

# Midlincoln Research

July - 26 2022

Company: PAO Kamaz  
Ticker: KMAZ RM  
Rating: Neutral  
12 m TP 107.4 Rub  
Upside 30%  
Analyst: Ovanes Oganisian

## Kamaz – Heavy Debt and Low Margins

Kamaz is a key Russian truck producer owing almost 50% market share in Russia and historically drawing 10% of its revenues from exports. The share price of Kamaz which is traded on Moscow Exchange at 82 rub per share currently and matching end of 2021 levels has been volatile recently falling as low as 50 Rub in March, then rebounding to 120rub. Share volatility reflects lack of reliable info on the future and current state of affairs with the truck maker. One of the earliest assumptions on Kamaz performance in 2022 was made by Rustam Minnihanov, the leader of Russian republic of Tatarstan where Kamaz is located who in March hypothesised that Kamaz production could fall as much as 40% this year. Various other less drastic assumptions have followed.

Here we present a case study where Kamaz revenues fall by 10% in 2022. This assumption probably has a positive bias, and is based on the idea that Kamaz will lose all its export revenues which was 10% of total but will retain Russian customer base.

Kamaz revenues stood at 269bn Rub in 2021 and we assume that 2022 revenue fall to 252bn Rub and in the subsequent years Kamaz will be able to grow its revenues at 5%pa rate, which is modest assumption given that average growth of Kamaz revenues was 12% since 2017 corresponding to ramped up capex and infrastructure spending in Russia. With these inputs our DCF 12 m target price for Kamaz is 107 Rub. Still we are cautious to make an outright overweight call on the stock and maintain more cautious neutral stance, because would Kamaz revenues fall 20% in 2022 our DCF target price falls to 50 Rub per share.

It is quite challenging to predict market dynamics for truck maker in 2022. On one hand current Rub/USD rate makes exports difficult even for CIS consumers. On the other hand the infrastructure spending and even CIS cross border trade could suffer this year. There are arguments however that could reverse these assumptions.

Kamaz most obvious historic problems were its heavy debt load and very low profitability. These are unlikely to change and could only exacerbate. Kamaz net debt is staggering 93bn Rub and its operating margin has rarely been above 4% since 2017 which is rare for international engineering companies with lots of VAD but so common in Russia.

Even with fairly positive assumptions of 10% 2022 revenue decline Kamaz trades at meaningless PE multiples. Kamaz trades at more meaningful EV/EBITDA of 7.7x on 2022 estimates and at 4.5x on 2026 estimates. Its leverage to EBITDA of 5x suggests it is unlikely to make it without state support however in the case of stringent cost control and focus on growing revenues and profitability - Debt to EBITDA could fall to 2.6x in 2026.

Last Price

82 RUB 1.5USD

EPS 2022E

2.6 RUB

EPS Decline 2022E y-o-y

-32.0%

P/E 2022E

37.3

Market Capitalisation

57992 RUB mn 1.016 Bn USD

Risk Free Rate

8.50

Country Equity Risk Premium

7%

Cost of Debt

12%

Long Term Growth

3%

Beta Assumption

0.80

EV

151835 Rub mn 2.66 Bn USD

Net Debt Rub mn

93842.17745

WACC Estimate

13%

Engineering  
Russia

## Midlincoln DCF model for Kamaz

Rub/USD	58.3	62.5	64.6	73.7						
Yandex	156025.0	186196.0	190195.1	218477.7	73.2	60.0	60.0	60.0	60.0	60.0
Software and services	USD	USD	USD	USD	RUB	RUB	RUB	RUB	RUB	RUB
RUSSIA	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
Fields mn\$, % and mn rub (after 2020)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	2675.5	2978.0	2944.4	2964.8	269200.0	242280.0	254394.0	267113.7	280469.4	294492.9
Opex	2572.7	2915.8	2905.0	2822.7	256900.0	231210.0	239302.4	247677.9	256346.7	265318.8
Operating Profit	102.8	62.3	39.4	142.1	12300.0	11070.0	15091.7	19435.8	24122.7	29174.1
Operating Margin	4%	2%	1%	5%	5%	5%	6%	7%	9%	10%
Interest, FX and other	10.1	26.2	60.4	101.6	6525.3	9169.0	9169.0	9169.0	9169.0	9169.0
PTP	92.7	36.0	-21.0	40.6	5774.7	1901.0	5922.6	10266.8	14953.7	20005.1
Pretax Margin	3%	1%	-1%	1%	2%	1%	2%	4%	5%	7%
Tax Rate	20%	100%	100%	-4%	20%	20%	20%	20%	20%	20%
Net Income	74.1	0.0	0.0	42.1	4633.0	1520.8	4738.1	8213.4	11963.0	16004.0
Net Margin	3%	0%	0%	1%	2%	1%	2%	3%	4%	5%
EPS	0.0	0.0	0.0	0.0	6.6	2.2	6.7	11.6	16.9	22.6
DPS	0.0182	0.0	0.0	0.0073	0.0	0.32	1.00	1.74	2.54	3.39
Payout Ratio Common	17.3%	0.0	0.0	12.3%	0.0	15.0%	15.0%	15.0%	15.0%	15.0%
Payout vs. Free Cash	-0.2	0.0	0.0	-0.1	0.0	-11%	21%	14%	12%	11%
Dividends total	12.9	0.0	0.0							
EBITDA	168.2	134.8	121.8	231.9	19052.0	17822.0	21843.7	26187.8	30874.7	35926.1
Ebitda Margin	6%	5%	4%	8%	6%	6%	6%	6%	6%	6%
Op.Cash	120.9	-256.1	5.9	160.3	19111.0	9489.1	14315.1	19528.0	25152.4	31214.0
Op.Cash to Revenue	5%	-9%	0%	5%	7%	4%	6%	7%	9%	11%
Capex	-189.7	-177.3	-152.2	-129.5	-12159.0	-11551.1	-10973.5	-10424.8	-9903.6	-9408.4
Capex/Revenue	-7.1%	-6.0%	-5.2%	-4.4%	-4.5%	-4.8%	-4.3%	-3.9%	-3.5%	-3.2%
FCF	-68.8	-433.4	-146.3	-65.1	6952.0	-2062.0	3341.6	9103.2	15248.8	21805.6
FCF to Revenue	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
EV TO T12M EBIT	29.7	11.7	24.9	44.2	8.5	9.0	7.4	6.2	5.2	4.5
EV/EBITDA	9.8	7.1	11.5	14.3	8.5	9.0	7.4	6.2	5.2	4.5
CUR RATIO	1.7	1.2	1.4	1.5	1.5	1.5	0.9	0.9	0.9	0.9
EV	1641	963	1396	3314	161064	161064	161064	161064	161064	161064
EBIT	103	62	39	142	12300	11070	15092	19436	24123	29174
D&A	65	73	82	90	6752	6752	6752	6752	6752	6752
WC Req	19	329	76	-28	8713	8713	8713	8713	8713	8713

			Period		0.5	1.5	2.5	3.5	4.5
			Discounted FCF Rub mn		-1940.4	2784.5	6717.4	9964.3	12617.7

WACC	13%
Terminal Growth	3%
Terminal Value	130920.1 Rub mn
Sum of dcf	30143.5 Rub mn
EV	161063.6 Rub mn
Net Debt	93842.2 Rub mn
TP Market Cap mn rub	67221.4 Rub mn
Number of ords	707.2 mn
Fair Value Ord RUB	95.0
12 month TP	107.41
Target mcap RUB mn	75960.2

WACC	13%
Terminal Growth	3%
Terminal Value	130917.4 Rub mn
Sum of def	30141.8 Rub mn
EV	161059.3 Rub mn
Net Debt	93842.2 Rub mn
TP Market Cap mn rub	67217.1 Rub mn
Number of ords	707.2 mn
Fair Value Ord RUB	95.0
12 month TP	107.40
Target mcap RUB mn	75955.30387

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