

BANK OF THE YEAR - CZECH REPUBLIC



Back to Basics

ACQ's Czech Republic Bank of the Year 2009 award goes again as in 2008 to ČSOB for outstanding skills and leadership in its marketplace. Charlotte Abbott talks to Ivan Meloun, Director of ČSOB's Acquisition and Leveraged Finance department (CSOB AF), about the banks back to basic approach to lending.

The Bank

CSOB is part of Belgium's KBC, a leading European bank assurance group, and is one of the biggest local banks in the Czech Republic, both in terms of balance sheet and number of corporate clients. Measured in the long term basis, most of the major corporate Czech firms use CSOB as their house bank, or at the very least, one of them.

CSOB AF is the transaction unit focused on origination of new deals from the new and existing customers generating financing of new transactions. CSOB AF is interested in all financing opportunities connected to its clients and prefers not to follow the cherry-picking strategy. Along with its corporate clientele, typical clients are private equity funds and wealthy individual investors.

Ivan Meloun has been active in financial markets since 1996 working in, amongst other things, investment banking, asset management and company restructuring.

"The role of the CSOB AF team is simple; we are part of the large structured finance division. There are other teams like us: Syndication, Project finance, Trade finance, Real estate finance, etc. All in all, there are some 40 commercial specialists in the CSOB structured finance division. CSOB AF consists of 4 people, I guess we are the biggest team

focusing on acquisition finance or leveraged buyout financing in the Czech Republic, it means that we in one team cover not only the LBO type of financing for the private equity sponsors but also the M&A financing dedicated for the corporate investors. We report to Marek Ditz who is Head of the Structured Finance and Institutional Banking Division."

"All business decisions in CSOB AF are made locally within CSOB; we originate the deals ourselves."

"We serve as the centre of excellence and support for other KBC units in the Central Europe regions like Slovakia, Hungary or Poland where KBC Bank is present. We exchange the best practices with K&H Bank in Hungary, Kredybank in Poland and CSOB Slovakia, and provide our collective clients with full coverage of the CEE region."

"We also act as a local service point for foreign banks. When there is a big buy out, over €100m for example, that is being driven by maybe a London-based bank, we are a strong point of contact for the foreign bankers who will approach us for our local knowledge and advice. We are not the only local bank in this region, obviously, so I am always very happy when we are approached for this kind of advice."



Ivan Meloun

Winning Formula

In 2008, CSOB has been the recipient of numerous accolades including; 'Best Bank in Czech Republic 2007' by Global Finance and The Banker, 'Best Financial Institution in Czech Republic 2007', 'Best Trade Finance Provider 2008', and ACQ's 'Bank of the Year' for two years running.

"Our winning formula is to keep banking simple. We are conservative bank and still use the old efficient model that has been used for hundred of years.

"Our model doesn't have any sophisticated products; we just do the credit and back the target company, like we have always done. We also always sit of our loans till maturity and have an extreme focus on relationship building. During the acquisition we cover both type of sponsors (i.e. private equity and trade buyers), so the long term relationship between the target company and our bank will last regardless who becomes the new owner "

Big deal

Last year, Ivan stated that he hoped to see the return of the big deals over €100m in CSOB's marketplace and that the banks will find enough appetite to underwrite and syndicate them.

"In the past we used to underwrite almost all senior facilities on our own. Nowadays, because the syndication market is very weak, we underwrite loans jointly with other banks or we engage in club financing.

In the Czech Republic itself we can hardly see any relevant new transactions executed during 1H2009.

An exception was of the refinancing of initial LBO financing of Hamé (EUR 100 mio senior and mezzanine financing underwritten by CSOB and other local banks) that was successfully later syndicated and closed in 2.Q 09 proving appetite of local banks for strong names in food segment. Hamé is leading food manufacturing company in CEE producing durable and chilled foods with tradition going back to the second decade of the last century.

Despite the limited activity on the Western markets the Czech LBO market sees the slightly recovery trends, the local banks disposes with the funds and are prepared to allocate them, the local pricing still a little bit below Western European standards that makes financing quite attractive and also the drop in leverages is not so significant – the banks are still providing the senior leverage above 3.0x as before the crisis.

“For rest of 2009, CSOB will be more selective with their lending, concentrating on industries that have remained resilient through the crisis, for example the food, water utilities and energy sectors.”

Ivan Meloun

DETAILS



In our team we have completed two LBO financing for local private equity group J&T in 1H2009, both are related to energy sector, i.e. EUR 40 mio senior debt for the company called Elektrizace železnic Praha (service company for the electricity grid of the railways network) and EUR 30 mio senior debt for the company called EGEM (engineering company specialized in design, installation, reconstruction, rehabilitation and maintenance of power distribution systems)

We are very pleased that the number of western based private equity funds (that have never been in CEE before) eyes the CEE region (mainly Czech Republic) in 2009 as the interesting enough to spend the capital here. Regarding the new deals that we have in the pipeline, yes, the big deals over €100m have returned to our market place, we are working currently on three EUR 100 mio deals in senior loan size and we will be happy to share this information once the deals are completed.

In 2008 CSOB continued to grow in but not as fast as previous years. The bank experienced double digit growth in 2007 and prior to that, but now prefers a single digit growth of its revenues in return for a solid portfolio in the current tumultuous business environment.

“The first six months of 2009, we have seen the exit of many competing foreign banks in the Czech market place. At the moment, local banks,

including CSOB, are really active and fully capable of providing loans to local clients.

“Some banks that used to be in the Czech Republic in 2008 aren’t here any more, but I believe that this is just a temporary situation, with foreign backed banks re – entering the marketplace.”

“In regards to the next six months, I think there will be financing, as we haven’t stopped so far and we went in the latter half of 2009.

“For rest of 2009, CSOB will be more selective with their lending, concentrating on industries that have remained resilient through the crisis, for example the food, water utilities and energy sectors.

“In areas such as the automotive and machinery, we will analyse each company independently from the market, as those areas have started to feel the effects of the crunch.

“In two years time, CSOB will be even stronger. Throughout the crisis we never closed our business; we kept going, and keep enough sources for providing new loans as CSOB loan-to-deposit ratio stands at 67.7% and CSOB capital adequacy ratio is at 11.71% to 1H2009.. We can honestly say that during one of the worst recessions in decades, CSOB stayed open for business, when other did not. I think it’s a great accolade to the strength of the bank. **ACQ**

Ivan Meloun
 Ceskoslovenska obchodni
 banka, a.s.
 Acquisition and Leveraged
 Finance
 Radlicka 333/150
 150 57 Praha 5
 +420 224 114 393
 imeloun@csob.cz
 www.csob.cz

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(long-term partnership) = success²



*We know the formula for **SUCCESS***



As the largest bank on the Czech market, we continue to strengthen our leading role in corporate and institutional banking. Our clients can expect a high standard of service, as well as a professional and dependable team, offering a unique combination of insight into the local environment and a support from international KBC network. Our comprehensive, individually tailored financial and consulting services have been designed to establish long-term, mutually beneficial relationships with our corporate and institutional clients.

CSOB for your success.