

## ANALYSIS - SEE M&A Market Set for Busy H2 After Eventful H1

SOFIA (Bulgaria), July 7 (SeeNews) - With the brisk mergers and acquisitions activity in Southeast Europe in the first half of 2011 now in the rear-view mirror, the deal-making pipeline for the next six months looks just as busy, analysts said.

While on M&A markets like Bulgaria and Romania the full recovery is still a couple of years away, the Western Balkans could manage a significant turnaround in 2011, rebounding to pre-crisis levels as soon as 2012, analysts from Vienna-based advisor Raiffeisen Investment AG told SeeNews.

According to Valeri Petrov, a partner at UK-based Bancroft Private Equity, investors, especially those on the mid-cap segment that cannot afford to pursue M&A deals on the BRIC markets, are returning to the region to meet demand that has built up during the crisis.

On the funding side, banks have a pent-up appetite for funding M&A transactions in Southeast Europe (SEE) but the recent downturn has made them very picky and the cost of loan-financing that they offer is high, Petrov said.

Having adjusted their expectations in terms of asset valuations to the post-crisis market realities, Petrov said both buyers and sellers are now much more willing to meet each other half way when agreeing on a deal price.

### RICH M&A PICKINGS IN WESTERN BALKANS

With the recovery of the economies there and the massive market consolidations, a significant level of M&A activity is expected in the Western Balkans, Raiffeisen Investment country director for Serbia Dragan Parezanovic said.

Among deals expected to close in the region in 2011, Parezanovic highlighted the wrap-up of Delhaize's buy of Serbia's Delta Maxi; the regional shopping spree of Slovenia's Mercator for smaller supermarket chains; investment fund Salford exiting all assets held in Serbia; Nestle finalising a deal for Serbia's Centropoizvod; and the government in Belgrade seeking strategic partners for the likes of JAT Airways, Galenika and Telekom Srbija.

When it comes to Croatia, set to join the EU in 2013, the companies there are repositioning on the markets in order to avoid being swept away by the competition, Parezanovic said. "As a result, significant M&A activity is expected during 2011, mostly in the industrial, agricultural and consumer goods sectors."

In the pre-crisis period, Croatia's M&A activity peaked at 22 deals in 2006 and then bottomed at seven deals in 2009. Experts estimate that the country's M&A market will reach a total value of 2.0-2.5 billion euro (\$2.9-3.6 billion) by the end of 2011.

Serbia, arguably the Western Balkans' top investment destination due to its low corporate tax rate, ample financial incentives for investors, highly educated labor force and some of the region's lowest electricity prices, also experienced a significant drop in the M&A market. According to the pipeline of projects, the estimated value of M&A deals in the country in 2011 is at around 2.5 billion euro.

Bosnia is still struggling with privatizations and 2011 might be the year when the government will exit as a shareholder from some strategic companies such as Bosnalijek, Tobacco Factory Sarajevo and BH Telekom, Parezanovic said. "Bosnia is the most difficult to predict since it still has high political risk and therefore, unpredictable investment climate. Value of pipeline transactions in 2011 is between 800 million and 1.0 billion euro."

The cable TV segment in the region is among the sectors tipped for a rush of M&A activity.

"We believe that there is ample room for consolidation on the cable TV market in Serbia, bearing in mind that only three of some 80 licensed operators there are owned by foreign investors and the rest are mostly family run business," Parezanovic said.

With complete liberalisation of the country's telecommunication market, which involves scrapping licensing requirements for fixed-line voice services, market consolidation will become inevitable.

Most of the countries in the Western Balkans are characterized by presence of local CATV providers covering the area of one city with its immediate surroundings. "With the opening-up of those markets, we can expect bigger regional players or private equity funds to perform consolidation as the first step thus creating attractive targets for strategic investors for the second step."

The initial consolidation wave is already in progress with Croatia's Vipnet recent acquisition of cable operator B.net and the deals last year in which Bulgaria's Mobiltel scooped up two local cable operators. Mid Europa Partners as well as GTS are intensively seeking acquisition opportunities in Western Balkans, Croatia in particular, the official said.

#### PRIVATISATIONS SET TO BOOST M&A IN BULGARIA

"The market is currently picking up speed again, however investors are very cautious and choose to look at targets that best fit their investment strategy," Raiffeisen Investment country director for Bulgaria Ivailo Gospodinov told SeeNews.

"Deals in 2010 were few and execution moved very slowly. In the first quarter of 2011, I see a clear uptrend - the number of deals increases and investors seem to have appetite for deal-making. Most deals are in the mid-cap segment with an average deal value of up to 20 million euro."

Gospodinov does not see Bulgaria's M&A market achieving pre-crisis levels in terms of value in 2011. "I reckon that would come in the next two years hopefully. I could say that the overall deal value could reach 1.0 billion euro, dependent on how and when privatisations - like those involving tobacco holding Bulgartabac and the state-owned minority stakes in electricity distributors, close."

The technology, media and telecommunications (TMT) sector is not so hot for Bulgaria in 2011, but still Gospodinov expects possibly some deals in online media as well as former incumbent telco Vivacom to be put up for sale in 2012.

The energy sector is seeing resurgent M&A activity, namely with the sale last month of the Enel Maritza East 3 power plant where Raiffeisen Investment acted as a financial adviser to the buyer, U.S. company ContourGlobal. Also there are a handful of investors looking to acquire photovoltaic projects, the official said.

#### ROMANIA STILL SHORT OF PRE-CRISIS M&A MARK

The current M&A market levels are at about 10% of the pre-crises values and a full recovery will not happen in 2011, Raiffeisen Investment country director for Romania Ioana Filipescu said.

"The market could gain some size provided that privatisations and the expected large deals take place in the second part of the year."

As of year-to-date in 2011, the Romanian M&A market has accounted for 37 completed transactions, totalling 393 million euro, down by about 45% in volume terms and 28% in value compared to the same period of 2010, the official said.

"Some 30% of the transactions in H1 2011 had an undisclosed value, whereas 45% were below 10 million euro. The average transaction value seems to be a little bit higher than last year, at around 15 million euro."

The TMT sector is among Romania's most active in 2011 with 10 deals, mainly with small valuations. A possible major deal in the sector could involve the acquisition of local telco UPC by its peer RCS&RDS, a transaction that could reach more than 200 million euro. "The main issue following such a move would be that RCS&RDS would hold more than 50% of the market, which poses some pressure on the Competition Council to approve such movement," the official said.

Looking ahead, Filipescu expects the average transaction value to remain below 20 million euro, some exceptions being a couple of expected deals in the TMT segment and a pick-up in M&A activity in the banking sector where the assets of at least four banks - MKB Romexterra, ATE Bank Romania, Volksbank and RBS, are said to be currently up for sale.

Privatisations are also likely to contribute to deal-making activity as the government has announced plans to divest minority stakes in high-profile companies like OMV Petrom, Transgaz, Transelectrica, Nuclearelectrica and Hidroelectrica. Oltchim, the state-owned chemical company is on the privatization list for this year, Filipescu said.

Other sectors with expected M&A activity during the coming quarters are real estate, healthcare, mining and agriculture.

## SLOVENIAN MARKET ALL BUT QUIET

Possible acquisition targets on the local market are businesses like food company Zito and beverage maker Fructal, Bojan Ivanc, an analyst with the local KD Banka, told SeeNews in an emailed statement.

As for Slovenian companies scouting out M&A opportunities abroad, the analyst said it was unlikely as they are currently more in a divestment mood. Ivanc believes a takeover of state-controlled flag carrier Adria Airways is possible, but the price would be low.

One interesting space to watch is Mercator where a major stake is up for grabs, Ivanc said. "Banks are among the main sellers, together with overindebted affiliates of Pivovarna Lasko."

(\$=0.6999 euro)

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