



# Transstroy Corporation

**FLASH  
NOTE**

**BUY**

**Upside: +34.9 %**  
**Target Price: \$10.1**

**Аналитик: Nikolay Osadchiy**  
osadchiy@sovlink.ru

## Stock data

Ticker	Ktrs	M.Cap, \$ mn	481.5
Shares Ords	62,289,608	Free Float, %	23.9
Shares Prefs	6,996,412	Free Float, \$ mn	115.5
Bid Ords, \$	5.5	Offer Ords, \$	9.5
Bid Pref, \$	1.1	Offer Pref, \$	3

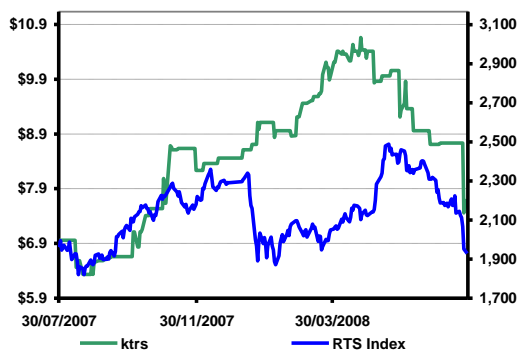
## Financials, 2008E

Revenue, \$ mn	921.0	P/S	0.52
EBITDA, \$ mn	57.58	EV/EBITDA	8.16
Net Income, \$ mn	37.41	P/E	12.87

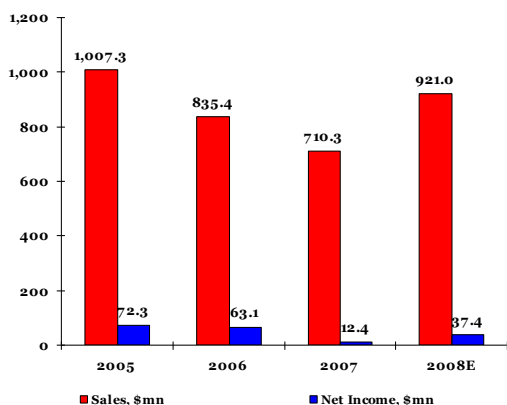
## Market performance

		1 month	6 months
Absolute	Ords	-11.43%	-15.30%
Relative to RTSI	Ords	5.77%	-11.74%
Price range, \$			
High	Ords	8.8	10.7
Low	Ords	7.5	7.5

Ktrs – Relative performance



Source: RTS, Sovlink



Source: Company data, Sovlink estimates

## Initiation of coverage

- Transstroy Corporation specializes in the construction of transport communications and engineering services, including the construction of roads and bridges. It also includes the construction of railways, subway communications, monorail routes, tunnels, and structures of industrial and social importance amongst its principal activities. The company operates a number of subsidiaries, which participate in its projects as subcontractors specializing in certain functions.

- The company's main projects are located in Moscow and the Moscow region, although some of its projects are implemented abroad: in particular, in Ukraine, India and Turkey. Most of its projects are not long-term (lasting for two or three years), which means that the company has to maintain a stable inflow of new contracts and suffers, to a certain extent, from the instability of its revenue stream. Currently, the construction of the new international airport Vnukovo-2 and complex engineering works and office construction above the railway lines between the third transport circle and the Kiyevskaya railroad station are amongst its key projects.

- The company is controlled by OOO Project Construction Company Transstroy (PCC Transstroy), which owns 84.66% of its ordinary shares and 76.11% of its capital. A subsidiary of Basic Element, whose main shareholder is Oleg Deripaska, owns a stake of 32.35% in PCC Transstroy. Thus, the free market portfolio of Transstroy Corporation comprises 23.9%, which we assume to be equal to its free float. Another key subsidiary of PCC Transstroy is Engineering Corporation Transstroy LLC (Inzhtransstroy). Both subsidiaries work closely with each other, which, presumably, has an impact on revenue distribution within the group.

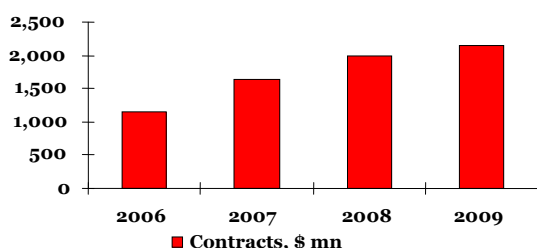
- Corporation Transstroy JSC's revenues have been in a downwards trend for the past three years. This is due to the division of its two separate business units, which were transferred to its main subsidiaries: Corporation Transstroy and Inzhtransstroy LLC (the latter's revenues have grown steadily during this period). In addition, the change in the company's ownership structure accompanied by changes in the management team also hurt the company's performance. Nevertheless, we expect the company's consolidated revenues to grow by 30% in 2008, primarily due to an increase in the number of contracts over the next few years.

	2005	2006	2007E	2008E
<b>Sales, \$mn</b>	1,007.3	835.4	710.3	921.0
<b>EBITDA, \$mn</b>	97.8	80.3	19.0	57.6
<b>EBITDA margin</b>	9.70%	9.62%	2.68%	6.25%
<b>Net Income, \$mn</b>	72.3	63.1	12.4	37.4
<b>Net margin</b>	7.18%	7.55%	1.75%	4.06%
<b>Book value</b>	173.4	213.5	226.9	277.7

Source: Company data, Sovlink estimates.



**Estimated value of contract portfolio as of 2Q08**



Source: Company data, Sovlink estimates

significantly higher level of business stability. We, therefore, consider peer comparisons solely with Russian companies to be more appropriate. (Most companies in the transport construction industry have low income margins, which is why we have not used income-based multiples for comparison purposes.)

- Based on our analysis, we estimate a fair value of \$649.73 mn for the company, or \$10.1 per ordinary share, offering potential upside of 34.9% from the current mid-market price. Accordingly, we initiate coverage on Transstroy Corporation by issuing a **BUY** recommendation.

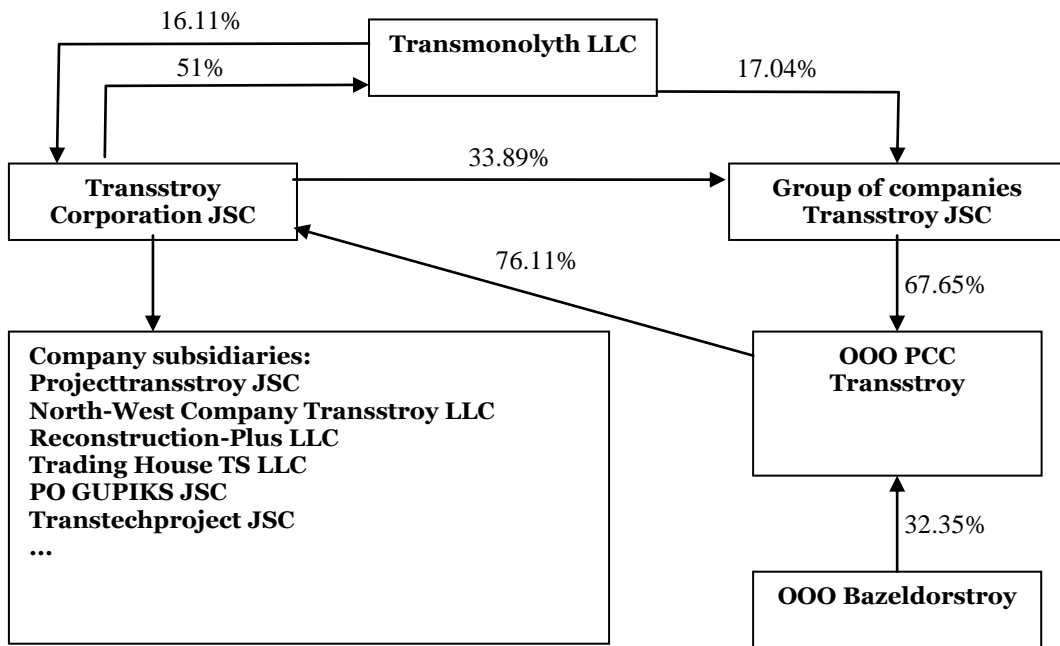
- We compared the company with other Russian and foreign transport construction companies using the P/S and P/BV multipliers. The company trades above its fair value when compared to foreign competitors, although its shares are priced at a significant discount to its Russian peers. This divergence is a consequence of the difficulties, facing the leading global construction groups, whose projects have suffered, resulting in loss of liquidity and lower prices. Russian infrastructure companies are less dependent on external financing and include a larger share of state investments in their contracts portfolio and cash flow. As a result, they enjoy a

**Construction of roads and bridges**

Ticker	Company	Country	P (\$ mn)	P/S	EV/EBITDA	P/E	P/BV
<b>Russian companies</b>							
KTRS	Transstroy Corporation JSC		481.5	0.52	-	-	1.73
gmst	Company Glavmoststroy JSC		222.1	0.29	-	-	-
msts	Mostostroy-11 JSC		290.3	1.00	3.7	6.0	3.9
Mstt	Mostotrest JSC		1,570.1	1.76	-	-	12.4
ndst	Nadymdorstroy JSC		7.0	0.32	-	-	2.4
msot	Bridge Construction Team 19 JSC		414.9	0.95	-	-	7.5
hmtds	Khanty-Mansiyskdorstroy JSC		180.6	0.48	2.9	-	1.7
<b>Geometric mean</b>				<b>0.65</b>	<b>3.2</b>	<b>6.0</b>	<b>3.8</b>
<b>Foreign peers</b>							
DG FP	Vinci SA	France	28,426.0	0.5	7.0	10.9	2.0
GBF GR	Bilfinger Berger AG	Germany	3,021.9	0.2	6.7	11.5	1.4
000210 KS	Daelim Industrial Co Ltd.	South Korea	3,370.9	0.6	9.4	8.7	1.1
047040 KS	Daewoo Engineering & Constr	South Korea	4,546.6	0.7	10.1	10.2	1.4
IPG IM	Impregilo Spa	Italy	2,040.2	0.5	4.8	9.3	1.5
CBI US	Chicago Bridge & Iron-Ny Shr	Netherlands	3,180.8	0.5	13.1	77.8	4.3
GVA US	Granite Construction Inc.	USA	1,343.2	0.5	5.4	13.9	-
2526 TT	Continental Engineering Co.	Taiwan	467.3	0.8	22.5	14.2	0.9
BOKA NA	Boskalis Westminster	Netherlands	4,569.5	1.4	6.7	13.2	3.2
PXM PW	Polimex Mostostal SA	Poland	1,209.3	0.6	11.1	18.6	2.3
<b>Geometric mean</b>				<b>0.6</b>	<b>8.7</b>	<b>14.4</b>	<b>1.8</b>

		P (\$ mn)	P/S	EV/EBITDA	P/E	P/BV	P tgt (\$ mn)
Weights			0.4	0.3	0.2	0.1	
Ktrs	Transstroy Corporation JSC	481.5	0.52	-	-	1.73	649.73
Number of ordinary shares, mn.							62.290
Target ordinary share price, \$							<b>10.1</b>
Share price growth potential							<b>34.9%</b>

**Corporation Transstroy – ownership structure**



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## STOCK RATING POLICY

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<b>STRONG BUY:</b>	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
<b>BUY:</b>	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
<b>HOLD:</b>	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
<b>SELL:</b>	Target price at or below current price levels

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### SOVLINK LLC

Tel.: +7 495 967 1300

Fax: +7 495 967 1311

Kremlin Embankment 1, building 2,  
Moscow 119019, Russia

**www.sovlink.ru**  
**research@sovlink.ru**

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