Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economic Theories

Abstract of Diploma Thesis

Market valuation of transport enterprises in sea deliveries

(Case study of Novorossiysk Sea Commercial Port)

Author: Mikhail Krivko

Supervisor: PhDr. Oldřich Ludwig Dittrich, MPH, Ph.D.

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Abstract

This research examined factors which influenced market value of the transport enterprise, Novorossiysk Sea Commercial Port. The objective of the research is to identify the historical performance of the company and compare the level of impact of individual internal and external factors on the market value of the company for the period of 1.01.2010-30.09.2016. Financial analysis and regression analysis are used for the purposes of current research. The data for the research is taken from financial reports of the company, Moscow exchange and reports of Russian financial regulators. The analysis of the gathered data shows, that during specified period of time market value of the company was under significant influence of market risk and foreign exchange rate. The series of consecutive negative events resulted in remarkable changes in market value. The study gives recommendations on the lowering of probability of these risks and on the changes in investment policy and foreign exchange risk management.

1 Objectives and Methodology

1.1 Objectives

The object of study is investments in transport industry, especially investments in seaport enterprises, which shares are publicly traded on stock exchange. Novorossiysk Commercial Sea Port has been taken as an example of seaport and transport enterprises.

The goal of the current work is to offer deep study of capitalization growth factors for public transport enterprises especially for NCSP as well as capitalization and equity influence on financial state of the company, to construct mathematical model of quantitative factors influencing market value of NCSP, and to determine recommendations.

Research questions:

1. What are the quantitative factors of NCSP market capitalization with level of impact more than 0,6?

2. Why some factors of NCSP market capitalization are more significant than others?

3. How financial condition of NCSP influences market capitalization?

4. What is the level and direction of impact of increasing or decreasing revenue on NCSP market capitalization?

5. What is the level and direction of impact of increasing or decreasing net profit on NCSP market capitalization?

6. What is the level and direction of impact of increasing or decreasing equity on NCSP market capitalization?

7. What is the level and direction of impact of increasing or decreasing currency rate on NCSP market capitalization?

1.2 Methodology

Methods used in current research include mathematical modeling, statistical analysis, statistical comparison, and financial analysis. Methodology of current work is based on economic analysis, financial analysis and regression analysis.

Primary data is taken from annual reports of Novorossiysk Sea Commercial Port and from Moscow Exchange.

2   Results and Discussion

Estimated regression equations show several important outcomes. Firstly, it shows, that for a given period of time market value of the company was determined by the value of equity (which is plausible), current liabilities (which is not plausible) and foreign exchange rate. Coefficient for total equity is slightly higher, that for current liabilities, and is positive. It indicates that increasing equity would have more significant influence on market capitalization than decreasing current liability.

From this point of view it is quite clear that additional injections of capital can be considered as market value growth factor. Key shareholders, which are Russian state and Russian state-owned corporation, should consider providing the company with additional equity in order to increase market value.

Management should consider changes in investment risk management policies. It is quite clear that the decision of acquiring PTP in 2011 was one of the riskiest, as NCSP paid a significant premium to the book value of the enterprise with the assumption, that the acquired asset would be producing significantly higher cash flow than it than it actually did. From capital budgeting point of view the inaccuracies in evaluating investments decisions in future can be lowered by applying less optimistic approach to expected cash flows or applying higher discount rate. Both solutions are valid.

The specific of NCSP business does not allow the company to increase revenues by simply acquiring new clients, as it is closely connected with the national economy and global markets. Since the estimated regression model shows that the market value of this particular enterprise is mostly dependent on gross profit it is possible to consider acquiring other seaport

in the region. As market value of this particular enterprise is mostly dependent on gross profit, it is possible for the company to consider acquiring of another seaport in the region. The key points of a sound decision here are a proper object of acquisition, reasonable price and structure of financing the deal. Financing of previous acquisition deal with PTP was done in foreign currency, while NCSP revenues and projected revenues of PTP were in rubles. It represented a significant foreign risk to NCSP and resulted in sharp decline of equity value during depreciation of ruble in 2014.

The influence of foreign exchange risk matches previous research of Russian financial market made by other authors (e.g. Nalivayskiy). Hedging risk by purchasing or selling currency put option may be one of the possibilities.

Estimated model of market value as a function of specific and market risk shows, that market value of the enterprise is mostly influenced by market risk. Market risk is also called undiversifiable risk, as it applies to every financial asset on particular market. At the same time, specific risk of NCSP shares, or diversifiable risk, does not significantly influence market value of the company.

The revealed influence of market risk coincides with previous research of factors which are influencing market value of companies on Russian stock market on the example of oil and gas companies (so-called blue chips). These results shows, that from this point of view NCSP as an asset is more likely to follow the market.

3   Conclusion

During the period of 2010-2016 the financial state of the company was quite unstable, with growing volatility, which implicates risk connected with the shares of the company. Series of consecutive negative events moved main financial indicators up and down, creating uncertainty about future incomes. It is important to mention, that during that period operational results of the enterprise including cargo turnover was steadily growing. Regarding this, it is possible to say that market performance was under significant influence of financial management of the company and was not influenced significantly by operational performance.

After detailed research of aspects connected with the company and constructing mathematical models it is possible to answer research questions.

1.	What are the quantitative factors of NCSP market capitalization with level of impact more than 0,6?

According to calculated correlation coefficients, company specific factors (current liabilities, gross profit) and external factors (foreign exchange rate, undiversifiable market risk) were the main influencing factors of NCSP market value in the given period.

2.	Why some factors of NCSP market capitalization are more significant than others?

Financial analysis shows, that the performance of the company was unstable and volatile, and perceptions of risk connected with the company influenced market value.

3.	How financial condition of NCSP influences market capitalization?

Financial analysis shows, that net profit financial condition of the company (e.g. net profit) had weak direct influence on the market value.

4.	What is the level and direction of impact of increasing or decreasing revenue on NCSP market capitalization?

Revenue has a little influence on market value of NCSP for the given time period.

5.	What is the level and direction of impact of increasing or decreasing net profit on NCSP market capitalization?

Net profit (and therefore dividends) has a little influence on market value of NCSP for the given period. Traditional Gordon growth model does not come up with the valuation close to the market value.

6.	What is the level and direction of impact of increasing or decreasing equity on NCSP market capitalization?

Equity has an unsurprisingly direct and strong impact on market value.

7. What is the level and direction of impact of increasing or decreasing currency rate on NCSP market capitalization?

Currency rate, or foreign exchange rate, is one of the most influencing external factors, among with undiversifiable market risk.

Based on the results, it is possible to formulate recommendations on market value growth for the enterprise. Management should consider changes in investment risk management policies and capital budgeting process. From capital budgeting point of view the inaccuracies in evaluating investments decisions in future can be lowered by applying less optimistic approach to expected cash flows or applying higher discount rate.

As there is a direct connection of equity to market value, additional injection of capital may be considered as a factor of market value growth.

Company should also adjust its foreign exchange risk policy. According to the fact, that NCSP is not a multinational enterprise and has operations only in rubles, it would be better to hedge foreign exchange risk by purchasing or selling put currency options according to the chosen strategy.

The recommendations proposed on the basis of current research shows, that market value of transport enterprise operating on Russian market (e.g. seaport of Novorossiysk) is not directly connected to its operational results, but instead it is under a huge influence of external factors (market risk, foreign exchange rate). This fact not only reflects the essence of the business, but also helps to understand the country's current economy and financial market.

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