



CONCORDE CAPITAL

Ukraine/ Banking Aval

50% Capital Increase Approved

BUY

02 Aug 2005

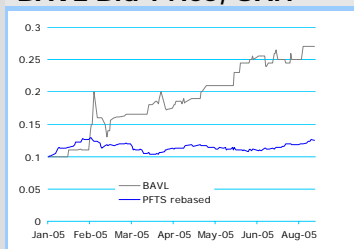
USD 0.060

12m Target

USD 0.070

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BAVL Bid-Price, UAH



Market Information

PFTS **BAVL**
Bloomberg **BAVL UZ**

No of Shares, mln 14.950
Market price, USD 0.06
MCap, USD mln 897
Free Float, % 10%

Stock Ownership

Management <50%
Employees 12%
Other 38%

Ratios 2004

Net Int. Margin 6.0%
ROE 22.5%
Capital Adequacy 10.1%
Cost/Income 86.2%

The EGM of Bank AVAL, held on August 13, approved a 50% share capital increase and upheld a 7-year USD 50 mln subordinated loan agreement with the IFC. Aval's share capital has increased to USD 297 mln following the issuance of five billion new shares in addition to a previous 9.95 bln, at a par value of USD 0.02 per share. The market remained indifferent and our target price is unchanged.

Regular share issues, a common practice for Ukrainian banks to increase their capital sufficiency and thus to support further lending expansion, has been conducted by Aval every year, sometimes twice a year. A previous additional share issue was held in May 2004, which raised the bank's share capital by USD 38 mln to USD 188 mln. Aval's assets have grown considerably in 2001-04, by a 37.5% CAGR, in line with an industry average of 37.6% CAGR. This exerts continuous pressure on the bank's capital adequacy. As of the end of 2004, Aval's capital adequacy ratio (CAR) was 10.07%, only marginally above 10.0% required by NBU, thereby putting constrains on the bank's further lending growth.

Target maintained. The market remained indifferent after the announcement. We maintain our USD 0.07 target as P/A, P/D, P/L indicators became more relevant and reliable for our forecast given that the new higher CAR will allow Aval to expand its lending considerably. As a result, Aval will probably beat our full-year loan portfolio target growth of 45% yoy which is two times more than in 2004. Furthermore, the approval of a 7-year USD 50 mln subordinated loan agreement with the IFC, in addition to a 5-year USD 20 mln received in February 2005, will help Aval to correct maturity mismatches, which were a concern to us previously.

KEY FINANCIAL DATA, USD mln

	Assets	Net Loans	Total Revenue	Net Income
2004	2 142	1 496	244	33
2005E	3 052	2 164	291	40
2006E	3 934	2 932	364	53
Spot Exch Rate	5.05			

KEY RATIOS

	P/E	P/BV	P/Loans	P/Assets	P/Deposits
2004	27.3	5.4	0.6	0.4	0.6
2005E	23.1	3.0	0.4	0.3	0.4
2006E	17.0	2.7	0.3	0.2	0.3

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