



MARCH 2017

overview

Symbol : HRLZ
Estimated EPS for 1395: 48 Rial
Market cap.:2755 Billion Rial
Industry P/E : 9.59
Capital: 1960 Billion Rial
Share price: 1439 Rial
Average daily volume: 10.1 million share
Suggestion: Buy
Fiscal Year: 12/29
P/E : 13.92
Estimated Return: 20%
Target price: 1,599 rials

Price History



History

The company was established in 1382 and started a new era in 1388 by purchasing 50 second-hand wagons. They purchased 1024 freight wagons in 1390. The company is able to carry 3 million tons per year with 1024 freight wagons and renting 500 more

Rail transport industry in Iran

Subsidies on petrol and gasoline in Iran have caused railway transfer to be neglected. Therefore, the industry penetration rate in the economy is low compared with other countries. It is expected that the industry will experience high growth rates in the years ahead.

Near 70% of the market share is related to mineral cargo. There are 22000 wagons used in the railways. The wagons of Reyl Pardazseir are long edge from which 9400 wagons are used in Iran. The table below shows long edge wagons market share in Iran.

company	fleet
Behtash	2,006
rail way	1,747
foolad rail	1,643
toka rayl	1,532
rayl pardaz seir	1,024
Asia Seir aras	769
jopar	514
gohar tarabar sirjan	100
sina Rayl pars	106

¹ Rial is the currency traded in Iran. At the date of this report one dollar is equal to 38000 Rial.



Isfahan Steel is the strategic customer; more than 83% of the income was related to this steel producer in 1394. It is estimated that the ratio will decrease to 70% in 1395.

Equity Holders:

Equity Holders is in the table below:

Equity Holders	share	percentage
afarinan Fadak Arzesh	800 M	40.82
etemad investment Amin	441 M	22.5
person real	118 M	6
yekom fix incom fund Kosare	42 M	2.11
andishan mes Investment co Atie	41 M	2.1
bayan Amintejarat	22 M	1.1
investment company Salim	21 M	1.08

Financial position

The balance sheet for recent periods is as follows:

balance sheet		1391	1392	1393	1394	1395/03/31	1395/06/31	1395/09/30
Cash	Million rial	23,828	45,222	8,576	842	2,090	1,303	26,894
Accounts receivable	Million rial	50,429	91,671	0	0	0	0	0
Inventories	Million rial	124	84,773	123	7,630	8,152	8,152	11,864
Current assets	Million rial	122,752	281,966	275,780	478,867	479,813	642,285	817,702
Fixed assets	Million rial	2,124,572	2,665,944	3,340,582	2,278,528	2,269,279	2,284,828	2,273,473
Intangible assets	Million rial	185	673	1,386	2,454	2,421	2,432	2,310
Total assets	Million rial	2,247,509	2,948,583	3,617,748	2,759,849	2,751,513	2,929,545	3,093,485

Future projects and plans

According to the statements of the managers, the company is pursuing following plans:

- Average daily travel per wagon is 55 kilometers. The average has the potential to increase to 70 kilometers.
- Plan for purchasing 400 freight wagons with interest-free finance has been finalized. Currency exchange losses more than 10% is borne by the government. 1300 wagons with same conditions are under negotiation. New wagons enjoy exemption from government railway transfer fee.
- Plan for purchasing 60 locomotives is followed and there is reasonable possibility to purchase 15 locomotives in 1397. Estimated value of each locomotive is about \$1.5 to \$2 million, and the profit margin is estimated to be 30%.
- They have a plan to reduce incomes related to Isfahan steel from 70% of total income to less than 50%.
- The company is estimated to reach the operational level of 1.8 billion ton kilometers of railway transfer. This level of demand is beyond the capacity and the company has rented near 400 wagons in the current year (i.e. 1395).



Projected Income Statement

Assumptions for projecting income statement are as follow:

- Inflation is assumed to be 4% so income for each ton kilometer transfer is increased 30 Rial per year. Governmental fee and locomotive fee is assumed to rise 20 Rial per ton kilometer yearly.
- The rate for exchange rate loss is assumed to be 10% of total foreign debts which is the worst case scenario.
- The exemption for governmental fee for new wagons is assumed to finish and terminate in 1400

statement Income	unit	1396	1397	1398	1399	1400
Total sales	million Rial	1,122,248	2,674,472	3,041,592	3,173,836	3,306,079
Cost of goods sold	million Rial	-797,718	-1,609,512	-1,732,759	-1,818,212	-2,381,426
Gross income	million Rial	324,530	1,064,959	1,308,834	1,355,624	924,652
general and administration expenditure	million Rial	-44,890	-80,234	-91,248	-95,215	-99,182
other operetional expenses	million Rial	0	0	0	0	1
operational income	million Rial	279,640	984,725	1,217,586	1,260,409	825,471
Financial expenses	million Rial	-74,000	-265,400	-231,940	-205,134	-210,647
other non operational Expenses	million Rial	0	0	0	0	0
Before tax income	million Rial	205,640	719,325	985,646	1,055,275	614,824
tax	million Rial	-43,184	-151,058	-206,986	-221,608	-129,113
Net income	million Rial	162,456	568,267	778,660	833,667	485,711
EPS	Rial	1,960,000	1,960,000	1,960,001	1,960,002	1,960,003
Capital	million Rial	82.8854799	289.93213	397.27542	425.340003	247.8111627
dividend	percent	40%	80%	80%	80%	80%
dividend	million Rial	64,982	454,614	622,928	666,934	388,568

Valuation

In the process of valuation, limitations of Iran should be noted. Limitations like lack of reliable reference rates for risk free rates and lack of a reliable credit rating which makes the calculation for required rate of return difficult.

For valuation the following assumptions are used. The company is highly correlated with overall economy condition so the systematic risk is assessed high. Average inflation rate of recent 5 years equals 23% and it implies that the risk market average return to be 8% more than inflation (historical studies show). Therefore non-inflationary required return of companies is assessed to be between 8 to 16 percent, depending on the risk. According to the fact that projected inflation is 4% the required return rate of stockholders is assessed to be 20%.

In the first model, the value is estimated with DDM model. The dividend ration is assumed to be 80% and the terminal value is assessed with sustainable growth rate of 8% (4% inflation plus 4% real economic growth):

year	unit	95	96	97	98	99	1400
dividend	rial		33	232	318	340	198
value	rial						1,784
price	rial	1,333					

Fundament analysis: Rayl Pardaz Seir

In the second model, the free cash flow to equity is estimated with the assumption of spending internal cash resources (20% which retains and not divided as dividends) to pay off debts for purchasing wagons. The other assumptions are the same as first model:

year	unit	95	96	97	98	99	1400
FCFF	million Rial		-656,884	-1,451,867	1,157,093	1,178,673	618,535
FCFE	million Rial		78,656	443,867	605,800	721,751	512,771
final value	million Rial						4,614,935
company value	million Rial	3,133,143					
each share value	Rial	1,599					

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