

# BCR PRIVATIZATION CASE

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December 2005



# BCR PRIVATIZATION: EXECUTIVE SUMMARY

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## Privatization process closed

- After a long, two-stage negotiation process, the Romanian privatization agency AVAS has selected Erste bank as a winner in the BCR tender
- Erste offered to pay 3,75 billion EUR for the 61.9% stake in BCR
- At the same time AVAS declined bid of another short-listed candidate - the Portuguese Millennium-BCP

## Bank valuation

- BCR valuation multiples based on the transaction price are relatively high (P/E of ~29, P/BV~6). If compared to other banks from the CEE region, BCR valuation includes a substantial premium. On the other hand, a premium against the rest of CEE is typical for other listed Romanian banks
- Current profitability of BCR is relatively high (ROE ~20% for H1 2005), however it is still too low to justify the purchase price (~29 times net profit). The surplus is apparently a result of future profits discounting, which are expected to increase substantially

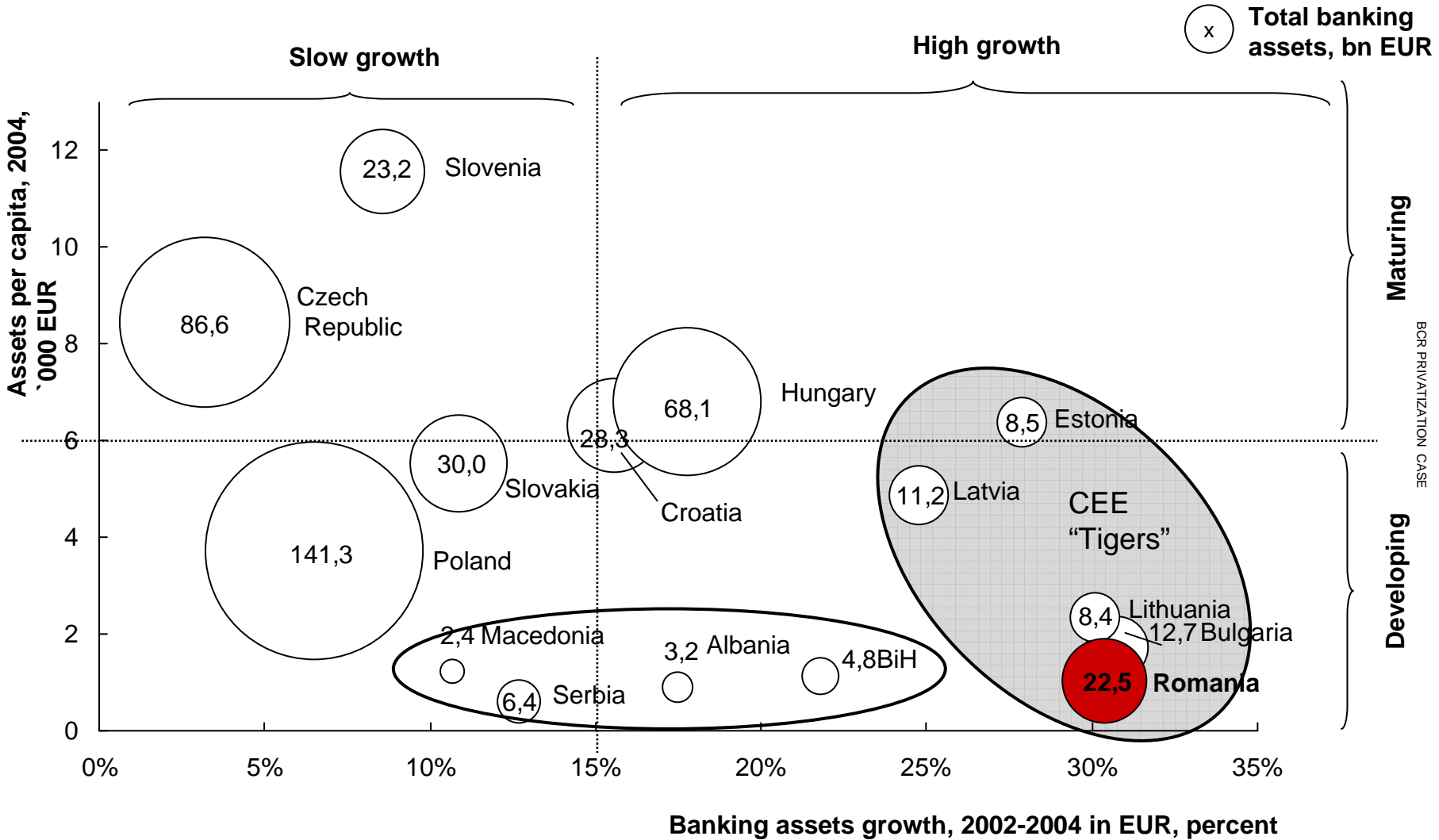
## Opportunities

- BCR is a clear leader on the Romanian market with ~23% market share (as of end 2005) and has a well recognized brand name
- A big advantage of the bank is a dense distribution network including branches in smaller locations, accompanied by large ATM and POS networks

## Threats

- Nowadays BCR is rapidly losing market share (~3% market share p.a.) As the overall market is growing very quickly, the loss of share is still not that painful. Anyway it is a kind of a ticking bomb situation
- The most important questions that BCR and its new owner - Erste will have to address soon are:
  - ***Will BCR be able to stop/break up the trend of quickly losing market share?***
  - ***Can BCR generate enough cash in the future to justify the high price paid by Erste?***
  - ***Will Erste be able to integrate and restructure quickly BCR while keeping costs under control***

# THE ROMANIAN BANKING SECTOR IS UNDERDEVELOPED BUT ALSO VERY PROMISING

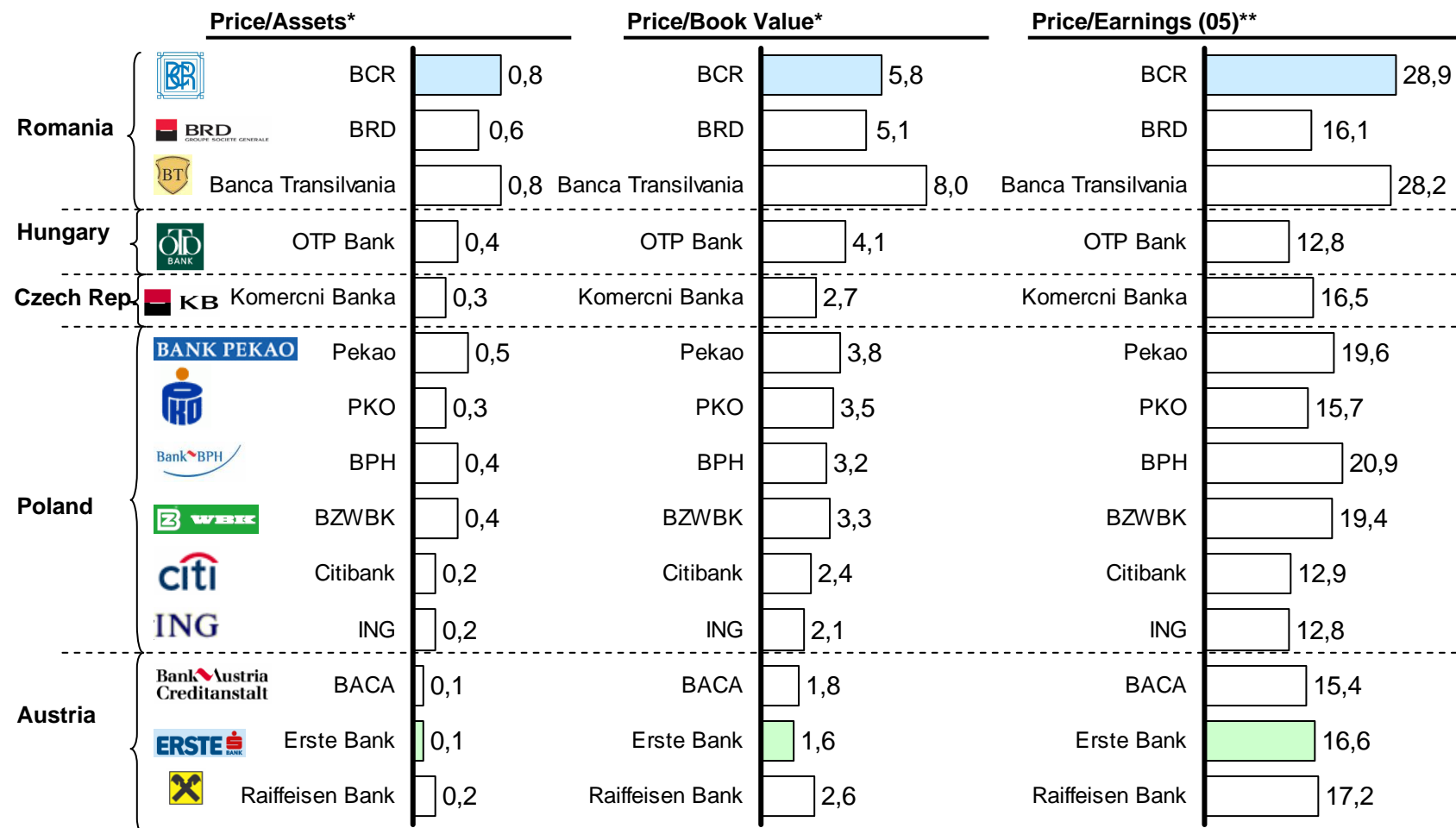


Source: Central banks, oanda, Census

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# ROMANIAN BANKS AND BCR ITSELF ARE THE MOST EXPENSIVE BANKS IN THE WHOLE REGION

## CEE Banks – Market multiples comparison



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\* Market cap as of Dec 20, 2005, assets and book value as of 1H2005

\*\* Market cap as of Dec 20, 2005, net profit forecast as for 2005

Source: Erste, banks, oanda, Intelace Analysis

# BCR OVERVIEW



## General data

### Address:

- B-dul Regina Elisabeta nr.5, sector 3, Bucuresti 030016, Romania

### Contact data:

- Phone: +40 21-3121678, +40 21-3126185, email: bcr@bcr.ro

### CEO:

- Dr Nicolae Danila

## Shareholders structure

- Erste Bank 61.9%
- local investment trusts 30,1%
- individuals 8,0%

## Short history

- 1990 - BCR bank founded by the Romanian state in the process of banking system restructuring
- 1999 - BCR merged with troubled Bancorex bank
- 2004 - Sale of a 25% stake in the bank to EBRD and IFC by Romanian Treasury
- 2005 - Auction of 62% stake in the bank - joint tender of Treasury EBRD and IFC. Erste wins, offering 3,75 bn EUR for ~62% stake

## Distribution network

### Key figures, October 2005:

Key figures, October 2005:	Number
<b>Branches total:</b>	355
of which:	
<b>Branches - /in capitals of counties/</b>	41
<b>Branches - other:</b>	314
<b>ATMs</b>	972
<b>POS</b>	6 450



### Network focus:

- Countrywide coverage
- No particular focus

### Alternative access:

- Call center
- e-banking

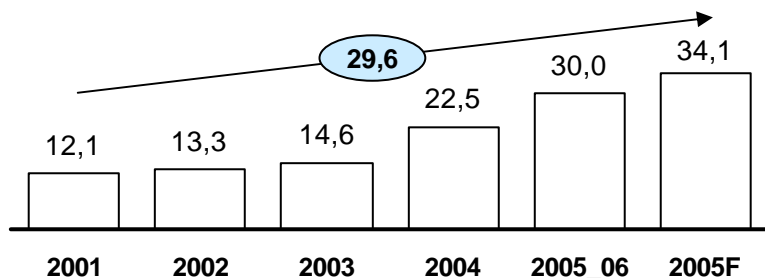
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# AS THE MARKET GROWS RAPIDLY, BCR IS QUICKLY LOOSING MARKET SHARE



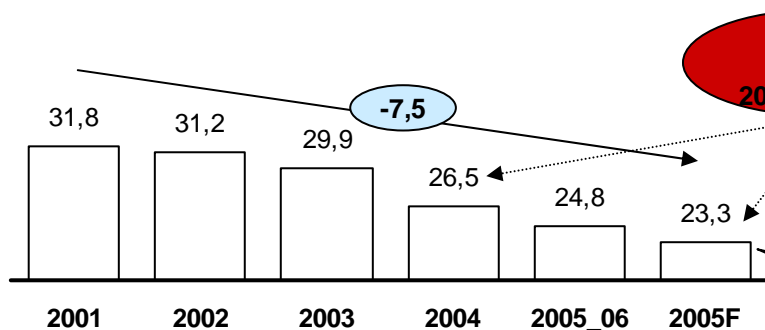
## Commercial banks assets

EUR billion



## BCR – Market share

%



- Romanian banking market is growing rapidly, BCR however can't keep the high pace
- As a result of slow growth, since 2003 BCR is losing rapidly market share. The loss exceeds 3 p.p. per annum
- Nevertheless BCR is still a clear leader, as there is no other bank with comparable market position at the moment

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BRD, the closest competitor keeping ~14% market share /as of 1H2005/

\* Registered unemployment rate, as of end of the period

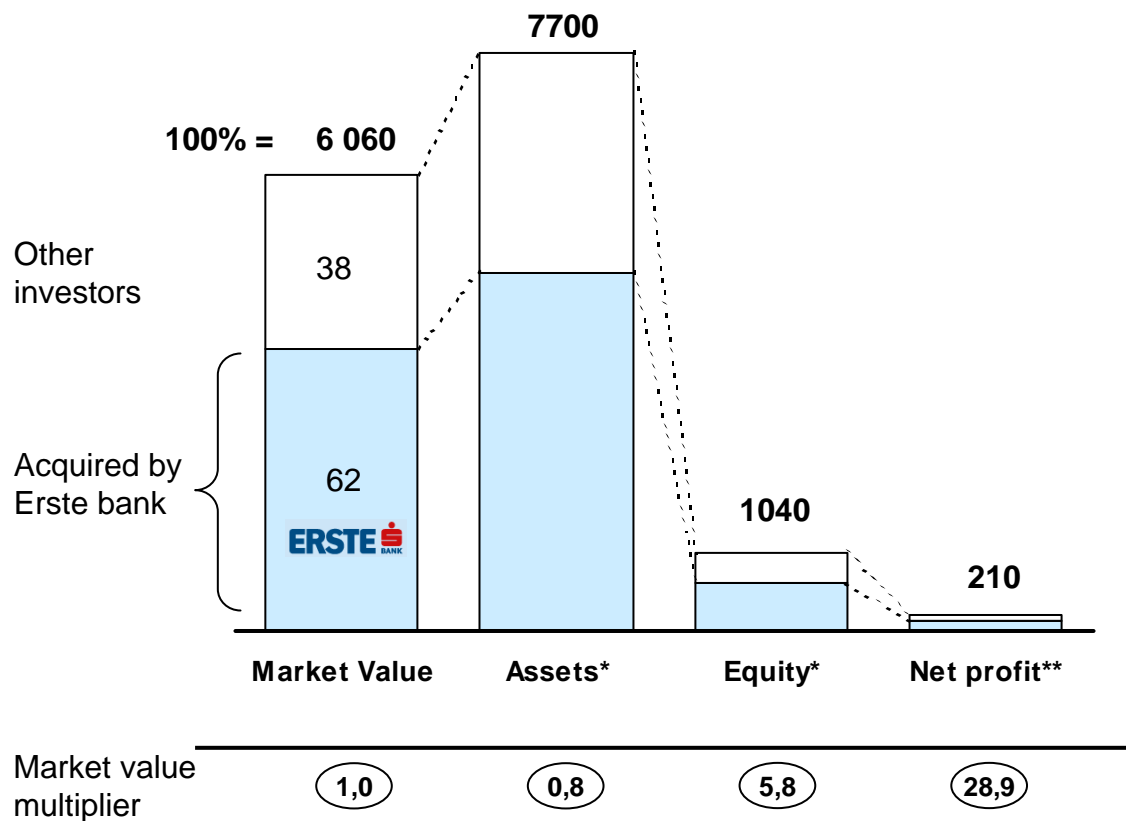
\*\* Compound Annual Growth Rate

Source: NBR, BCR, Intelace Research

# BCR WAS NOT A CHEAP BUY. WILL IT PAY OFF IN THE FUTURE ?

## BCR Acquisition price and market multiples

EUR million, percent



- Erste bank paid 3,75 bn EUR for ~62 % stake in BCR which implies valuation of the whole bank on the record level of 6,06 bn EUR

- Major multiples as: P/E ~29, P/BV~6 and P/A~0,8 indicate that BCR was an expensive buy

- A big portion of current BCR valuation includes future growth prospects

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\* Data as of 1H2005

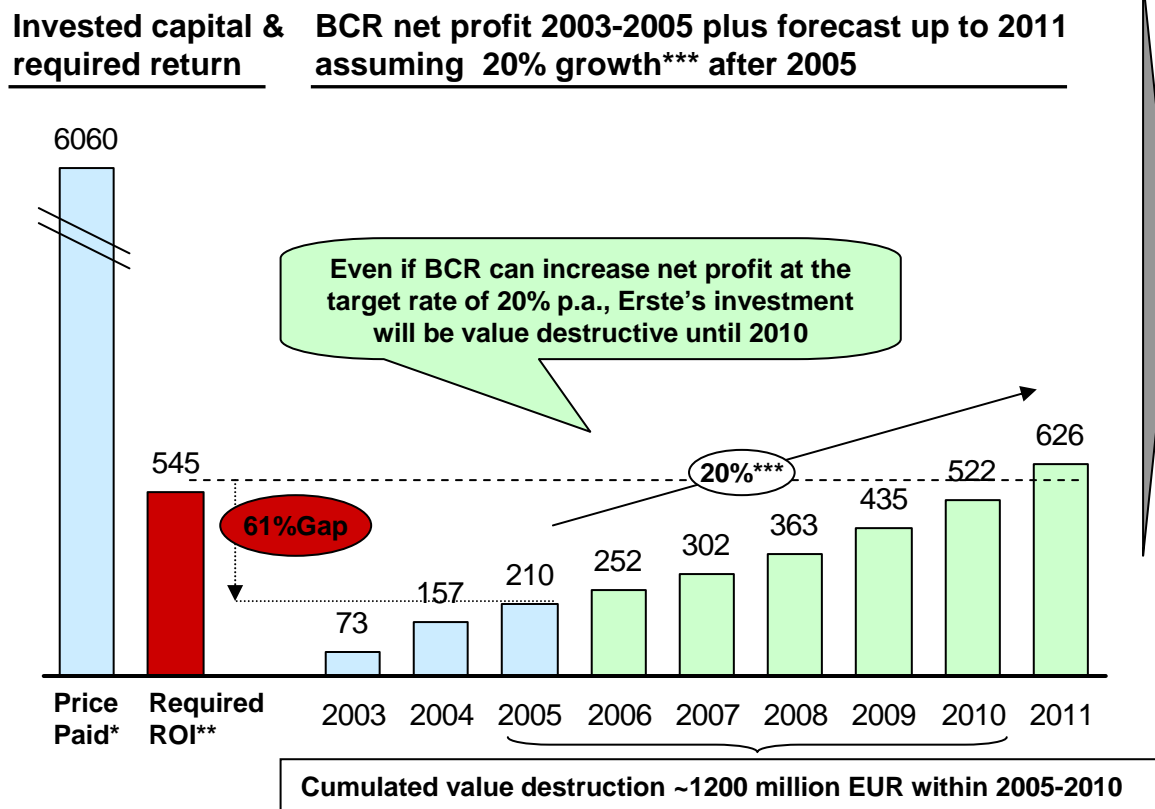
\*\* Forecast for the full 2005

Source: Erste, BRD, Intelce Analysis

# ERSTE WILL NEED TO INCREASE BCR PROFITS SIGNIFICANTLY IN ORDER TO JUSTIFY THE HIGH PRICE PAID

## Calculation of Erste return on investment in BCR

EUR million



- Current profitability of BCR does not justify the high price paid by Erste, so a big part of BCR valuation are expected future profits

- Thanks to the dynamically growing banking market, it is likely that, the actual profit growth of BCR may exceed the planned level of 20% p.a.

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\*\*\* announced annual net profit growth target /stated during the Conference Call on Dec. 12, 2005/

\*\* assumed 9% required yield on investment (4% long term risk free rate + 5% equity risk premium)

\* calculation assuming 100% ownership

Source: BNR,NBP, BP, Erste, oanda

## On this report

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