

OJSC “Baranovichi Reinforced Concrete Products Plant” An Investment Opportunity



July 14, 2016

Based on the government decision the State institution National Agency of Investment and Privatization is searching strategic investors aimed at facilitating development of the open joint-stock company “Baranovichi Reinforced Concrete Products Plant” (hereinafter OJSC “Baranovichi RCPP” or “the Company”). The possible investments structures include:

- acquisition of a controlling or minority stake owned by the Republic of Belarus;
- acquisition of newly issued shares of the Company;
- establishment of a joint-venture;
- other ways of investment.

The Consortium led by KPMG acts as an advisor to the Agency in this process. The search of the investor follows the international practices and is administered by the International Bank for Reconstruction and Development (the World Bank).

General information

The Company is one of the leaders on the competitive market of reinforced concrete products manufacturers in Belarus. Its capacity is 195 thousand m³ of reinforced concrete products a year.

The plant began operating in 1969; in 2009 it was reorganised through a corporatisation into OJSC “Baranovichi RCPP”. Shareholders of the Company are the state (99.025%) and 254 individuals (0.975%). The Company has no branches or subsidiaries.

The Company produces a wide range of precast reinforced concrete products for industrial, road and residential construction: hollow-core planks, T-shaped planks, runway planks, power transmission pylons, piles, columns, beams, inverted T-beams, etc. in the total volume of 170-180 thousand m³ a year on average.

The average headcount of the Company is 500 as of December 31, 2015.

The Company’s web-site is <http://zhelezobeton.by>.

Key investment considerations

Strong market position

- ✓ One of the two major producers of precast reinforced concrete products in Belarus, contributing about 12.6% to the total revenue of domestic producers.

Significant share of export

- ✓ 58% of the Company’s revenues in 2015 came from export sales, mainly to Russia; selected product groups have the European conformity mark CE.

Advantageous location

- ✓ Located in the major transport hub and industrial centre with a nearby population of 178 thousand. Haul distance by railway covers Moscow, Saint Petersburg regions and more distant regions of European part of Russia

Wide range of products

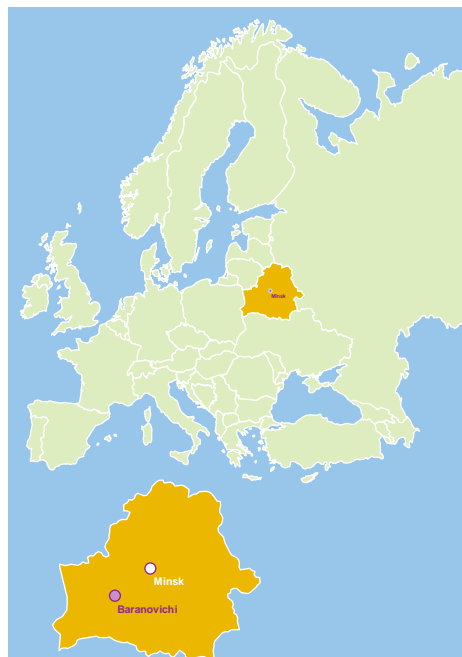
- ✓ The broad range of products (e.g. the whole range of precast reinforced concrete products for building construction), flexibility in adjusting the production to the new needs.

Possibility of vertical integration

- ✓ The Company is attractive for contractors engaged in construction projects for optimisation of the supply chain of reinforced concrete and concrete products.

Potential supplies to the EU

- ✓ Some product groups have the CE marking, having a EU partner supplies could be significantly expanded.



The Company is located in an industrial zone of the city of Baranovichi, close to the European route E30 (in 4.5 km) and the major railway connecting Moscow and cities of Belarus with Eastern Europe.

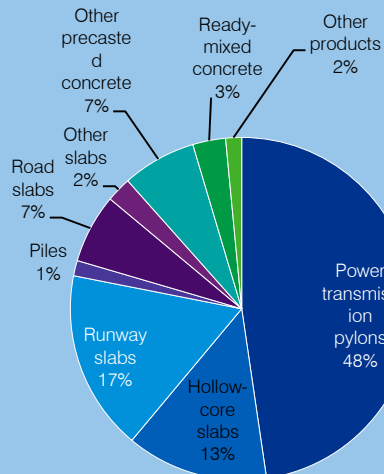
The main occupied land plot has an area of 15.91 ha and is used by the Company on a permanent use arrangement.

The area of main production facilities is about 36.6 thousand m², administrative areas – about 3.5 thousand m²

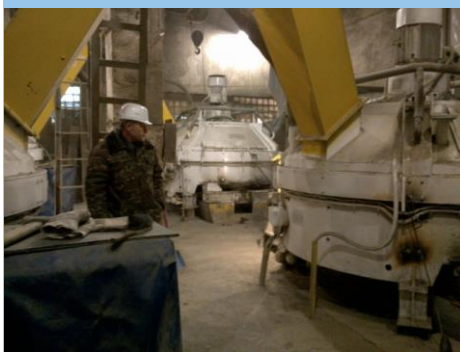
Sales in physical terms			
m ³	2013	2014	2015
Precast concrete, incl.	166,425	158,844	98,300
power transmission pylons	46,034	48,842	37,535
hollow-core slabs	55,209	53,998	31,709
runway slabs	35,286	31,209	16,514
piles	6,218	5,935	951
road slabs	6,766	6,412	6,154
other slabs	6,483	3,683	1,684
other precast concrete	10,429	8,765	3,753
Ready-mixed concrete	9,118	8,510	7,108
Other products	1,480	1,200	712
Total	177,023	168,554	106,120
<i>Export sales in physical terms</i>			
	45.0%	56.0%	59.0%

Source: the Company, KPMG analysis

Revenue per product in 2016



Source: the Company, KPMG analysis



Products

The Company produces a broad product range, the major part of which (93-94% of volume production) are the products defined as precast reinforced concrete items:

- power transmission pylons (38% of precast reinforced concrete items output in 2015),
- hollow-core slabs (32%),
- runway slabs (17%),
- other slabs: T-shaped with plumbing hollows, cover for farms, road pre-stressed, etc. (8%),
- piles (1%),
- framing columns and columns for industrial buildings, inverted T-beams, column foundations, bearers and other products (4%).

Sales of precast reinforced concrete items were 98.3 thousand m³ in 2015, that amounts USD 12.3 million in money terms. Its decrease in 2015 is explained by the slowdown in construction projects in Belarus and Russia, the main markets for the Company.

Two product items, namely hollow-core cover planks and piles for buildings have the CE mark, which allows exporting them to the EU countries.

Sales and revenues

The Company revenues for 2015 were 12.9 million USD.

The Company sells products in the domestic market and exports, mainly to Russia. The share of export in revenues grew from 45.1% in 2013 to 57.7% in 2015. In 2015, the export was 7.44 million USD.

Based on experts' view, the Company's capacity takes about 4% of the total capacities of the Belarusian market of precast reinforced concrete products, while the shares of the major competitors do not exceed the same 4%, and the market is comprised of over 80 specialised Belarusian producers providing almost 95% of the local market demand.

The main export destinations for the Company are Moscow, Leningrad and Arkhangelsk regions of Russia, however the Company is also experienced in sales to more remote regions. The Company also supplied products to Latvia and Lithuania.

Production and process

The core of the Company's facilities are the three production workshops, which employ 46% of the workforce:

- Concrete mixing workshop,
- Steel reinforcements workshop,
- Casting workshop.

In addition, there are 9 auxiliary production facilities employing 34% of the workforce. The structure and quality of the workforce are stable and adequate for the production.

Accumulated depreciation of fixed assets was 56% as of December 31, 2015. Capital expenditures amounted to USD 209.8 thousand in 2015.

The Company employs flow process production scheme. There is a railway track, two railway engines, the required quantity of bridge and overhead cranes, compressor station, chemical additives division.

Capacity of the casting workshop, which defines the capacity of the Company, is about 170 thousand m³ of precast reinforced concrete products a year. At the same time the concrete mixing workshop equipped with four concrete mixers Teka covers the needs of the casting floor with a 40% safety margin.

Key raw materials are supplied mainly by several major Belarusian companies:

- Reinforcing bars – OJSC "BMZ-management company of BMK holding" (about 300 km from the Company),
- Cement – mainly OJSC "Krasnoselskstrojmaterialy" (140 km), OJSC "Krichevtsementnoshifer" (430 km),
- Crushed rock – Republican unitary production enterprise "Granit" (200 km),
- Sand – producers of Brest, Grodno and Minsk regions.

Starting 2007 the Company implemented the certified quality management system for the production of precast reinforced and regular concrete items in accordance with STB ISO 9001, which was confirmed in 2013. The Company has obtained certificates of the industrial control of the Certification Centre of the Academy of Sciences of Latvia, which allows the Company to supply the products to the EU. There are also all declarations for product safety conformance in accordance with TP 2009/013/BY.

The production control system of the Company includes a testing laboratory and a technical control department.

Export share in total revenue



Source: the Company, KPMG analysis

Financials of the company

The Company demonstrated robust financial results before a recent Russian economic crisis that caused recession in Belarus and devaluation of the national currency. The management expects return to profitability in 2016.

The Company has low indebtedness: loans comprise about 7% of the sum of liabilities and equity.

Profit and loss account

USD'000	2012	2013	2014	2015
Revenue	36,242	34,005	28,891	12,928
COGS	(31,077)	(28,463)	(24,180)	(11,832)
Gross margin	5,164	5,542	4,711	1,096
Operational income	738	1,536	581	(666)
Financial costs	(341)	(433)	38	(266)
Gain / loss on net monetary position	783	490	693	-
Income before tax	1,180	1,594	1,311	(932)
Tax expenses	(303)	(541)	(556)	76
Net income/loss	877	1,053	755	(856)
EBITDA	1,774	3,472	2,379	375

Source: the Company, KPMG analysis - financial information prepared according to the IFRS

The major item of the cost of goods sold (about 73%) is the key raw materials and inputs, primarily steel reinforcements, cement, crushed rock and sand, which are supplied mainly by large Belarusian companies.

The average monthly salary in the Company was USD 348 in 2015.

Balance sheet

USD'000	01.01.2013	01.01.2014	01.01.2015	01.01.2016
Assets				
Fixed assets, construction in progress	7,448	7,138	7,016	3,854
Deferred tax assets	125	42	-	-
Current assets	5,073	4,825	4,663	3,001
Total assets	12,646	12,005	11,679	6,855
Equity				
Statutory equity	5,972	5,632	5,632	5,632
Translation differences	-	-	-	(2,681)
Retained earnings	994	1,721	2,123	1,267
Total equity	6,966	7,353	7,755	4,218
Liabilities				
Long term liabilities	-	-	102	-
Short term liabilities	5,680	4,652	3,822	2,638
Total liabilities	5,680	4,652	3,924	2,638
Total liabilities and equity	12,646	12,005	11,679	6,855

Source: the Company, KPMG analysis - financial information prepared according to the IFRS

Fixed assets take the largest share of the Company's assets, about 56% as of January 1, 2016.

Significant amounts were also invested in inventory (about 28%) and receivables (about 12%).

As of January 1, 2016 the Company did not have any long term liabilities, while short term liabilities consisted mainly of payables (82%) and short term loans (18%).

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