

Globaltruck

Reliable road solutions

- ▶ **We initiate coverage of Russian transportation company Globaltruck (MOEX: GTRK).** The company is engaged in road cargo transportation in Russia and Europe. Its fleet consists of 1,359 trucks and 1,502 trailers. The average age of the fleet is 2.7 years. The company provides services to blue chip Russian and international retailers, consumer companies, industrial holdings, and e-commerce and logistics operators. Consumer, FCMG, logistics and e-commerce customers represented 75% of total revenues in 1H19. Globaltruck provides several main services, including Full Truck Load (FTL), a premium 'Cargo Pipeline' service that offers faster delivery, and expedited services. The company is one of the largest FTL providers in Russia.
- ▶ **Russian road cargo transportation market performed steadily in 2017-2018.** Road cargo transportation conveys c.68% of all Russian volumes but accounts for only 4.6% of cargo turnover due to the relatively short distances travelled by service providers. In 2017-2018, the sector was driven by the expansion of retail trade, e-commerce growth and the recovery of foreign trade volumes, among other factors. Despite relatively weak real disposable income trends, structural changes in the retail market provide a good opportunity to e-commerce and logistics operators. E-commerce turnover should continue to grow by 14% p.a. in 2018-2023, according to the Association of Internet Trade Companies. Our estimated CAGR for 2018-2023 for road cargo transportation is 6.2%, reaching RUB1.2trn in value in 2023. Structural trends in the road cargo market including stable LTL market growth, the 'uberisation' of cargo transportation, consolidation in road and logistics transportation, and increasing market transparency due to regulatory changes and online logistics solutions. The largest road cargo companies have an opportunity to gain market share from the smaller players, while technology ownership may guarantee an efficient and incremental revenue stream for logistics consolidators.
- ▶ **Strong market position and operational efficiency give a competitive edge for growth.** The company has a strong market position and brand in Russia and Europe. The flexibility of its business model and operating efficiency have helped it maintain a low-cost profile and relatively low debt while increasing the scope of operations. It has its own IT platform, which allows it to manage its fleet and provide expedited services at competitive prices. The focus on its Cargo Pipeline project will drive the loaded run ratio and distance per truck, providing a larger market per truck. Expedited services will generate additional revenue flows without significant expenses. We have valued Globaltruck's 12-month fair market capitalisation using a DCF approach. Our indicative valuation range is RUB5,546-8,017mn at a WACC of 11.0-12.0% and terminal growth rate of 0.5-2.5%. Globaltruck completed an IPO on the Moscow Exchange in November 2017. The free float is 19.6%. The major shareholder, Alexander Eliseev, has a 51.9% stake via GT Globaltruck Limited. Net debt/EBITDA was c.2.7x as of June 2019. Company policy recommends a dividend payout once net debt/EBITDA is below 2.5x.

Report date:	1 October 2019
Ticker	GTRK
Main exchange	MOEX
Current Price, RUB	41.0
Number of shares	58,462,120
Current MCap, RUB mn	2,397
Free float, %	19.6%

Globaltruck is a road cargo transportation company with primary operations in Russia and Europe. Globaltruck operated the fleet of 1,359 trucks and 1,502 trailers as of the end of 1H19. The average fleet age is 2.7 years. Globaltruck is one of the largest FTL companies in Russia.

Globaltruck Management is a research client of Hypothesis Research Limited.

Marina Alekseenkova
Research analyst
+44 (0) 78527 00371
ma@hypothesisresearch.co.uk

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Investment summary

1. Market opportunity

Russia has one of the largest road networks globally. It is well developed in the European part but less so in Siberia and the Far East. Road cargo transportation is the largest segment of the Russian cargo market in terms of transported volumes. The sector loaded 68% of all volumes in Russia in 2018, up from 67% in 2017. Road transport delivered 5,544.4mt of cargo in 2018, up 1.8% YoY. Road transport's share of turnover was only 4.6%, reflecting the relatively limited usage of road transport for long-distance transportation. The average distance of one ton transported by road was only 46.7 km in 2018, albeit up from 44.4km in 2013. The road freight transportation market is competitive due to there being many old vehicles controlled by small operators and family businesses, although these cannot provide high-quality services to large retail, e-commerce and consumer companies. Long-haul road transportation has been developed over the past 5-10 years by captive operators and independent road freight companies, which have built large enough infrastructure including warehousing, IT systems, service and maintenance shops.

The road cargo transportation sector has developed a range of client services, including groupage, LTL (Less Than truck Load) and FTL (Full Truck Load), offering door-to-door road freight solutions for part and full loads, tracking and visibility of cargo for customers. The sector now incorporates advanced IT technologies to create simplicity for customers with a single point of contact, integrated logistics solutions and efficient transportation services. This reduces transit time and enables real-time monitoring of operations.

After stagnating in 2014-2016, the Russian economy got back on track in 2017-2018, supported by the oil price recovery, rouble stabilisation, and decelerating inflation. Russian exports and imports of goods were up 25% YoY in 2017. The OPEC agreement supported the oil price recovery, while increased export volumes of coal, ore, wheat, and mineral fertilisers contributed to a cargo turnover upswing.

The expansion of retail chains across Russia and acceleration of e-commerce have driven growth in cargo volumes. In 2017, the physical volume of the wholesale trade increased by 5.7% YoY, while retail trade volumes increased for the first time since 2013, by 1.3% YoY. In 2018, retail turnover increased 2.5% YoY (fixed prices). The top-10 Russian retailers reported 10% revenue growth in 2018. This sector has a relatively low level of concentration, with the top-10 retailers taking only 17% of turnover in 2018.

The growth of e-commerce is a milestone for road transportation, changing the offering of logistics companies. The Russian e-commerce market reached RUB1.66trn in 2018, seeing a 25% CAGR between 2013 and 2018 and expanding by 26% YoY in 1H2019, according to [Data Insight](#) and the Russian Association of Internet Trade Companies (AITC). The e-commerce market is estimated to grow by 14% on average in 2016-2022. Cheaper deliveries and wider reach are the two essential components supporting the e-commerce upswing, and these are crucial element of competing logistics operators' offerings. More flexible and fast transportation services such as LTL have already gained popularity among e-commerce companies over the last two years.

There are several trends in the road cargo market:

- Stable growth of the LTL segment
- 'Uberisation' of road cargo operations
- Reduction of the 'grey' service market due to increased regulatory requirement, including the Platon electronic toll collection system and VAT procedures
- Consolidation of service providers.

We forecast the road cargo market to grow at a 6.2% CAGR between 2018 and 2023, reaching a value of RUB1,254bn by 2023. We expect cost-efficiency and consolidation to be key topics for the sector. The weak macro environment in 2019 may make it challenging for the sector to achieve strong growth, but there is room for structural development and implementation of new business models. The key macro drivers for Russian road operators include:

- Agricultural production growth in the South federal district and increasing wheat exports
- Expansion of trade between China and Russia
- E-commerce growth, with a five-year CAGR of at least 14% p.a.
- Stabilisation of trade flows with European countries
- Greater sector consolidation in the logistics segment.

2. Globaltruck: cost-efficient FTL services supplier

Globaltruck Management (MOEX: GTRK) is the leading independent road cargo transportation group in Russia. It is one of the largest FTL operators in Russia. Its focus is domestic and international FTL long-haul cargo transportation, connecting the EU with Central Russia, the Urals, Siberia and the Russian Far East.

Globaltruck operated a fleet of 1,359 trucks and 1,502 trailers as of 30 June 2019. The average fleet age is 2.7 years. Globaltruck Management (GTM) was founded in 2012 with the establishment of the Cyprus-based GT Globaltruck Limited and accumulated the fleet via purchases and small acquisitions. The company provides services to blue chip customers, including retail companies (Metro, IKEA, Sportmaster, O'Key, Detsky Mir, and Lenta), FMCG players (Unilever, Protec, Katren, Procter&Gamble, and Ferrero), manufacturing and industrial companies (MMK, Sibur, and UMMC) and e-commerce and parcel companies (GTD, DPD, and PEC). Retail, consumer, logistics and e-commerce companies generate over 75% of revenues for Globaltruck.

Globaltruck has developed three business models to meet customers' needs, including classic FTL services, Cargo Pipeline and Expedited services. Cargo Pipeline is a premium service generating extra margins via fast delivery, while expedited services are asset light with strong revenue generation potential via cooperation with smaller service providers. Fleet management systems allow the company to control logistics and generate a load run ratio of over 92% for classic services and over 96% for the Cargo Pipeline service. Globaltruck has announced that it has shifted its focus from expansion to replacement and renewal of trucks due to market overcapacity. In the future, GTM will purchase 100-150 trucks a year to maintain the fleet of 1,400-1,500 trucks and trailers, while generating extra margin from the Cargo Pipeline service and extra revenue via the development of expedited services.

Fuel costs made up over 41% of the company's cost of sale structure in 1H19, while salaries and social contributions made up over 26% of costs. Increased domestic diesel prices in 2H18-1H19 negatively affected the company, but prices corrected and are likely to stay at the current level in 2H19-2020 following the correction of the global oil price. The company has demonstrated strong cost control, maintaining the CAGR of direct cost per truck at 10.3% during the diesel price upswing in 2015-2018, while revenue per truck increased by a 9.6% CAGR.

Historically, Globaltruck has followed a conservative capital structure policy, keeping net debt/EBITDA below 2.7x. The company uses a combination of term loans and finance leasing

to finance the fleet acquisition. The current debt structure includes c.29.5% of short-term debt and 70.5% of long-term debt.

Globaltruck has demonstrated good information disclosure and reporting since its IPO in November 2017. The company follows the corporate governance procedures and standards set by the Moscow Exchange. Board of Globaltruck Management consists of nine directors including two independent directors. The Board has two committees headed by independent directors. The management of the company has significant experience in logistics and transportation services, including at least five years with the company. The controlling shareholder of the company, Mr Alexander Eliseev, owns a 51.9% stake via GT Globaltruck Limited. The Russian Direct Investments Fund jointly with partners, including the Saudi Arabian Sovereign Fund AYAR International Investments, acquired a stake in the IPO in 2017. The free float of the company is 19.6%.

The company's share price performance has been relatively weak in the last 12 months, reflecting the pressure on the road cargo transportation sector from diesel price growth, increased Platon rates, and a weaker macro environment. However, the company delivered rather sustainable results in 1H19, with covered distance per truck per month increasing by 5.2% YoY, revenue increasing 24.1% YoY to RUB4.46bn and EBITDA per truck increasing by 4.5% YoY to RUB574mn. The showed a 2.5% reduction in fuel consumption YoY in 1H19, optimisation of logistical routes and minimisation of the idle time of trucks.

Pros

- Strong market position and strong brand among blue chip customers.
- Focus on operating efficiency and cost optimisation.
- Development and expansion of value-accretive business model for Cargo Pipeline.
- Growing e-commerce market will drive the demand for road cargo transportation in Russia.
- Retail operation expansion in Siberia, the Urals and Far East create an opportunity for independent cargo transportation services.
- Developing trade with China is a potential driver of the company's business.
- Stabilisation of foreign trade with Europe will support the road turnover.
- Expansion of expedited services creates a revenue growth opportunity and supports the light business model.
- Technology development contributes to operational optimisation and expansion via cooperation with other logistics companies.
- Industry consolidation may create an M&A opportunity.
- Strong management, shareholders and partners.

Cons

- Weak macro trends, including a pattern of negative real disposable income dynamics over the last five years, have put pressure on consumer and retail companies.
- Increased competition on selected routes may affect the freight rate negotiations.
- Oil price volatility and diesel price growth in Russia are negative factors for the company.
- Competition from new logistics services, including a potentially driverless offering.
- Requirements to maintain the modern fleet may affect the capex and free cash flow.

3. Valuation summary

We have valued the Globaltruck shares based on an FCFF approach. Our DCF model provides the valuation range for a 12-month fair market capitalisation of RUB5,546-8,017mn for a WACC of 11.0-12.0% and terminal growth rate of 0.5-2.5%.

The company has a very limited number of peers due to its size and the industry classification. The Russian universe includes mostly rail and container operators, while there is limited information on the number of South Asian peers.

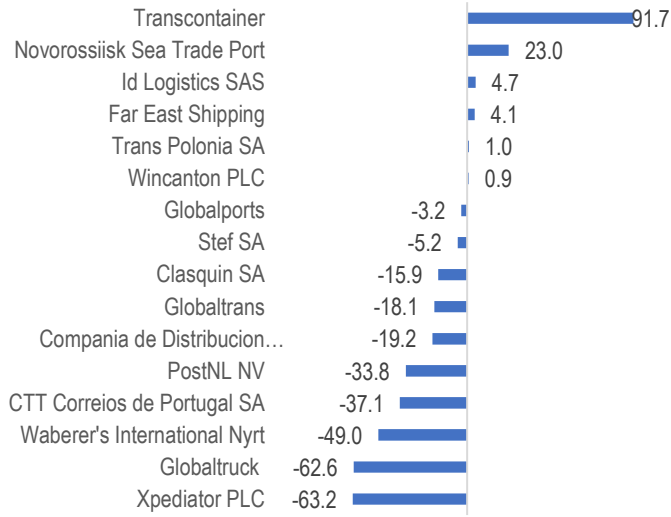
Figure 1. Comparable multiples

Company name	Mkt Cap., \$mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Globaltruck	37	87	7.48	4.55	3.27	3.83	3.39	2.98	0.64	0.56	0.48
<i>Discount to Russian peers</i>			11%	-19%	-37%	-26%	-28%	-33%	-79%	-80%	-82%
<i>Discount to European peers</i>			-38%	-58%	-66%	-33%	-36%	-43%	5%	-2%	-19%
Russian peers											
Globaltrans	1537	1943	4.98	5.38	5.13	3.50	3.85	3.65	1.90	1.95	1.86
Transcontainer	1896	2021	NaN	NaN	NaN	6.13	4.79	NaN	3.28	2.76	NaN
Globalports	569	1343	8.46	5.89	5.21	5.83	5.55	5.28	3.76	3.54	3.37
Russian peers average			6.72	5.64	5.17	5.16	4.73	4.47	2.98	2.75	2.61
Peers - Europe											
Waberer's International Nyrt	76	433	NaN	NaN	7.25	6.21	5.45	4.85	0.57	0.54	0.52
Trans Polonia SA	17	38	9.67	8.29	7.25	5.72	5.69	5.58	0.59	0.56	0.54
Compania de Distribucion Integral Logista Holdings	2596	269	12.37	11.94	11.31	0.81	0.79	0.77	0.22	0.21	0.21
PostNL NV	1101	1496	8.26	7.97	6.60	4.42	4.17	4.04	0.48	0.46	0.43
Id Logistics SAS	998	1049	26.63	22.94	20.15	10.83	9.06	7.98	0.64	0.60	0.57
Wincanton PLC	343	372	6.48	6.22	6.08	4.45	4.32	4.19	0.26	0.25	0.24
Clasquin SA	88	111	21.27	18.63	15.31	NaN	NaN	7.84	NaN	0.31	0.29
CTT Correios de Portugal	348	1311	8.69	8.17	NaN	9.25	8.89	8.07	1.67	1.68	1.71
Xpediator PLC	40	34	6.67	4.55	3.83	2.65	2.42	2.26	0.13	0.12	NaN
Jetpak Top Holding AB	67	86	10.09	8.87	8.08	6.97	6.59	6.25	0.97	0.92	0.88
Stef SA	1224	2166	10.90	10.64	9.82	6.16	6.01	5.73	0.58	0.56	0.55
Peers - Asia											
Tiong Nam Logistics Holdings Bhd	52	279	29.97	21.17	26.39	12.87	12.19	11.82	1.93	1.78	1.71
Synergetic Auto Performance PCL	65	416	45.67	17.13	12.45	6.81	5.80	5.16	NaN	NaN	NaN
Perak Transit Bhd	68	113	9.52	NaN	NaN	7.89	6.05	5.50	3.77	3.24	3.08
Beijing Changjiu Logistics	802	938	15.92	15.21	NaN	12.84	12.57	NaN	1.17	1.13	NaN
Tiong Nam Logistics Holdings Bhd	52	279	29.97	21.17	26.39	12.87	12.19	11.82	1.93	1.78	1.71
Synergetic Auto Performance PCL	65	416	45.67	17.13	12.45	6.81	5.80	5.16	NaN	NaN	NaN
Blue Bird Tbk PT	431	462	18.76	14.87	12.23	10.81	7.47	6.15	1.53	1.42	1.30
VRL Logistics Ltd	355	372	22.65	18.69	NaN	8.73	7.89	NaN	1.18	1.08	NaN
United International Transportation Company	668	697	13.58	12.34	11.52	4.11	3.69	3.46	2.49	2.35	2.22
Global peers average			18.57	13.66	12.32	7.43	6.69	5.92	1.18	1.06	1.06
European peers' average			12.10	10.82	9.57	5.75	5.34	5.23	0.61	0.57	0.59
Asian peers average			25.75	17.21	16.91	9.30	8.19	7.01	2.00	1.82	2.00

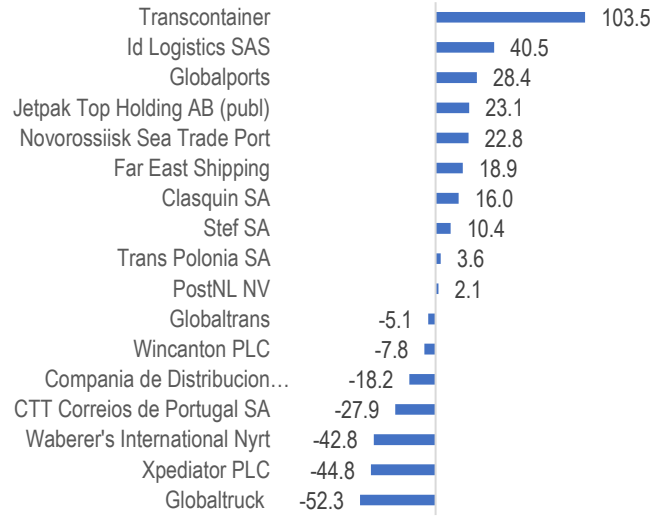
Source: ThomsonReuters, Hypothesis Research estimates

Figure 2. Transportation peers 1-year share price performance

Figure 3. Transportation peers YTD share price performance



Source: Thomson Reuters



Source: Thomson Reuters

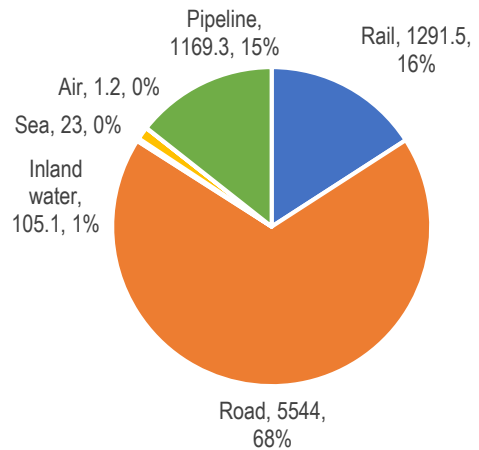
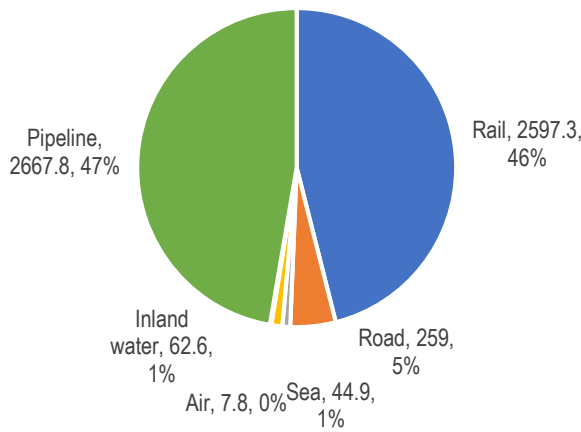
Russian Road Cargo Transportation Market

Russia has one of the largest rails and road networks globally. The railroad network accounts for 86,000 km, making it the third largest in the world, while the road network with 1,508,000 km is the fifth largest. The road density in Russia is three times higher than in India and China, but half that of the US. Russia uses its railroad infrastructure more intensively than other countries, such as China and the US. However, the Chinese road cargo turnover exceeds the Russian road turnover by 26 times. Russian inland waterways account for 102,000 km and are responsible for only 1% of cargo turnover.

Road cargo is the largest segment in terms of volumes transported but follows rail and pipeline transportation in terms of turnover; the latter two are essential pieces of infrastructure in Russia’s widespread territory. However, road transportation still can’t compete in terms of cost with container transportation, which represents a significant portion of trade with China.

Figure 4. Russian cargo turnover, bn t-km, %

Figure 5. Russian cargo transportation by transport type, mt, % of total

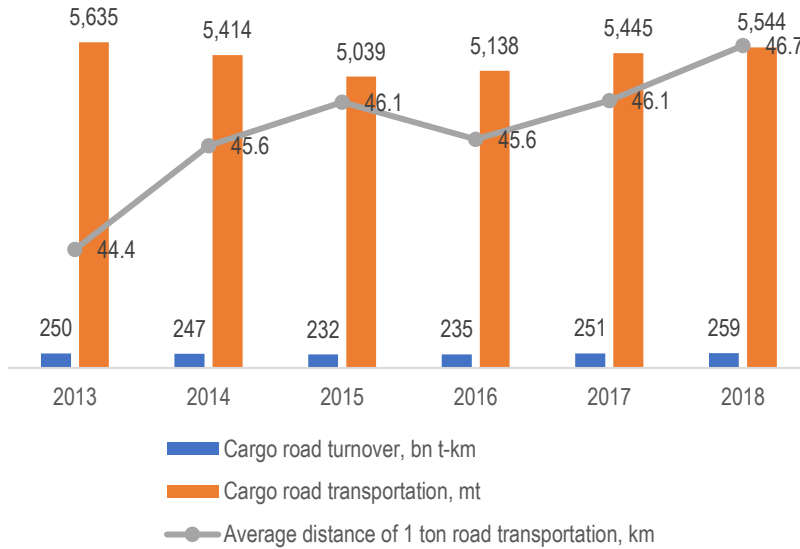


Source: gks.ru

Source: gks.ru

The road cargo transportation segment transported approximately 68% of total cargo volumes in Russia in 2018. Road transport delivered 5,544.4mt of cargo in 2018 compared to 5,447.0mt in 2017, up 1.8% YoY. The total volume of cargo transportation reached 8,134mt in 2018, up 0.8% YoY. Road transport’s share of turnover was only 4.6%, reflecting a relatively limited usage of road transport for long-distance transportation. The average distance of one ton transported by road was only 46.7 km in 2018, although it had grown from 44.4km in 2013.

Figure 6. Russian cargo road transportation and turnover

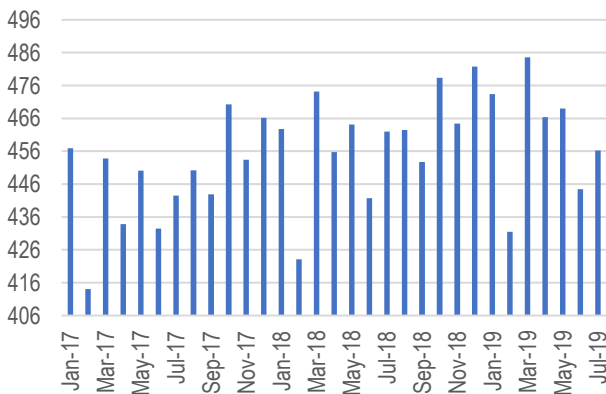


Source: gks.ru

The relatively low cost of road transportation compared to rail and air transportation and a better reach explain the road motor sector loading. The total cargo turnover reached 5,640bn t-km in 2018, up 3.0% YoY, while the road cargo transportation turnover was 259bn t-km, up 3.2% YoY in 2018.

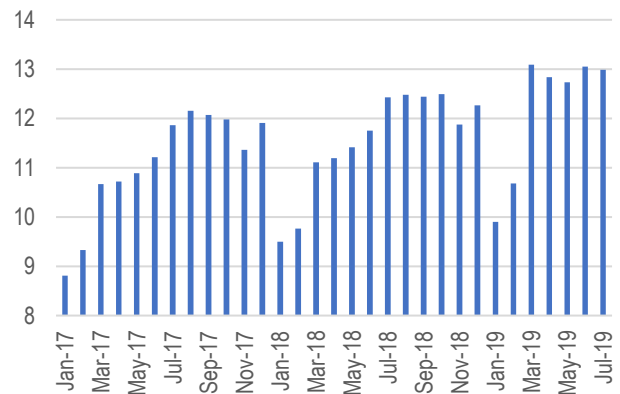
Commercial road cargo transportation has seasonality with low volumes in January and February followed by greater volumes in the second half of the year. The fourth quarter is usually the strongest. Adverse weather conditions, holiday calendar and agricultural and industrial seasonality trends are usually behind this pattern.

Figure 7. Russian commercial cargo transportation turnover, bn t-km



Source: gks.ru

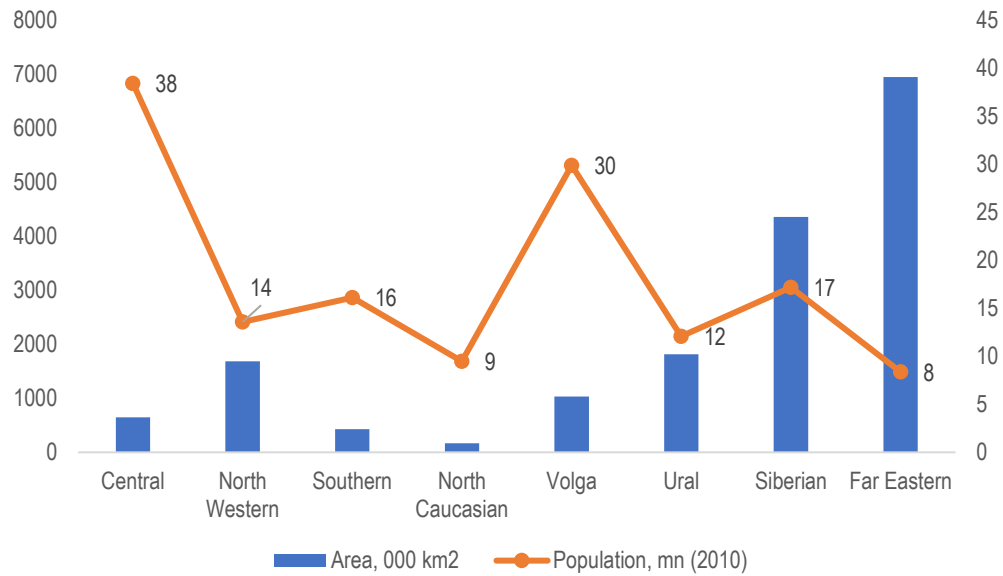
Figure 8. Russian commercial road cargo transportation turnover, bn t-km



Source: gks.ru

Long-haul road transportation services are concentrated in the European part of Russia where most of the Russian population lives. The heterogeneous network of roads and insufficient number of service centres limit the development of road transportation across Russia.

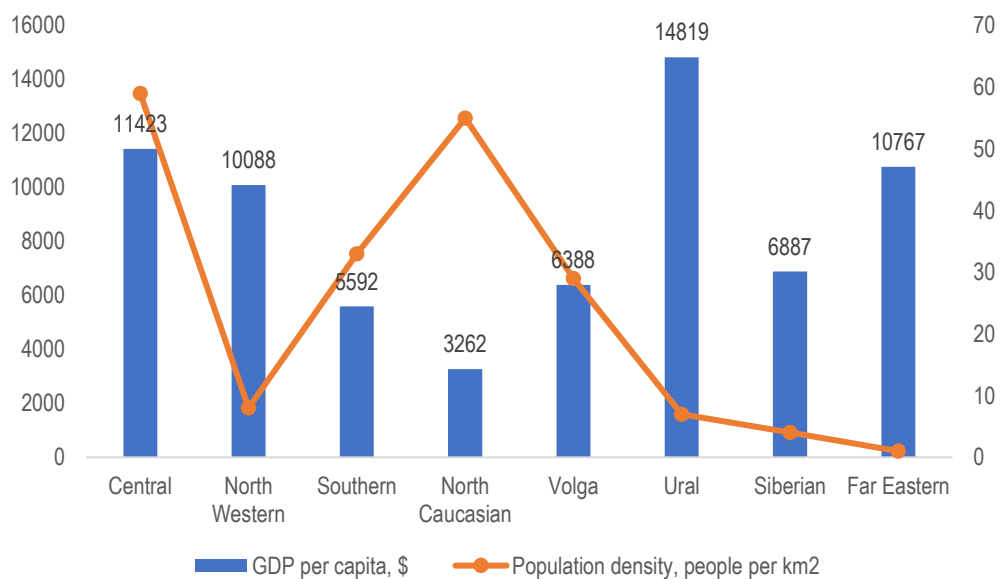
Figure 9. Russian population (mn people, RH Axis) and area (000 sq km, LH Axis) by federal district



Source: gks.ru

However, a relatively high GDP per capita in the Urals, Siberia and Far East regions supports the consumption growth trend and the development of retail and online trade.

Figure 10. Russian federal districts by population density (people per sq km, RH Axis) and GDP per capita (\$, 2017, LH Axis)



Source: gks.ru

The insufficient quality of the Russian road network due to its size, weather conditions and limited financing has been improving in the past few years. The Russian government is planning to complete the project 'Safe and quality roads', which aims to improve the road infrastructure. The share of roads that met the standards was 82.8% in 2018, up 1.8p.p. The number of accidents on the improved parts of federal roads decreased by 24% YoY in 2018.

Foreign trade

Road cargo transportation recovered its turnover in 2017-2018 after a drop in 2014-2015, when the volume dropped due to mutual sanctions introduced by the EU and Russia. While the total cargo turnover grew at a small but still positive rate of 0.3% in 2015 and 1.8% in 2016, the road transportation segment shrank by 5.9% YoY in 2015 and grew by only 1% YoY in 2016. The growth of 7% in 2017 and 3.2% in 2018 indicates some recovery and stabilisation of road cargo transportation driven by increased foreign trade alongside the retail and e-commerce pick up. Road transport is used for distances over 2,000km.

The positive trend in foreign trade due to the stabilisation of the geopolitical situation in 2016-2017 was supportive for cargo transportation. According to WTO estimates, global trade grew by 4.7% in 2017, reaching its maximum level since 2011. The Russian economy was also positively affected by the oil price recovery in 2017, rouble exchange rate stabilisation, and the decrease in inflation. Russian exports and imports of goods totalled \$591mn in 2017, up 25% YoY. The OPEC agreement with the largest oil producers, including Russia, on oil production cuts allowed Russian oil exports to recover their value. Increased export volumes of coal, ore, wheat, mineral fertilisers were all contributors to higher cargo turnover in Russia in 2017.

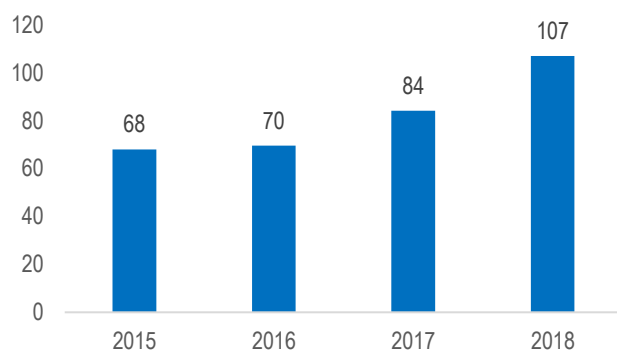
Russian trade with China is another driver of road cargo volume growth, after the new rules on road cargo transportation approved direct links between any towns in Russia and China in June 2018. Before the new rules were approved, Russian and Chinese road transporters were able to deliver cargo to their own border and then obtaining an approval to deliver on a special route. The new rules improved the safety and speed of delivery, indicating that Russian road cargo companies may win some market. According to Rosavtotrans, the volume of cargo transportation between Russia and China increased by 17% YoY to 2.8mt in 2018, while the trade turnover was up 27.1% YoY to \$107bn.

Figure 11. Russian imports and exports of goods, \$mn



Source: The Central Bank of Russian Federation

Figure 12. Trade turnover (import and export flows) with China, \$bn

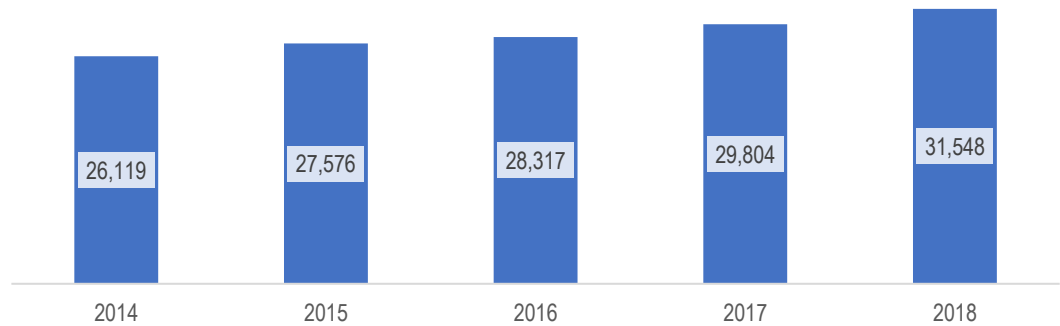


Source: Rosavtotrans

Domestic trade

The Russian domestic retail operations also demonstrated a positive trend. In 2017, the physical volume of wholesale trade increased by 5.7% YoY, while retail trade volumes increased 1.3% YoY for the first time since 2014. In 2018, retail turnover reached RUB31,548bn and increased 2.5% YoY in fixed prices. The real growth of retail turnover was negative in 2015-2016. The 4-year CAGR of retail turnover was 4.8% p.a. in 2014-2018.

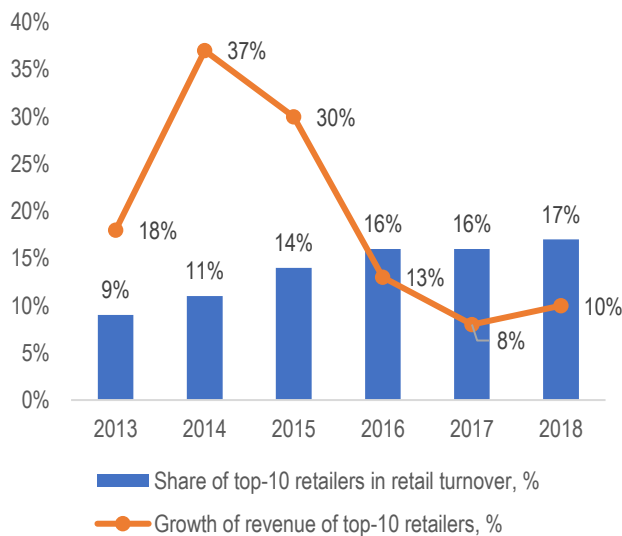
Figure 13. Russian retail turnover, RUB bn



Source: gks.ru

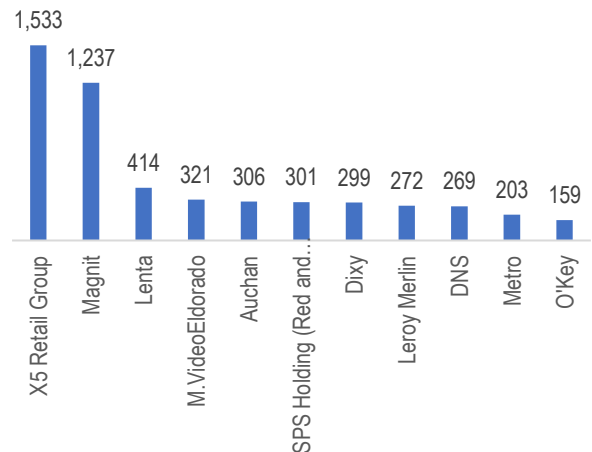
The largest Russian retailers reported 10% revenue growth in 2018. The expansion of retail operations in the Urals, Siberia and Far East regions made an essential contribution to the road cargo turnover. The largest retail group X5 operated 14,779 stores as of June 2019 in seven federal districts, while the second largest retailer, Magnit, reported 19,884 stores in seven districts. X5 operates a truck fleet of 3,837 units while Magnit has 5,857 trucks in operation. Both of the largest retailers have fleets comparable with those of independent transportation companies such as Delovye Linii (c. 4,000 trucks in 2017) and Delco (c. 1,600 trucks in 2017), which allow them to control their deliveries in the most efficient way. Large captive fleets of major retailers allow them to expand their operations across Russia, while smaller retailers rely more on independent transportation companies.

Figure 14. Top-10 retailers: market share and revenue growth



Source: M.A. Research

Figure 15. Top Russian retailers by revenue in 2018, RUB bn

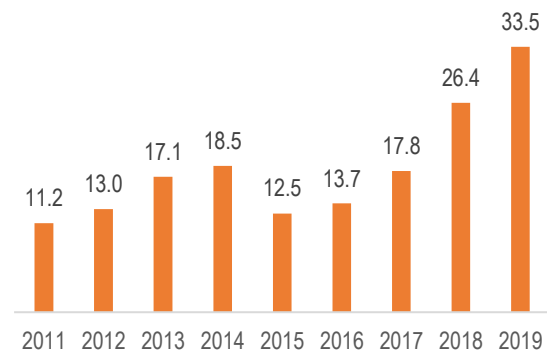
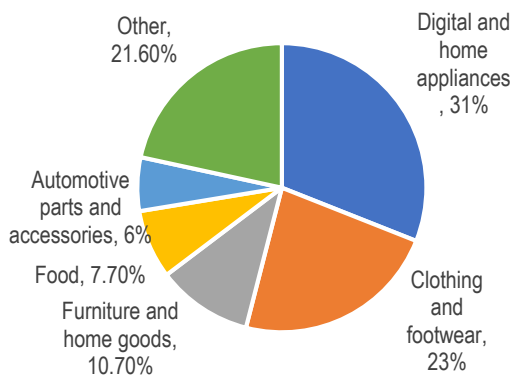


Source: Companies data, Infoline

e-Commerce

The development of the e-commerce market is one of the main drivers of the road transportation market in Russia. The Russian e-commerce market reached RUB1.66trn in 2018, and increased by 26% YoY to RUB725bn in 1H19, according to [Data Insight](#) and the Russian Association of Internet Trade Companies (AITC). Russian internet users made 191mn of orders in 1H19 via online platforms, which is comparable with the total 2016 volume of orders.

Figure 16. Good categories purchased via Internet in Russia, % of total value **Figure 17. Russian e-commerce market, \$bn in Russia, 2011-2019**



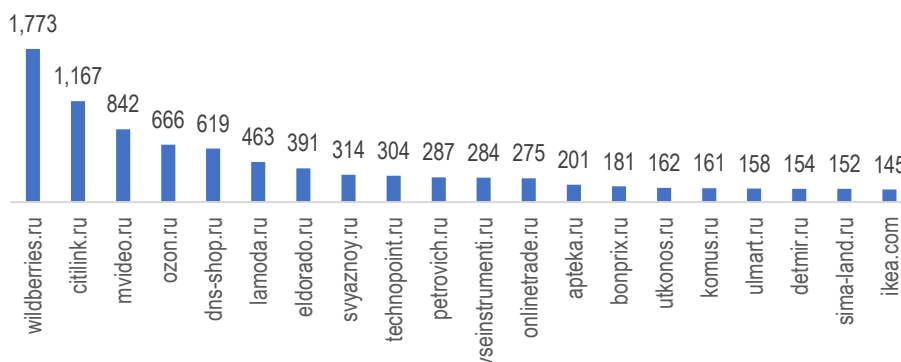
Source: Data Insight, Vedomosti, Romir, Nielsen, Akit.ru

Source: Akit.ru, Data Insight, Hypothesis Research

The five largest internet platforms Wildberries.ru, Citilink.ru, M.VideoEldorado, Ozon.ru, DNS-Shop.ru had turnover of more than \$500mn each in 2018. The 500 largest Russian online platforms grew by 21% YoY in 1H19 compared to 15% in 2018.

The e-commerce market is not saturated yet, which is helping most of the players to maintain a growth profile. The impressive performance of online trading continues, as confirmed by the 1H19 results. The number of orders reported by Wildberries, the largest online platform, was c. 65mn in January-June 2019, representing one-third of all orders made on Russian online platforms during this period. The growth pattern was supported by a wider range of products, reduced commission for suppliers, and an expansion of collection points from 1,600 to 5,000 in 1H19. The turnover of Wildberries increased to RUB85bn, up 79% YoY, according to Data Insight. Another e-commerce platform, Ozon, increased its turnover by 80% YoY to RUB31.9bn in 1H19. Ozon increased its number of clients making 15 and more orders a year, while Wildberries' average user made 8% more orders. Purchases via online platforms became cheaper with the average bill declining 14% YoY to RUB3790 in 1H19.

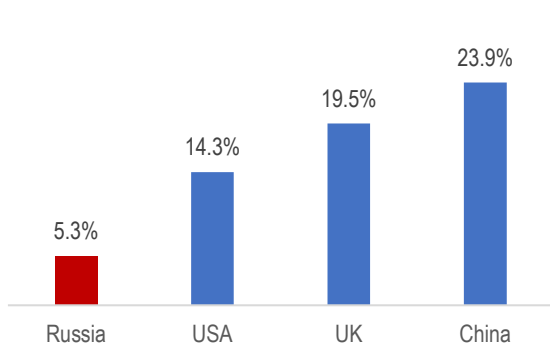
Figure 18. Largest e-commerce platforms by turnover in 2018, \$mn



Source: akit.ru

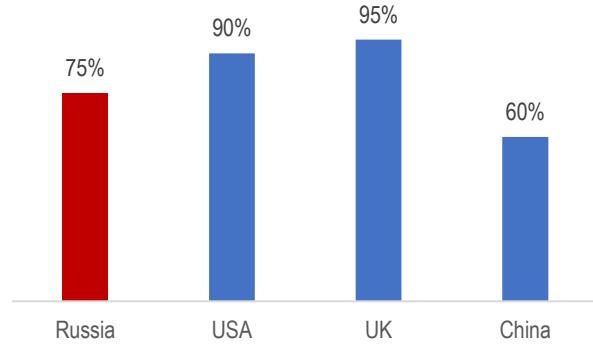
The current trend supports the forecast for the e-commerce market to grow by 14% on average in 2016-2022. E-commerce’s share of the total retail turnover in Russia is still low compared to the US, UK and China.

Figure 19. Share of e-commerce in total retail turnover in 2018



Source: akit.ru

Figure 20. Internet penetration, % of adult population

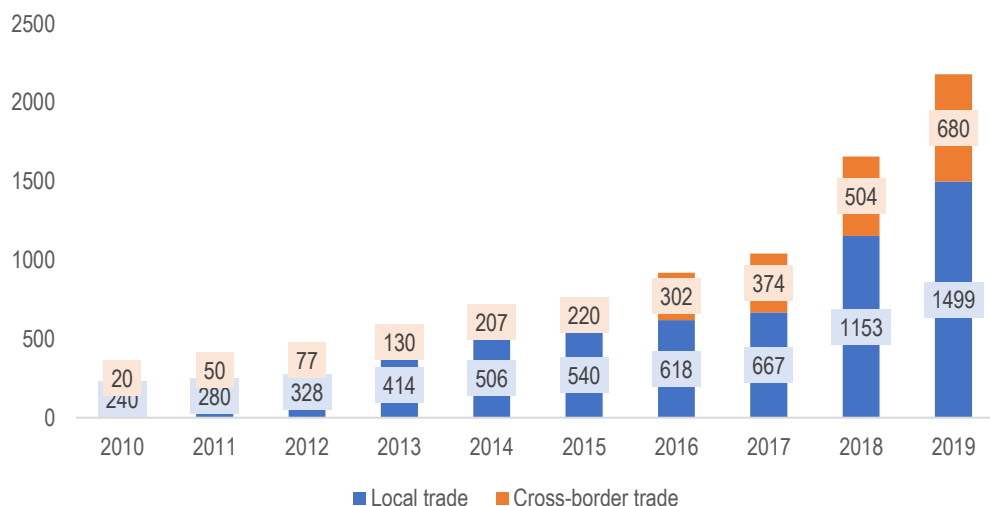


Source: Statista, gov.uk, akit.ru

The expansion of the domestic online retail market, which showed a five-year CAGR of 25% in 2013-2018, was on the back of an expansion in cross-border trade, with a 31% CAGR, and local online trade, with a 23% CAGR. Local trade accounted for 70% of the online retail market. The cross-border market provided mostly clothing and footwear (33% of value in 2018), digital and home appliances (28.3%), automotive parts and accessories (7%), healthcare products (7%), and sporting goods (2%). The local online trade includes large categories such as clothing and footwear (23%), digital and home appliances (31%), furniture and home goods (10.7%), food (7.7%), and automotive parts and accessories (6%) among others.

The expansion of Chinese goods imports (92% of online orders came from China), partially due to AliExpress’ launch in Russia, boosted online retail volumes in lower price categories. In value terms, US goods accounted for 11%, EU goods 22%, and Chinese goods 54% of total online retail orders in 2018. Russian customers made 306mn transactions in foreign online shops in 2018, according to the Association of Internet Trade Companies.

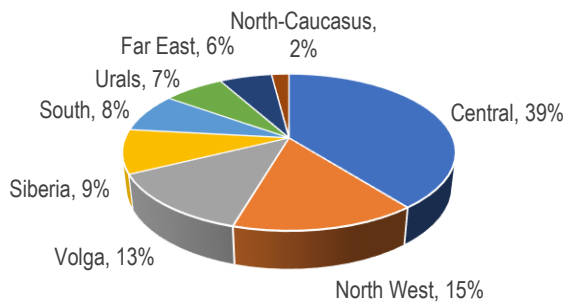
Figure 21. Russian online retail market, RUBbn



Source: akit.ru, Sberbank

The Russian online retail market is concentrated in the Central, North Western and Volga federal districts, which together account for 67% of online retail volumes and 49% of the total Russian population. At the same time, Siberia, the Urals and the Far East together account for 22% of online retail volumes and 6% of the population. The expansion of retail trade in the Urals, Siberia and the Far East provides an essential business for logistics and transportation service suppliers.

Figure 22. Russian online retail market value by federal district

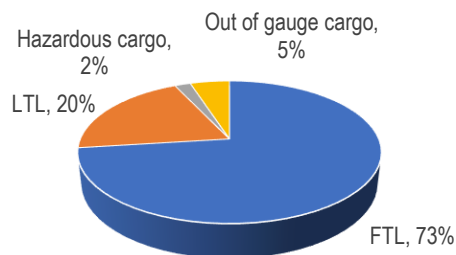


Source: akit.ru

There are several trends in the road transportation market.

Stable growth of the less-than-truck load (or less than full truck loaded, LTL) is one of them, driven by online trend development. According to M.A. Research, the share of LTL in the Russian road transportation market was an estimated 20.7% in 2017. The largest players in the LTL market, including Delovye Linii (Business Lines), PEK, and ZhelDorExpeditcia, showed stable growth in the LTL segment, according to M.A. Research. The dominant segment in value terms was FTL (full truck loaded) with a 73% share in 2016. Out of gauge and hazardous cargo accounted for 5% and 2% respectively of the total road cargo value in 2016. The LTL market segment was estimated to be RUB135bn in 2016 and was the most rapidly growing due to the development of online trade and retail chain expansion in 2017-2018. The continuing growth of e-commerce in 2018-2019 is positive for both LTL and FTL markets, particularly in Siberia, the Urals and the Far East regions, despite a negative trend in real disposable income over 2014-2018. Cheaper goods due to more efficient deliveries and wider reach of internet trade can provide a better choice for the population.

Figure 23. Structure of the Russian road transportation market (by value), %



Source: M.A. Research

The ‘uberisation’ of the road cargo market may become a trend with the development of driverless cars. The online freight service Deliver (formerly iCanDeliver) provides services for senders and transportation companies and takes responsibility for cargo delivery. Deliver is able to offer lower prices to corporate clients. The service was working with Cherkizovo, Procter & Gamble, and Heinz in 2018. Deliver’s competitors include Palletter-Sixfold in Estonia, Austria and Germany, Convargo in France, and Ontruck in Spain, the UK and France (services Alcampo, Decathlon, P&G).

The value of the ‘grey’ market is still significant but declining following regulatory changes. The new VAT regime requires more documentary confirmation of goods delivered. Platon system requirements, including fully transparent cargo turnover flows, make a grey transportation operator a non-reliable partner for cargo senders. In 2017, the share of grey market in road cargo transportation was estimated to be 70%.

The consolidation of the road cargo transportation market will accelerate due to a weak macro environment, increased fuel costs, and extra capacity in the market putting pressure on transportation fees. Smaller players may start working with bigger logistics operators or change their primary delivery destinations. Bigger transportation volumes between Southern and Central Russia were a result of the reduction of trade between Russia and Europe in 2014-2016. The Russian commercial road cargo transportation market is fragmented. The share of the 15 largest players was estimated to be 15% in 2017, while the revenue growth of the largest players in 2012-2018 was above the average market growth.

Figure 24. Road cargo sector trends



Source: company data, Hypothesis Research

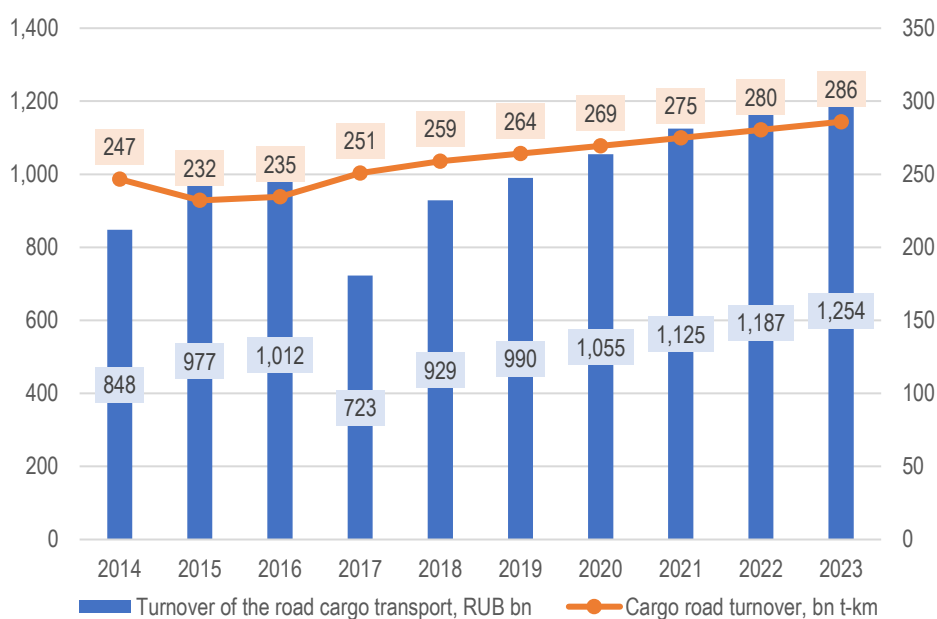
Road cargo market estimates

There are several estimates of the road cargo market which fall in the range of RUB600-1,700bn. The reason for the insufficient market transparency is existing ‘grey’ market and private nature of the businesses in this sector. The Federal Service of State Statistics estimated the turnover of the road cargo transportation market to be RUB723bn in 2017 and RUB929bn in 2018. The essential portion of the opaque market revenue may be generated

from short distance transportation services provided by small and family businesses without reported documentation. Market consolidation is likely to contribute to market transparency, while logistics players may add efficiency offering platform solutions to service providers.

We assume that the market will be driven by turnover adding at least 2% a year, while the cargo tariff will cover the fuel price growth and producers' inflation. This conservative approach provides us with a road cargo market estimate of RUB1,055bn in 2020 and RUB1,254bn by 2023. We expect cost-efficiency and consolidation to be the key topics for the sector, which will face weak macro environment.

Figure 25. The Russian road cargo transportation turnover, RUB bn



Source: gks.ru, Hypothesis Research estimates

Competition

The Russian road transportation market has a low level of consolidation. The market share of the 10 largest automotive transportation companies is 16% by fleet size. Independent transportation companies with fleets of 250-2,000 trucks control only 8% of the market. Captive operators with 1,000-6,000 trucks own another 8% of the market. Compared to the EU countries, where the top-10 companies control 25-40% of the transportation volumes, Russia's market definitely has consolidation potential.

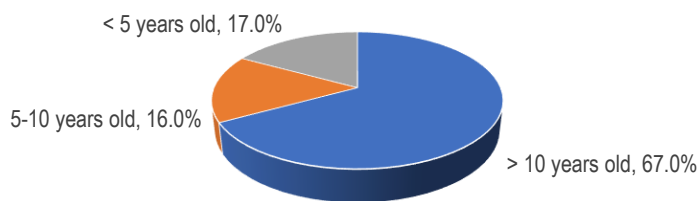
80% of motor cargo transportation is provided by medium and small firms with c.50 trucks in operation, while large transportation companies provide only 20% of transportation services by volume. Small and medium enterprises operate predominantly in regional markets making this price segment highly competitive. There are several types of service providers:

- Large operators with over 250 trucks, including captive logistics entities of large retail companies;
- Medium-size companies operating 50-250 trucks;

- Small and family businesses with less than 50 trucks; and
- Specialised companies, which provide transportation services for particular goods, such as passenger car transporters.

The Russian fleet of trucks, including light trucks, comprised c. 6.4mn units in 2017, according to the State Statistics Committee. Other estimates by Avtostat suggest 2.5-3.8mn units, including commercial vehicles (CV) and heavy commercial vehicles (HCV), 7% of which are foreign-produced trucks. According to BusinessStat, 67% of all trucks are over 10 years old, while only 17% are less than 5 years old.

Figure 26. Russian cargo truck fleet by age



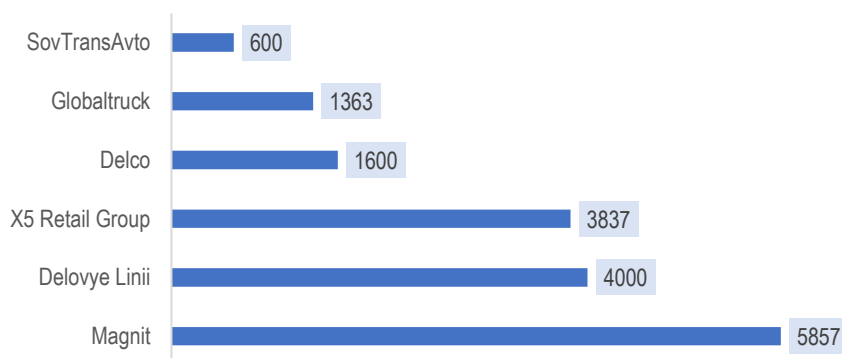
Source: BusinessStat, news.ati.ru

Most of the truck fleet is concentrated in the Central district (c.613 thousand trucks), followed by the Volga and Siberian districts. Medium and large automotive market players own c.49% of the total Russian automotive fleet. The largest automotive companies also have the youngest fleet of 3-6 year old trucks.

The low market concentration and weak macro trend have resulted in price competition by smaller players, which often work at breakeven or below and can't maintain a high-quality fleet or services.

Corporate owners of the truck fleet, except for several public companies, do not disclose the full information about the fleet dynamics and the current state of the fleet.

Figure 27. Top-6 truck fleet owners in Russia by fleet size



Source: Companies' data

Regulation

The level of competition and the trends in road cargo transportation are affected by the changing local market regulation. The regulation of the Russian motor sector has become stricter over the last three years, pushing the sector to modernize the fleet and to improve efficiency and transparency.

The main regulatory change in the industry was the introduction of a fee for heavy vehicles with over 12 tonnes of maximum weight using federal roads. Road users have to pay via the Platon (payment per ton) system. The Platon system was launched in November 2015. The payment is taken based on actual distance travelled (RUB3.73 per kilometer as of the system launch). The payments go to the Russian Road Fund and are then spent on road improvements and maintenance. The operator of the Platon system is RT-Invest Transportation Systems, which is 50% owned by RT-Invest and 50% owned by Igor Rottenberg. The Russian Technologies Corporation controls 25% of RT-Invest. The operator of the Platon system receives a RUB10.6bn service fee per year, which increases in line with inflation from the state budget from its launch until the concession agreement (for 13 years). It was planned that the system would generate RUB20-40bn per year for the state budget. The usage fee was reduced to RUB1.53 until 2019 but was later increased by 25% to RUB1.91 per km in April 2017. It is expected that the automatic weight control (AWC) points will be settled on the main federal roads by 2022.

Another regulatory change was the new rules on VAT control. The government has introduced new rules of VAT control over the supply chain. The federal tax service may reject VAT repayments if the freight sender, transporter and receiver have no transparent documentation. This change makes the 'grey' transportation service providers less competitive as they may lose the VAT repayment.

The owners of the old fleet carry additional expenses on extra services and spare parts and usually cannot provide the same quality of services as new fleet owners. Small and medium size enterprises also can't get the benefit of scale neither in terms of financing nor in terms of administrative expenses.

GLOBALTRUCK

Business overview

Globaltruck Management (MOEX: GTRK) is the leading independent road cargo transportation group in Russia. Globaltruck is the second largest full truck load (FTL) operator in Russia and the largest in the Urals and Siberia. The company’s focus is domestic and international FTL long-haul cargo transportation, connecting the EU with central Russia, the Urals, Siberia and the Russian Far East.

Globaltruck has 11 operational units located in Ekaterinburg, Novosibirsk, Magnitogorsk, Noginsk, Perm, Omsk, Chelyabinsk, Samara, Ufa, Cheboksary and Tyumen. The group manages six certified truck service and maintenance enterprises in Ekaterinburg, Magnitogorsk, Noginsk, Novosibirsk, Perm and Omsk.

Figure 28. Global truck market exposure



Source: Company data

Globaltruck operated a fleet of 1,359 trucks and 1,502 trailers as of 30 June 2019. The average fleet age is 2.7 years.

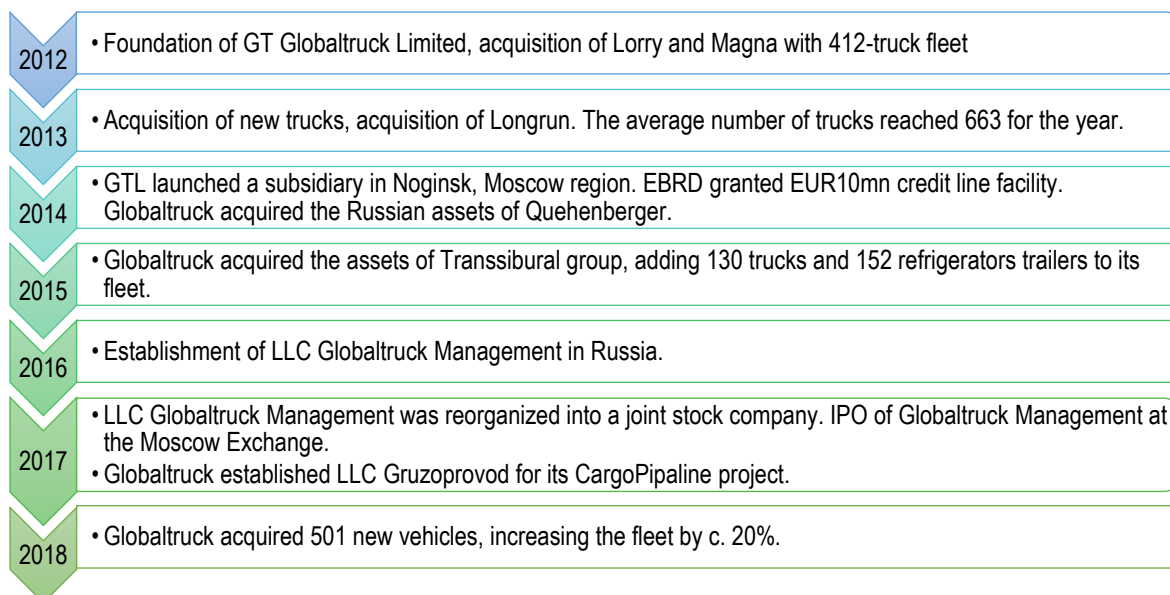
Figure 29. Globaltruck Management corporate structure as of end June 2019



Source: Company data

The group Globaltruck Management was founded in 2012 with the establishment of the Cyprus-based GT Globaltruck Limited. The company acquired the Lorry transportation company operating 412 trucks. With a long history going back to 1929, Lorry and its predecessor companies were among the largest motor transportation companies in the Urals and Siberia. The group increased its fleet in 2013-2016 to 1,097 units via truck purchases and acquisitions. The restructuring of the group in 2016 resulted in the creation of the Russian company LLC Globaltruck Management (LLC GTM). In September 2017, LLC GTM was reorganised into the joint stock company Globaltruck Management. The company went public on 3 November 2017. Following the acquisition of 501 trucks in 2018, the company increased its fleet to 1,363 trucks by the end 2018.

Figure 30. Globaltruck history



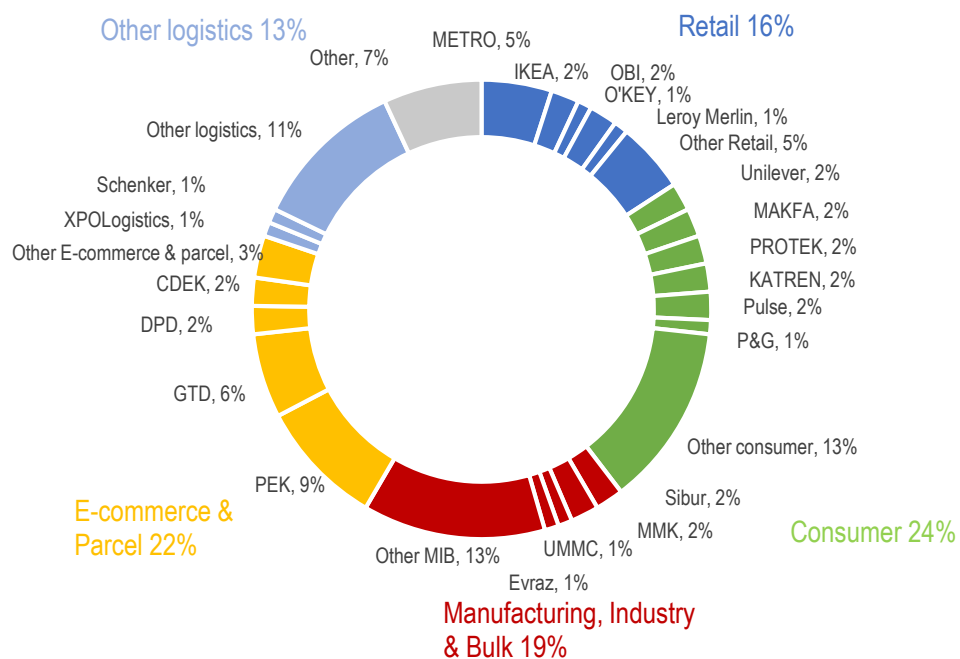
Source: Company data

The company represents one of the largest independent operators in the road transportation market, servicing the rapidly growing retail and online trading market across Russia. 75% of the GTM revenue in 1H19 was generated by retail, consumer, logistics and e-commerce companies operating across Russia.

The company provides services to retail companies (including Metro, IKEA, Sportmaster, O'Key, Detsky Mir, and Lenta), fast-moving consumer goods (FMCG) players (such as Unilever, Protec, Katren, Procter&Gamble, and Ferrero), manufacturing and industrial companies (such as MMK, Sibur, and UMMC), and e-commerce and parcel companies (such as GTD, DPD, and PEC).

The largest customer of Globaltruck in 1H19 was PEC, the logistics company focusing on LTL and FTL services, as well as cargo air transportation with a reach of over 100,000 towns in Russia. The second largest customer was GTD, the large transportation and logistics operator in LTL and FTL segments. Two international retailers METRO and IKEA are among the largest customers of Globaltruck from the retail sector.

Figure 31. Globaltruck Management revenue structure by customer in 1H19, %

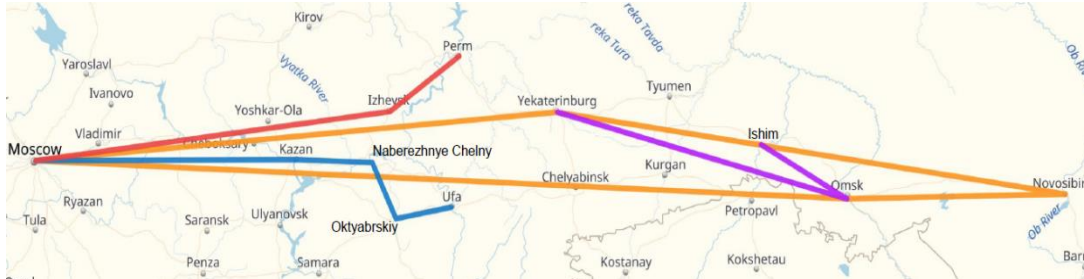


Source: Company data

Globaltruck provides comprehensive transportation services using three primary business models:

1. **Full truck load transportation services** - the main business of the company providing traditional transportation services to consumer and retail companies and logistics operators.
2. **Cargo Pipeline** project, launched in 2017, operates on the key routes of Moscow-Ekaterinburg, Moscow-Novosibirsk, Moscow-Perm, Omsk-Ekaterinburg, Moscow-Ufa and others. Currently, the network includes several major Russian cities such as Moscow, Tver, Naberezhnye Chelny, Ufa, Perm, Yekaterinburg, Chelyabinsk, Tumen, Tobolsk, Ishim, Omsk, Novosibirsk, and Tomsk. The network increased from 5 to 24 regular routes between 2017 and 1H2019. The company plans to add seven more routes by the end of 2019.

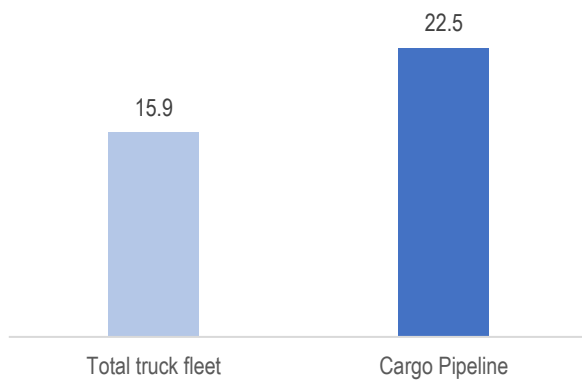
Figure 32. CargoPipeline roundtrip network



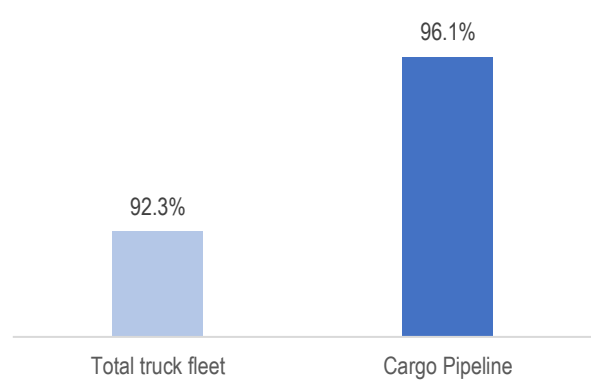
Source: Company

The average number of road trains involved in Cargo Pipeline increased from 11 in 1H2018 to 81 in 1H2019. The Cargo Pipeline guarantees up to two times faster delivery and is priced with a premium to classical transportation. The distance per truck and the loaded run ratio of the Cargo Pipeline trucks are higher than the average for the company. Cargo Pipeline’s share of total mileage is expected to increase from 4% in 2018 to 14% by the end of 2019.

Figure 33. Cargo Pipeline distance per truck in 1H19, tkm per month **Figure 34. GTM Cargo Pipeline loaded run ratio, %**



Source: Company data



Source: Company data

- Expedited services** represent an asset-light business model, in which the company combines its logistics and expedited services with fleets owned by small and medium transportation companies to provide a door-to-door service to clients. Expedited services represented 9.5% of the company’s revenues and generated an 8.3% operating margin, on our estimates, in 2018. Globaltruck is planning to increase the share of expedited services to 30% by 2022.

Strategic targets

Globaltruck was created as a modern efficient cargo transportation player in the market with sustainable transportation trends. The company was able to expand the business' scale to gain market share. There are several strategic objectives that Globaltruck is focusing on:

1. Rapid integration of new fleet with minimal additional cost, maintaining the scalable model.
2. Regional expansion of the business via existing operating companies.
3. Development of Expedited services with an efficient cost via cooperation with smaller transportation companies.
4. Expansion of Cargo Pipeline operations, where interchangeable trucks are used to transport a single semitrailer over a long route.
5. Development of transportation operations between Russian and Chinese cities.
6. Expansion of operations via selective acquisitions.
7. Operational efficiency optimisation.

Operational performance

Globaltruck's operations are focused on efficient usage of its own fleet. The company has grown from over 400 trucks in 2012 to over 1,300 trucks in 2019. The fleet is homogenous and consists of Volvo (92% of truck fleet as of end 2018) and Scania (6%) trucks. Volvo FH trucks have 12.8 litres engines of 420-540hp.

Figure 35. Volvo and Scania trucks



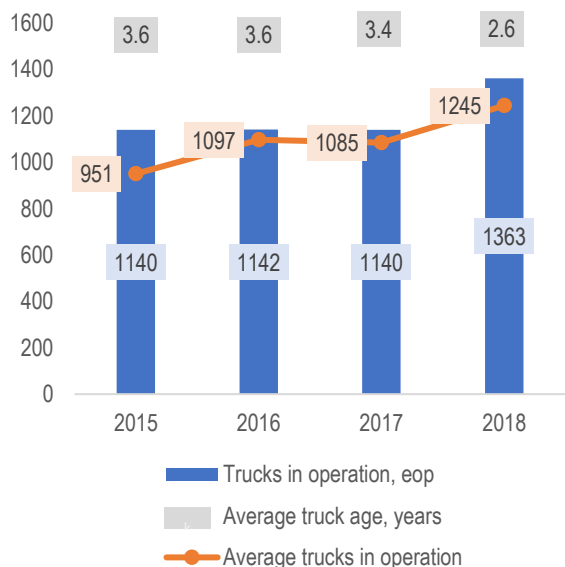
Source: Globaltruck

The company also operates 1,502 trailers, including more than 1005 tents predominantly consisting of Schmitz Cargobull SPR, SCS and SCO tents, and some Kogel and Krone models. The fleet includes 497 temperature-controlled trailers (refrigerators) with Thermo King and Carrier refrigerating units to keep the temperature between +20 and -20 Celsius.

All trucks are equipped with GPS and GLONASS systems to identify their location by logistics managers. The built-in scales ensure that the weight of freight does not exceed the 20-tonne allowance and the permitted axial load, in line with regulatory requirements of the automatic weight control (AWC) system.

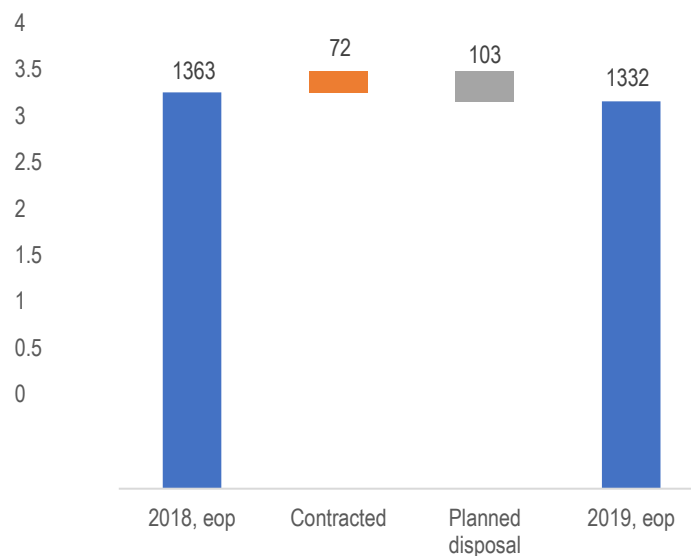
The dynamics of the Globaltruck fleet are presented below. The company operated a fleet of 1,359 trucks and 1,502 trailers as of the end of June 2019. GTM acquired 501 trucks in 2018 and 72 new trucks in 1H2019. 101 new semitrailers were acquired to replace aging models in 1H19. The age of the fleet was up from 2.6 years in December 2018 to 2.7 years in June 2019.

Figure 36. Globaltruck truck fleet in operation



Source: Company data

Figure 37. Fleet dynamics in 2019



Source: Company data

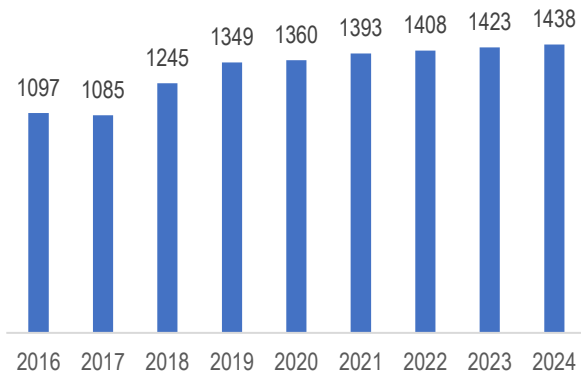
Globaltruck has announced that it has shifted its focus from the expansion of trucks to their replacement and renewal due to market overcapacity. In the future, GTM is going to purchase 100-150 trucks a year to maintain the modern fleet. The focus will be on operational efficiency and expansion of both the Cargo Pipeline project and Expedited services.

The company reported a relatively high loaded run ratio of 92.3% in 1H19 compared to 91.9% in 1H18. The total freight rate increased by 1.5p.p. over 1H18-1H19. The covered distance per truck increased 5.3% YoY to 15,900 km in 1H19, the average level achieved in FY18. The company increased the total distance by 21.9% YoY to 128.6mn km in 1H19. The increase in the average number of road trains engaged in Cargo Pipeline from 11 to 81 and the number of routes from 5 to 24 allowed the company to increase the covered distance per truck per month and to improve the loaded run ratio. The increased number of trucks by 20% in 2018 helped to increase the total distance of trucks.

The average freight rate reached RUB34.1 per km, up 1.5% from RUB33.6/km in 1H18 as a result of negotiations with key customers. However, the sharp increase of domestic diesel prices by 14.1% YoY in 2019 negatively affected the company's operational profitability in 1H19. The company is going to negotiate new contract prices in 2H19, during the usual contracting season.

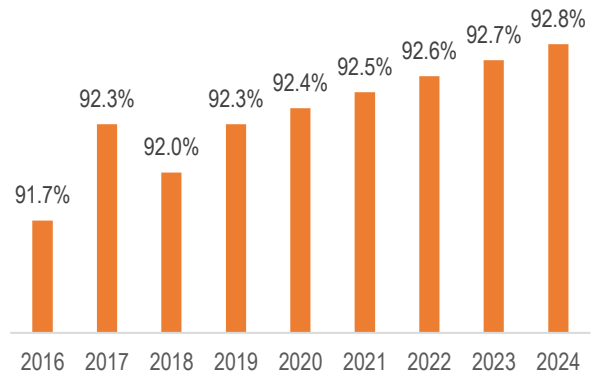
Our forecast is based on a conservative forecast for the truck fleet growth given the company's intention to focus on maintenance rather than expansion of the fleet. Our forecasts for operating indicators of Globaltruck Management (GTM) are presented below.

Figure 38. GTM average truck number, units



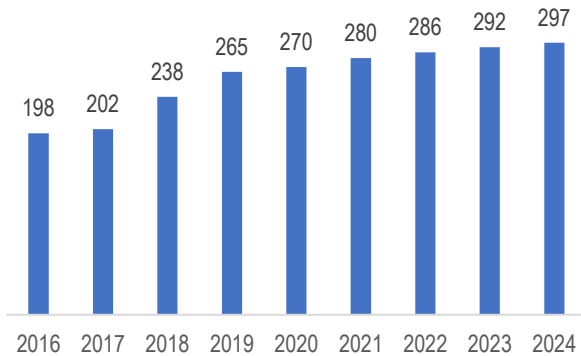
Source: Company data, Hypothesis Research forecast

Figure 39. GTM loaded run ratio, %



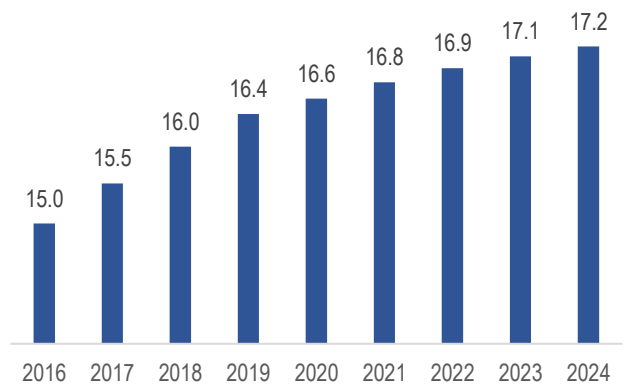
Source: Company data, Hypothesis Research forecast

Figure 40. GTM total distance, mn km



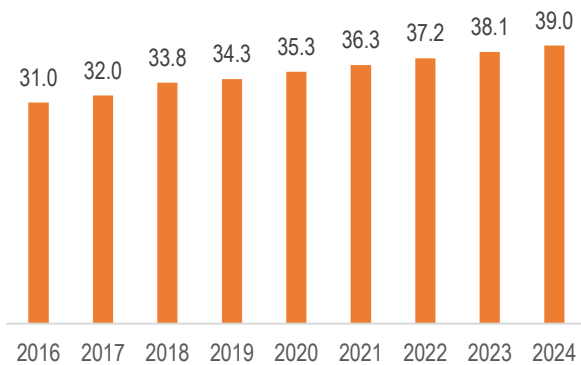
Source: Company data, Hypothesis Research forecast

Figure 41. Covered distance per truck/month, ths km



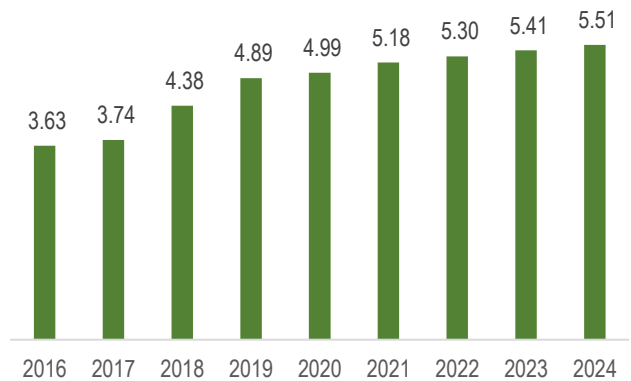
Source: Company data, Hypothesis Research forecast

Figure 42. GTM freight rates, RUB/km



Source: Company data, Hypothesis Research forecast

Figure 43. GTM cargo turnover, bn t-km



Source: Company data, Hypothesis Research forecast

Financial forecast

In our operational and financial forecast, we the macro projections presented in the table below. Earlier in 2019, the Russian Ministry of Economic Development published a more optimistic scenario for GDP to grow from 2.0% in 2019 to 3.3% in 2023, also referring to a higher Industrial production growth profile, compared to our base scenario. Our scenario is based on a conservative economic growth profile, limiting the downside in our projections.

Figure 44. Macro forecast for the Russian economy

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP growth	-3.7%	-0.2%	1.5%	2.3%	1.3%	2.0%	2.5%	2.5%	2.5%	2.5%
Industrial Production Growth	-3.4%	1.1%	1.0%	2.9%	2.3%	2.4%	2.4%	2.4%	2.4%	2.4%
Oil price, Brent	52.35	43.55	54.25	71.06	63.4	59.7	57.9	56.3	55	53.5
USD/RUB eop	72.9	60.7	57.6	69.5	65.0	65.0	65.0	65.0	65.0	65.0
USD/RUB average	61.0	67.0	58.4	62.7	65.0	65.0	65.4	66.0	67.0	68.0
Consumer Prices Inflation, eop Dec/Dec	15.5%	7.1%	3.7%	4.3%	4.3%	3.8%	3.8%	3.5%	3.5%	3.0%
PPI, % Dec/Dec YOY)	12.4%	4.0%	7.6%	11.7%	4.5%	4.5%	4.5%	3.5%	3.5%	3.5%
RUB/EUR, eop	79.7	63.8	68.9	79.5	72.8	72.8	72.8	72.8	72.8	72.8

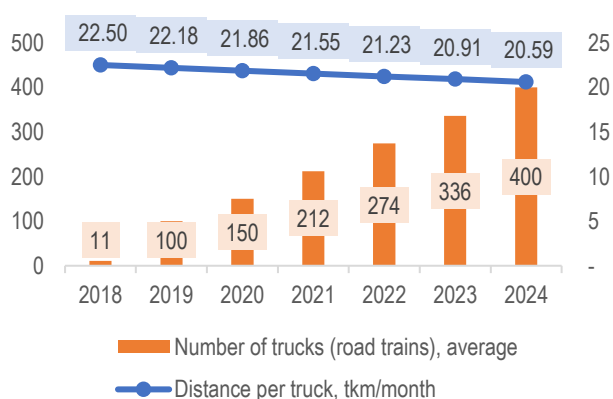
Source: gks.ru, Hypothesis Research estimates

Apart from the economic growth driving consumer spending and the retail turnover, our forecast is based on specific company business developments. The growth of Cargo Pipeline operations and Expedited services should make a contribution to GTM revenue even in a relatively weak economic environment.

Revenue structure

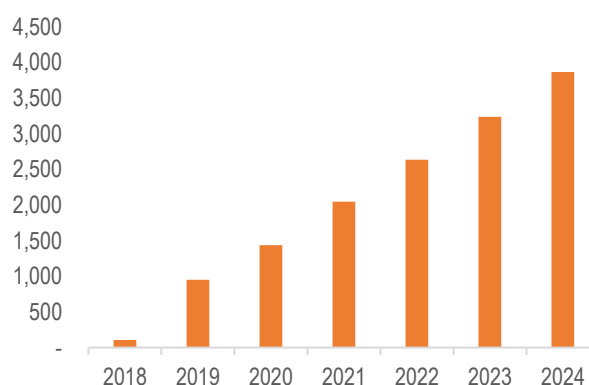
Our revenue forecast for the Cargo Pipeline project is based on several assumptions: 1) the number of road trains increases on average to 100 in 2019 and to 400 in 2024, 2) the loaded run ratio is maintained at 94.3-96.1%, and 3) the premium of freight rate to the average for classic freight FTL stays at 6-8% (compared to c.8% achieved in 2018), on our estimates, 4) classic covered distance per truck remains flat at 15.9ths km per months, while remains in the range 20.6-22.2ths km/month for Cargo Pipeline. We estimate that the company will be able to generate some RUB1.4bn in 2020 and up to RUB3.8bn in 2024 from the Cargo Pipeline project.

Figure 45. GTM Cargo Pipeline distance per truck, tkm/month and average number of trucks



Source: Company data, Hypothesis Research estimates

Figure 46. GTM revenue generation from Cargo Pipeline project, RUB mn



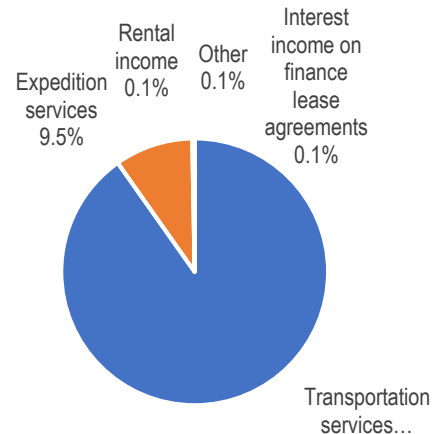
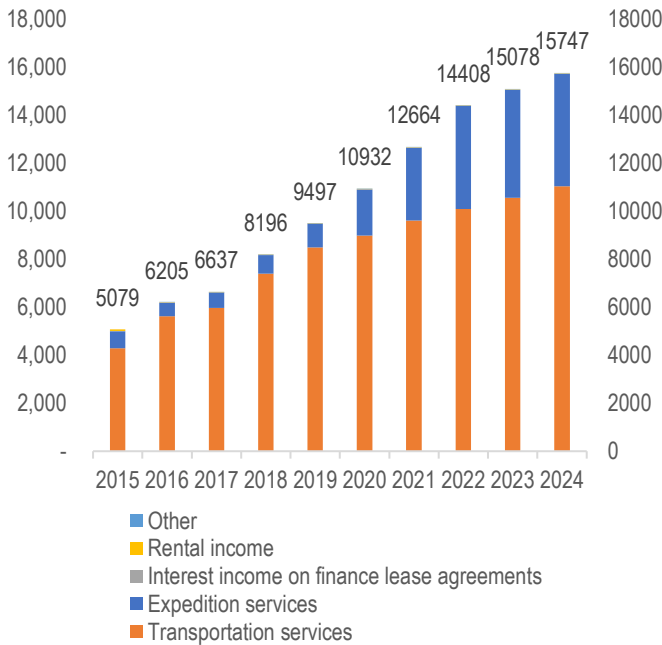
Source: Company data, Hypothesis Research estimates

Our revenue forecast is presented below. The revenues from classic freight FTL and Cargo Pipeline are combined under Transportation services in the charts below.

We also assume the company will be able to increase Expedited services' share of total revenue to 17.7% in 2020, up from 9.5% in 2018, and to 29.8% in 2022.

Figure 47. GTM revenue forecast, RUB mn

Figure 48. GTM revenue structure in 2018, %



Source: company data, Hypothesis Research estimates

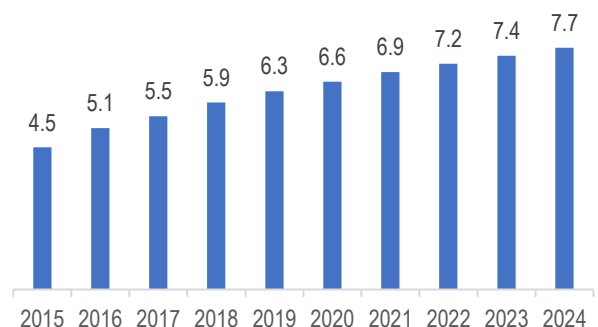
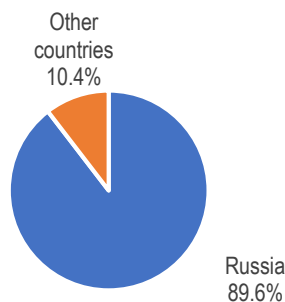
Source: company data, Hypothesis Research estimates

The results of the Group reflect a seasonality factor, in which fourth quarter results are usually stronger in terms of revenues and cash flow generation.

The company generates most of its revenues in Russia, as it is one of the principal transportation operators between Moscow, Ekaterinburg and Novosibirsk. The Cargo Pipeline should further contribute to the revenue per truck due to a larger number of trucks involved and higher tariff per for the premium service.

Figure 49. GTM revenue by geography, % 2018

Figure 50. GTM average revenue from transportation services per truck, RUB mn/truck



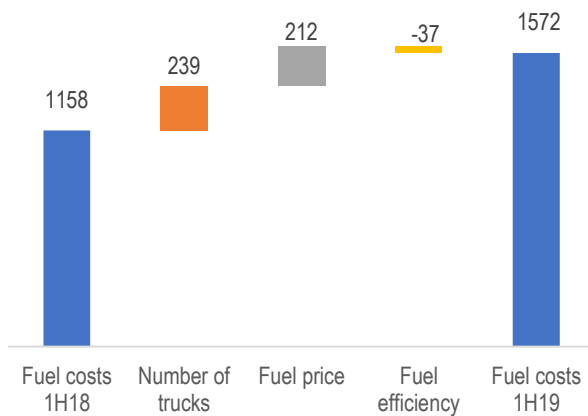
Source: Company data

Source: Company data, Hypothesis Research estimates

Cost structure

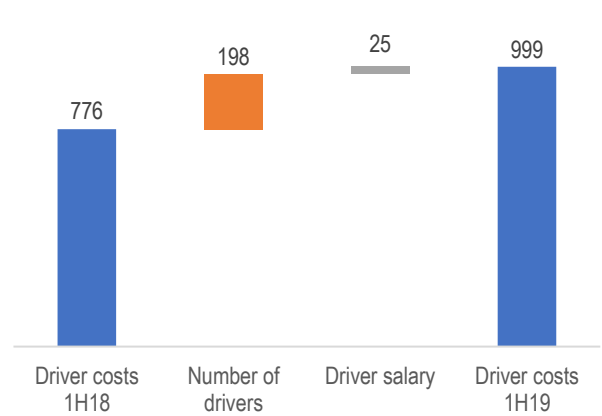
Globaltruck operates in a competitive market, which is under pressure from soaring diesel prices and excess capacity. The increased diesel prices in 2H18 and 1H19 contributed 51% (RUB212mn) of the total fuel cost increase. The higher number of trucks and drivers in 2H18-1H19 were major drivers of the company's cost of sales growth. The increase in salaries contributed only 11% to the driver cost growth in 1H19 compared to 1H18.

Figure 51. GTM fuel costs, RUB mn 1H19



Source: Company data

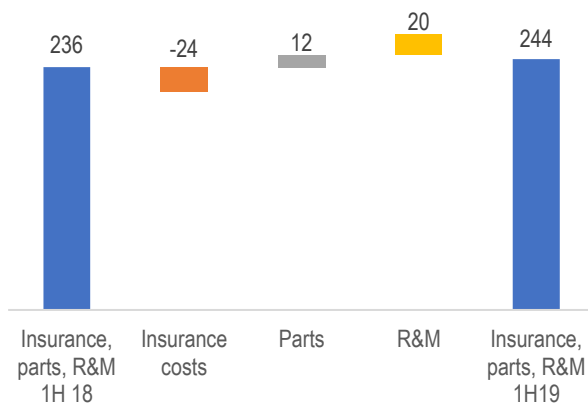
Figure 52. GTM driver costs, RUB mn, 1H19



Source: Company data

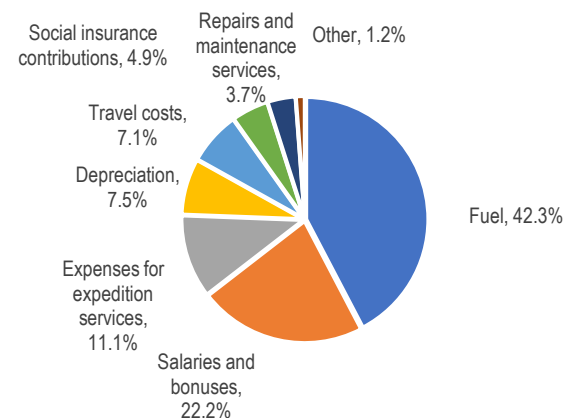
Insurance costs declined in 1H19 due to the changed fleet, while parts, repair and maintenance costs offset the positive effect from insurance. Fuel costs accounted for 42% of the total cost of sales in 2018 and 41% in 1H19. Salaries and bonuses are the second largest item in the costs structure. Expedited services accounted for 9.5% of 2018 revenues and 11.1% of the cost of sales.

Figure 53. Insurance, parts, R&M costs, RUB mn



Source: Company data

Figure 54. GTM Cost of sales structure in 2018

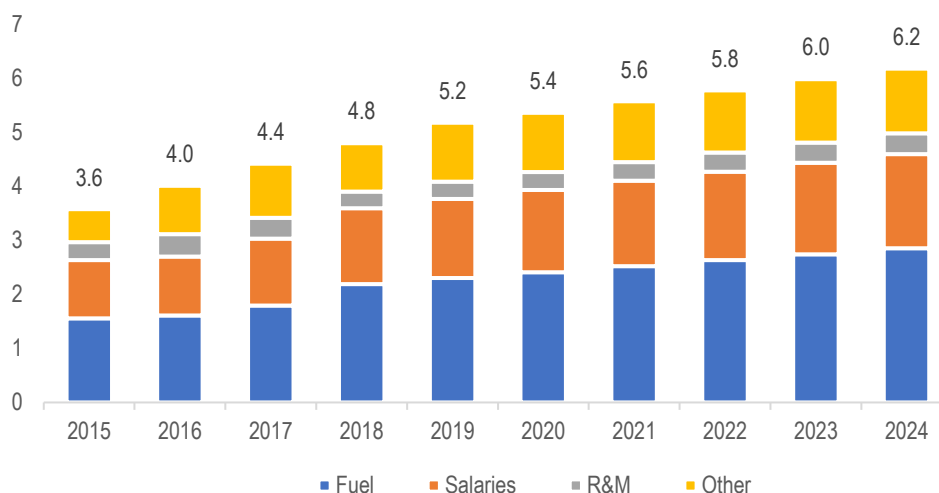


Source: Company data

We estimate the company's direct costs per truck to be at RUB5.2mn in 2019 compared to RUB4.8mn in 2018, driven predominantly by fuel costs. The Russian government provides compensation to Russian oil companies for lower diesel prices in the domestic market via a

reverse excise duty. The government currently compensates c. 60% of the difference between the export price and fixed domestic diesel prices. In 2020, the government will return over 65% of this difference. Given the correction of the oil price on the global markets, we have modest projections for the diesel price dynamics.

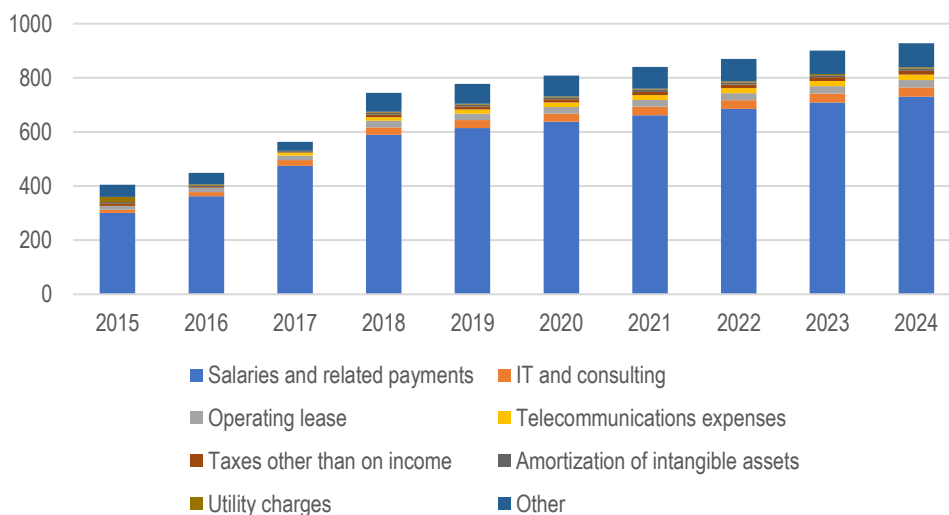
Figure 55. Direct costs per truck projections, RUB mn/truck



Source: Company data, Hypothesis Research estimates

The Russian road cargo market benefits from relatively stable demand, while the service supply is still ample on short routes, in particular from small and medium players. Stronger regulatory requirements and strict control over cargo flows introduced with the Platon system and new VAT requirements have improved the competitive position of large and transparent service providers, while implementation of IT systems is a necessary step to improve the logistics and the efficiency of operations.

Figure 56. General and administrative expenses, RUB mn

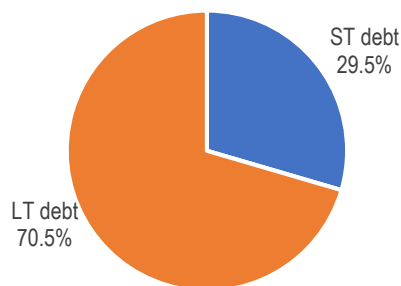


Source: Company data

Debt structure

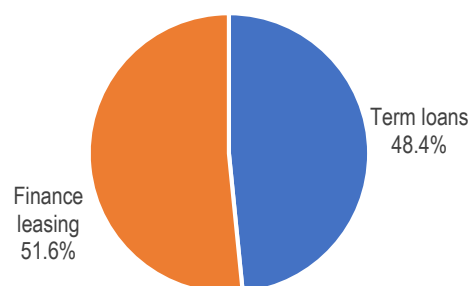
Historically, Globaltruck has followed a conservative capital structure policy, keeping net debt/EBITDA below 2.7x. The company uses a combination of term loans and finance leasing to finance fleet acquisition. The current debt structure includes c.29.5% of short-term debt and 70.5% of long-term debt, divided between term loans and finance leasing.

Figure 57. GTM debt structure as of 30/06/19, %



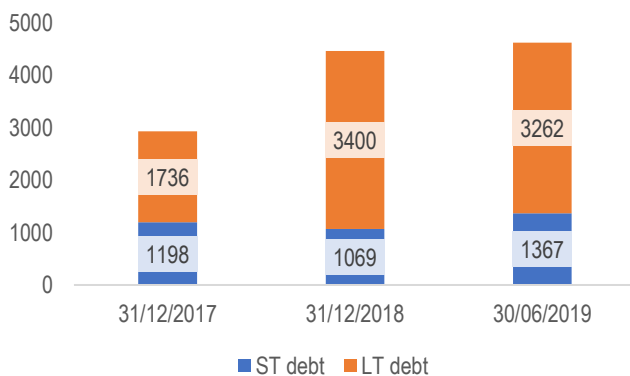
Source: Company data

Figure 58. GTM debt structure as of 30/06/19, %



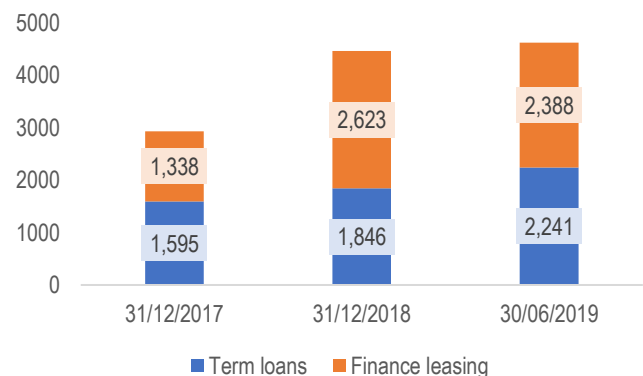
Source: Company data

Figure 59. GTM debt structure evolution, RUB mn



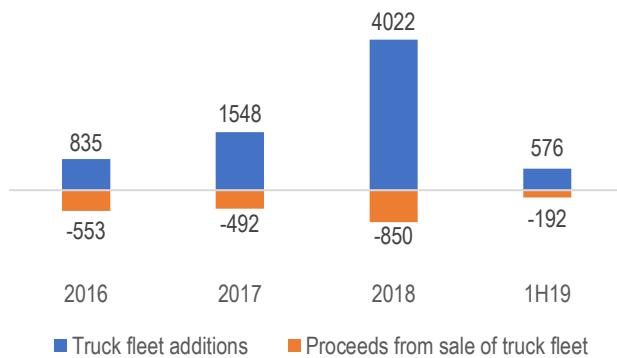
Source: Company data

Figure 60. GTM debt breakdown by term loan and finance leasing, RUB mn

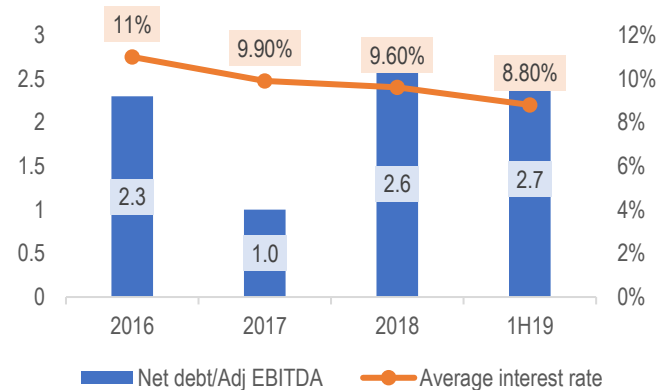


Source: Company data

The fleet acquisition in 2018 was partially financed by the proceeds received from the old fleet sale. The company plans to maintain the fleet rather than make sizable additions. We expect the debt and the financial cost to reflect this conservative position. The effective interest rate went down from 11% in 2016 to 8.8% in 1H19, reflecting the stable position of GTM and the macro trend in the Russian economy. The Russian Central Bank reduced the key rate to 7% in September 2019 due to a lower inflation expectation of 4.0-4.5% for 2019 and weak economic growth. We expect a further decline in GTM's cost of borrowings.

Figure 61. GTM investment in fleet expansion, RUB mn

Source: company data

Figure 62. GTM Net debt/EBITDA and interest rate evolution

Source: company data

The economic environment plays a crucial role in transportation services focused on consumer-driven companies, including FMCG, retail and e-commerce. We believe that the margin of GTM might be under pressure in 2020; however, the long-term prospects of the company are positive given the still low penetration rate of online trade and retail in Russia, the Urals, Siberia and the Far Eastern regions. The company is going to renegotiate contracts with its largest customers in 2H19 to curb the negative effect of fuel costs in 1H18. The projected low inflation keeps our forecasts at a rather modest level under the main scenario.

Our financial forecast is presented in the tables below.

Figure 63. Globaltruck consolidated profit and loss statement, RUB mn

RUB mn	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	4319	5079	6205	6637	8196	9497	10932	12664	14408	15078	15747
Cost of sales	-3345	-3982	-4842	-5286	-6449	-7877	-9068	-10546	-12083	-12652	-13215
Gross profit	974	1097	1363	1351	1747	1619	1865	2118	2325	2426	2533
Gross margin	23%	22%	22%	20%	21%	17%	17%	17%	16%	16%	16%
General and administrative expenses	-345	-405	-448	-564	-745	-778	-808	-840	-870	-900	-928
Other operating income and expenses, net	1	-86	66	-47	-110	-19	-22	-25	-29	-30	-32
Gain arising from the business combination	0	118	0	0	0	0	0	0	0	0	0
Operating profit	630	724	981	741	892	822	1034	1252	1427	1496	1573
Operating margin	15%	14%	16%	11%	11%	9%	9%	10%	10%	10%	10%
Finance income	91	22	222	22	46	43	43	43	43	43	43
Finance costs	-669	-534	-545	-398	-396	-462	-414	-373	-356	-364	-371
Share of profit of associate	0	0	0	0	0	0	0	0	0	0	0
Profit before tax	51	212	658	364	543	404	664	923	1113	1176	1246
Income tax expense	5	-25	-150	-85	-112	-83	-137	-190	-230	-243	-257
Profit for the year attributable to the company's owners	56	187	508	280	431	321	527	732	884	933	989
Net margin	1%	4%	8%	4%	5%	3%	5%	6%	6%	6%	6%
EBITDA	910	1024	1395	1221	1381	1588	1793	2038	2233	2323	2421
EBITDA margin	21%	20%	22%	18%	17%	17%	16%	16%	15%	15%	15%

Source: Company data, Hypothesis Research estimates

Figure 64. Globaltruck Balance sheet, RUB mn

RUB mn	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Property, plant and equipment	3313	4018	4221	4785	7530	7457	7724	7930	8133	8332	8529
Investment property	180	65	63	61	59	57	56	54	52	51	49
Intangible assets	2	3	3	7	7	7	7	7	7	7	7
Advances paid for property, plant and equipment	0	0	0	159	0	0	0	0	0	0	0
Loans issued	0	0	0	0	3	3	0	0	0	0	0
Finance lease receivables	105	30	31	47	27	27	27	27	27	27	27
Investments in associate and joint venture	0	0	0	1	0	0	0	0	0	0	0
Derivative financial instruments	38	14	0	0	0	0	0	0	0	0	0
Deferred income tax asset	38	49	0	65	108	125	144	167	190	199	207
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0
Total non-current assets	3675	4178	4318	5124	7734	7676	7957	8185	8409	8615	8819
Inventories	60	88	121	122	171	144	166	193	221	232	242
Trade and other receivables	818	935	897	1104	1340	1553	1787	2070	2356	2465	2574
Current income tax prepayments	30	25	5	8	10	7	12	17	20	21	22
Loans issued	21	6	4	6	7	7	7	7	7	7	7
Finance lease receivables	125	88	42	51	37	37	37	37	37	37	37
Derivative financial instruments	35	37	0	0	0	0	0	0	0	0	0
Bank deposits	10	13	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	221	83	185	1634	558	874	781	792	1084	1490	1925
Other current assets	0	5	0	0	0	0	0	0	0	0	0
Total current assets, excluding non-current assets held for sale	1322	1278	1254	2925	2122	2621	2790	3116	3724	4251	4807
Non-current assets held for sale	41	246	15	34	232	307	307	307	307	307	307
Total current assets	1363	1524	1270	2959	2354	2929	3097	3423	4031	4559	5115
Total assets	5039	5703	5587	8083	10088	10604	11055	11608	12440	13174	13933
Share capital	0	0	3725	5846	5846	5846	5846	5846	5846	5846	5846
Share premium	0	0	0	476	467	467	467	467	467	467	467
Reserve for business combination under common control	219	261	-3433	-3324	-3324	-3324	-3324	-3324	-3324	-3324	-3324
Retained earnings	776	882	1149	1351	1782	2002	2266	2632	3074	3540	4034
Total Equity attributable to the company's owners	994	1143	1442	4350	4771	4991	5255	5621	6063	6529	7024
Borrowings	2097	2320	1426	1736	3400	3333	4132	4129	4324	4517	4708
Deferred income tax liabilities	298	331	282	276	347	403	463	537	611	639	667
Derivative financial instruments	0	0	17	0	0	0	0	0	0	0	0
Total non-current liabilities	2395	2651	1725	2012	3747	3736	4596	4666	4935	5156	5376
Borrowings	1138	1494	1849	1198	1069	1266	501	503	505	507	509
Trade and other payables	350	370	415	500	499	610	702	816	935	979	1023
Other current liabilities	161	45	156	23	1	1	1	1	2	2	2
Total current liabilities	1649	1908	2421	1721	1569	1877	1204	1321	1442	1488	1534
Total liabilities	4044	4560	4146	3733	5317	5613	5800	5987	6377	6645	6910
Total liabilities and equity	5039	5703	5587	8083	10088	10604	11055	11608	12440	13174	13933

Source: company data, Hypothesis Research estimates

Figure 65. Globaltruck cash flow statement, RUB mn

RUB mn	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cash flow from operating activities											
Profit before income tax	51	212	658	364	543	404	664	923	1113	1176	1246
Adjustments for:											
Depreciation of PPE	281	281	414	479	487	759	751	778	799	819	839
Depreciation of investment property	14	19	2	2	2	2	2	2	2	2	2
Impairment of trade and other receivable	40	12	12	9	2	1	0	0	0	0	0
Change to /(reversal of) legal provision	-13	12	0	0	0	0	0	0	0	0	0
Gain on accounts payable write-off	-12	-2	-35	-1	-2	0	0	0	0	0	0
Gains on disposals of PPE and assets held for sale	-90	-7	-98	-97	-240	-60	0	0	0	0	0
Interest income on finance lease, deposits and loans	-37	-37	-23	-33	-54	-43	-43	-43	-43	-43	-43
Interest expense	306	323	385	327	361	431	414	373	356	364	371
Foreign exchange losses from borrowings and cash	362	205	-212	56	34	31	0	0	0	0	0
Share of profit of associate	0	0	0	0	0	0	0	0	0	0	0
(Gain)/loss on revaluation of derivatives	-73	6	153	16	-3	0	0	0	0	0	0
Gain arising from business combination	0	-118	0	0	0	0	0	0	0	0	0
Other non-cash operating (income)/expenses	6	13	-22	8	-1	0	0	0	0	0	0
Operating cash flows before working capital changes	835	919	1234	1129	1130	1523	1787	2032	2227	2317	2414
Net change in trade and other receivables	-149	-126	12	-227	-237	-213	-235	-283	-285	-110	-109
Net change in inventories	-33	-28	-33	-1	-49	27	-22	-27	-28	-10	-10
Net change in trade and other payables	106	16	84	86	-9	-111	-92	-114	-119	-44	-44
Income taxes paid	-12	-27	-123	-96	-85	-83	-137	-190	-230	-243	-257
Interest received	37	35	22	33	54	43	43	43	43	43	43
Interest paid	-304	-325	-385	-324	-363	-431	-414	-373	-356	-364	-371
Cash from operating activities	480	463	812	601	439	756	931	1087	1252	1590	1666
Net cash used in investing activities	-452	-840	458	-44	-601	-461	-794	-709	-716	-912	-930
Net cash (used in)/ from financing activities	16	237	-1159	896	-935	30	-230	-367	-245	-271	-301
Effect of exchange rate changes on cash and cash equivalents	-7	1	-8	-4	12	0	0	0	0	0	0
Cash and cash equivalents at the beginning of the year	185	221	83	185	1634	549	874	781	792	1084	1490
Cash and cash equivalents at the end of the year	221	83	185	1634	549	874	781	792	1084	1490	1925

Source: Company data, Hypothesis Research estimates

Our valuation of Globaltruck Management shares is based on a DCF, given a limited number of peer companies. We used a discounted cash flow to firm approach with an estimated WACC of 11.0-12.0% and a terminal growth rate within the range of 0.5-2.5%.

We have valued the company's 12-month fair market capitalization at RUB5,546-8,017mn that translates to RUB95-137 price per share. The sensitivity analysis for the 12-month fair market capitalization is presented in the table below.

Figure 66. Globaltruck 12-month fair market capitalization (DCF-based) sensitivity to WACC and growth rate

GROWTH RATE, %	WACC, %				
	9.0%	10.0%	11.0%	12.0%	13.0%
0.5%	8696	7427	6398	5546	4830
1.5%	9900	8350	7123	6128	5305
2.5%	11472	9516	8017	6831	5869
3.5%	13610	11039	9148	7698	6551
4.5%	16689	13110	10623	8794	7392
5.5%	21511	16093	12630	10225	8455

Source: Hypothesis Research estimates

The company successfully placed its shares on the Moscow Exchange, raising c.RUB2.6bn, in November 2017. The post-money market capitalization of the company reached RUB7,717mn.

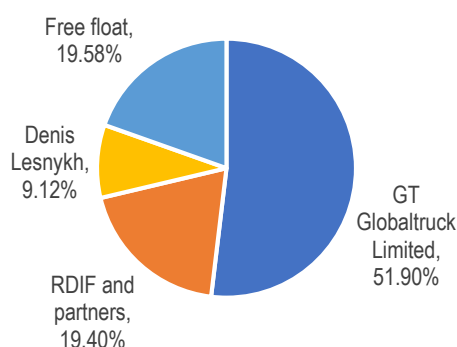
Shareholder capital

The company was created in 2012 and was operated as a private company until its IPO in 2017. Management's control of GT Globaltruck Limited declined after the initial public offering. The ultimate controlling party post-IPO was Alexander Eliseev, who controls 70.2% of GT Globaltruck Limited.

The Russian Direct Investment Fund (RDIF), acting in a consortium with Middle Eastern funds took part as an anchor investor in the IPO of Globaltruck in November 2017. RDIF and its partner AYAR International Investments Company acquired 11,363,600 shares or 38.96% of the offering volume or 19.4% of the company's equity. The placement of shares took place at the Moscow Exchange. The company set the price per share at RUB132. The total deal size reached RUB3.5bn before options and RUB3.85bn after the option for 2.65mn shares realised. The company placed a 21,212,120 additional share issue amounting to RUB2.8bn and sold 5,303,030 secondary shares offered by GT Globaltruck Limited for RUB0.7bn. The post-money market capitalisation was RUB7.72bn. The company received RUB2.57bn of net funds, which were spent on the acquisition of new trucks and other general purposes. According to media reports, the sovereign fund of Saudi Arabia received 8.84% after the IPO, while some other institutional investors including JP Morgan, BNP Paribas, and Handelsbank were among the portfolio investors.

The current shareholder structure is presented below.

Figure 67. Globaltruck shareholder structure as of March 2019 **Figure 68. Globaltruck IPO details**

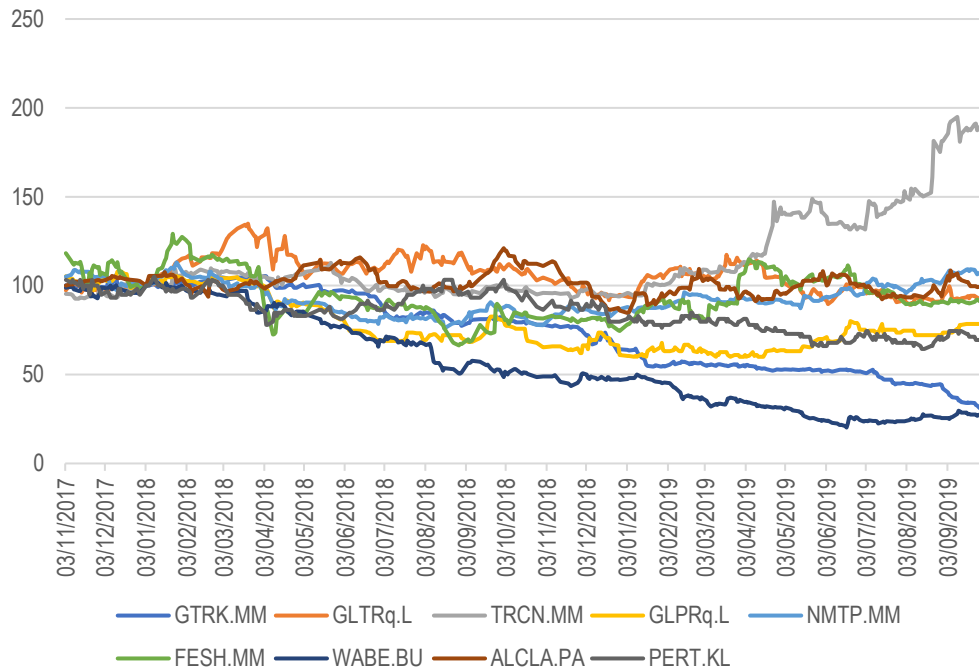


Source: company data

Date of IPO	03/11/2017
Size of the offering excl option, RUB mn	3500.0
Size of the offering incl option, RUB mn	3849.8
New share issue	21,212,120
Secondary shares (GT Globaltruck Limited)	5,303,030
Total share offering	26,515,150
Over-allotment option shares	2,650,000
Offering price, RUB	132

Source: company data

Figure 69. Transportation sector peers' performance (03/01/2018=100)



Source: ThomsonReuters

Corporate governance

Globaltruck has operated as a joint stock company since 2016. The Board of Directors is responsible for general management matters and determines the company's strategy. The company's Board of Directors consists of nine members, including two independent directors.

Figure 70. Globaltruck Management Board of Directors

<p>Andrei Gostyaev <i>Chairman,</i> <i>Member of the Board</i> Age: 55</p>	<p>Andrey Gostyaev has been the Chairman of the Board of Directors of Lorry since 2007 and acts as an advisor to the CEO of Lorry. Mr. Gostyaev has more than 16 years of experience in the logistics industry, including as commercial director and CFO at Lorry in 2003-2007. Mr. Gostyaev holds an engineering degree from the Magnitogorsk Mining and Metallurgical Institute.</p>
<p>Alexander Eliseev <i>Founder and CEO,</i> <i>Member of the Board</i> Age: 52</p>	<p>Alexander Eliseev is the founder and general director of Globaltruck. Mr. Eliseev has been a member of the Board of Directors since July 2017. Mr. Eliseev co-founded Globaltrans company in 2004 and has been a member of the Board of Globaltrans since 2008 and a member of the Board of Globaltrans subsidiaries New Forwarding Company since 2003, GTI Management since 2014 and AS Spacecom since 2015. Mr. Eliseev has been a member of the Board of Ural Car Repair Company since 2006 and a member of the Board of BTS LLC since 2014. Mr. Eliseev holds a degree from the Russian State Medical University, which he gained in 1992.</p>

<p>Denis Lesnykh CFO, Member of the Board Age: 39</p>	<p>Denis Lesnykh has served as a member of the Board of Directors since July 2017. He has also served as Chairman of the Board of directors at Globaltruck subsidiaries Magna, Longrun and GTL since 2014 and as a member of the Board at Lorry since 2013. Mr. Lesnykh has more than 15 years of experience in the logistics sector. Mr. Lesnykh holds a degree in finance from Voronezh State University.</p>
<p>Elizaveta Markunina Head of Legal, Member of the Board Age: 34</p>	<p>Elizaveta Markunina joined the Board of Directors in September 2017. She has served as a member of Board at GTL and Lorry since 2013 and as the head of the legal and corporate department at GTL since 2013. Before Globaltruck, Ms. Markunina served in management positions at LLC Logistics and Transport and Transconsult Management between 2007 and 2013. Ms. Markunina holds a legal degree from the Russian University of Transport.</p>
<p>Valentin Shadrov Chief Information Officer, Member of the Board Age: 34</p>	<p>Valentin Shadrov is the Chief Information Officer and a member of the Board of Directors. Prior to Globaltruck, Mr. Shadrov worked at the Grain Company Nastyusha between 2007 and 2009 and in 2010-2012. Mr. Shadrov holds an economics degree from the Peoples University of Russia and a legal degree from the Stolypin Institute of Humanities.</p>
<p>Anastasia Levashova Independent director, Member of the Board Age: 43</p>	<p>Anastasia Levashova has been an independent director since September 2017. Ms. Levashova is a portfolio manager at Blackfriars Asset Management in London. Ms. Levashova has over 15 years of experience in emerging markets with Firebird Management in New York, Bank of America Merrill Lynch Russia & CIS, and BNP Paribas in London. Ms. Levashova holds a PhD degree from Moscow Lomonosov State University and a Master's degree from Columbia University.</p>
<p>Natalia Yakovleva Independent director, Member of the Board Age: 47</p>	<p>Natalia Yakovleva is an independent director and a member of the Board. Ms. Yakovleva is a partner at PriceWaterhouseCoopers and has been a member of the Board at Mediascope since 2016. Ms. Yakovleva holds a degree in international economics from the Moscow Institute of International Relations.</p>
<p>Tagir Sitdekov First Deputy CEO of Russian Direct Investment Fund, Member of the Board Age: 43</p>	<p>Tagir Sitdekov represents RDIF and its partners on the Board. Prior to RDIF, Mr. Sitbekov served as managing director at A1. He has over 10 years of experience in private equity investments and participated in a number of landmark deals in Russia. Mr. Sitbekov holds a degree from the Plekhanov Russian University of Economics and the University of Chicago Booth School of Business.</p>
<p>Alexander Lobanov Senior Vice President of Russian Direct Investment Fund, Member of the Board Age: 36</p>	<p>Alexander Lobanov represents RDIF on the Board. He has over 10 years of experience in private equity and investments. Alexander holds a Master of Economics degree from the State University - Higher School of Economics.</p>

Source: company data

The Board of Directors was formed in 2017, before the IPO. The Board has two committees headed by independent directors. The audit committee includes two members: Natalya Yakovleva (the Chairman) and Anastasiya Levashova. The Nomination and Remuneration committee includes three members: Anastasia Levashova (Chairman), Denis Lesnykh, and Elizaveta Markunina.

The management team of Globaltruck is presented below. Most of the managers have 7-10 years of experience in the transportation and logistics sector, and joined the company in 2012-2013, once the company was formed.

Figure 71. Globaltruck management team

Alexander Eliseev	CEO, Member of the Board
Andrey Atlanov	Head of Business development
Artem Gomenyuk	Chief Operating Officer
Galina Chepovskaya	Deputy CEO
Denis Lesnykh	CFO
Valentin Shadrov	Chief Information Officer

Source: company data

Globaltruck has a dividend policy, according to which the company will pay an annual dividend, including interim dividends in the following amount:

- At least 50% of free cash flow if net debt/EBITDA is below 1.0x.
- At least 25% of free cash flow if net debt/EBITDA falls within the range of 1.0-2.5x.
- The company may not pay dividends if net debt/EBITDA is above 2.5x.

The company's total dividend payout for the year cannot be more than net income calculated in accordance with the IFRS.

Risks

- Weakening macro trends create a risk for the potential market size of the cargo transportation services, affecting turnover and freight rates.
- Globaltruck operates in a changing regulatory environment, including potentially changing fees paid for Platon system usage.
- Globaltruck increased its leverage to finance fleet acquisition. Low profitability of operations may affect the interest coverage ratio.
- The new forms of cargo transportation services, including cargo hailing ('uberisation'), may change the landscape of the sector in the future, including demand for different cargo services and freight rates.
- Fuel cost represents a significant share of the company's expenses. The increasing global fuel prices affect the company's profitability.
- The company may operate with a low margin due to the pressure of high competition and fuel costs, making it impossible to modernise the fleet in line with the current business model.
- The valuation depends on the investments in a new fleet, which are subject to the prices of trucks.

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