



CONCORDE CAPITAL

Ukraine / Fixed income

# Alfa Bank

## New 2012 Eurobonds to be issued

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Yesterday Alfa Bank Ukraine's offer to Eurobond holders to swap 2009 and 2010 notes for new ones maturing in 2012 expired. Approval of the restructuring deal is to be announced at a noteholder meeting tomorrow, July 23. Last Friday, Alfa said its 2011 noteholders, at a similar meeting, agreed to exchange their notes for new ones maturing in 2012. In our view, swapping the 2009/10 notes for 2012 ones is a done deal. Our estimate of a fair YTM for the new 2012 notes is around 40%, corresponding to a price of ~68. We recommend buying in to this bond issue below this level.

### Approval of 2009/10 note swap to be announced tomorrow

According to an Alfa Bank Ukraine press release last Friday, as of July 14 (the early exchange deadline, see our note from July 2), more than 80% of 2009 and 2010 noteholders decided to exchange their notes for 2012 bonds with partial cash repayment. The exchange offer expired yesterday, and we expect an announcement on the approval of the proposed restructuring of the two issues at tomorrow's bondholder meeting.

### 2011 issue restructuring approved last week

Last Friday, the holders of Alfa's 2011 putable notes agreed to exchange their bonds, which had a coupon of 12%, for new notes maturing in July 2012 and having a coupon of 13% payable quarterly and partial cash repayment during the swap. The new notes will be issued through Ukraine Issuance SPE and amortized in equal instalments from the second year of circulation up until 2012. The issue will amount to USD 185.4 mln at par.

### Bank's fundamentals remain a concern

Most of the bank's fundamental indicators look weaker than average of the Ukrainian banking system. Alfa's equity-to-assets of 9.7% is below the mean of 13.4% for the system. The bank also faces liquidity problems: its current ratio is at 68.7% vs. the average of 73.9%. Alfa's credit risk ratio of 371.8% is about twice larger than Ukraine's average of 189.0%. The bank managed to accumulate reserves that cover 11% of its loan portfolio, though we question whether the bank is capable of covering its non-performing loans, as we estimate is that NPLs account for about 25% of loans in Ukraine's banking system.

### Yield curve suggests fair YTM of about 40%

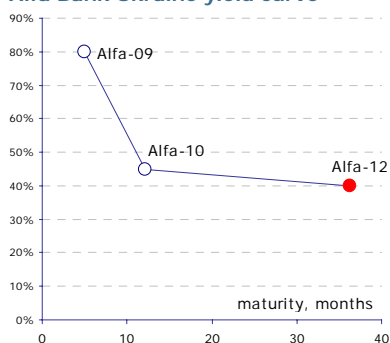
Alfa's to-be-restructured 2009 and 2010 notes traded yesterday at YTM of 80% and 45%, respectively. In our view, based on this and taking into account the issuer's inherent risks, a fair YTM for the 2012 notes should be around 40%, corresponding to a price of ~68. We recommend buying into Alfa's new Eurobonds below this level.

### Assumed cash schedule for a bond with USD 100,000 face value

Date	Coupon rate	Coupon	Principal repayment
30.10.09	13	3,250	
30.01.10	13	3,250	
30.04.10	13	3,250	
30.07.10	13	3,250	
30.10.10	13	3,250	12,500
30.01.11	13	2,844	12,500
30.04.11	13	2,438	12,500
30.07.11	13	2,031	12,500
30.10.11	13	1,625	12,500
30.01.12	13	1,219	12,500
30.04.12	13	813	12,500
30.07.12	13	406	12,500

Source: Concorde Capital, Company data

### Alfa Bank Ukraine yield curve



Source: Bloomberg, Concorde Capital

Issuer	Price	YTM, %	Amnt outst, USD mln	Coupon, %	Maturity date
Alfa Bank Ukraine '12	TBD	TBD	852.5	13	07/30/12

FLASH NOTE

FLASH NOTE

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## Financial statements, UAH ths

	2007	2008	1H09
<b>ASSETS</b>			
Cash & balances with NBU	386,888	935,142	1,969,321
Due from banks	2,659,515	4,037,691	1,979,984
Gross loan portfolio	11,598,645	28,037,193	30,375,740
- Corporate	8,127,146	19,808,703	23,772,794
- Retail	3,471,499	8,228,490	6,602,946
Provision for loan impairment	419,183	2,216,975	3,442,098
<b>Loan portfolio, net</b>	<b>11,179,462</b>	<b>25,820,218</b>	<b>26,933,642</b>
Securities portfolio	372,118	377,830	603,835
Fixed & intangible assets	309,244	401,342	389,974
Accrued incomes	90,663	466,233	n/a
Deferred tax assets	24,855	20,857	651
Other assets	55,021	250,785	n/a
<b>Total assets</b>	<b>15,077,766</b>	<b>32,310,096</b>	<b>32,382,526</b>
<b>LIABILITIES</b>			
Due to banks	6,345,890	8,144,736	10,157,761
<b>Customer accounts</b>	<b>5,245,943</b>	<b>19,148,005</b>	<b>10,841,472</b>
- Corporate	4,774,557	17,096,769	8,728,978
- Retail	471,386	2,051,236	2,112,494
Debt securities issued	963,790	370,612	37206
Accrued expenses	128,594	541,263	n/a
Deferred tax liabilities	41,169	42,932	19,035
Other liabilities	793,249	754,670	n/a
<b>Total liabilities</b>	<b>13,518,636</b>	<b>29,002,219</b>	<b>29,241,201</b>
<b>EQUITY</b>			
Share capital	1,370,000	2,976,565	2,976,565
Treasury stock	0	0	0
Emission differences	6	6	6
Banking reserves	23,471	67,518	228,771
Revaluation reserves	121,605	105,525	128,801
Retained earnings	44,047	158,262	(192,818)
<b>Total equity</b>	<b>1,559,129</b>	<b>3,307,877</b>	<b>3,141,325</b>
<b>Total liabilities &amp; equity</b>	<b>15,077,766</b>	<b>32,310,096</b>	<b>32,382,526</b>
<i>Capital adequacy ratio</i>	<i>12.58%</i>	<i>13.88%</i>	<i>14.62%</i>
<b>Income Statement</b>			
	<b>2007</b>	<b>2008</b>	<b>1Q09</b>
Interest income	1,158,651	3,031,549	2,693,776
Interest expense	(651,097)	(1,766,842)	(1,719,714)
<b>Net interest income</b>	<b>507,554</b>	<b>1,264,707</b>	<b>974,062</b>
Fee & commission income	299,180	622,982	227,041
Fee & commission expense	(9,482)	(53,967)	(62,446)
<b>Net fee &amp; commission income</b>	<b>289,698</b>	<b>569,014</b>	<b>164,595</b>
Trading income	43,983	749,802	509,024
Other income	34,000	151,042	61,005
<b>Net non-interest income</b>	<b>367,681</b>	<b>1,469,858</b>	<b>734,624</b>
<b>Total revenues</b>	<b>875,235</b>	<b>2,734,565</b>	<b>1,708,686</b>
General administrative expense	(104,979)	(244,920)	n/a
Staff cost	(234,933)	(455,372)	n/a
Other expense	(75,762)	(227,045)	n/a
Operating expenses	(415,674)	(927,337)	n/a
<b>Operating income</b>	<b>459,561</b>	<b>1,807,228</b>	<b>1,240,055</b>
Provision for loan losses & other	(384,119)	(1,605,096)	(1,432,873)
<b>Profit before tax</b>	<b>75,442</b>	<b>202,131</b>	<b>(192,818)</b>
Income tax expense	(31,395)	(43,869)	0
<b>Net income</b>	<b>44,047</b>	<b>158,262</b>	<b>(192,818)</b>

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