Debtwire
An Acuris company

Far-Eastern Shipping Co. Logistics/Transport

Credit report 23 July 2019 Russia

ESTIMATED CAPITAL STRUCTURE AS AT FY18 (RUBm)								
Instrument	Interest	Maturity	Available	Amount outstanding	Price	Yield (%)	Rating	Leverage
USD denominated debt[1]				41,265				
Other debt				4,385				
Total consolidated debt				**45,650**				**4.30x**
Cash and cash equivalents				3,320				
Net debt				**42,330**				**3.99x**
FY18 EBITDA	**10,611**							

Source: Debtwire calculations, company financials, Markit
1) USD 657.1m converted at RUB 62.8 = USD 1

FESCO PLAN TO CONCLUDE ITS RESTRUCTURING BY END-FY19

Far-Eastern Shipping Co. (FESCO), the Russian integrated rail, port, and logistics operator with the majority of its operations in Russia's Far East is still in talks to finalise its restructuring with residual ruble denominated debt holders. Market conditions have improved and trading volumes increased during FY18 which could support managements target of reducing leverage down to 3.5x.

FESCO postpone the publication of its IFRS financial statements until the completion of its residual debt restructuring: FESCO last issued full year financial statements in November 2017 for the 12-month period ending 31 December 2016. The Group has stated that it is waiting to complete the remainder of its restructuring before it releases its updated financial statements as the company directors believe the publication of its financials without an auditor's opinion carry significant risks (as mentioned in our Debtwire article here). We have constructed this report with information from the Group's latest trading update as well as recent Debtwire coverage.

Restructuring update: FESCO announced the completion of the bulk of its restructuring process regarding its 8.00% and 8.75% senior notes due 2018 and 2020 respectively in November 2017, after signing a USD 680m facility with VTB Bank (see here). As reported by Fitch, RUB 378m ruble denominated debt (representing 0.83% of total debt) remained under negotiation as at FY18, which we now believe to now be lower. According to a company spokesperson (see here), FESCO's plan is to make a public offer after talking to c. 100 creditors and later deposit the required amount with a notary office, given it is unable to negotiate with certain holders it is not in contact with. We anticipate this will be successfully completed by the end of the year, at which point it will disclose its financials.

FX risk still present but mismatch has narrowed following the restructuring: As reported by Fitch (see here), the refinance of the Eurobond has allowed the Group to reduce its exposure to foreign currency fluctuations as the VTB Bank loan is denominated equally in RUB and USD. As at FY18, it was reported that c. 50% of debt was denominated in foreign currency, whereas 88% of revenue was dollar denominated during the year. Whilst there is still a mismatch between revenue and debt denomination, it has narrowed which we believe to be a credit positive. We also feel the mismatch will reduce further following the restructuring of the residual debt currently under negotiation.

Weak liquidity but VTB loan refinancing has provided a manageable maturity profile: As at FY18, FESCO reportedly had USD 22m cash and cash equivalents on its balance sheet which was significantly below the short -term debt maturity of USD 68m. Following the restructuring, the new debt maturity profile largely relates to the repayment of the VTB Bank loan which we believe is favourable and therefore could improve future cash flow generation. Fitch state the annual amortisation payments for the loan is c. USD 80m in 2019-2020 and the remaining 60% of repayment in 2021-2022, at which point we see meaningful growth in EBITDA owing to a continued growth in trade with Asia.

Management plan to deleverage towards a 3.5x target: We calculate total leverage at FY18 is 4.3x but believe this may decline in the medium-term towards management's target of 3.5x given a favourable industry backdrop supporting EBITDA growth, as discussed below. This is in line with FESCO's ability to continuously deleverage in recent years, as Fitch state that the Group has deleveraged considerably since FY15 from an FFO adjusted net leverage of 11.0x to 4.8x as at FY18. Additionally, reduced debt levels should reduce interest costs and could aid FCF generation in the coming years.

Sold stake in TransContainer, with funds used to deleverage balance sheet: FESCO sold its 25.1% stake in Russian railway container operator TransContainer PJSC on 23 October 2018 to VTB Bank (24.8%) and other private investors (0.3%). Though the transaction details are not disclosed, TransContainer's market cap in Moscow stands at c. RUB 15.7bn (USD 240m) and it is believed that the proceeds were used to repay rouble denominated debt.

Higher transaction volumes support EBITDA growth: We positively note that FESCO reported the highest handling volumes in its Port's history in FY18 at 10.4m tonnes as well as ramping up the container throughput capacity by 17.7% to 551 thousand TEU.

ISSUER SUMMARY	
Country:	Russia
Sector:	Logistics/ Transport
Rating (S&P/Fitch):	SD/RD

LATEST DEBTWIRE COVERAGE
FESCO plans to conclude the restructuring of its residual ruble-denominated bonds by the end of this year (see here)
FESCO's IDR affirmed at RD; upgrade expected after restructuring - Fitch (see here)

Source: Debtwire calculations, company financials

CEEMEA CREDIT RESEARCH

Mihir Trivedi
Credit analyst
+44 (0) 20 3741 1092
mihir.trivedi@acuris.com

Nick Smith-Saville
Global Head of Credit Research
+44 (0) 20 3741 1228
nicholas.smith-saville@acuris.com

We attribute this to domestic economic recovery amidst strong oil prices and enhanced macroeconomic stability as well as the Group continued to develop its multimodal delivery of cargo from the Asia-Pacific region to Russia. In its operating update (see here) FESCO stated that it had expanded its route network by launching new railroad services for export cargo deliveries from Russia to China via Mongolia and Kazakhstan which could ultimately lead to further volume growth in the coming years. Rail's revenue contribution during FY18 also grew by 43.8% YoY to RUB 11.8bn, primarily as a result of FESCO tapping into containerised grain transportation both domestically and internationally.

Overall, we believe the growth in volumes and consequential rise in EBITDA support the Group's plans to deleverage towards its 3.5x target in the medium-term.

Heightened capex in response to improved market conditions could again put liquidity under pressure: FESCO continued to invest in the Russia's market recovery as Fitch reported an average capex spend of USD 80m in FY17-FY18, up significantly from an average of USD 21m back in FY15-FY16. Although we caution that liquidity could come under pressure, we highlight that this capex is primarily expansionary and could be reduced if required.

BUSINESS DESCRIPTION

FESCO is a Russian private transport and logistics company with its assets in the port, railway and integrated logistics businesses.

FESCO's diversified asset portfolio allows for door-to-door delivery of goods and control of all stages of the transport chain.

Most of the Group's operations are focused on the Far East of Russia, as the Group benefits from growing trade volumes between Russia and Asian countries.

FESCO Group owns Vladivostok Sea Trade Port PJSC (with an annual throughput of 5 million tons of general cargo and petroleum products), 150 thousand vehicles and 600 thousand TEU of container cargo.

FIGURE 1: FINANCIAL PERFORMANCE BY DIVISION (RUBm)

	2017	2018	Change YoY (%)
Liner and Logistics Division			
Revenue	29,317	35,875	22.37%
EBITDA	878	1,274	45.13%
EBITDA margin	3.00%	3.55%	(+)0.6 pp
Port Division			
Revenue	9,404	13,121	39.53%
EBITDA	4,508	5,889	30.64%
EBITDA margin	47.94%	44.89%	(-)3.1 pp
Rail Division			
Revenue	8,207	11,803	43.81%
EBITDA	3,028	4,118	36.02%
EBITDA margin	36.89%	34.89%	(-)2.0 pp
Shipping Division			
Revenue	2,243	2,767	23.35%
EBITDA	310	665	114.70%
EBITDA margin	13.80%	24.01%	(+)10.2 pp
Bunkering Division			
Revenue	1,038	1,018	-1.92%
EBITDA	27	36	32.12%
EBITDA margin	2.64%	3.56%	(+)0.9 pp
Group's financial results			
Revenue	43,746	57,006	30.31%
EBITDA	7,802	10,611	36.00%
EBITDA margin	17.83%	18.61%	(+)0.8 pp

Source: Debtwire, company financials

FIGURE 2: OPERATING RESULTS

	2017	2018	Change YoY (%)
Intermodal transportation, Kteu	244	302	23.9%
International maritime transportation, kTEU	319	313	-2.0%
Domestic maritime transportation, kTEU	67	80	19.2%
VMTP container handling, kTEU	468	551	17.8%
VMTP general cargoes handling, kt	3,288	5,283	60.7%
Rail container transportation, kTEU1	270	340	26.0%
Shipments in box cars, units	20,179	14,231	-29.5%
Transport fleet, units	21	22	4.8%
Operable vessel days	6,990	7,096	1.5%
Bunkering volumes, kt	77	72	-5.5%

Source: Debtwire, company financials
1) Excluding the platforms operated by Russkaya Troyka

Debtwire
An Acuris company

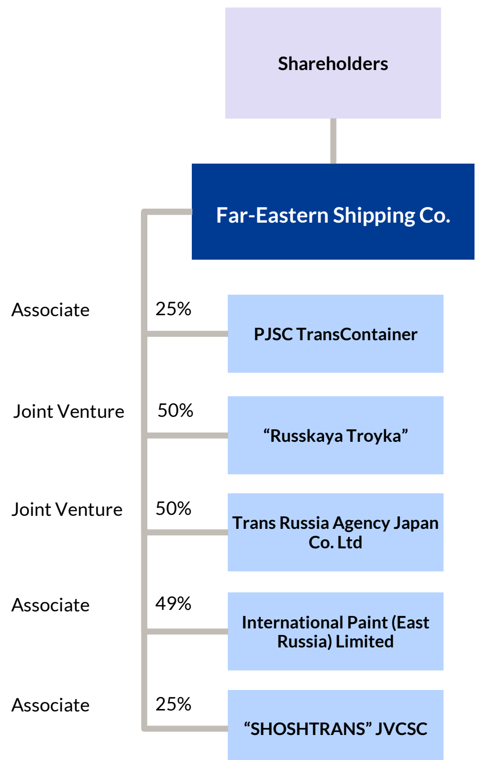
Far-Eastern Shipping Co. Logistics/Transport

Credit report 23 July 2019 Russia

FINANCIAL SNAPSHOT	(KSHm)
LTM FY18 revenue:	57,006
FY18 EBITDA:	10,611
FY18 net debt:	42,330

COMPANY INFORMATION	
Rating (S&P/Fitch):	SD/RD
Ticker:	-
Market capitalisation:	-

COMPANY TIMELINE	
Last earnings release:	1H17
Next earnings release:	Estimated (FY19)
Next significant maturity:	Ongoing restructuring



Source: Debtwire, company 1H17 Report—for illustrative purposes only

Disclaimer