



CONCORDE CAPITAL

Ukraine / Fixed income

Alfa-Bank Ukraine '12

Lock in attractive mid-term yield

October 19, 2009

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Alfa-Bank Ukraine '12 Eurobonds

Principal amount: USD 850 mln
Maturity date: 30/07/12
Type: sinkable
Coupon rate: 13%
Coupon frequency: quarterly
Price (16/10/2009), % of par: 90.1
YTM (16/10/2009): 17.6%

Cash schedule for the bond, USD ths

	Coupon payment	Principal repayment	Total CF
30/10/09	27,625	0	27,625
30/01/10	27,625	0	27,625
30/04/10	27,625	0	27,625
30/07/10	27,625	0	27,625
30/10/10	27,625	106,250	133,875
30/01/10	24,172	106,250	130,422
30/04/11	20,719	106,250	126,969
30/07/11	17,266	106,250	123,516
30/10/11	13,813	106,250	120,063
30/01/12	10,359	106,250	116,609
30/04/12	6,906	106,250	113,156
30/07/12	3,453	106,250	109,703

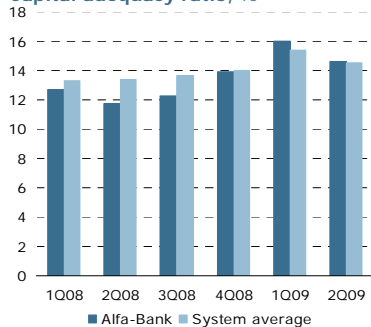
Source: Bloomberg, Cbonds

Eurobonds YTM, %



Source: Bloomberg

Capital adequacy ratio, %



Source: NBU, Company data

Last week, Alfa-Bank Ukraine repaid a USD 64 mln syndicated loan. Alfa-Bank's '12 Eurobond quotations have not adjusted since then. We think Alfa's notes, currently yielding 17.6%, are an attractive mid-term investment. In the shorter term, we estimate, the notes have a potential to moderately appreciate some 8%.

Alfa makes timely debt repayments in September-October

On October 13, Alfa-Bank repaid a USD 64 mln syndicated loan (USD 23.5 mln and EUR 26.9 mln drawn a year ago at LIBOR+2% and EURIBOR+2%, respectively). Alfa's 1H09 accounts indicated ~USD 260 mln in cash and equivalents, a cushion that helped it meet its short-term obligations. Another factor that enabled redemption was Alfa's Eurobond restructuring in July, for a total of USD 850 mln, which significantly reduced the lender's debt burden.

Redemptions signal confidence in funding sources

In our view, Alfa's repayments indicate confidence in its funding sources. This March, the bank attracted USD 166 mln in subordinated debt over five years from its Russian owners. Earlier this year, Alfa also received UAH 1.3 bln (~USD 162 mln) in refinancing facilities from the NBU.

We believe it is reasonable to expect Alfa Bank Ukraine to continue to receive backing from its owners and the NBU when needed and think the lender is well secured from a liquidity standpoint.

Growth in retail deposits signals improved customer confidence

In 8M09, Alfa's retail deposits increased 24% (+6.4% in 1H09) and their share of total assets rose from 7.2% to ~8%. We believe this is a reflection of stronger customer confidence. Bank executives say that branch network expansion was one of the reasons for the uptrend. The bank plans to continue increasing focus on this market segment.

Funding structure changes offset corporate deposit run

Although Alfa's corporate deposits went down by 20% in 1H09, leading to a decline in total deposits of 16% during the same period, the bank made up for this by tapping other sources (refinancing from the NBU and interbank loans grew by ~40% in 1H09). We do not think the corporate deposit outflow is related to confidence in the bank, but rather due to the effect of economic downturn on its corporate clientele. The bank should be able to renew positive corporate deposit inflows as soon as the economic situation improves.

NPLs are comparable to other large banks

We estimate that at end-1H09, Alfa's bad loans amounted to ~17.5% of its total portfolio. While the NBU reports NPLs of the entire system at 7% of the total, as of September 1, we consider the official figure substantially underestimated. We put the correct NPL figure at closer to 20%, which implies that the quality of Alfa's loan portfolio is roughly average. Figures reported by Fitch (on September 23) concur: the average NPL ratio for foreign-owned banks Forum, Ukrsibbank, Ukrsotsbank was 18.7% in 1H09.

We maintain that it is unreasonable to expect better NPL rates given the magnitude of the slump in Ukraine's real sector: real GDP shrank by 19% in 1H09 and industrial production plummeted 28% in 3Q09, while hryvnya depreciated 60% since last September.

Capital adequacy is sufficiently high

At end-1H09, Alfa increased its capital adequacy ratio (CAR, regulatory capital to risk-weighted assets) to 14.6% compared to less than 12% in mid-2008. This is well above the minimum required regulatory level of 10% and slightly better than the system's average of 14.5%. Alfa's increase in regulatory capital was due to the attraction of subordinated debt in March 2009. At the end 2008, Alfa raised its charter fund by UAH 726 mln to UAH 3 bln.

Notably, Alfa has better than average CAR even though it accounts for its regulatory capital more conservatively than Ukrainian banks on average (at the end of 1H09, Alfa accumulated loan loss provisions for 11.3% of its total portfolio against the 10.4% average for Ukrainian banks, according to UAS).

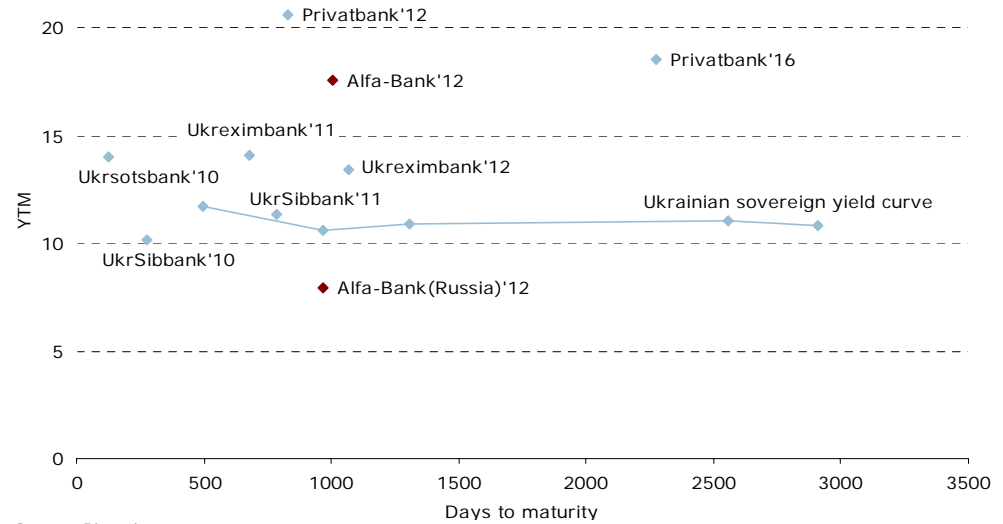
Alfa's Eurobonds look underpriced

Currently Alfa Bank Ukraine's '12 Eurobonds trade at 90.1% par, or a YTM of 17.6% p.a. This is some 10 pp above the YTM for Alfa Bank Russia's '12 Eurobonds.

We believe the spread is unjustified, as two banks share the same owner, which demonstrated its ability and desire to support both banks (Alfa bank Russia's charter fund was increased by USD 320 mln in June 2009).

Moreover, the sinkability feature of Alfa Bank Ukraine's notes makes their duration lower and, hence, price volatility lower than that of Alfa Bank Russia's comparable bullet Eurobond. In our view, the YTM for Alfa Bank Ukraine's bonds has the potential to narrow ~3-4 pp in the coming months, implying price appreciation of up to 8%.

Eurobond yield map as of October 16, 2009



Source: Bloomberg

Alfa-Bank Ukraine financials, UAS

USD mln	2008		1H09*	
		<i>% of assets</i>		<i>% of assets</i>
Balance sheet				
Cash&Cash equivalents	323	7.7%	258	6.1%
Due from banks	322	7.7%	263	6.2%
Corporate loans	2 619	62.4%	3 116	73.4%
Retail loans	1 089	26.0%	865	20.4%
Loans loss provision	-298	-7.1%	-451	-10.6%
Other	140	3.3%	193	4.5%
Total assets	4 196	100.0%	4 244	100.0%
Due to banks	978	23.3%	1 331	31.4%
Corporate deposits	1 414	33.7%	1 144	27.0%
Retail deposits	258	6.1%	277	6.5%
Subordinated debt	77	1.8%	252	5.9%
Other	1 039	24.8%	828	19.5%
Total liabilities	3 766	89.8%	3 832	90.3%
Total equity	430	10.2%	412	9.7%
Loans loss provisions/Total loans	-8.0%		-11.3%	
<i>System average</i>	-5.7%		-10.4%	
FX loans/Total loans	63.1%		57.3%	
<i>System average</i>	59.5%		54.3%	
Loans/Deposits	221.8%		280.2%	
<i>System average</i>	169.9%		215.4%	
Total assets growth	44.9%		1.1%	
<i>System average</i>	54.5%		-6.6%	
Corporate deposits growth rate	54.7%		-19.8%	
<i>System average</i>	44.6%		-12.5%	
Retail deposits growth rate	186.9%		6.4%	
<i>System average</i>	30.3%		-7.0%	
Income statement				
	1H08		1H09	
Net interest income	97		127	
Net fee income	53		21	
SG&A	-82		-61	
Provisions accumulation	-69		-187	
Other	7		74	
Net income	6		-25	

Alfa-Bank Ukraine financials, IFRS

USD mln	2007		2008		1H09*	
		% of assets		% of assets		% of assets
Balance sheet						
Cash&Cash equivalents	111	4.3%	318	8.5%	258	6.8%
Corporate loans	1 707	65.7%	2 541	67.5%	2 800	73.5%
Retail loans	589	22.7%	834	22.1%	662	17.4%
Loans loss provision	-35	-1.4%	-242	-6.4%	-451	-11.8%
Other	227	8.7%	199	8.3%	217	14.1%
Total assets	2 598	100.0%	3 765	100.0%	3 808	100.0%
Due to banks	508	19.6%	545	14.5%	778	20.4%
Corporate deposits	748	28.8%	1 158	30.7%	937	24.6%
Retail deposits	95	3.6%	272	7.2%	292	7.7%
Subordinated debt	69	2.7%	74	2.0%	252	6.6%
Other	765	29.5%	1 269	33.7%	1 117	29.3%
Total liabilities	2 186	84.1%	3 318	88.1%	3 376	88.7%
Share capital & Share premium	376	14.5%	626	16.6%	626	16.5%
Retained earnings	15	0.6%	51	1.4%	26	0.7%
Other	21	0.8%	-230	-6.1%	-221	-5.8%
Total equity	413	15.9%	447	11.9%	431	11.3%
Income statement						
	2007		2008		1H08*	1H09*
Net interest income	116		337		134	175
Net fee income	18		25		12	5
SG&A	-83		-151		-75	-56
Provisions accumulation	-33		-277		-45	-186
Other	-5		101		-11	37
Net income	12		36		14	-25
RoA (annualized)			1.1%			-1.3%
RoE (annualized)			8.3%			-11.4%

* Concorde Capital estimates based on UAS

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