



CONCORDE CAPITAL

Ukraine / Retail

MKS Group

Searching for white knight

June 25, 2009

Current price: USD 35.10/ UAH 270.50
12M Target: N/R

N/R

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- **MKS Group's president, in a conversation with us, confirmed plans to restructure the business under a new legal entity to ward off the seizure of its assets by VTB Bank**
- **The group is seeking a strategic investor as a means to attract funding for its operations**
- **We suspend coverage of the stock until the retailer's future and new legal structure is clarified**

Tickers

PFTS KVIN UZ

Market information

Market price, UAH	270.50
USD	35.10
MCap, UAH mln	214.8
USD mln	28.2
Chg YTD	162%
Hi/Lo YTD, UAH	270.50/222.73
USD	35.13/29.23
Free float	27.0%
Free float, UAH mln	58.06
USD mln	7.62

Prices as of June 24, 2009

Shareholders

Management	73%
Portfolio investors	27%

KVIN performance vs. PFTS, 12M



Source: Concorde Capital, Bloomberg

MKS confirms plans to transfer assets to new legal entity

This Tuesday, we talked to the President of MKS Group, Alexander Golovchenko, regarding the company's future. Golovchenko confirmed to us that current majority owners are going to establish a new legal entity that will continue to work with present partners, use the MKS brand and receive transferred lease rights to its property operating 30-40 outlets. Although the restructuring scheme is not yet finalized, according to Golovchenko, the new company will be owned by MKS Group so that minority investors will have stakes in the new business on a pro rata basis. The name of the new legal entity was not disclosed.

Restructuring is latest attempt to ward off seizure of assets

Earlier we wrote that MKS, within the next month, plans to transfer its assets, aside from two retail centers, to a new legal structure, in order to protect them from claims by VTB Bank. In late May the Kharkiv Economic Court initiated bankruptcy proceedings against MKS, at its request in order to prevent the seizure of its assets by VTB Bank as a consequence of a dispute that erupted over the repayment of a loan in December 2008. Respectively, MKS' CEO, Alexander Golovchenko, has been appointed a receiver.

According to MKS, it currently owns nearly 23 ths m2 of retail property, all of which is pledged against the company's credits. The retailer's overall financial debt is ~USD 33 mln. Almost half of the debt is to VTB, collateralized with two retail outlets.

Search for white knight continues

Golovchenko also said that the company is looking for a strategic partner to launch the business of the new operator to be created. The estimated amount of funding needed to re-stock the outlets with inventory is ~USD 7 mln. Current owners are considering leaving a blocking stake of 25%+1 to themselves and offering a controlling stake to an investor who would be ready to provide the required financing.

Uncertain future prompts suspension of coverage

In our view, the company has a chance to survive if it acts aggressively with its creditors, pushing them for debt write-downs and restructuring. On the other hand, the 'timeout' that MKS will receive due to the bankruptcy proceedings might allow the company to find a strategic partner. That said, we see the threat that VTB will succeed in seizing MKS's assets as material posing a significant risk to the viability of the new operator. We suspend coverage of the stock until the situation with the retailer's future and its new legal structure is clarified.

FLASH NOTE

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