

United Wagon Company

3Q2018 operating results review

- ▶ **United Wagon Company reports 3Q18 operating results in line with expectations.** The company produced 5,025 railcars in 3Q18, up 14.6% YoY. The product mix change in favor of higher value-added railcars, including 88% growth in hopper output from 682 in 3Q17 to 1,281 in 3Q18 and 141% growth in tank car output to 246 cars. Overall output was 5% above the second-quarter level. The company reported a total railcar fleet in operation of 12,047, including 9,925 innovative and 2,122 standard cars. The number of innovative gondolas decreased from 10,735 to 9,782 due to the sale of 23.5tf gondolas, while the innovative container car fleet was extended from 24 cars as of end June to 64 as of 30 September 2018. The company's car output was 13,986 in 9M18, up 2.6% YoY. The output of gondolas was down 25.3% YoY to 8,004, while output increased by 118% YoY for hoppers, 27% for tanks, and 135% for other railcars in 9M2018. The company said it plans to increase output in 4Q18 and kept its output guidance at 19,000-20,000 cars for FY2018. UWC sold 98% of its output to third parties, including c.60% to GTLK, RusAgrotrans, Uralkali, Logistics 1520 and NPO Azot. The list of over 25 customers in 9M18 also included Kronospan, Acron, MKB-Leasing, and Fintrans GL. UWC's own leasing business purchased 298 railcars in 9M18, while 1.7k own-fleet cars were sold. The company sold own-fleet 5.6k cars to Gazprombank Leasing via financial leaseback and plans to sell 6.1k cars by the end of 2018. The total owned and leased fleet under UWC management was 12k as of 30 September 2018, down 9% compared to end 2017.
- ▶ **Improved diversification of production and sales.** UWC's efforts to diversify the product range towards higher value-added products and expand export sales bore fruit in 3Q18. UWC won a 200-flat car tender by Poland-based Laude Smart Intermodal SA and passed an audit to achieve the status of Deutsche Bahn supplier.
- ▶ **Russian cargo transportation up 1.2% YoY to 320.5mt in 3Q18, supporting order book.** Cargo transportation growth and the 4.4% YoY increase in cargo turnover to 646.7bn t-km were supportive of the UWC fully booked till end-2019 order book. Russian Railways cargo loading was up 2.7% YoY in 9M18, while cargo turnover was up 4.4% YoY to 1,928.4bn t-km. The market for gondola cars remains balanced, with no surplus seen since February 2018. The average lease rate for a gondola car was at RUB1,825/day in October 2018. The key sectors driving rail cargo turnover are coal, timber and oil, which increased turnover by 7.2% YoY, 4.4% YoY, and 2.8% YoY respectively. Demand for railcars was supported by cargo turnover, while write-offs were relatively low at 23.5k in 9M18. Production of railcars in Russia reached 17.7k in 3Q18 and 49.1k in 9M18, up 23% YoY.
- ▶ **Lawsuit triggering share buyback remains key uncertainty.** The lawsuits of IQG Asset Management and MC Upravlenie Investitsiyami (Investment Management) demanding share buybacks of RUB4.4bn and RUB3.7bn respectively after their absence in EGM voting last March have already been suspended a few times. Now, the court will consider additional materials provided by UWC. The voting included in the approval of the material transaction, however, UWC stated that transaction were not materials and had to be approved by the CEO. UWC's CEO Roman Savushkin initiated the lawsuit, asking the court to invalidate the EGM. The court will consider his case in November 2018. The uncertainty surrounding this RUB8.2bn case is negatively affecting UWC's share price, creating a risk of potential liability. UWC's largest shareholders are Bank FC Otkritie (24.3%, controlled by the Central Bank of Russia), Sever Asset Management (19.2%), and ICT Group (9.5%). The free float is 27%. The next court hearings on this matter are scheduled for 8, 13 and 16 November 2018. The current share price is 21% below our worst-case scenario price, which incorporates new borrowing to fund buybacks.

Report date: 26 October 2018

Ticker / Main Exchange	UWGN / MICEX
Current price, RUB	423.0
MktCap, RUBmn	49,067
EV, RUB mn	152,877
Number of shares	115,996,689

Indicies	MOEX Russia Index RTS Index
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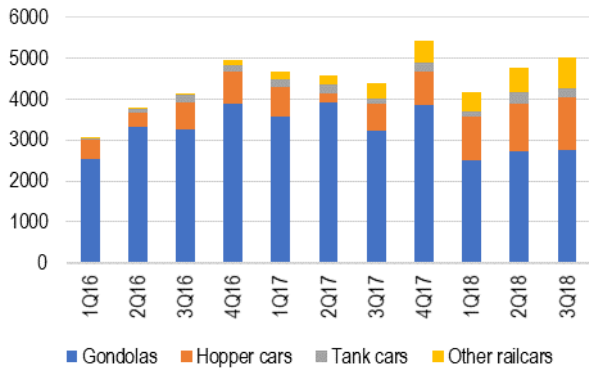
Description:

United Wagon Company is the leading Russian producer of the modern rolling stock. The company supplies innovative gondolas, hoppers, tanks and other railcars to Russian customers and to exports. The company's capacity is 22,000 railcars per year. The Russian market share of UWC reached 33% in 2017.

The Company is the Research client of Hypothesis Research Ltd

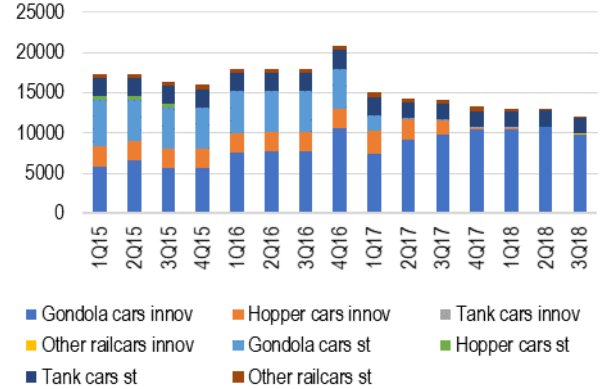
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Figure 1. UWC railcar production, units



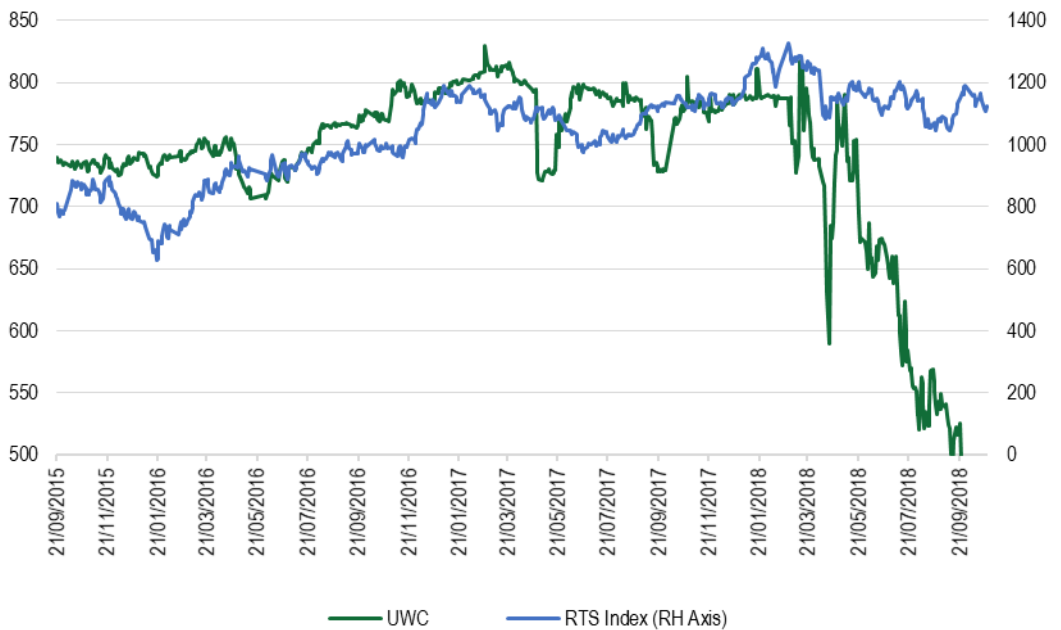
Source: Company data

Figure 2. UWC lease fleet, units



Source: Company data

Figure 3. UWC share price vs RTS Index



Source: ThomsonReuters

Important disclosures

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