



Analyst's Notebook

Ukraine/Banking
 July 18, 2006

Bank Forum: 68% Capital Increase To Support Higher Growth

Share Subscription Completed

On July 13, 2006 Bank Forum (**FORM: HOLD**) completed subscription of a USD 49.5 mln additional share issue. The bank issued 25,000,000 common shares at par value of USD 1.98 increasing Forum's share capital by 68% to USD 122.8 mln. The first stage of subscription ended July 6. Minority shareholders had the opportunity to decrease the average-weighted cost of investment in the stock by subscribing for additionally issued shares.

Forum's 1H06 Results Better Than Expected

Forum's additional share emission was accompanied by the announcement of the bank's 1H06 results, which exceeded our forecasts. The higher than expected growth achieved in 1H06, in combination with the share capital increase, suggests higher CAR which will support the bank's further rapid expansion, and has led us to project higher growth rates of the bank's basic fundamentals.

Forum's 1H06 Results & Revised Forecasts, USD mln

	1H2006	2006E (old)	2006E (new)	2007E (new)
Net Assets	994	1,024	1,205	1,760
Net loans	688	703	874	1,331
Customers' deposits	511	569	626	818
Equity	96	104	165	213
Net income	3.4	8.6	9.1	16.1

Target Price Boosted

Technically, the pre-share issue market price of USD 11.0 should be adjusted to USD 7.36 after accounting for the issue's dilution effect. Our previous target, USD 9.50, recalibrated for the new number of shares would be USD 6.47. Given the Bank's higher than expected growth rates, we adjusted FORM's target price upwards based on peer comparison and DDM valuation. The first method implies a target price at USD 8.14, based on average peer multiples for 2007E, while our dividend discount model puts Forum's target at USD 7.40. We give more weight to the DDM approach and set our new target price at USD 7.58.

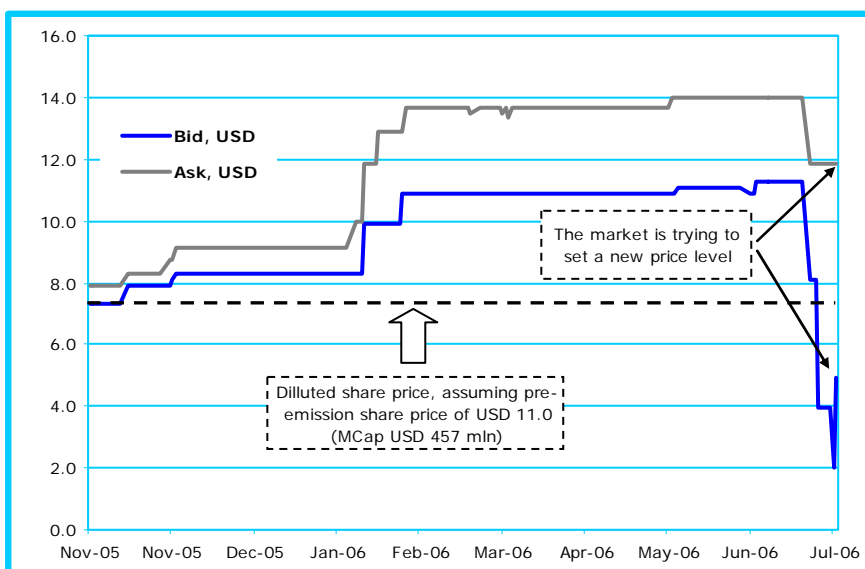
	Country	Mkt price, USD	MCap, USD mln	P/E			P/B			P/Operating income		
				2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
Forum	Ukraine	7.36*	457	80.5	50.1	28.3	5.9	2.8	2.1	28.5	17.5	10.8
Bank Pekao	Poland	56.0	9368	19.9	18.3	17.4	3.6	3.4	3.3	14.5	13.1	12.3
Bank BPH	Poland	239.6	6914	22.0	19.3	17.9	3.5	3.3	3.2	14.6	12.9	12.0
BZ WBK	Poland	45.1	3309	21.0	18.5	17.2	3.1	3.0	2.7	14.4	12.8	11.7
PKO BP	Poland	10.5	10547	19.6	17.6	16.0	3.9	3.5	3.3	15.7	14.1	12.8
Komerční banka	Czech Rep.	135.7	5160	13.7	12.6	11.4	2.4	2.2	1.9	10.2	9.2	8.3
OTP	Hungary	34.5	9089	12.7	10.8	9.0	3.7	2.9	2.4	9.1	7.9	6.7
Peers' average				18.1	16.2	14.8	3.4	3.1	2.8	13.1	11.7	10.6
Peers' median				19.8	17.9	16.6	3.6	3.2	2.9	14.5	12.9	11.8
Premium/ (Discount)				344%	210%	91%	74%	-10%	-23%	118%	50%	2%
Implied Price, USD				1.66	2.38	3.85	4.23	8.14	9.60	3.38	4.91	7.25
Upside (Downside)				51%	53%	79%	98%	80%	142%	108%	107%	155%

	Country	Mkt price, USD	MCap, USD mln	P/Assets			P/Loans			P/Deposits		
				2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
Forum	Ukraine	7.36*	457	0.6	0.4	0.3	0.9	0.5	0.3	1.0	0.7	0.5
Bank Pekao	Poland	56.0	9368	0.5	0.5	0.4	1.1	1.0	0.9	0.7	0.6	0.6
Bank BPH	Poland	239.6	6914	0.4	0.4	0.3	0.7	0.6	0.6	0.6	0.6	0.5
BZ WBK	Poland	45.1	3309	0.4	0.4	0.3	0.8	0.7	0.7	0.5	0.5	0.5
PKO BP	Poland	10.5	10547	0.4	0.4	0.3	0.7	0.7	0.6	0.5	0.4	0.4
Komerční banka	Czech Rep.	135.7	5160	0.2	0.2	0.2	0.7	0.5	0.4	0.3	0.3	0.3
OTP	Hungary	34.5	9089	0.4	0.3	0.3	0.6	0.5	0.4	0.6	0.5	0.5
Peers' average				0.4	0.4	0.3	0.8	0.7	0.6	0.5	0.5	0.5
Peers' median				0.4	0.4	0.3	0.7	0.6	0.6	0.6	0.5	0.5
Premium/ (Discount)				60%	5%	-22%	23%	-25%	-44%	98%	45%	15%
Implied Price, USD				4.48	6.82	9.22	5.81	9.53	12.71	3.62	4.93	6.24
Upside (Downside)				-39%	-7%	25%	-21%	29%	73%	-51%	-33%	-15%

* diluted share price, assuming pre-money price of USD 11.0

Market Reaction

Since the end of first-stage subscription on July 7, bids for FORM have dropped 56% on the PFTS to USD 4.95 and the ask price has decreased 15% to USD 11.88. It is common for the spread to widen (by 140% in Forum's case) in the post-emission period, as the market waits for the approval of the share issue by the Sate Securities and Exchange Commission (SEC), in order to account for the increased number of shares. After the emission is registered, the spread will decrease and a new price level will be set.



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