



Focus
Ukraine

Scope
Bonds

Sector
Banks

Analyst
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Oschadbank

Eurobonds reprofiling

TUESDAY, 16 JUNE 2015

Key financials and ratios

	2013	2014	4Q14	1Q15
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	102,007	124,542	128,104	150,818
Loans	52,180	70,236	69,272	79,764
Deposits	46,484	56,266	55,368	67,558
Equity	19,188	19,214	22,749	22,013
Net % income	5,503	5,310	6,294	6,573
Net com income	1,231	1,260	1,260	1,293
Operating inc.	6,843	3,778	7,556	11,239
PPI	3,362	-452	3,694	7,312
LLP	-2,438	-9,662	-12,290	-16,012
Net income	710	-10,016	-8,564	-8,633

Ratios (%)

Tier 1 ratio	23.1	17.9	N/a	N/a
CAR	24.6	18.5	31.4	15.9
Equity-to-assets	18.8	15.4	17.8	14.6
Net loan-to-depos.	112.3	124.8	125.1	118.1
Cash-to-liabiliti.	9.2	10.0	13.0	13.3
ROAA	0.8	-8.8	-7.3	-6.8
ROAE	3.8	-52.2	-40.9	-40.5
Net % margin	6.3	5.1	6.1	5.9
NII-to-op inc.	80.4	140.6	83.3	58.5
Cost-to-income	50.9	112.0	51.1	34.9
LLR	18.8	25.5	27.2	28.6
NPLs	10.8	17.9	N/a	N/a
NPL coverage	173.5	142.4	N/a	N/a

Notes: P&L figures and ratios are on a 12-month annualised basis; CAR – capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); PPI – pre-provision income LLP – loan loss provision; ROAA and ROAE – return on average assets and equity, respectively; NII – net interest income; LLR – loan loss reserves; NPL – non-performing loans (>90 days overdue). Sources: Bank data, ICU.

	Moody's Ca	S&P NR	Fitch CC		
	Maturity	Coupon	Volume	Price	YTW Spread
		(%)	(US\$m)	(%)	(%) (bp)
	10-Mar-16	7.875	700	75.75	54.47 5402.0
	18-Jun-18	8.875	500	75.13	21.22 2013.1

Source: Bloomberg

As we predicted, Oschadbank's Eurobond restructuring terms mirror those of Ukreximbank's. The bank has also presented an offer to the Royal Bank of Scotland to exchange subordinated debt for a new Eurobond issue. We expect the bondholders to approve the offer.

Eurobond restructuring offer

Oschadbank and the members of an ad hoc committee have agreed to the following restructuring terms:

Existing debt shall be exchanged for new loans with a 7-year extension and no upfront payment.

For OSCHAD 2016 US\$700m loan, the interest rate will increase from 8.25% to 9.375%, with 60% of the outstanding amount payable on 10 March 2019 and the remainder to be paid in ten equal installments beginning on 10 September 2019.

For OSCHAD 2018 US\$500m loan, the interest rate will increase from 8.875% to 9.625% with 50% of the outstanding amount to be payable on 20 March 2020 and the remainder be paid in ten equal installments beginning on 20 September 2020.

The US\$100m subordinated loan will be exchanged for loan participation notes maturing on 19 January 2024. The interest rate shall be increased from the current USD 6-m LIBOR+5% to USD 6-m LIBOR+6.875%. 50% of the outstanding amount shall be payable on 19 January 2020 with the remainder be paid in ten equal installments beginning on 20 July 2020.

Holders will have the right to elect to receive either of these notes with the priority right given to the existing holders. The total amount of new loans cannot exceed the existing amount for each particular issue.

IMF requirement. The IMF program's balance of payments objective, known as Target 1, is the key driver of the restructuring. The aim is to save US\$15.3bn in public sector financing from external debt payments on sovereign, sovereign-guaranteed and state-owned entities. As Oschadbank falls into the third category, it is ineligible for a principal haircut that only granted to institutions in the first two categories.

The debt restructuring will allow Oschadbank to reduce FX repayments of principal due in 2015-2018 from US\$1.5bn to US\$1.3bn, while the remaining US\$0.2bn is payable to international financial corporations and other commercial banks.

EUR95m loan might be off the table. The previous restructuring proposal for debt included a EUR95m interbank loan expected to mature in December 2015. The loan was issued in December 2013 for EUR140m with an 8.5% coupon. Oschadbank decreased its debt by EUR45m after one year while the interest rate has been increased to 12%.

Successful voting expected. According to Oschadbank’s press release, the ad hoc committee currently holds approximately 54.3% of the total outstanding principal amount of the debt. As the general practice, 75% of the voting notes are required for the resolution to pass. This is probably the best restructuring that investors can get.

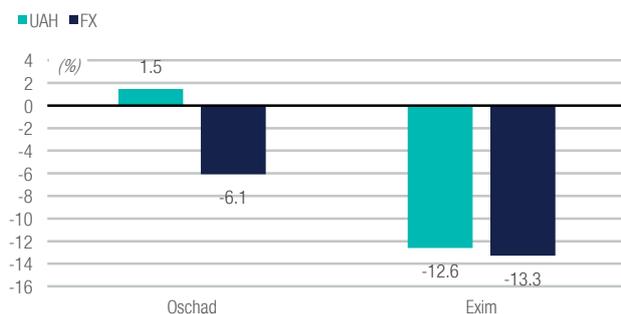
Oschadbank financials

Oschadbank made a net profit of UAH87m in 1Q15 following record-high net losses of UAH9.1bn in 4Q14 as a result of the Crimea loan portfolio being written off. The UAH11.6bn capital injection received last December should help the bank absorb further losses.

Positive trends in deposits. Another large Ukrainian state bank, Ukreximbank has struggled over the last several months to agree upon the restructuring terms. The local media has disseminated extremely negative publicity regarding a potential default which Oschadbank intends to avoid. Following a targeted marketing campaign promoting its financial soundness and desire to modernize itself, Oschadbank showed much better dynamic of retail deposit outflow in comparison to its competitor (see Chart 1).

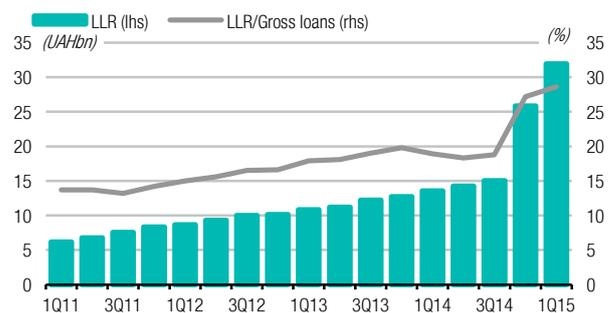
Exposure to government remains stable. UAH65.4bn of net assets belongs to the RP versus 54.5bn in 2013, according to the 2014 IFRS report. UAH11.6bn of the increase is from government bonds which the bank received in December 2014 as a capital inflow from authorities. Although these securities are nominated in UAH, the principal is indexed to reflect USD/UAH fluctuations, giving the bank additional resources to cope with a further devaluation of the hryvnia. The bank is expected to keep these bonds until they mature in 2024. The bank’s total gross exposure to Naftogaz includes UAH15.1bn of loans and UAH4.3bn in securities, and it has not changed. Loan repayments have been rescheduled from March 2015 to June 2015 and the maturities should be extended further.

Chart 1. Outflow of retail deposits (December’15-April’15)



Source: ICU

Chart 2. Loan loss reserves history



Source: NBU, ICU

Disclosures

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Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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