



CONCORDE CAPITAL

Ukraine / Banking

Trading Idea: Bank Forum

Short-term play on EGM-related volatility

February 4, 2010

Current price: UAH 8.2/USD 1.02
1M Target: UAH 9.5/USD 1.18
12M Target: UAH 11.2/USD 1.38

Speculative BUY

Mykyta Mykhaylychenko
mms@concorde.com.ua
+380 44 391 5577

Bank Forum's 2009 UAS accounts, released last Friday, confirmed it regained customers' trust, upping total deposits 17% yoy (vs. the sector average of -8%). We believe Forum's shares could appreciate by as much as 25% within a month or two, triggered by approval of its long-awaited charter fund increase at its scheduled March 4 EGM.

Tickers

Bloomberg FORM UK

Market information*

Market price, USD	1.02
MCap, USD mln	230
52Wk Hi/Lo, USD	1.78/0.29
No of shares, mln	226
Free float	10.7%
Free float, USD mln	24.6

* Prices as of Feb. 03

Shareholders

Commerzbank AG	63.0%
Leonid Yurushev	26.3%
Other	10.7%

Key financials, IFRS, USD mln

	2008	2009E
Assets	2,423	2,148
Book value	261	125
Net income	(70)	(129)

Key ratios, IFRS, USD mln

	2008	2009
CAR (NBU)	10.0%	16.7%
Loans/Deposits	270%	231%
Int. rate margin	6.8%	5.5%
Cost/Income	70%	70%

2009 results: Customer trust regained

Last Friday Bank Forum released its 2009 UAS financial statements. The bank's deposit inflow beat the system average: retail deposits increased 22% (vs. the sector average of -2%) and corporate deposits by 7% (vs. the sector average of -18%).

Regaining customer's trust came at the price of its interest rate margin, which fell from 6.8% in 2008 to 5.5% in 2009, and failure to optimize operating efficiency (Cost/Income ratio was 70% in 2009, unchanged from 2008). We expect efficiency to improve by mid-2010; Forum launched a program to cut operating expenses at end-2009.

Forum's reported NPLs made up 18.2% of its total loan portfolio, according to UAS. We believe Forum's actual NPLs are about the system average of ~25%. As of end-2009, Forum's provisions against bad loans were only 10% of its portfolio by UAS, while this number exceeded 15% for many of its peers.

FORM shares surge on high volumes: share capital to finally increase?

Bank Forum shares have made ~37% YTD (vs. the UX's 16%), while its average daily turnover was ~UAH 1.3 mln vs. spikes of some UAH 0.6 mln before the three previous EGMs in 4Q09. We believe this indicates the market perceives approval of Forum's share capital increase at the March 4 EGM as a done deal on speculations about recently reached shareholder agreement.

Forum was required by the NBU to raise its regulatory capital by at least UAH 525 mln in 2009. However, four consecutive EGMs in 2H09 failed to pass a planned UAH 1.1 bln equity injection. We believe minority shareholder Yurushev (26% stake) wanted to exit and blocked the decision, lacking the resources/desire to participate pro-rata in the charter fund increase.

Aside from market perception and rumors, we see pressure mounting from the NBU as a factor that could force Forum's two major shareholders to agree on the charter fund increase. On top of that, the improved perception of sovereign risk (Ukraine's CDS tumbled from above 1,200 in early-2010 to below 900) and Ukrainian banking sector stability (retail deposit inflow is up ~10% since its trough in March 2009), could help to convince Commerzbank to pay a favorable price to buy out Yurushev's stake. Full control (~90% stake) would give Commerzbank the ability to implement its strategic plans for Forum.

Short-term 25% upside potential is feasible

After each of Forum's four EGMs in 2H09, its stock price tumbled. Although we foresee increased volatility in Forum shares in coming weeks, we expect the approval of the charter fund on March 4 to trigger the price quickly to UAH 9.5 (USD 1.2) per share:

- FORM now trades at significant discounts to emerging market peers: 1.2x vs. 1.7x (2010F), implying ~38% upside potential. Part of this potential could play out fast if triggered by the long awaited charter fund increase on March 4, which would fundamentally strengthen Forum's market position
- New shares are to be issued at ~30% above the market price (at a nominal price of UAH 10), which would also push up the stock's price
- FORM now trades 84% off its peak at end-2007, while other local bank stocks, Ukrspotsbank (USCB) and Raiffeisen Bank Aval (BAVL), are now 75% lower and the PFTS is 45% down from its end-2007 level

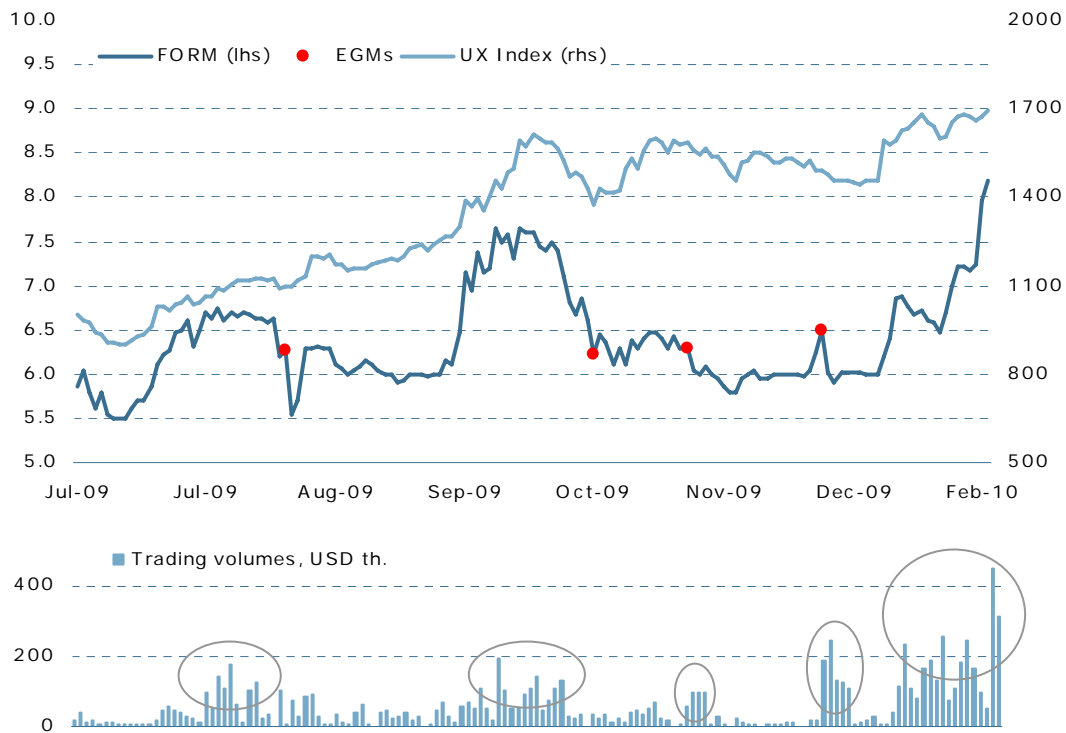
This, coupled with speculation that Yurushev will finally sell off his stake in Forum to Commerzbank, leads us to believe the stock can provide a speculative return of as high as 25% within 1-2 months period.

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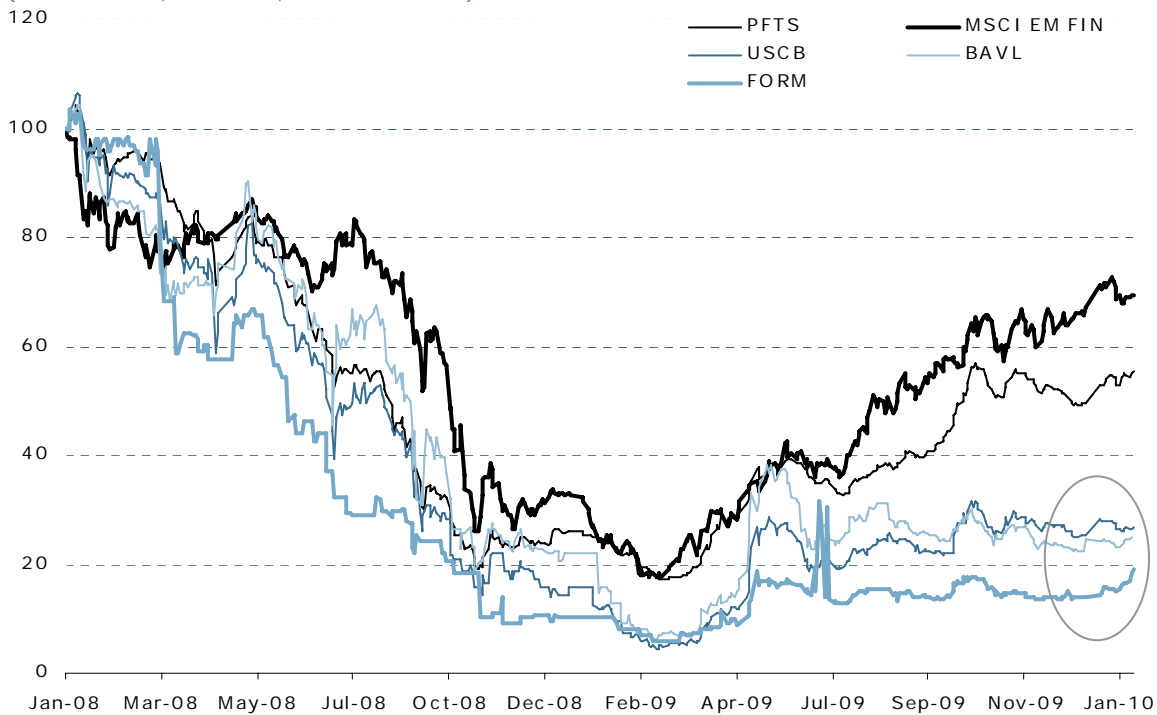
FORM market price and trading volumes, dates of Forum EGMs in 2H09 vs. UX Index



Source: Bloomberg, Concorde Capital

Equity indices and Ukrainian banking stocks since their peak at end-2007

(local currencies, normalized, 08/01/2008 = 100)



Source: UX, PFTS, Bloomberg, Concorde Capital calculations

Peer valuation

	Country	MCap USD mln	P/B 2010F
Domestic peer group			
Ukrsotsbank	Ukraine	590	1.06
Raiffeisen Bank Aval	Ukraine	819	0.98
International peer group			
Bank Pekao	Poland	15,170	2.27
PKO BP	Poland	17,049	2.30
BZ WBK	Poland	4,668	2.07
ING BSK	Poland	3,124	1.62
Bank Millennium	Poland	1,244	1.33
Getin Holding	Poland	2,294	1.55
Komerční Banka	Czech Republic	7,597	2.07
OTP Bank	Hungary	8,245	1.15
BRD-GSG	Romania	3,557	1.95
Banca Transilvania	Romania	767	1.26
Sberbank	Russia	63,682	2.14
VTB	Russia	25,628	1.67
Bank of Moscow	Russia	4,645	1.60
Vozrozhdenie	Russia	1,045	1.72
Bank St Petersburg	Russia	955	1.32
Median			1.67
Forum		230	1.26
Price, USD			
implied by international peer median			1.38
<i>Upside/Downside</i>			<i>36%</i>
<i>Source: Company data; Bloomberg</i>			

Financial statements, IFRS

Balance sheet summary, USD mln

	2007	2008	2009E	2010F
Cash & Equivalents	218	131	146	112
Due From Banks	107	51	40	35
Loans	1,926	2,218	2,133	2,060
Less Provisions	(73)	(147)	(320)	(371)
Other Assets	170	169	149	143
Total Assets	2,348	2,423	2,148	1,979
Due To Banks	495	1,047	927	578
Clients' Deposits	1,163	823	923	995
Subordinated Debt	50	50	134	125
Other Liabilities	388	241	36	22
Total Liabilities	2,096	2,162	2,020	1,720
Equity	252	261	129	259
Total Liabilities & Equity	2,348	2,423	2,148	1,979

Income statement summary, USD mln

	2007	2008	2009E	2010F
Net Interest Income	87	142	120	132
Provisions Change	(34)	(174)	(182)	(71)
NII After Provisions	52	(32)	(62)	61
Net Fees Income	13	18	11	20
SG&A	(72)	(112)	(92)	(76)
Other Income/(Expense)	10	33	16	7
EBT	4	(93)	(126)	13
Tax	(2)	22	0	(3)
Net Income	2	(70)	(126)	9
NI Attributed To Common Equity	2	(70)	(126)	9
Earnings Per Share, USD		(0.31)	(0.55)	0.03

Selected ratios

	2007	2008	2009E	2010F
Loans loss provisions/Total loans	-3.8%	-6.6%	-15.0%	-18.0%
Loans/Deposits	165.6%	269.4%	231.1%	207.0%
Interest Rate Margin		6.8%	5.5%	6.3%
Cost/Income	71.8%	70.0%	70.0%	50.0%
Cost/Avg Assets		4.7%	4.0%	3.7%
RoA (annualized)		-2.9%	-5.5%	0.5%
RoE (annualized)		-53.8%	-64.8%	4.9%

Financial statements, UAS

Balance sheet summary, USD mln

	2007	2008	2009
Cash & Equivalents	149	288	360
Due From Banks	662	90	34
Loans	1,906	2,222	2,133
Less Provisions	(57)	(100)	(211)
Other Assets	194	164	124
Total Assets	2,855	2,664	2,441
Due To Banks	903	1,115	1,104
Clients' Deposits	1,533	822	927
Subordinated Debt	50	50	135
Other Liabilities	42	330	42
Total Liabilities	2,588	2,419	2,207
Equity	267	245	234
Total Liabilities & Equity	2,855	2,664	2,441

Income statement summary, USD mln

	2007	2008	2009E
Net Interest Income	83	92	98
Provisions Change	31	(48)	(121)
NII After Provisions	114	44	(23)
Net Fees Income	19	18	17
SG&A	(68)	(75)	(87)
Other Income/(Expense)	(54)	14	10
Net Income	10	1	(83)

Concorde Capital, Head office

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571

www.concorde.ua

Concorde Capital

4 Fourth Lesnoy Pereulok, 5th Floor
Capital Plaza
Moscow 125047, Russia
Tel.: +7 495 642 87 15
Fax: +7 495 225 85 00

office@concorde.com.ua

CEO

Igor Mazepa im@concorde.com.ua

Head of Sales & Trading

Alexander Shnir ash@concorde.com.ua

International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua

Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua
Alisa Tikhomirova at@concorde.com.ua

Director of Research

Andriy Gostik, CFA ag@concorde.com.ua

RESEARCH

Strategy

Andriy Gostik, CFA ag@concorde.com.ua

Metals & Mining

Andriy Gerus ga@concorde.com.ua

**Utilities (Telecom, Energy),
Machinery**

Yegor Samusenko syg@concorde.com.ua

Oil & Gas

Andriy Gerus ga@concorde.com.ua

Real Estate, Consumer-related

Andriy Gostik, CFA ag@concorde.com.ua

Economics, Financial services

Mykyta Mykhaylychenko mms@concorde.com.ua

Fixed Income

Andriy Gerus ga@concorde.com.ua
Mykyta Mykhaylychenko mms@concorde.com.ua

Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

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