introduction of electronic customs declaration, an idea already supported by Lithuania, Estonia, Finland, and a number of Asian countries, he said. "We must understand that this is not an experiment, but a major prospect for sector development."

Kazakhstan interested in Ukrainian planes

Foyil Securities

Kazakhstan is interested in the Ukrainian Antonov type-148 planes, reported RBC-Ukraine, citing deputy Foreign Minister of Kazakhstan Amankeldy Zhumabaev. According to the Kazakh official, a JV company will be created to build the planes.

Our view: The growing interest in Antonov aircraft is good news for Motor Sich (MSICH, Buy), which is, right now, the only supplier of engines for the entire range of these aircraft. It was not announced when production under this project might start. Nevertheless, we see this as a medium to long-term building block for MSICH's portfolio of passenger jets engines and maintain our Buy recommendation for the stock.

Alex Nekrasa

Kryukiv Carriage to sell new stock to UZ, if funding available

Foyil Securities

Ukrainian Railways (UZ), the country's monopoly rail carrier, will purchase a new type of freight car produced by Kryukiv Carriage (KVBZ, Buy). The new carriage will be USD 10,000-12,000, or 10%-15%, more expensive, but will require less frequent repairs and maintenance. The car was designed by KVBZ together with Paton Electric Welding Institute (Kyiv).

Our view: As reported earlier, UZ needs 34,500 new freight cars, but this year has funding for only approximately 1,300. Furthermore, the EBRD has, for now, cancelled cooperation with UZ in favor of private companies, which is why UZ will have to look for funding elsewhere, so we should heavily discount the effect of possible orders for new rolling stock. KVBZ has full capacity utilization without UZ orders and we maintain our positive view of the company and maintain our Buy recommendation for the stock.

Alex Nekrasa

Kyiv announces ambitious long-term development strategy

Dragon Capital

News: Kyiv authorities yesterday presented a 15-year development strategy which calls for attracting as much as EUR 82bn of foreign investment by 2025 to modernize the city's transport and utilities infrastructure and make it more attractive for tourists. (Interfax)

Dragon view: The announced investment target looks overly ambitious, in contrast to Kyiv's more realistic current capital raising plans. The city is preparing to issue $300m of Eurobonds in June to refinance a $200m bond issue maturing in July and finance municipal projects. Kyiv tentatively plans to sell five-year debt at a 7.8% yield, or 155bp above the sovereign curve (the outstanding Kyiv bonds' comparable spread is 260bp). We therefore believe the new 5-year bond should be offered at a close to 200bp spread over the sovereign curve, implying an 8.25-8.5% yield.

Kyiv's outstanding debt includes $700m of Eurobonds and UAH 3.2bn ($400m) of other loans. Apart from the $200m Eurobond due in July, Kyiv faces up to UAH 2.0bn of domestic debt redemptions this year, which we believe will be refinanced with local banks. We remain positive on Kyiv's willingness and ability to service its debts.

Russia reiterates intention to lift restrictions on railcars and casting for them

Art Capital

Russian government looks into lifting trade restrictions on imports of railcars and railcar casting in its railway transportation plan until 2015. The goal of the plan is to liquidate the deficit of rolling stock in the Russian market. Currently the customs tariff for cargo railcars is 10%.

Oleksiy Andriychenko: If trade restrictions on railcars are lifted, it will hurt Ukrainian railcar producers, which have been flooded with Russian orders in the last two years. On one hand, Chinese railcars are twice cheaper than Ukrainian ones and can quickly saturate the CIS market. The benefit of the absence of the 10% customs tariff and access to cheaper Chinese casting is not going to come close to offsetting the reduced demand. On the other hand, Chinese producers would have to demonstrate quality, and Russian Railways already announced its plans to centralize the certification process for Chinese railcar casting, first shipments of which were supposed to start in April. In addition, the Russian railcar manufacturing lobby will oppose the import of Chinese railcars as they are investing money in expanding their own production facilities to match the growing demand. While it is not yet clear if the decision to open borders to Chinese imports will include railcars, we view the news as MODERATELY NEGATIVE for creating a downside risk to production volume for Ukrainian railcar producers in the next five years.

Russia, Ukraine, and Kazakhstan increasing freight transportation

Foyil Securities

According to the CIS statistics committee, freight carriage in the CIS in Q1 increased 11.4% y/y reaching 1.4bn tons. The leaders in terms of freight carriage among the CIS countries were Russia with 662.4m tons (+4.4% y/y), Kazakhstan with 509.5m tons (+19.6% y/y), and Ukraine with 145.4m tons (+15.8% y/y). Rail transportation accounted for slightly over 55% in Russia, Ukraine, and Kazakhstan.

Our view: At such a pace, freight carriage will approach the level of 2007, but it is expected to fall slightly short of the pre-recession levels this year. The growing levels of freight transportation, including by rail, puts additional pressure on rail carriers to provide enough rolling and traction stock to meet needs, which is keeping demand for freight carriages and locomotives strong. Therefore, we believe that the prospects of Ukrainian makers of rolling stock, Stakhanov Carriage (SVGZ) and Kryukiv Carriage (KVBZ), and traction stock, Luganskteplovoz (LTPL), remain strong in the foreseeable future. Therefore, we maintain our optimistic view for the companies and maintain our BUY recommendations for the stocks.

Alex Nekrasa

Ukrainian private railcar operators start fleet expansion - Positive for listed railcar producers

Dragon Capital

News: The EBRD plans to approve a $75m loan for Interleaseinvest, a private railcar company in Ukraine, to help finance its $300m program to buy 3,000 railcars. (Ekonomicheskie Izvestiya)

Dragon view: The news is in line with our expectation of a gradual recovery in domestic demand for railcars (exports previously accounted for 80-95% of domestic railcar output), fueled by growing transportation volumes and improved access to financing. We therefore confirm our positive view on the domestic railcar sector and reiterate our Buy recommendation on traded railcar manufacturers.

Ukrzaliznytsia plans to hold tender for acquiring 200 railcars

Astrum

According to Yuriy Simchuk, the Head of the Ukrzaliznytsia (UZ) department responsible for purchasing railcars with the loan provided by the European Bank for Reconstruction and Devel- opment, a state tender for the right to supply freight cars will be announced in June. The ten- der's organizer should acquire at least 200 gondolas. The railcars should be delivered by the end of 2011.

Astrum's perspective: Due to the small volume of the purchases announced, we see this news as NEUTRAL-to-POSITIVE for domestic railcar producers. At the same time, against the background of UZ's previous announcements about plans to acquire railcars with a larger dis- tance between overhauls, which are produced by Kryukiv Railcar (KVBZ: BUY), KVBZ has the best chance to win this contract. Despite the fact that domestic railcar producers are currently loaded at full capacity, an order for 200 railcars by the end of the year may well be fulfilled.

Igor Bilyk

VTB Group gains control of Kremenchug Steel Mill

Foyil Securities

Russia's VTB Group has gained control over Ukraine's Kremenchug Steel Mill, one of the largest makers of carriage castings in the CIS, reported RZD-Partner.ru. According to the news source, the Ukrainian company has an annual capacity of 32,000 trucks, which should be enough to cover the deficit on the Russian market.

Our view: VTB-Leasing is the main buyer of carriages made by Stakhanov Carriage (SVGZ, Buy) and the key supplier of carriage castings to SVGZ. We believe VTB will continue cooperation with SVGZ and the establishment of control over the maker of castings will not have a negative effect on Stakhanov. Kryukiv Carraige (KVBZ, Buy) and Dniprovagonmash (DNVM, U/R) have had to deal with the ongoing castings shortage and have found ways to deal with it, which is why this development with Kremenchug Steel Mill will not have negative effect on KVBZ or DNVM in our view.

Alex Nekrasa

Eurasia infrastructure

Azerbaijan: New aerostation complex constructed in Baku to be opened 2 years later

APA-Economics

New aerostation complex to be constructed in Heydar Aliyev International Airport will be opened two years later, AZAL Spokesman Maharram Safarli told APA.

To him, new 4-stored aerostation building in triangle form will be constructed on the basis of synthesis of national and modern architectural elements. International flights will be implemented here in future. 18 escalators and 20 passenger lifts will be installed in new terminal. The latest scientific and technical innovations used in international aviation will be applied here. Telescopic traps able to receive 8 planes at the same time will be built in the territory of the aerostation.

Besides, the existing terminal will be modernized completely, local flights will be implemented here. Width and length of the flight landing strip will make possible to accept the biggest airbuses of the world, platform and directive ways will be reconstructed.

Note that, new aerostation will cover 58 thousand square meters.

Georgia: Deepening of Kulevi port started

APA-Economics

Deepening works in SOCAR's Kulevi port in Georgia has been completed. Company says the natural depth in water area of Kulevi port was 3-3.5 metres, width – 70-80 metres that, the port couldn't receive the large tankers.

2 of three bridges were used for tankers, one - auxiliary vessels. One of the bridges can receive the deadweight tankers until 105,000 tons, second can receive 10,000 tons-tankers. After the deepening, this bridge will be able to receive 40,000 ton-tankers.

Kyrgyzstan to introduce road tolls

bne

Kyrgyzstan plans to introduce toll highways so that only people who use the country's main roads will have to pay for them, Transport and Communications Minister Erkin Isakov said yesterday May 30.

Funds from the roads will be spent on road reconstruction, 24.kg quotes Isakov as saying.

Mongolia: Shenhua Will Hold Share of Mongolian Railways

Monet/UB Post

Mr. Ch. Khashchuluun, Chairman of National Development and Innovation Committee told Quamnet in an exclusive interview that China Shenhua will be one of the strategic shareholders of the newly formed Mongolian Railways LLC, which will seek for IPO and finish the big network of railway in 2012. Mongolia government will hold 51% stakes after the IPO.

Shenhua announced in March that it has won regulatory approval to build a railway in Inner Mongolia, China, costing 4.96 billion yuan ($725.1 million).
The statement of Mongolia official today means Shenhua will build its big network among Mongolia and Inner Mongolia.

Khashchuluun is one of the keynote speakers in the Mongolia Investment Conference, organized by Eurasia Capital, member of Global Alliance Partners (GAP).

Quamnet is one of the founded members of GAP. Khashchuluun interviewed by Quamnet after the presentation and says Mongolia is an inland country which needs the access by railways network. China became the largest export country of Mongolia while 85% export is to China.

"We need a big network of railways, connecting 5 places of China to help the resources transport to China and to the world through the ports of China. One of the most important ports is Tianjin." he said.

He said a new Mongolian Railways LLC is formed and will invite strategic investors and launch IPO on or before 2012. And the railway project will rush to finish in 2012, too.

He mentioned China Shenhua is on the list, with the state-owned companies of railway of China and other China enterprises.

China Shenhua and Japan's Mitsui & Co., Ltd. were jointly bidding for the right to develop the western Tsankhi area of the Tavan Tolgoi Coal Field Mongolia.

Mr. Ganhuyag Ch. Hutagt, Deputy Finance Minister said to Quamnet that more and more SOEs will be privatized and listed oversea. There are 21 companies went to global market up to now.

He said Hong Kong market will be one of the choices while the Government official will listen to the advice of the merger bankers.

He said FDI from China is more than welcomed while the average percentage of FDI from China is around 45% of total.

Tajikistan: Plans to build Wakhan highway to be agreed soon

bne

Plans to build a highway along the Wakhan Corridor are due to be resolved soon, Tajikistan's Ambassador to Pakistan Zubaydllo Zubaydov said in an interview with Asia Plus.

The corridor connects Tajikistan to Pakistan via Afghanistan.

"Many people consider that it is dangerous to ship cargo via the territory of Afghanistan," Zubaydov told the newspaper.

"However, hundreds of tons of Pakistani goods are arriving in Tajikistan via Afghan Sherkhan Bandar every day. There has no been case of robbery of those goods by any forces in Afghanistan."

There are also plans to launch flights between the Tajik capital Dushanbe and several Pakistani cities including Islamabad, Karachi and Lahore.

CE infrastructure

Lithuania Rail Baltica project to be implemented by end-2013

bne

Protests of some Marijampole residents and city politicians against the European railway line via Marijampole have not affected the Government's projected deadline - to complete the European railway Rail Baltica by the end of 2013, The Baltic Course reported.

After the meeting with the prime minister's chancellor, the representatives of the Marijampole city municipality agreed with the terms and conditions for the project's implementation. It was also agreed on additional measures to neutralise negative consequences brought by a significant increase in the flow of rail freight via Marijamole. A feasibility study will be launched on the matter to see if a bypass is necessary for the transportation of freight, reports LETA/ELTA.

The Rail Baltica project was given the status of an economic project of national importance. According to the Government's action plan, the European rail is to start operate fully in the railway line the Polish-Lithuanian state border-Marijampole-Kaunas by end-2013. As reported, the project will be largely financed by the TEN-T Fund and the Cohesion Fund of the European Union; 770 million litas (222.93 million euros) will be allocated from Lithuania's state budget. Lietuvos Gelezinkeliai will also contribute to the project.

European transport commissioner Siim Kallas pointed out that the railway project Rail Baltica connecting Tallinn and Warsaw should be more arrogant, so that the rail line would become an alternative to air travel, reports LETA/BBN referring to Äripäev.

The views of Kallas found little support from the prime ministers of Latvia and Lithuania who said that work with the project was ongoing.

Valdis Dombrovskis, PM of Latvia, said, for instance, that Latvia recently allocated 43 million euros to modernize the rail infrastructure so that it is suitable for faster passenger trains.

Slovak PM expects EU to ok funds for Zilina D1 highway

bne

Slovak Prime Minister Iveta Radicova said at a news conference after a meeting with Regional Policy Commissioner Johannes Hahn that the European Commission is expected to approve the use of EUR 79 million from the Operational Program Transport for construction of the Hricovske Podhradie - Strazov highway section in June, SITA reported.

Slovakia and Brussels are continuing their talks about planned construction of highway stretches Dubna Skala - Turany, Hubova - Ivachnova, Janovce - Jablonov, Fricovce - Svinica, Turany - Hubova for EUR 1.5 billion. The subjects of talks are the objections raised by NATURA 2000 ecological network, which means that the parties are fine-tuning environmental impacts of the planned projects.

Hahn emphasized that he was aware of the importance of highway construction in Slovakia. In his words, first and foremost Slovakia must use all funds allocated in the Operational Program Transport. Afterwards, the Commission will communicate about options to reallocate money from other operational programs. The prime minister announced that the first step on this path was the reallocation of money in the Operational Program Transport but not of finances earmarked for railways. There is EUR 3 billion in the Operational Program Transport, with EUR 250 million allotted for railways. The remaining sum can be reallocated. In case that this volume will not be sufficient, money may be transferred from other operational programs, too. Slovakia needs more than EUR 400 million for the above highway projects.

The prime minister further said that Slovakia drew five percent from its operational programs a year ago, and occupied the seventh worst position in terms of EU structural fund use. Radicova sees behind this poor performance the set priorities and unbelievable bureaucracy that accompanies the drawing. The process of submitting projects has discouraged many entities from applying for the EU money. The Cabinet eliminated sixty-eight core barriers and passed measures to quicken and simplify the drawing. Hahn admitted that the Commission was concerned whether Slovakia would manage to use the money available. He is now convinced that the adopted measures will expedite the entire process. The Cabinet's instruments have potential to bolster the use of the money.

Radicova reminded that Brussels in the past refused to refund several projects because some costs were not acknowledged as eligible or due to absence of contests. Slovakia has to provide this money from state coffers. The ministries came up with more stringent rules as the number of rejected projects grew, which ultimately disabled drawing. She mentioned among such cases the pilot social companies, reconstruction of the passenger terminal at the Bratislava Airport and some projects at the Defense and Interior Ministries.

Slovakia's National Highway Company cancels motorway tender

bne

Slovakia's National Highway Company (NDS) has cancelled a tender for the construction of the second stage of the Jánovce-Jablonov stretch of the D1 motorway in eastern Slovakia, NDS head Alan Sitár told the TASR newswire on May 9.

Unpaid bills freeze Chinese highway work in Poland

bne

Construction of a key stretch of highway in Poland by Chinese company COVEC has stopped after the firm failed to pay Polish subcontractors, the infrastructure ministry said on Thursday, AFP reported.

"We are in talks with COVEC, in an attempt to get out of this dead-end. We've ordered the Chinese side to pay their bills immediately," ministry spokesman Mikolaj Karpinski told AFP.

"Radoslaw Stepien, our deputy infrastructure minister, has already had two meetings about this with COVEC chief Sang Yuanming, who came to Warsaw specially," he added.

In September 2009 COVEC -- the China Overseas Engineering Group Company -- beat several European competitors in the race to build 49 kilometres (30 miles) of the A2 highway linking the Polish and German capitals, Warsaw and Berlin.

The deal was a watershed, with experts underlining that it was the first large-scale Chinese construction and public works operation in the European Union. COVEC bid to do the work for what was considered a low price.

Work on the highway has been all but frozen since the start of the week, however, with Polish suppliers refusing to deliver construction materials to the site without being paid, an AFP reporter noted at the scene.

Poland's national highways agency, the GDDKiA, on Thursday insisted that the timetable for the construction was not under threat.

"There's no question of a delay, or a postponement of the target date," GDDKiA spokesman Marcin Hadaj was quoted as saying by Poland's PAP news agency.

COVEC was unavailable for comment.

Infrastructure Minister Cezary Grabarczyk meanwhile told reporters that a full analysis of the situation would be made by Friday.

"I can't believe that a Chinese group, for which the contract for the A2 motorway is a sort of entry-pass to the vast EU infrastructure market, wants to put at risk its future on the European market," he said.

The construction is part of Poland's ongoing issuing of tenders as it strives to upgrade its infrastructure in time to co-host the high-profile 2012 European football championships along with neighbouring Ukraine.

COVEC's role in the highway project had already sparked controversy. In January, 2010, Polish constructors alleged that they were the victims of dumping because the Chinese group's bid was so low.

They complained to the European Commission -- which polices competition rules across the 27-nation EU -- alleging that Beijing was subsidising Chinese firms in order to crack foreign markets.

They noted that at 1.3 billion zloty (330 million euros, 472 billion dollars), COVEC's winning bid was half the estimated cost of the tender.

SE infrastructure

Budapest-Istanbul train service to operate from next summer

bne

Turkish and Hungarian state railways have agreed to reestablish a direct rail service between Budapest and Istanbul in 2012, Hungarian railways MAV said on Tuesday.

Trains are expected to start operating along a picturesque route through Romania and Bulgaria from the middle of next year, MAV told MTI.

The company expects major interest from western Europe and north America for the service, which was first launched in 1889, but later suspended.