

# Luhanskteplovoz

## Transmashholding returns to the rudder

June 17, 2010

 Current price USD 0.58  
 Target price USD 0.42

**SELL**
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### Market data

Ticker	LTPL UK
Last price, USD per share	0.58
# of shares, mln	219.18
MCap, USD mln	126.6
FF	24%
FF MCap, USD mln	30.4

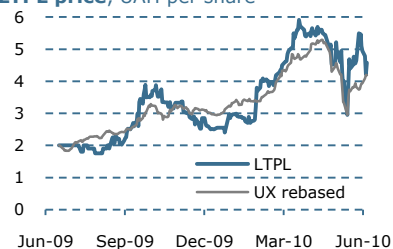
Source: UX, Concorde Capital

### Ownership structure

Transmashholding	76%
Other	24%

Source: Smida

LTPL price, UAH per share



Source: UX

**This week, Transmashholding bought a 76% stake in Luhanskteplovoz from the state and returned to the rudder after a half-year absence. Noticeably, this time the price paid was 10% cheaper in USD terms. We welcome Transmashholding's return but note that risk of legal battles is high and that locomotive market recovery is yet to come. Our peer valuation suggests that the stock should be valued a 0.42 USD per share, a downside of 27%. SELL**

### Transmashholding: Back to the rudder

This week, the State Property Fund (SPF) auctioned its 76% stake in Luhanskteplovoz. Bryansk Machinery, part of Russian railway machinery giant Transmashholding, bought the stake for UAH 410 mln (UAH 2.46 per share), a tiny 2.5% premium to the starting price. Transmashholding returned to the rudder of Luhanskteplovoz after being absent for a half a year.

### Luhanskteplovoz privatization bidders

Bidder	Affiliation	Bid
Bryansk Machinery	Transmashholding	UAH 410 mln
Sumy Frunze	Energy Standard Group	UAH 400 mln
Mantara Holding Ltd	Privat*	Not allowed to participate

\*According to media reports

Source: Interfax

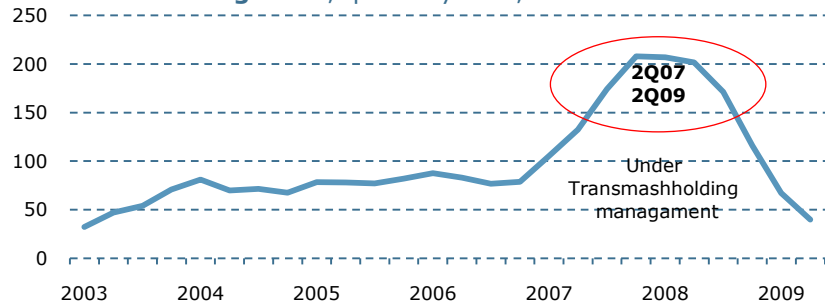
### Legal disputes are likely again

One day before the auction, the SPF declined to allow Mantara Holding to participate in the auction reportedly due to a non-submission of two required documents. We see a risk of legal actions initiated by Mantara Holding as high. Mantara is believed to be affiliated with Privat group, which was behind court battles over Luhanskteplovoz that resulted in the cancellation of previous privatization results. In March 2007, the SPF sold its stake to Bryansk Heavy Machinery, but the auction was ruled illegal by the Economic Court of Luhansk in September 2009 and shares were returned to the SPF in early November for re-privatization.

### Recovery in locomotive market to lag railcar segment

Orders for Luhanskteplovoz locomotives mainly come from state-owned Russian Railways and Ukrainian Railways. Both monopolies lack funds for modernization due to uneconomically low tariffs for coal and iron ore shipping and to subsidization of passenger transportation. We argue that demand for locomotives will lag the currently observed recovery in demand for railcars, as the latter is driven by a flow of orders from private fleet stock operators.

Though we believe that Transmashholding, 25%-is owned by Russian Railways, is able to load currently idle Luhanskteplovoz's capacities by orders from Russian Railways, the timing and amount remain uncertain.

**LTPL 12M trailing sales, quarterly data, USD mln**


Source: Company data, Concorde Capital

**Valuation**

We value LTPL on EV/EBITDA 11E metric, using its global peer median of 6.9. We contend that the company's 2009 and 2010 multiples are meaningless for valuation purposes, as the locomotive maker was operating with only 5-10% capacity load starting from 2009.

We estimate that with the return of Transmashholding as the owner, Luhanskteplovoz will be able to record a top line of c. USD 200 mln in 2011, growing production to 2008 level. Furthermore, we assume that Transmashholding will be able to improve Luhanskteplovoz's EBITDA margin from 6.5% in 2008 to 9% in 2011 thanks to improved cost efficiency. Still, our target price of USD 0.42 per share implies 27% downside. SELL.

**Peer multiples**

	EV/S		EV/EBITDA	
	2010E	2011E	2010E	2011E
Luhanskteplovoz	1.6	0.8	16.5	8.7
<b>Global peers</b>				
Alstom (FR)	0.6	0.6	5.7	5.7
Downer EDI (NZ)	0.3	0.3	4.4	3.8
Kinki Sharyo (JP)	0.5	0.5	n/a	n/a
Siemens (DE)	1.1	1.0	8.2	7.5
Vossloh (DE)	0.9	0.9	7.0	6.7
American Railcar Ind (US)	0.9	0.7	16.3	7.0
Wabtec Corp (US)	1.5	1.4	9.2	8.3
<b>Median</b>	<b>0.9</b>	<b>0.7</b>	<b>7.6</b>	<b>6.9</b>
Implied price by median	0.29	0.49	0.19	0.42
Upside	-49%	-15%	-67%	-27%
<b>Local peers</b>				
Stakhaniv Railcar	0.6	0.5	5.8	5.0
Kryukiw Wagon	1.0	0.8	7.6	5.1
<b>Median</b>	<b>0.8</b>	<b>0.6</b>	<b>6.7</b>	<b>5.0</b>
Implied price by median	0.23	0.45	0.15	0.27
Upside	-61%	-21%	-74%	-53%

Source: Company data, Bloomberg, Concorde Capital

**Income Statement Summary, USD mln**

	2005	2006	2007	2008	2009	2010E	2011E
<b>Net Revenues</b>	<b>77.6</b>	<b>87.6</b>	<b>105.5</b>	<b>237.6</b>	<b>67.1</b>	<b>100.0</b>	<b>200.0</b>
<i>Change y-o-y</i>	0.9%	12.9%	20.5%	125.3%	-71.8%	49.0%	100.0%
Cost Of Sales	(62.4)	(70.7)	(85.5)	(200.0)	(62.4)	(82.3)	(164.7)
Gross Profit	15.2	16.9	19.9	37.7	6.2	17.7	35.3
<i>Gross Margin, %</i>	19.6%	19.3%	18.9%	15.9%	9.2%	17.7%	17.7%
Other Operating Income/Costs, net	(2)	(1)	(1)	(4)	(4)	(4)	(4)
SG&A	(8.8)	(10.1)	(13.9)	(19.3)	(9.4)	(10.4)	(13.5)
<b>EBITDA</b>	<b>4.9</b>	<b>5.7</b>	<b>4.9</b>	<b>14.8</b>	<b>(7.1)</b>	<b>3.5</b>	<b>18.0</b>
<i>EBITDA margin, %</i>	6.3%	6.5%	4.7%	6.2%	-10.6%	3.5%	9.0%
Depreciation	(2.1)	(2.4)	(2.6)	(2.7)	(1.4)	(1.5)	(1.8)
<b>EBIT</b>	<b>2.8</b>	<b>3.3</b>	<b>2.4</b>	<b>12.1</b>	<b>(8.5)</b>	<b>2.0</b>	<b>16.2</b>
<i>EBIT margin, %</i>	3.6%	3.8%	2.2%	5.1%	-12.7%	2.0%	8.1%
Interest Expense	(2.1)	(2.3)	(2.9)	(6.8)	(3.3)	(3.3)	(4.9)
Financial income/(expense)	0.2	0.2	0.1	0.0	0.0	-	-
Other income/(expense)	0.4	(3.0)	(3.1)	(0.8)	(7.2)	-	-
<b>PBT</b>	<b>1.2</b>	<b>(1.8)</b>	<b>(3.5)</b>	<b>4.5</b>	<b>(18.9)</b>	<b>(1.3)</b>	<b>11.3</b>
Tax	(1.2)	(1.2)	-	(4.3)	(1.2)	-	(2.8)
<i>Effective tax rate</i>	101.1%	-67.3%	0.0%	96.0%	6.5%	25.0%	25.0%
<b>Net Income</b>	<b>(0.0)</b>	<b>(3.1)</b>	<b>(3.5)</b>	<b>0.2</b>	<b>(20.2)</b>	<b>(1.3)</b>	<b>8.5</b>
<i>Net Margin, %</i>	-0.1%	-3.6%	-3.4%	0.1%	-30.1%	-1.3%	4.2%

**Balance Sheet Summary, USD mln**

	2005	2006	2007	2008	2009	2010	2011
<b>Current Assets</b>	<b>49.1</b>	<b>43.4</b>	<b>80.1</b>	<b>70.8</b>	<b>32.1</b>	<b>39.1</b>	<b>70.2</b>
Cash & Equivalents	0.2	0.2	3.7	1.5	0.5	0.4	0.7
Trade Receivables	2.8	5.6	6.5	3.2	0.7	2.4	4.7
Inventories	34.4	31.6	46.0	36.6	19.3	22.9	45.8
Other current assets	11.7	6.1	24.0	29.5	11.7	13.5	18.9
<b>Fixed Assets</b>	<b>36.7</b>	<b>34.5</b>	<b>41.7</b>	<b>25.4</b>	<b>23.1</b>	<b>28.1</b>	<b>43.1</b>
PP&E, net	32.0	29.9	29.0	20.6	19.6	24.6	39.6
Other Fixed Assets	4.8	4.7	12.7	4.8	3.5	3.5	3.5
<b>Total Assets</b>	<b>85.8</b>	<b>78.0</b>	<b>121.9</b>	<b>96.3</b>	<b>55.2</b>	<b>67.2</b>	<b>113.3</b>
<b>Shareholders' Equity</b>	<b>30.7</b>	<b>28.1</b>	<b>27.8</b>	<b>18.3</b>	<b>(2.0)</b>	<b>(3.3)</b>	<b>5.2</b>
Share Capital	10.9	10.9	10.9	7.1	6.9	6.9	6.9
Reserves and Other	31.3	28.6	26.1	17.1	16.6	16.6	16.6
Retained Earnings	(11.5)	(11.3)	(9.2)	(5.9)	(25.5)	(26.8)	(18.3)
<b>Current Liabilities</b>	<b>46.8</b>	<b>31.5</b>	<b>86.5</b>	<b>71.5</b>	<b>52.4</b>	<b>55.6</b>	<b>73.2</b>
ST Interest Bearing Debt	15.6	12.0	18.8	23.2	11.0	11.0	11.0
Trade Payables	13.6	5.1	4.3	31.0	12.7	17.6	35.2
Accrued Wages	1.1	1.5	2.3	1.5	3.3	1.6	1.6
Accrued Taxes	0.1	0.2	5.6	0.2	0.5	0.5	0.5
Other Current Liabilities	16.4	12.8	55.5	15.5	24.9	24.9	24.9
<b>LT Liabilities</b>	<b>8.3</b>	<b>18.4</b>	<b>7.6</b>	<b>5.0</b>	<b>4.8</b>	<b>14.8</b>	<b>34.8</b>
LT Interest Bearing Debt	-	8.8	-	-	-	10.0	30.0
Other LT	8.3	9.6	7.6	5.0	4.8	4.8	4.8
<b>Total Liabilities &amp; Equity</b>	<b>85.8</b>	<b>78.0</b>	<b>121.9</b>	<b>94.8</b>	<b>55.2</b>	<b>67.2</b>	<b>113.3</b>

Source: Company data, Concorde Capital

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