

United Wagon Company

4Q2018 operating results review

- ▶ **United Wagon Company reports strong 4Q18 operating figures, beating expectations.** UWC increased its total railcar production by 5% YoY to 5,682 cars in 4Q18. This led to a FY18 production figure of 19,668 railcars, up 3% YoY. We had expected 5,025 cars in 4Q18 and 19,011 cars in FY2018. The product mix changed in favor of specialized cars with output of hoppers up 90% YoY to 1,564 cars, tank cars up 50% YoY and other specialized railcars up 43% YoY in 4Q18, offsetting the decline in gondola car output. The FY18 output of hoppers was 5,039 compared to 2,417 in FY17; tank cars came in at 999 cars versus 747 cars a year ago; and other cars totaled 2,578 cars, up from 1,304 cars in FY17. The company reported a total railcar fleet in operation of 11,883 units, comprising 10,266 innovative and 1,617 standard cars as of end 2018. Some 97% of total output was sold to third parties, including GTLK, RusAgroTrans, Uralkali, Logistica 1520, Kronospan, Azot, Acron, MKB-leasing, and Fintrans GL. The leasing companies of UWC purchased 659 cars in 2018, including 353 in 4Q18. The company sold 2.2 thousand cars from its own fleet in 2018. It reported the fleet in operating leasing of its subsidiary UNICON 1520 including 1,098 tank containers, 585 platforms, and 78 chemical tanks as of 4Q18. Total transportation of chemical cargo was 305kt in FY18. UWC has provided production guidance of 19,000-20,000 rail cars for FY2019. This year's production plan is already covered with orders, according to the company. The rail transportation market remains stable. Russian cargo turnover in 4Q18 was 666.7bn t-km, up 3.5% YoY. Cargo loading in Russia totaled 1,289.6mn t, up 2.2% YoY in FY18, while cargo turnover rose 4.2% YoY to 2,596.4bn t-km. Russian rail car output rose 13% YoY in 4Q18. Demand for rail cars remains stable with only a seasonal excess of cars in December 2018.
- ▶ **New CEO joined in December 2018.** Following the acquisition of a 9.33% stake in UWC by Uralvagonzavod which is controlled by the largest Russian defense and industrial corporation Russian Technologies, the BoD of UWC appointed Timofey Khryapov as a new CEO from 21 December 2018. Khryapov has a wide range of experience as a board member of VEB Invest, Novinsky Passage, Nakhodka Sea and Trade Port, and has served in different positions in EVRAZ Group, Russian Technologies, StroiTransGaz, ARETI and VEB Capital. The company will hold an EGM on 11 March 2019 to appoint a new Board of Directors. The record date is 28 January 2019. Uralvagonzavod suspended production of innovative cars in 3Q18, and we believe that some diversification between the two largest Russian rail car producers will be achieved at the shareholder level.
- ▶ **Court rules in favor of UWC.** In December 2018, the Arbitrage Court of Moscow dismissed the claims of MC Upravlenie Investitsiyami and IQG Asset Management representing Safmar Group against UWC. The former had wanted to buy back shares for amount of RUB8.2bn following the shareholder meeting in March 2018. In November 2018, the court supported the position of UWC CEO Roman Savushkin and invalidated the EGM results. UWC's largest shareholders are Bank FC Otkritie (24.3%, controlled by the Central Bank of Russia), Sever Asset Management (19.0%), Uralvagonzavod (9.3%), Otkritie Holding (7.9%), Safmar Financial Investments (5.7%) and other strategic investors (6.8%). The free float is 27.0%. Shareholders filed appeals against court decisions. We believe the risk for UWC is low.
- ▶ **We believe that UWC stock is oversold on the back of negative newsflow in 2018.** UWC's share price fell 49% over 2018 compared to the 7.6% lost by the RTS Index. The defensive nature of the stock was disrupted by the lawsuit, its high debt, uncertainty related to Otkritie Bank being a major creditor, and changes in the shareholder structure. The company's debt restructuring is expected to be completed in 2019 and further clarity regarding UWC's new shareholders and strategy will come after the March EGM. We have 12-months target price range for UWC of RUB611-806 per share at an 11% WACC and a terminal growth rate of 1.5-3.0%.

Report date: 30 January 2019

Ticker / Main Exchange	UWGN / MOEX
Current price, RUB*	400.4
MktCap, RUBmn*	46,445
EV, RUB mn*	150,255
Number of shares	115,996,689

Indicies	MOEX SMID, RTS SMID
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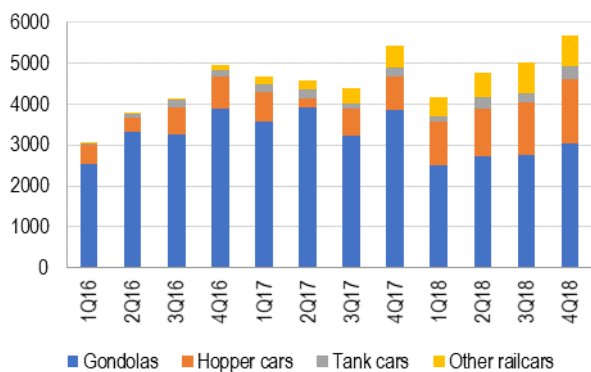
United Wagon Company is the leading Russian producer of the modern rolling stock. The company supplies innovative gondolas, hoppers, tanks and other railcars to Russian customers and to exports. The company's capacity is 22,000 railcars per year. The Russian market share of UWC reached 29% in 2018.

*MOEX.com as of 20:00 GMT, 29/01/19

The Company is the Research client of Hypothesis Research Ltd

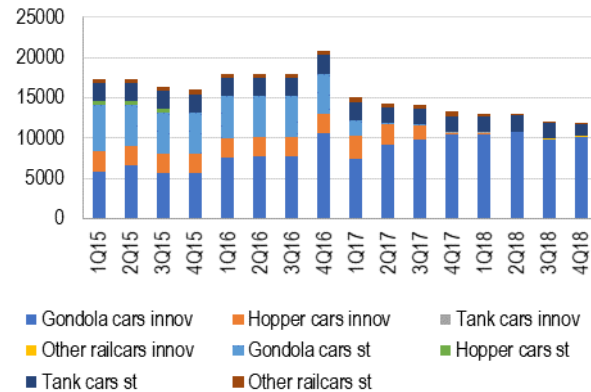
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Figure 1. UWC railcar production, units



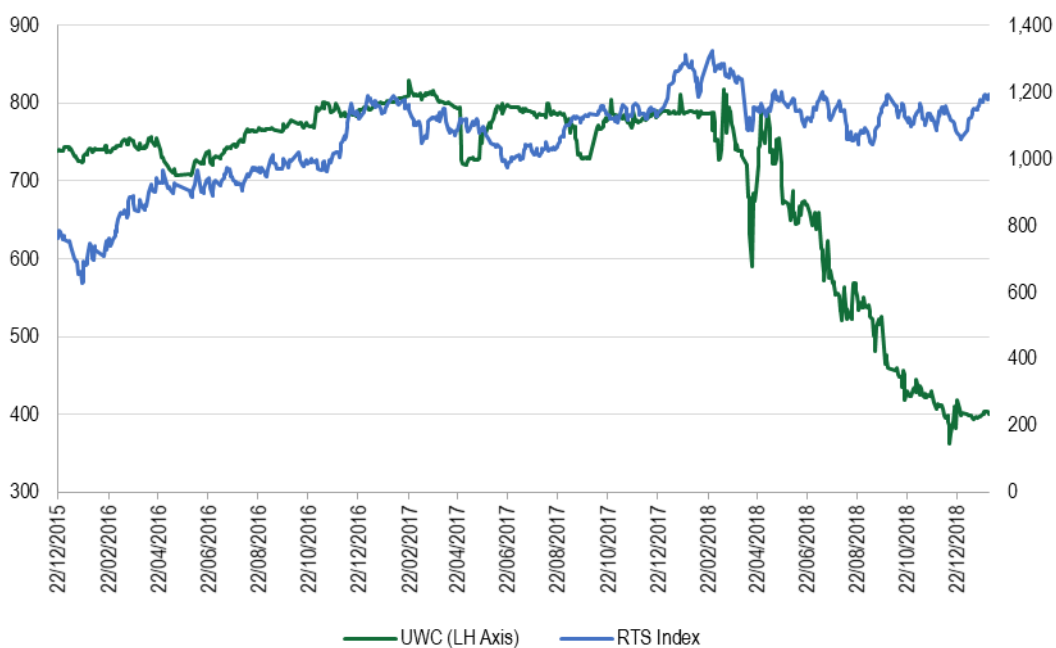
Source: Company data

Figure 2. UWC lease fleet, units



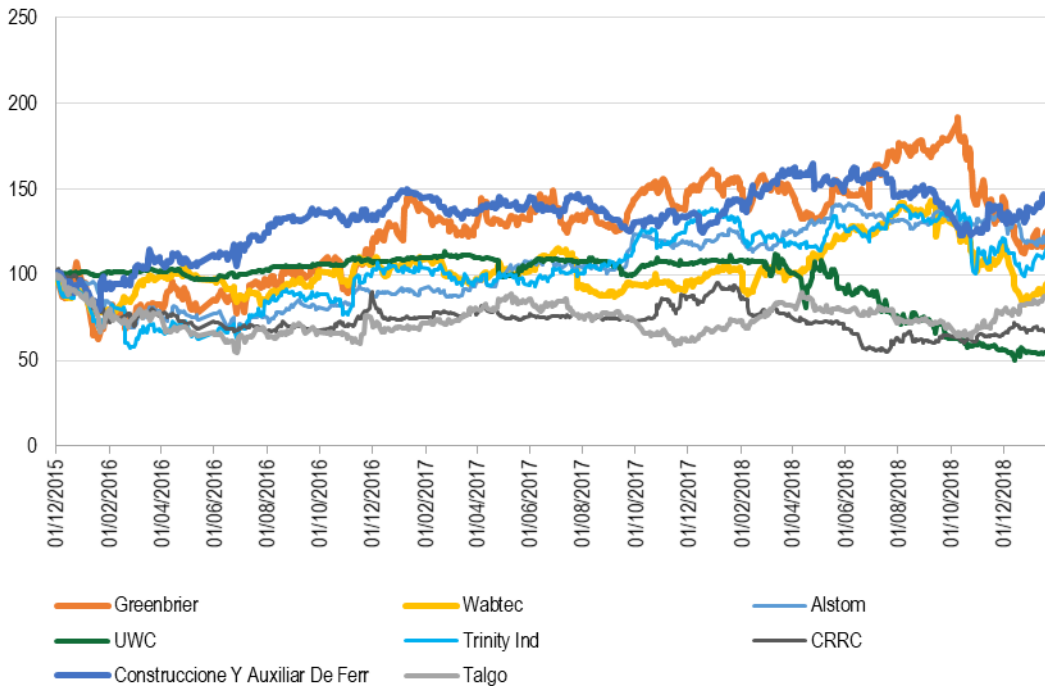
Source: Company data

Figure 3. UWC share price vs RTS Index



Source: ThomsonReuters, as of 12:00 GMT 29/01/2019

Figure 4. Industrial peers' performance



Source: ThomsonReuters, as of 12:00 GMT 29/01/2019

Figure 5. Comparable multiples for UWC

Company name	MC, \$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/ Revenue s 1y fwd	EV/ Revenue s 2y fwd	EV/ Revenue s 3y fwd
UWC (TR)*	701	2298	NaN	NaN	NaN	13.0	11.7	9.4	2.1	2.1	2.0
UWC (HRL)**	701	2298	-	27.6	7.7	10.6	9.4	7.6	2.1	2.0	1.8
<i>UWC discount to average</i>			25.5	72%	-47%	-2%	2%	-15%	19%	31%	49%
TALGO	854	932	30.3	14.8	11.2	13.6	9.1	7.9	2.5	1.7	1.3
Greenbrier Companies	1375	1592	9.9	9.5	10.1	4.5	4.4	NaN	0.5	0.5	0.6
Construcc Y Auxiliar De Ferrocarriles	1501	1740	25.4	15.7	13.1	7.8	6.4	5.8	0.8	0.6	0.6
Ansaldo STS	2899	2576	NaN	NaN	23.3	NaN	NaN	NaN	NaN	NaN	NaN
Wabtec Corp	6502	9971	17.5	15.6	13.9	14.9	13.4	11.8	2.3	2.2	2.1
Alstom	9135	9750	14.8	16.7	15.0	12.0	10.7	10.1	1.0	1.0	0.9
Trinity Industries Inc	3324	6523	23.1	17.3	14.5	9.3	8.6	NaN	2.5	2.3	2.0
Beijing Dinghan Tech	509	606	30.8	22.8	NaN	14.0	12.1	NaN	2.9	2.4	NaN
<i>International average</i>			21.7	16.1	14.4	10.9	9.2	8.9	1.8	1.5	1.2

Source: *ThomsonReuters, **Hypothesis Research, as of 16:00 GMT 29/01/2019

Figure 6. UWC Profit and Loss statement, RUB mn

<i>RUB mn</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	36856	48505	62020	68530	72286	78209	79620	79156	85868
Cost of sales	-32804	-38580	-52073	-57245	-59192	-61261	-62244	-61951	-66678
Gross profit	4052	9925	9947	11285	13094	16948	17377	17205	19190
Gross margin	11%	20%	16%	16%	18%	22%	22%	22%	22%
SG&A	-2751	-2085	-2625	-2691	-2776	-2882	-2995	-3100	-3209
Share of profit of associates	188	-113	370	0	0	0	0	0	0
Other operating income, net	260	215	38	0	0	0	0	0	0
Impairment of PPE	-32	-195	0	0	0	0	0	0	0
Operating profit	1717	7747	7730	8595	10318	14065	14381	14104	15981
Operating margin	5%	16%	12%	13%	14%	18%	18%	18%	19%
Finance income	1446	1137	2449	1181	793	646	511	486	462
Finance costs	-10090	-12589	-13675	-11513	-8953	-6943	-5965	-4977	-3615
Foreign exchange (loss) / gain, net	-3180	1226	-154	0	0	0	0	0	0
Profit/Loss before income tax	-10108	-2479	-3650	-1738	2159	7768	8927	9613	12828
Income tax expense	470	1726	-875	-131	-432	-1554	-1785	-1923	-2566
Profit/Loss and total comprehensive loss from continuing operations for the period	-9638	-753	-4525	-1869	1727	6214	7142	7690	10263
Weighted average number of shares, mn	104	110	115	115	115	115	115	115	115
EPS from continuing operations, RUB	-93	-7	-39	-16	15	54	62	67	89
EBITDA	7444	13474	12721	13586	15309	19056	19372	19095	20972
EBITDA margin	20%	28%	21%	20%	21%	24%	24%	24%	24%

Source: ThomsonReuters, Hypothesis Research

Figures 7. UWC Balance Sheet, RUB mn

<i>RUB mn, eop</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023
Property, plant and equipment	72591	83630	80237	76462	70567	65003	59736	54747	50009
Prepayments for PPE	1029	895	156	211	0	0	0	0	0
Intangible assets	5022	5853	6732	6732	6732	6732	6732	6732	6732
Goodwill	8042	8042	8042	8042	8042	8042	8042	8042	8042
Deferred tax assets	2644	3688	2949	2359	1887	1510	1208	966	773
Investments in associates and joint ventures	753	1288	1175	1175	1175	1175	1175	1175	1175
Loans receivable	1354	10877	12503	11878	11284	10720	10184	9675	9191
Prepayment for subs. acquis.	0	0	2000	0	0	0	0	0	0
Long-term trade receivables	0	0	565	565	0	0	0	0	0
Finance lease receivables	244	224	201	201	201	201	201	201	201
Restricted cash	1782	1923	0	0	0	0	0	0	0
Other non-current assets	0	203	672	672	672	672	672	672	672
Total non-current assets	93459	116622	115232	108296	100560	94055	87950	82210	76795
Inventories	8525	10960	12118	13322	13288	13249	12950	12380	12777
Trade and other receivables	4003	1702	3510	3878	4091	4426	4506	4480	4860
Finance lease receivables	17	20	23	28	26	26	25	25	27
VAT receivable	4150	4245	6847	7378	7584	7991	7918	7654	8068
Prepayments to suppliers and other assets	1566	3893	4036	4437	4588	4748	4824	4802	5168
Investment in PTK-Holding	0	0	1773	0	0	0	0	0	0
Loans receivable	5188	3000	56	53	51	48	46	43	41
Restricted cash	0	0	807	0	0	0	0	0	0
Short-term bank deposits	0	5000	5038	0	0	0	0	0	0
Cash and cash equivalents	3207	2648	3799	8324	3100	5428	7561	10379	12416
Total current assets	26657	31467	38007	37420	32728	35917	37829	39763	43356
Total assets	120116	148089	153239	145717	133288	129972	125779	121973	120152
Total equity	1620	16399	13701	11832	13386	18979	25407	32328	41564
Long-term loans and borrowings	55835	59489	75215	64793	53707	37325	36781	15000	16000
Bonds	15000	29869	29799	14799	24799	10000	10000	10000	10000
Long-term finance lease liabilities	2	6	156	187	179	179	170	171	180
Deferred tax liabilities	1148	2423	479	0	0	0	0	0	0
Accrued expenses for employees remuneration	0	0	156	0	0	0	0	0	0
Payables for acquisition of subsidiaries	0	4104	0	0	0	0	0	0	0
Other payables	189	0	0	0	0	0	0	0	0
Total non-current liabilities	72174	95891	105805	79779	78685	47504	46951	25171	26180
Short-term loans and borrowings	15286	12609	6962	10422	11086	16382	5544	31781	2000
Bonds	14104	768	671	15000	0	14799	15000	0	15000
Trade and other payables	12697	8879	5393	5929	6130	6345	6446	6416	6906
Advances received and other current liabilities	4232	13536	20558	22716	23961	25924	26392	26238	28463
Short-term finance lease liabilities	3	7	39	39	39	39	39	39	39
Total current liabilities	46322	35799	33623	54106	41216	63489	53421	64474	52408
Total liabilities	118496	131691	139428	133885	119902	110993	100373	89645	78587
Total equity and liabilities	120115	148089	153129	145717	133288	129972	125779	121973	120152

Source: Company data, Hypothesis Research

Important disclosures

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