

Halyk Finance Weekly

Banking crisis in the US keeps unfolding

The bankruptcy of Lehman Brothers, the sale of Merrill Lynch, and a looming takeover of AIG by the two remaining investment banks showed that the Wall Street underestimated the extent of asset deterioration at major US banks. As the news hits the home, the Fed stands ready to ease access to liquidity while the Treasury does not rule out bail outs in the future. However, monetary easing can achieve only so much to stave off further asset deterioration and is fraught with increasing risk of inflation getting out of control. So far, the US has been able to tame the fears of inflation by providing a safe haven to increasingly anxious investors in the form of government debt. Global demand for US Treasury obligations seems insatiable now, helping to keep the short-term rates low. However, this cannot last forever. At some point, further monetary easing coupled with increases in US government debt is bound to trigger a jump in inflation rates. We believe that the US enters the critical zone where discretionary money may have perverse effect on the economy.

Shares of Kazakh banks fall to historic lows

Demand for liquidity on the part of the US financial institutions worsened global monetary conditions and lowered the prospects for stabilization on international markets. Expectations of tighter US dollar are already responsible for last week capital outflow from emerging markets as reflected in 5.2% decline in MSCI EM index. Mirroring the woes of the US banks, Kazakh banking sector has been hit hard by falling real estate prices, and amplified by deterioration of asset quality, difficulties in construction sector, and shrinking incomes. Unlike the US banks, demand for liquidity on the part of Kazakh banks cannot be fully met by the NBK, which must maintain a tight balance between exchange rate stability and the stability of monetary conditions. In this environment, external financing becomes of utmost importance to any Kazakh bank. Last week events offered the ample evidence of this fact.

During last week the shares of Kazakh banks were hit hard by the unwinding financial crisis. Among the biggest losers were those Kazakh banks most dependent on external financing. The shares of BTA lost 18.5%, while shares of Alliance Bank lost staggering 28.3% and keep on falling as this column is being written. The shares of KKB, which boasts a new cash-rich shareholder, declined by moderate 1.7%. The shares of Halyk Bank, which relies for its funding mainly on domestic retail deposits, lost 7.6%. The shares of all four are at their lowest in 52 weeks, trading at between 60 and 100% of book value.

	2008			2009		
	P/B	P/E	ROE (%)	P/B	P/E	ROE (%)
BTA	0.61	4.59	14.2	0.56	4.21	13.84
KKB	0.77	4.68	17.4	0.65	4.2	16.34
Halyk Bank	1.84	7.75	25.4	1.45	6.43	26.05
Alliance Bank	0.22	1.76	13.22	0.18	1.09	13.04
Bank Center Credit	1.64	9.16	19.65	1.68	9.32	19.7
Sberbank	1.12	6.3	19.6	0.91	4.99	20.41
Vnesh Torg Bank	0.47	5.82	8.95	0.44	4.08	11.29
Bank of Moscow	1.85	10.62	18.65	1.56	8.99	18.73
UralSib	0.51	3.01	20.78	0.39	2.62	20.5
Bank Vozrozhdenie	1.14	5.74	21.59	0.92	4.48	22.28

Interventions relieve upward pressure on Tenge

The NBK kept absorbing the net inflows of dollars on the FX market, letting Tenge appreciate ever so slightly. This continues the trends of the last month, when net international reserves rose by \$715ml, reaching \$21,7bl. The surplus in the current account, particularly pronounced in goods, continued to exert upward pressure on Tenge.

Although export prices began to fall two months ago, export revenues began to feel the effect only recently. In addition, a new tax on oil exports may have increased the exporters' demand for Tenge. Meanwhile, imports have been slowing even since the national income began to feel the pinch of credit contraction. We expect the upward pressure on Tenge to subside in the near future as lower prices begin to affect value of exports.

KazPrime rose by 29 basis points

KazPrime index rose from 6.9% to 7.19% on September 17. We interpret this as a reflection of a surging demand for liquidity by increasingly volatile international financial markets. We expect the rates to climb further despite recent injections by ECB and the Fed as the US and European banks and investors are likely to hoard liquidity.

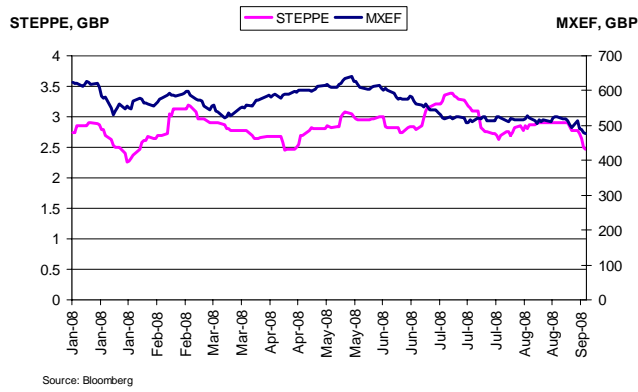
Limits of government support to construction companies

On September 9, 2008, during the meeting with prime-minister, CEO of BTA accused Kuant, a major construction company, of improper spending \$134m within government's support program. The program, administered by government fund Kazyna, was designed to help troubled construction companies. We expect the program to have little effect on the de facto bankrupt construction companies and their lenders unless the government fully recognizes the rights of the creditors. A new government initiative to buy distressed assets from the banks is at the early stages of development. Official announcements indicate that the government is aware of the incentive and distributive problems inherent in a large scale bail-out at taxpayers' expense. However, so far the government has not been willing to put failed construction companies through bankruptcy – a painful, but necessary step on the road to quick recovery. Given the history of government interventions during past 12 months, we expect the indecision to persist and uncertainties in the construction and real estate sectors to continue for extended period of time, also affecting the valuation of banks' assets and limiting banks' access to external financing.

Common share of UKTMC rose by 33%

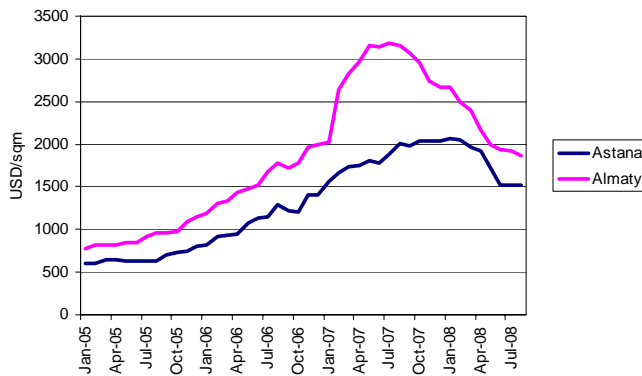
A change in the price came as result of a transaction the size of 0.3% of outstanding shares. One of the world's largest producers of titanium, UKTMC is controlled by a Belgian based Specialty Metals Company (72% of shares). The company revenues are linked with the fortunes of the aircraft producers, and hence should benefit from declining oil prices. However, we believe that the surge has nothing to do with external developments. Very illiquid, the shares of UKTMC most likely were traded in what we believe was a negotiated transaction to gain or to consolidate control over the company. Preferred shares trade at a fraction of the price of common stock. In our opinion, current values of the common and preferred shares of the company reflects opaque operations and abuse of minority shareholders, but may both rise substantially if the company begins to sell titanium at market prices.

Shares of Steppe Cement, an LSE listed producer of cement from Kazakhstan, fell by 10% As the US dollar is gaining strength for the second month, the markets no longer see the rewards in carry trades and higher-yielding assets in emerging markets. Portfolio investments are expected to follow the hot money soon. The news of 38% yoy net income growth in 2008H1, published on September 5, 2008, did not render Steppe Cement immune to the general trends. More relevant to the company's fundamentals are the news of deteriorating banking assets and sliding real estate prices in Kazakhstan. As these trends are not expected to abate any time soon, the shares of Steppe Cement, which most sells on the domestic market, are likely to sag as further.



Real estate prices in Almaty fell by further 3% during August

Our weighted real estate price index fell by 42% since September 2008 to \$1850/sqm. As prospects for credit growth to SME, construction, and mortgage loans are getting dimmer, we expect real estate in Almaty to keep losing value, albeit a slower pace. Other factors also point to a slow decline in real estate prices in the near to medium term. The banks are unlikely to dump the stock of foreclosed housing at current prices as it will force them to recognize the losses on the value of the collateral. Rising capital adequacy requirements only strengthen the resolve of the banks to keep the foreclosed property on its books.



KASE: week-on-week

Company	Last Price	Weekly Weighted Average Price	One Week Change	Volume (mln)	Mkt Cap (mln \$)	52-high	52-low
AktobeMunaiGaz	49000	26358.49	5.43%	2.79		75037	25000
Alliance Bank com.	12500	14757.14		8.06	1007	64500	13500
Alliance Bank pref.	9100	9900		3.50	30	19000	9900
AO Kazcat	6.3	6.26	20.24%	14.09	78	6	4
Astana-Finance com.	22728	22728.01		3.05	703	25000	9700
Bank CentreCredit com.	1400	1360.04	-2.99%	786.25	1520	2000	986
BTA Bank com.	37510	45225.73	-8.46%	16.09	2768	153203	850
Chimpharm com.	910	910		0.57	38	1001	910
Deltabank	4900	4900	1.03%	278.00	171	5291	1321
			-				
ENRC	1535	1579.62	15.87%	3.02	16526	3750	1501
Eximbank com.	1152.69	1152.69		15.45		2200	1153
Halyk Bank com.	290	317.82	-2.59%	3250.31	2214	640	290
Halyk Bank pref.	236.36	236.36	-6.71%	2.36		380	236
			-				
Kazakhmys com.	2002	2181.43	15.52%	3.03	8958	4600	1800
Kazakhtelecom com	31150	31115.99	-2.88%	7.99	2844	45600	29264
Kazakhtelecom pref	12272.73	13062.51	-5.75%	19.41	41	24600	12091
KazInvestBank com	270	280		211.59		390	110
Kazkommertsbank com	575	592.14	-3.65%	14.49	2860	1255	576
Kazkommertsbank pref	256.36	275.15	0.98%	17.00		440	256
Kazmunaigaz E&P com	13199	13844.52	-5.06%	11.01	7748	24595	12200
London-Almaty IC com	8500.01	8500.01		98.00	106	9999	5000
Mangistau Power Distribution	2500	2500		1.70	33	2970	2500
Nurbank pref	13000	13000		40.65	24	13000	12400
AO Velikaya Stena	350000	350000		354.97	36990	353904	322000
			-				
Temirbank com	5800	5801.28	12.48%	27.23	922	7900	4450
Temirbank pref	2270	2270		9.38	94	2717	2000
Temirbank pref	2100	2287.15	-9.94%	150.80	87	3480	1930
Tsesnabank com	2100	1618.21	-1.93%	4.60	188	4300	1280
Ust'-Kamenogorsk TMC com	23000	26000	33.33%	210.35	373	27000	19000
Ust'-Kamenogorsk TMC pref	4000	4000		37.42	3	10000	1000

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