

Interview with TransContainer's CEO Vyacheslav Sarayev



– The Transcontainer financial results in 2018 are record-high through the entire history of the Company. This was mainly contributed by the existing market conditions, but still there are other reasons. What are the other drivers for such a growth in operating performances?

– Indeed, the Russian rail container transportation market continued its stable growth last year, partially due to transit increase and containerisation of cargos, which used to be transported by box cars.

The growing market is not only a benefit, it is a challenge also. Increasing demand leads to a lack of rolling stock, however we managed it by higher efficiency of flatcar fleet usage and optimised empty runs, and now we have volumes transported by TransContainer's rolling stock (including third-party fleet) exceeding the value of the last year by 4.6%, that is 1,958 thousand TEUs; and our share in the Russian rail container transportation market equals 44%. In 2018, the Company handled 1,279 thousand TEUs at terminals.

– TransContainer's net profit raised by 45.5% under IFRS and reached RUB 9,509 million, and the adjusted net profit margin increased from 23.5% to 30.4% year-on-year.

– Sure, these results are driven not only by favourable conditions and increase of transportation volumes but also by vigorous efforts of the management. The key factors were development of transportation and logistics, more effective sales and higher quality of client services, as well as active penetration into the promising market niches. Another critical driver was tight control over the Company's expenses.

– What was the main focus of the Company's investment programme in 2018?

– Total cost of the investment programme throughout 12 months of 2018 amounted to approximately RUB 8.9 billion.

Among them RUB 1.9 billion were spent for purchasing CJSC Logistics-Terminal, an operator of one of the most up-to-date container terminals in the North-Western region of the Russian Federation. This asset will allow us to improve the container transportation services quality and strengthen the Company's position as a leading intermodal container operator in Russia.

The bulk of the actual cost of the investment programme (63%) relates to the rolling stock acquisition, that is an urgent need in the existing conditions of transportation volumes grow-up.

2,131 flatcars were purchased in 2018, 40-foot and 80-foot ones. By the end of the year, the rolling stock fleet of the Company reached 26,457 cars. As of 31 December, the container fleet amounted to 70,478 thousand with 3.5 thousand containers acquired within the year.

Such a growth in the container transportation market was encouraged by the economic revival of our country, cargo containerisation, and buildup of transit between China and Europe, which are supposed to retain in the long term. Therefore, we are planning to continue investments into the rolling stock and the container fleet.

But at the same time we have some other tasks - the non-financial investments like business-processes optimisation, increase of assets management efficiency, client services improvement, etc. All these measures will enhance the Company's services attractiveness for different segments of transportation and logistics market, as well as for different types of clients.

– The TransContainer's client base shows stable growth. Which services and which transportation and logistics products could you offer in the last year?

– For many years TransContainer has been co-operating with the major producers of cars, chemicals, enterprises of timber processing, metallurgy, machine construction and other industries in transportation of raw materials, components, and final products providing their stable operation.

As of 2018, the TransContainer's client base accounts for more than 20 thousand enterprises and keeps its highly diversified standards - in 2018, top-ten clients provided 31.1% of revenue, while the largest client, UNICO company, which is the TransContainer's partner in Korea and China import and transit projects (Samsung, GM, Hyundai, Ssang Young, etc.) made 8.3% of entire revenue.

As of 31 December 2018, the TransContainer network in the territory of the Russian Federation included 95 sales offices. The sales network relies on the central office in Moscow, key freight traffic clusters, regional administrative centres, and transport hubs. The international network of coverage comprises 30 countries, including the CIS, Central and Eastern Europe, and the Asia Pacific. It encloses seven subsidiaries, four joint ventures, and five representative offices.

We actively develop online sales, which have already become the Company's core client interaction channel. In 2018, the share of e-commerce orders was 90%, and the share in the scope of transactions (in TEUs) was 79% of the total number of orders.

In the reporting year the Company arranged a number of new transportation and logistics services, i.e. plywood transportation by the high-speed container trains from Europe to the Asia Pacific along the route Kotka – Buslovskaya – Nakhodka – Pusan for UPM Ltd; delivery of equipment and materials for construction of HAVAL carmaker from China (Shanghai, Tianjin) to Sbornaya-Ugolnaya station (along two routes: through Nakhodka and through Zamyn-Uud); public container service along the route Ulaanchab – Zamyn-Uud – Ekaterinburg; transportation of timber processing complex products by the high-speed container trains

along the route Kostylevo – Ust-Luga for Ustyansky Timber Processing Complex; transportation of sawn timber products by the high-speed container trains from Lesosibirsk to St Petersburg and Nakhodka.

– TransContainer keeps its position as an absolute leader in the market of rail container transportation in Russia, the CIS, and the Baltic states. However, this market is influenced by competition, which is getting stronger year to year. What new challenges are expected and what will be the countermeasures?

Since the major part of the rail container transportation market growth is coming from the cargo base re-distribution between the transportation market segments, we still will have a high level of competition, and we will compete not only with other rail operators but with adjacent segments of the Russian transportation market also, first of all - with truck deliveries.

Concerning international container transportation, the Company anticipates the same competitive pressure from the sea lines, and again, it is driven not only by traditional alternative sea routes for import and export but also by linear containers offered for transportation within Russia and for export.

The current business model of the Company as an operator has allowed us to accumulate required skills, client base, assets, which will enhance entry into the new rapidly increasing segments of the market.

But we need more ambitious, and even more aggressive tasks to continue moving forward. Now we are preparing the Company's Development Strategy 2024, which implies adding the integrated services of intermodal transportation for any type of cargo (covering Asia – Europe and basing on our own digital model) to the traditional business model of the Company as a rolling stock operator. Such new services shall ensure better logistic solutions for each client.

We will be boosting out our share in Europe – Asia transit, developing terminal facilities, and adjusting production logistics to attract the new large strategic clients. But we still need to focus on other segments of special transportation, which are absolutely new for us.

It is not realizable without a powerful and up-to-date IT-platform, and it also needs out strong efforts.

Let's say again - these are very ambitious tasks. But in the modern world, we need to go forward very fast just to keep our leading position. We are not going to rest on our laurels, we need to move by leaps and bounds.