

Squeeze out bill passed

Material effect should be minimal in the mid-term

Parliament introduces squeeze out right for majorities

Ukraine's parliament approved changes last week to the Law "On Joint Stock Companies," introducing the right for majority shareholders to squeeze out minorities. The amendments still require the signature of the president and must be published before taking effect. The changes grant the owner(s) of 95% or more of shares the right to force minority shareholders to sell their shares at the market price (for traded stocks based on exchange quotations).

Report date

27 Dec 2010

Technical issues delay buyouts for at least a year

Though 40% of local Ukrainian stocks have free float of less than 5% and are at risk of a squeeze out, we do not expect a rush of forced buyout offers. We estimate it will take at least a year for parliament to amend at least three additional laws and the State Securities and Exchange Commission to release detailed procedures for the process. From the issuer side, most companies have yet to transition from open JSCs to public JSCs as required by the initial law (passed in April 2009), as the law applies only to the latter; this requires at least two EGMs to be held.

The management of Metinvest (controls 7 of 53 stocks with free float under 10%: Avdiivka Coke, Azovstal, Yenakiieve Steel, Northern Iron Ore, Khartsyzsk Pipe, MMK Illicha Steel, Central Iron Ore) told us they are not currently planning any buyouts.

Immaterial effect in the mid-term

For companies with good corporate governance (like Metinvest) or publicity sensitive (like banks), we expect either no forced buyouts or buyout prices at close to market levels. Those with less than stellar records (like those in the Grigorishyn business group), we see either continuing profit transferring schemes (like at Sumy Frunze) or squeezing out of minorities at the lowest possible price. Look for more in our corporate governance update in January.

Buyout price determination

The amendments set the buyout price for listed companies as the "market" price as of the day preceding the announcement (either the closing price or the weighted average price over a given period, e.g. 90 days, depending on the stock exchange). If the stock is not traded, an independent appraisal must be completed by the issuer.

The amendments forbid squeeze outs at companies that are officially "listed" on local stock exchanges (only 28 stocks currently have this status), however we note that these companies can easily delist, giving their majority shareholders the right to make forced buyouts.

Stock classification

We divide the local stock universe into three groups: those at risk of squeeze out after the law takes effect, those potentially at risk (e.g. following buyout of 2-3% on the open market, consolidation by several shareholders, privatization, etc.) and those unaffected given their current shareholder structure.

Premier league

Ticker	Name	Sector	Listed	FF. %
Affected				
AVDK	Avdiivka Coke	Chemicals/Coke	no	3.2%
ALMK	Alchevsk Iron & Steel	Iron & Steel	yes	3.9%
BAVL	Raiffeisen Bank Aval	Banks	yes	4.0%
USCB	Ukrsotsbank	Banks	yes	4.2%
AZST	Azovstal	Iron & Steel	yes	4.4%
Might be affected				
UTLM	Ukrtelecom	Telecommunications	yes	7.1%
SVGZ	Stakhaniv Wagon	Industrial Machinery	yes	8.0%
UNAF	Ukrnafta	Oil & Gas	yes	8.0%
ENMZ	Yenakiieve Steel	Iron & Steel	yes	9.0%
YASK	Yasynivsky Coke	Chemicals/Coke	no	9.0%
Not affected				
DOEN	Donbasenergo	Electric Utilities	yes	14.2%
CEEN	Centrenergo	Electric Utilities	yes	21.7%
MSICH	Motor Sich	Aerospace	yes	24.0%

Source: Company data, PFTS, UX, Concorde Capital

2nd tier

Ticker	Name	Sector	Listed	FF. %
Affected				
SGOK	Northern Iron Ore	Iron & Steel	no	0.6%
ALKZ	Alchevsk Coke	Chemicals/Coke	no	2.0%
HRTR	Khartsyzsk Pipe	Metal Fabricate & Hardware	yes	2.0%
MMKI	MMK Illich Steel	Iron & Steel	yes	2.0%
	Shakhtoupravlenie			
SHCHZ	Pokrovskoye	Mining	yes	2.1%
SHKD	Komsomolets Donbasa	Mining	yes	2.5%
FORM	Bank Forum	Banks	yes	3.5% [*]
Might be affected				
DNEN	Dniproenergo	Electric Utilities	yes	2.5%
KVBZ	Kryukiv Wagon	Industrial Machinery	no	4.7%
ZAEN	Zakhidenergo	Electric Utilities	yes	4.9%
NITR	Nyzhnyodniprovsk Pipe	Metal Fabricate & Hardware	yes	6.0%
KRAZ	AvtoKrAZ	Auto Manufacturers	yes	7.0%
STIR	Stirol	Chemicals	yes	7.0%
LUAZ	Bogdan Automobile Plant	Auto Manufacturers	yes	7.7%
Not affected				
SMASH	Sumy Frunze	Industrial Machinery	no	12.9%
MZVM	Mariupol Heavy Machinery	Industrial Machinery	yes	13.0%
NVTR	Novomoskovsk Pipe	Metal Fabricate & Hardware	no	13.5%
GLNG	Galnaftogaz	Retail/Distribution	yes	17.6%
AVTO	UkrAvto	Retail/Distribution	no	20.0%
LTPL	Luhanskteplovoz	Industrial Machinery	no	24.0%
MTBD	Mostobud	Engineering & Construction	no	31.7%

^{*} Estimated as of the end of an additional share placement in 1H11

Source: Company data, PFTS, UX, Concorde Capital

Broad market

Ticker	Name	Sector	Listed	FF. %
Affected				
CGOK	Central Iron Ore	Iron & Steel	no	0.5%
DNVM	Dniprovahonmash	Industrial Machinery	yes	0.7%
DMKD	DMK Dzerzhinskogo Steel	Iron & Steel	no	1.0%
KSTL	ArcelorMittal Kryviy Rih	Iron & Steel	no	1.0%
HLPR	Khibprom	Food & Beverages	no	2.0%
OCAB	Odeskabel	Electrical Components & Equipment	no	2.0%
FLOT	Ukrrihflot	Transportation	no	2.0%
MEGA	Megabank	Banks	no	2.0%
PGOK	Poltava Iron Ore	Iron & Steel	yes	2.6%
GALTN	Galakton	Food & Beverages	no	3.0%
AZGM	Azovzahalmash	Industrial Machinery	no	3.4%
SUNI	Sun InBev Ukraine	Food & Beverages	no	4.0%
ZPST	Zaporizhstal	Iron & Steel	no	4.0%
DMZP	DMP Petrovskogo Steel	Iron & Steel	no	4.4%
SMEN	Sevastopoblenergo	Electric Utilities	no	4.8%
Might be affected				
HOEN	Khersonoblenergo	Electric Utilities	yes	5.5%
PGZK	Pivdenny Iron Ore	Iron & Steel	no	5.7%
KION	Kirovohradoblenergo	Electric Utilities	no	6.0%
ZFER	Zaporizhya Ferroalloy	Metal Fabricate & Hardware	no	6.0%
HAON	Kharkivoblenergo	Electric Utilities	no	6.2%
BKOK	Bagliy Coke	Chemicals/Coke	no	6.3%
SLAV	Slavutych Brewery	Food & Beverages	no	6.5%
POON	Poltavaoblenergo	Electric Utilities	no	9.3%
Not affected				
KREN	Krymenergo	Electric Utilities	no	7.5%
MOEN	Mykolaivoblenergo	Electric Utilities	no	7.9%
DNON	Dniprooblenergo	Electric Utilities	no	9.1%
ODEN	Odesaoblenergo	Electric Utilities	yes	9.4%
KIEN	Kyivenergo	Electric Utilities	no	10.0%
HMBZ	Svitlo Shakhtarya	Coal Machinery	no	10.0%
LVON	Lvivoblenergo	Electric Utilities	no	10.8%
HMON	Khmelnikoblenergo	Electric Utilities	no	11.2%
DRMZ	Druzhkivka Machinery	Coal Machinery	no	12.0%
PREN	Prykarpatooblenergo	Electric Utilities	no	13.6%
DNSS	Dniprospetsstal	Iron & Steel	no	14.5%
SORN	Oranta Insurance	Insurance	no	15.0%
SKUN	Universalna Insurance	Insurance	no	15.2%
SNEM	Sumy Nasosenergomash	Industrial Machinery	no	18.0%
KPME	KP Media	Media	no	20.0%
DTRZ	Dnipropetrovsk Pipe	Metal Fabricate & Hardware	no	24.8%

Source: Company data, PFTS, UX, Concorde Capital

Contacts

CONCORDE CAPITAL

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO

Igor Mazepa im@concorde.com.ua

SALES

International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Rostyslav Shmanenko rs@concorde.com.ua
Dasha Vasilieva vd@concorde.com.ua

Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua
Alisa Tykhomirova at@concorde.com.ua

RESEARCH

Director of Research

Andriy Gerus ga@concorde.com.ua

Utilities, Machinery

Yegor Samusenko syg@concorde.com.ua

Metals & Mining, Oil & Gas

Andriy Gerus ga@concorde.com.ua

Economics, Financial services

Mykyta Mykhaylychenko, CFA mms@concorde.com.ua

Fixed income

Andriy Gerus ga@concorde.com.ua
Mykyta Mykhaylychenko, CFA mms@concorde.com.ua

Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

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