



## Analyst's Notebook

Ukraine/Strategy  
 May 30, 2006

### Ukraine: The New Star In The CEE/CIS M&A Market

Ukraine, traditionally known for its sluggish investment activity, has witnessed a dynamic increase in M&A activity in terms of both the number and value of deals in 2005. This progress has not gone unnoticed, for the first time Ukraine was included in the CEE/CIS Mergers and Acquisitions Survey prepared by PricewaterhouseCoopers (PwC), which covers the key trends in M&A and privatization activity in ten CEE/CIS countries.

According to the survey, in 2005, the Ukrainian M&A market closed 85 deals worth USD 2.3 bln representing 3% of the total CEE. With a total average disclosed deal size of USD 99 mln Ukraine came in second in terms of deal size in the region.

Additionally, Ukraine represented 22% of the total 2005 CEE/CIS privatization market value, estimated at USD 22.8 bln. Among the countries surveyed, Ukraine had the largest average deal size with USD 815 mln. The largest individual privatization transaction was also generated in Ukraine – Mittal Steel acquired the largest Ukrainian steel mill, Kryvorizhstal, for USD 4.8 bln.

Ukraine's M&A and privatization activity is dominated by foreign investors with Russia, the United States and Austria playing the most active roles. This brought significant foreign currency inflow to the country, and allowed Ukraine to maintain a positive current account balance in 2005 (USD 2.53 bln), despite USD 1.85 bln trade deficit in goods. The majority of the acquisition targets were in the manufacturing, financials services and telecom sectors.

### Banking Drives M&A Activity In Ukraine

Ukraine's M&A activity in 2005, in terms of transaction value, was driven mainly by the banking industry. Three largest deals in the banking sector accounted for 60% of the total M&A market value in 2005. Raiffeisen's acquisition of Aval Bank for USD 1.03 bln was the tenth largest M&A deal registered in the region during the year.

#### 2005: The Largest Acquisitions In Ukraine's Banking Sector

Date	Buyer	Target	Acquired stake	P/B
Dec-05	BNP Paribas (France)	Ukrsibbank	~USD 350 mln for 51% stake	3.6
Aug-05	Raiffeisen International	Aval	USD 1.028 bln for 93.5% stake	3.1
Jan-05	Vilniaus Bankas (Lithuania) (member of SEB group)	Azhio	EUR 23.3 mln for >90%	1.5

Source: Concorde Capital

## 2006: Will The Growth Continue

In 2006 the M&A market in Ukraine shows no signs of slowing down, driven by the banking industry. During 1Q06 three deals concluded in the sector generated USD 1.5 bln. Acquisitions in the banking sector are expected to continue throughout the year with small- and medium-sized banks going for an estimated USD 400-500 mln. The ongoing spending spree of foreign heavyweights in Ukraine's banking sector is likely to support the relatively high valuation of Ukrainian banks during 2006. Look for things to start cooling off in 2007.

### M&A Deals Closed In Banking Sector In 2006

Date	Buyer	Target	Acquired stake	P/B
Mar-06	Credit Agricole	Index Bank	USD 264 mln for 100%	7.1
Feb-06	Banca Intesa (Italy)	Ukrsotsbank	USD 1.16 bln for 88% stake	5.0
Jan-06	Vneshtorgbank (Russia)	Mriya	USD 70 mln for 98% stake	1.6

Source: Concorde Capital

The growing M&A activity in insurance, manufacturing, food & beverages can provide a boost for the valuation of companies in these sectors including premiums at share placements. The energy & utility industry is also expected to become a hot spot for M&A activity this year with estimated value of ~USD 500 mln, as a long awaited sale of 5-6 oblenegos by their current owner VSE, looks probable this year. This should boost utility stock valuations and provide a spark for the sluggish trading in this industry. According to our estimates, Ukraine's M&A market value could reach USD 2.6-3.0 bln this year. The possible privatization of Ukraine's fixed-line monopoly, Ukrtelecom (**UTEL: BUY**), with a current MCap of USD 3.7 bln holds the promise of giving Ukraine the largest privatization deal in the region again this year.

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