



CONCORDE CAPITAL

Ukraine / Banking Megabank

Latest Headlines

July 12, 2007
12M Target: USD 1.01 **BUY**

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- **Strong 1H07 growth: Net income triples, Assets up 66%**
- **World Bank loan agreement signed**
- **Annual borrowing plan increased by USD 50 mln**
- **Megabank trades at P/B '07 3.1x, a 25% discount to local peers, we confirm BUY and target price of USD 1.01**

Market Information

Bloomberg	MEGA UZ
No of Shares, mln	200
Market price, USD	0.87
MCap, USD mln	174
Free float	30%
FF MCap, USD mln	52.2

Stock Ownership

M-Invest	33.5%
Institutional investors	30.0%
Avtramat	10.0%
Mega-Garant-Life	5.2%
Turboatom	3.2%
Other	18.1%

Ratios, 2006

Net Interest Margin	4.3%
Net Margin	15.0%
ROE	8.2%
Cost/Income	70.0%

Strong 1H07 results published

Megabank released its 1H07 net income of USD 2.0 mln, which is more than three times higher than in 1H06 and in line with our full year forecast of USD 3.8 mln. In January-June the bank's assets grew 66% yoy to reach USD 302 mln while its loan portfolio doubled to USD 213 mln.

2007 foreign borrowing kicks off with WB loan

Megabank announced today that it signed a five-year agreement with state-owned Ukreximbank to jointly finance the development of Ukrainian exports through a World Bank project. The volume of the loan is USD 10 mln, with an option to increase to USD 20 mln. As management indicated at the start of the year, Megabank's foreign borrowing is beginning in earnest this summer. This announcement makes us confident the bank will be able to fully execute the its announced debt financing plan for 2007.

Annual borrowing plan doubled

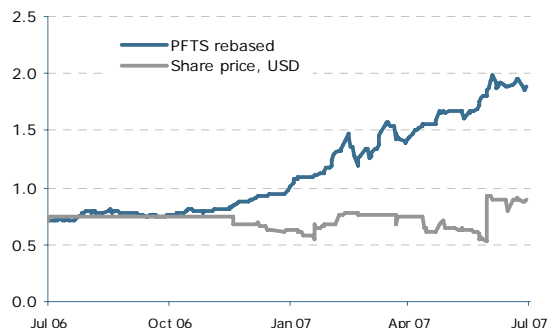
Favorable conditions for Megabank's foreign borrowing program led management increase its annual borrowing plan to USD 80 mln from USD 30 mln planned earlier. By yearend, the bank plans to draw:

- USD 20 mln mid-term loan at LIBOR+4.5% from the EBRD;
- USD 20 mln line from the IFC (due diligence completed in April);
- USD 10-20 mln loan from German KfW

Valuation

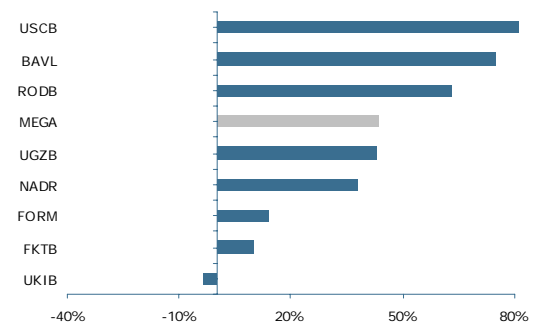
We will watch for implementation of the borrowing program and revise assets and earnings estimates for 2007-2008 accordingly. For now, we keep our BUY recommendation and target unchanged. MEGA currently trades at 3.1x P/B'07E, implying a 25% discount to Ukrainian peers.

MEGA Performance, USD



Source: PFTS

Sector performance, YTD*



* Mid price adjusted for new share issues is used

Key financials, USD mln

	Loans	Deposits	Equity	Net income
2006	143	162	37	2.2
2007E	217	222	56	3.8
2008E	312	302	70	5.8

Price ratios

	P/E	P/BV	P/Loans	P/Deposits
	77.4	4.7	0.9	0.8
	45.5	3.1	0.6	0.6
	25.8	2.5	0.4	0.4

Peer comparison

	Country	Price, USD	MCap, USD mln	P/E		P/B	
				2007E	2008E	2007E	2008E
Megabank	Ukraine	0.87	173	45.5	25.8	3.1	2.5
Ukrainian peers							
Ukrzazbank	Ukraine	1.13	452	60.3	32.5	3.6	2.5
Ukrsotsbank	Ukraine	0.34	3,468	35.0	22.8	5.5	4.4
Forum	Ukraine	8.35	935	91.7	47.5	3.5	3.1
Rodovid Bank	Ukraine	1,727	751	65.9	33.1	3.3	2.5
Raiffeisen Bank Aval	Ukraine	0.23	4,623	36.1	22.6	4.5	3.8
Ukrinbank	Ukraine	0.01	204	66.0	35.6	2.0	1.8
Bank Nadra	Ukraine	46.0	1,796	32.4	23.1	4.3	3.6
Factorial Bank	Ukraine	1.0	61	62.5	40.5	2.4	1.9
Average				56.2	32.2	3.6	3.0
GEM Peers				2007E	2008E	2007E	2008E
PKO BP	Poland	18.9	18,867	23.3	20.5	4.6	3.8
Pekao SA	Poland	88.6	14,806	18.6	14.5	3.8	3.0
Bank BPH	Poland	338.7	9,727	19.8	18.5	3.4	2.9
BZWBK	Poland	103.9	7,582	23.4	19.8	4.9	4.3
OTP	Hungary	51.8	14,557	12.5	11.5	3.2	2.7
Komercni Banka	Czech Rep	182.2	6,925	14.3	13.0	2.3	1.9
Sberbank	Russia	3,490.0	75,338	17.4	13.9	3.0	2.4
Yapi Kredi	Turkey	2.2	7,086	14.6	10.2	2.4	2.1
Standard Bank	S. Africa	14.8	20,267	12.2	10.6	3.3	2.8
Banco do Brazil	Brazil	40.9	33,765	11.8	10.9	2.4	2.0
Average				16.8	14.3	3.3	2.8
Megabank price							
Implied by CEE peers avg., USD				0.32	0.48	0.93	0.97
Implied by Ukrainian peers avg, USD				1.07	1.08	1.02	1.03
<i>Upside/Downside by CEE avg</i>				-63%	-44%	8%	12%
<i>Upside/Downside by Ukrainian avg</i>				24%	25%	18%	19%

Source: Bloomberg, PFTS, Concorde Capital

* P/B calculation for Ukrainian banks accounts for officially announced share capital increases

Financial statements

Income statement summary, USD mln

	2003	2004	2005	1Q06	2006	1Q07	2007E	2008E
Interest income	6.5	10.8	14.8	4.2	19.9	6.5	26.9	36.9
Interest expense	(2.8)	(7.1)	(9.4)	(2.9)	(12.6)	(4.2)	(16.6)	(22.9)
Net interest income	3.7	3.6	5.4	1.3	7.3	2.3	10.3	14.0
Net fee & commission income	5.2	6.3	8.2	2.1	9.6	3.2	13.0	18.2
Net trading income	0.1	0.6	0.6	0.3	0.5	0.1	0.6	0.7
Net other operating income	0.2	2.7	0.7	0.1	0.9	0.3	0.9	0.6
Net non interest income	5.5	9.6	9.5	2.5	11.0	3.6	14.4	19.5
Total income	9.2	13.2	14.8	3.8	18.3	6.0	24.7	33.5
Operating expenses	(8.4)	(11.0)	(12.3)	(3.2)	(13.7)	(4.0)	(17.2)	(22.2)
Operating income	0.8	2.3	2.6	0.6	4.6	1.9	7.5	11.3
Provision for loan losses & other	0.0	(0.1)	(1.0)	(0.2)	(1.5)	(0.5)	(2.4)	(3.6)
Profit before income tax	0.8	2.2	1.6	0.4	3.1	1.4	5.1	7.8
Income tax expenses	(0.5)	(0.2)	(0.5)	(0.1)	(0.9)	(0.4)	(1.3)	(1.9)
Net income	0.3	2.0	1.1	0.2	2.2	1.0	3.8	5.8

Balance sheet summary, USD mln

	2003	2004	2005	1Q06	2006	1Q07	2007E	2008E
ASSETS								
Cash & Balances with NBU	6	8	15	20	16	17	26	34
Due from other banks	14	22	20	28	29	17	51	54
Loans and advances to customers	47	63	98	101	144	186	217	312
Securities portfolio	6	9	13	15	16	23	19	22
Property and equipment	8	8	13	13	14	20	24	30
Other assets	1	1	2	3	2	3	1	2
TOTAL ASSETS	81	112	161	179	222	266	338	454
LIABILITIES								
Due to the other banks	7	9	5	3	7	15	32	49
Total customer's deposits	52	79	125	143	165	186	222	302
Debt securities issued	2	1	-	0	0	5	10	15
Other liabilities	8	8	9	11	12	17	17	19
TOTAL LIABILITIES	70	97	139	157	185	223	282	385
TOTAL EQUITY	11	15	22	22	37	43	56	70
TOTAL LIABILITIES & EQUITY	81	112	161	179	222	266	338	454

Source: Company data, Concorde Capital estimates

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