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Yesterday bank Pivdenniy has repaid fully its USD 46 mln syndicated loan. The bank's stable liquidity position supported by the fact that it redeemed its external debt on time renders risk of default for its Eurobonds as low, in our view. We believe the banks' LPNs are undervalued and their YTM has a potential to tighten by up to 1000 bps, based on comparison with similar issues.

Security

PIVDE 10 ¼	
ISIN	XS0310791107
Moody's / Fitch	B2 / B-
Price	75.0
YTM	38.5%
Amt' outstanding	USD 100 mln
Coupon	10.25%
Maturity date	08/03/2010

- According to Bank Pivdenniy's press-release, it has fully and timely repaid its 12-months syndicated loan worth USD 46 mln
- As of May 1, 2009, the bank reported cash balance of USD 65 mln and inter-bank deposits of USD 95 mln. At the same time, its LPNs maturing in August 2010 have a par value of USD 100 mln. We think the bank is well positioned to repay its Eurobonds when due.
- The bank's bad loan provisions accounted to 4.9% of loan portfolio as of April 1, 2009. The ratio is far below the median values for tier-I and tier-II Ukrainian banks (8.1% and 6.4%, respectively). We suppose that Bank Pivdenniy may have to increase its allowance for bad debt in the coming months. Still, we believe this will not threaten the bank's capital adequacy, as the lender is among the best capitalized ones from the tier-I and tier-II cohort (top 38 local banks).
- By its risk and maturity profile, LPNs of Pivdenniy are comparable to UkrSibbank Jul'10 Eurobonds. We believe Pivdenniy's LPN price is unwarrantably low and see the room for its YTM to tighten by as much as 1000 bps. This leaves the spread over UkrSibbank's YTM of more than 1000 bps, which, in our view, is sufficient to compensate for a somewhat higher risk of the Bank Pivdenniy's notes compared to UkrSibbank, as the latter has BNP Paribas as a parent.

	UkrSib	Pivdenniy
Current cash position		
• Cash & balances with banks, USD mln*	653.4	173.4
• Less syndicated loan repaid (Apr-May '09)	403.4	127.4
• % of total assets* after repayment	6.2%	9.5%
External debts maturing in 12M		
• USD mln	255	100
• % of cash & bank accounts	63.2%	78.5%
LPN characteristics		
Maturity	Jul-10	Aug-10
Amount outst, USD mln	200	100
Moody's / Fitch	B1 / B	B2 / B-
YTM	16.9%	38.5%

Source: National Bank of Ukraine, Bloomberg, Concorde Capital
* as of April 1, 2009

Financial statements, UAH ths

Balance sheet, UAS

	2008	1Q08	4M08	mom	ytd
Cash & balances with banks	1,506,662	1,334,540	1,230,148	-8%	-18%
Gross loans & accr. Incomes	9,184,997	8,964,428	n/a		
<i>Corporate</i>	7,764,349	7,647,479	n/a		
<i>Retail</i>	1,388,011	1,316,949	n/a		
Provision for loan impairment	392,400	439,265	n/a		
Loan portfolio, net	8,792,597	8,525,163	8,295,369	-3%	-6%
Securities portfolio	33,268	32,443	33,987	5%	2%
Fixed & intangible assets	563,888	599,679	598,647	0%	6%
Deferred tax assets	0	0	0		
Other assets	189,954	164,223	171,406	4%	-10%
Total assets	11,086,369	10,656,048	10,329,557	-3%	-7%
Due to banks & other leders	3,030,443	2,859,057	2,860,449	0%	-6%
Customer accounts	6,337,691	5,439,056	5,435,507	0%	-14%
<i>Corporate</i>	3,272,546	2,849,029	n/a		
<i>Retail</i>	3,065,145	2,590,027	n/a		
Debt securities issued	105,000	876,685	n/a		
Deferred tax liabilities	40,257	40,257	n/a		
Other liabilities	168,915	20,166	n/a		
Total liabilities	9,682,306	9,235,221	8,903,017	-4%	-8%
Share capital	711,205	711,205	866,377	22%	22%
Treasury stock	0	0	0		
Emission differences	335,564	335,564	335,564	0%	0%
Reserves	111,459	108,162	200,501	85%	80%
Retained earnings	245,834	265,895	24,097	-91%	-90%
Total equity	1,404,063	1,420,826	1,426,539	0%	2%
Total liabilities & equity	11,086,369	10,656,048	10,329,557	-3%	-7%

Source: National Bank of Ukraine, Bank data

P&L statement, UAS

	FY08	4Q08	1Q09	qoq
Interest income	1,107,865	340,170	332,240	-2%
Interest expense	(695,022)	(221,791)	(237,992)	7%
Net interest income	412,843	118,379	94,248	-20%
Fee & commission income	192,968	51,412	53,218	4%
Fee & commission expense	(26,364)	(8,015)	(9,050)	13%
Net fee & commission income	166,604	43,397	44,168	2%
Trading income	112,171	66,739	8,962	-87%
Other income	3,447	551	274	-50%
Net non-interest income	282,222	110,687	53,404	-52%
Total revenues	695,065	229,066	147,652	-36%
Operating expenses	(329,088)	(102,465)	(74,464)	-27%
Operating income	365,977	126,601	73,188	-42%
Provision for loan losses & other	(121,047)	(50,110)	(48,827)	-3%
Profit (loss) before tax	244,930	76,491	24,361	-68%
Income tax expense	(67,441)	(26,972)	(4,300)	-84%
Net income (loss)	177,489	49,518	20,061	-59%

Source: National Bank of Ukraine

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