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Brunswick Beefs Up With Proftrans and Acquires MMK as Client

By Anatoly Medetsky

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By acquiring Proftrans, Brunswick will gain 1,600 rail cars for its fleet and Magnitogorsk Iron & Steel as a client.

Brunswick Rail, a leading railcar leasing company co-owned by Japan's Sumimoto and a World Bank subsidiary, said Tuesday that it broadened its business by acquiring rail freight operator Proftrans as the industry continues to consolidate.

Investors are watching the development of the rail freight business closely because it accounts for 85 percent of all cargo traffic in sprawling Russia.

The deal, whose value was not disclosed, not only gave Brunswick new rolling stock, but also expanded the company's services to include operating railcars.

Brunswick also gained an important new client — billionaire Viktor Rashnikov's Magnitogorsk Iron & Steel, or MMK, which was the crown jewel of Proftrans' customer base.

"It's an opportunity for us to start relations with MMK," said Dmitry Bovykin, head of marketing and research at Brunswick Rail. "It's another question how to develop them further."

VTB Capital's Yelena Sakhnova identified the metallurgical segment as the "most attractive," in an unrelated note to investors Tuesday.

As for services, branching out into freight operations "doesn't mean we will actively develop in this area," Bovykin said.

Proftrans brought a modest 1,600 railcars to Brunswick's fleet, which will now number 20,600 units. Proftrans operates railcars with an average age of 3.5 years, while their lifespan measures 20 years or more.

Brunswick set on a fast expansion course recently, increasing its fleet by more than 60 percent so far this year, including the latest deal. The financing came from $500 million the company attracted in debt and equity capital at the end of last year.

New equity investors were the VTB Capital Private Equity and Special Situations fund and UFG Private Equity. The International Financial Corp. is the World Bank subsidiary that has ownership in Brunswick Rail.

Brunswick mostly leases railcars to freight operators, fertilizer producers such as Phosagro and coal miners, including Mechel and Siberian Coal and Energy Company. Nearly 7 percent of the business was with steelmakers like Severstal.

Demand has increased among coal miners so far this year, as it has in the timber industry as exports to China pick up, Bovykin said.

Brunswick Rail corporate finance chief Viktor Koshkin said the Proftrans deal "demonstrates ... that Brunswick Rail can be an active participant in the coming consolidation of the rail market," according to the company statement announcing the transaction.

Rail freight players have been growing bigger since the end of 2008, when the economic crisis reduced prices for rolling stock and takeovers. In a major development for the market, the government is scheduled to auction off control in rail transportation giant Freight One, a fully owned subsidiary of state-run Russian Railways, later this year.

The industry's private leader is rail freight operator Globaltrans, which reported Tuesday that its profit for the year's first half skyrocketed 85 percent year on year to $135 million.

That beat analysts' consensus estimate by far because Globaltrans was able to increase its cargo turnover 37 percent, compared with 6.6 percent for the rail freight industry on the whole, VTB Capital's Sakhnova said.

Metallurgical cargos accounted for nearly half of the company's rail turnover.

Globaltrans said it scaled back orders for railcars because their prices increased.

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