



CONCORDE CAPITAL

Ukraine / Banking Megabank

Megacheap For Growth Like This

October 24, 2007

Current Price: USD 0.89

12M Target: USD 1.20

BUY

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Bloomberg

MEGA UZ

Market information

No of Shares, mln	200.0
Market Price, USD	0.89
52Wk H/L, USD	1.31/0.89
MCap, USD mln	178.2
Free float	30%
Free float, USD	53.5

Corporate governance

Concorde Rating* AA

* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Ownership

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

Ratios 2007E

Net Interest Margin	5%
Net Margin	20%
ROE	11%
Cost/Income	63%

On Monday Megabank announced it doubled its net income yoy in 9M07. Asset growth of 77% yoy was above our estimates. We expect MEGA, the cheapest liquid Ukrainian bank, will catch up to local peers, which have made 75% YTD. MEGA trades at a 26% discount to domestic comparables on P/B '08E and 40% on P/E '08E. We maintain our target at USD 1.20, implying 35% upside, and reiterate BUY.

9M earnings doubled

Megabank's reported 9M07 net income grew 110% yoy to USD 3.2 mln, driving ROE up to 7.8% vs. 6.7% a year ago. Net interest income growth at 79% yoy was among the major drivers and reflected the bank's rapid expansion into higher-yield retail: its Retail/Total loans ratio rose to 29% from 19% in 9M06.

Megabank's 9M07 financial summary

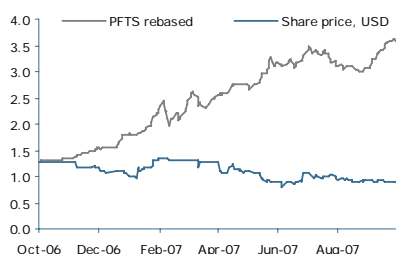
	2006	9M06	% yoy	2007E	2008E
Assets	221.6	339.9	77%	361.1	502.3
Loans	144.2	243.5	81%	248.8	364.0
Deposits	164.5	227.1	64%	222.3	301.5
Equity	37.2	63.2	76%	61.0	81.1
Net interest income	7.3	8.8	79%	11.8	18.0
Net fee income	9.6	10.0	48%	13.8	20.2
Operating costs	(13.7)	(13.8)	43%	(17.1)	(22.1)
Operating revenue	4.6	6.0	96%	10.0	17.3
Net income	2.2	3.2	110%	5.5	9.8

Source: Company data, Concorde Capital estimates

Asset growth exceeded our estimates

The bank's 9M balance sheet expansion was around 20% higher than we anticipated. Megabank's assets and loans reached USD 340 mln and USD 244 mln, respectively, coming right up to our full-year forecasts.

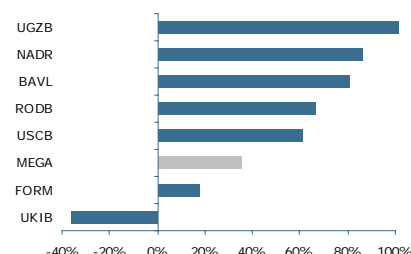
Stock performance*, 12M



* PFTS mid price

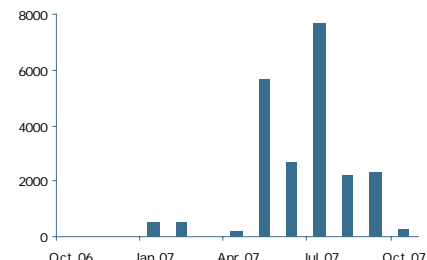
Source: PFTS, Concorde Capital estimates

Sector performance**, YTD



** Mid prices adjusted for additional share issues

PFTS Trading volumes, USD ths



Key financials, USD mln

	Loans	Deposits	Book value	Net Income	P/Loans	P/Deposits	P/B	P/E
2006	144.2	164.5	37.2	2.2	1.2	1.1	4.8	81.0
2007E	248.8	222.3	60.2	5.5	0.7	0.8	3.0	32.4
2008E	364.0	301.5	81.1	9.8	0.5	0.6	2.2	18.2

UAH/USD Spot exchange rate is 5.05

Peer valuation

	Price, MCap, USD USD mln		P/E			P/B		
			2006	2007E	2008E	2006	2007E	2008E
Megabank	0.89	178	79.7	32.4	18.2	4.8	3.0	2.2
Ukrainian peers								
Ukrgazbank	1.33	665	109.1	46.2	21.2	7.0	4.4	3.3
Ukrsotsbank	0.28	2,805	49.2	26.9	16.0	7.3	4.4	3.1
Rodovid Bank	1,756	764	171.0	63.1	22.4	8.6	3.3	2.3
Megabank	8.21	920	167.3	85.9	38.3	6.1	3.6	2.4
Raiffeisen Bank Aval	0.22	4,557	73.8	37.1	20.8	7.8	4.6	3.3
Ukrinbank	0.01	143	108.1	46.2	24.9	1.8	1.4	1.3
Bank Nadra	62.38	2,435	65.8	43.9	31.3	9.3	5.8	4.9
Factorial Bank	1.00	102	170.2	100.0	64.7	5.3	3.8	3.0
Average			114.3	56.2	30.0	6.7	3.9	2.9
GEM Peers								
PKO BP	21.3	21,266	31.9	23.4	20.9	6.7	5.0	4.4
Pekao SA	100.4	16,769	30.2	21.2	18.3	6.1	4.8	4.5
Bank BPH	375.1	10,772	27.4	18.3	17.2	5.0	3.9	3.7
BZWBK	106.6	7,776	33.1	22.4	18.9	6.2	4.6	4.0
OTP	54.0	15,177	17.2	12.8	11.3	4.1	2.8	2.4
Komerční Banka	230.5	8,760	23.4	17.9	16.1	3.6	3.2	3.0
Sberbank	4.4	94,227	32.1	21.8	17.3	8.5	3.7	3.0
Yapi Kredi	3.6	8,426	21.7	14.6	10.2	2.6	2.4	2.1
Standard Bank	12.4	17,199	14.6	12.2	10.6	3.5	3.3	2.8
Banco do Brasil	15.6	38,552	9.5	11.8	10.9	2.8	2.4	2.0
Average			24.1	17.6	15.2	4.9	3.6	3.2
Megabank price								
Implied by CEE peers avg, USD			0.27	0.49	0.74	0.91	1.09	1.29
Implied by Ukrainian peers avg, USD			1.28	1.54	1.47	1.24	1.18	1.19
Upside/Downside by CEE avg			-70%	-45%	-16%	2%	22%	45%
Upside/Downside by Ukrainian avg			43%	74%	65%	39%	32%	34%

Source: Bloomberg, PFTS, Concorde Capital

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