

M&A challenges in Romania 2007

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Market history

The Romanian M&A market has been characterised in recent years by a constant growth, in line with the growth of the economy. In absolute figures, the market increased ten-fold from €0.5 billion in 2003 to over €5 billion in 2005 and 2006, respectively. The milestones of 2005 and 2006 in the market have been represented by the acquisition of mobile operator MobiFon in a \$2.5 billion transaction by the UK based Vodafone and the privatisation of BCR ('Banca Comercială Română SA'), Romania's largest commercial bank, in a €3.75 billion transaction awarded to the Austrian Erste Bank, each funnelling more than half of the funds that entered the market in 2005 and 2006, respectively.

The number of transactions also increased in as much as threefold during 2005 as compared to 2004, whilst 2006 brought a further 25 per cent increase in the volume of transactions in comparison with the same year 2005. Out of these, more than 70 per cent of the deals concluded in the M&A market in 2006 represent private sector acquisitions, pointing towards the direction in which the M&A business is expected to develop within the following years.

Significant examples of this shift towards private sector acquisitions are clearly illustrated by the consolidations occurred within the banking and financial services industries. In 2005 alone, the hierarchy

within the local banking industry has been reshuffled following the acquisition of the local player Banca Țiriac by the local subsidiary of HVB Bank. In the same year, the Romanian insurance industry has seen the creation of the so far largest and single insurance group on the Romanian market following the acquisition by Austrian Wiener Städtische of Omnisig and Omnisig Asigurări de Viață from Dutch based TBIH Financial Services (Wiener Städtische already held at the time the controlling interest in Unita and AGRAS Grupul Wiener Städtische, significant players in the local insurance industry).

The 'exhausting' of the privatisation pool

In view of the 2007 'season', the market expects the start of the privatisation process with respect to Oltchim and Antibiotice, two of the best performing companies currently held by the Romanian state through its specialised agency AVAS (Autoritatea pentru Valorificarea Activelor Statului). The state holds 95.73 per cent in Oltchim (Romania's largest chemicals producer) and 53.0173 per cent in Antibiotice (one of the largest manufacturers of pharmaceutical products in Romania). Both companies are listed on the Bucharest Stock Exchange and both have implemented restructuring and investment plans with generous budgets for 2007.

As regards key privatisations expected in the heavy industry this year, the

agenda is topped by the planned transfer of the majority stake in Daewoo Automobile Craiova (one of the largest automotive manufacturers in Romania), a former joint venture of the Romanian state with Daewoo Motor Company, and the privatisation of Electroputere Craiova, the country's top manufacturer of locomotives, railway equipment and high-voltage electrical equipment. In the energy sector, the state is planning the privatisation of the remaining energy distribution companies: Electrica Transilvania Sud (valued at €930 million), Electrica Transilvania Nord (valued at €916 million) and Electrica Muntenia Nord (valued at €904 million). Further up the production chain, the Ministry of Finance and Economy has announced its plans to sell during this year the country's top energy producers (thermo-electrical), which include the energy complex Turceni (valued at €546 million), the energy complex Rovinari (valued at €533 million) and the energy complex Craiova (valued at €417 million), all three located in the south-western part of the country. Nevertheless, apart from these flag examples, it is expected that privatisation work to be available in 2007 will be significantly lower than the legal work related to the acquisitions that are envisaged for completion in the private sector this year.

The increasing role of the Stock Exchange
The Romanian capital

market, although still young and without a record of high profile transactions (except for the listing of Transelectrica last year through an IPO valued at €34 million, representing 10 per cent of the shares), has consolidated during the last two years and the two main stock exchanges (Bucharest Stock Exchange and RASDAQ) have merged, bracing themselves for an increased and more effective presence on the market.

The outlook for 2007 appears to be promising and stock exchange players are preparing themselves for the listing of Transgaz (the country's largest distributor of natural gas), through an IPO carried with respect to 10 per cent of the shares and the long awaited listing of Romtelecom (the former fixed line monopoly) through an IPO with respect to all or some of the shares remaining in state property (the state still owns 46 per cent of the shares). These will most probably represent the major market drivers this year unless the state will decide to push forward with the listing process of the major energy producers still owned by the state such as Nuclearelectrica, Hidroelectrică and Romgaz (the main natural gas producer). Revenues derived from the listing of minority stakes in these companies (together with Transgaz) are expected to top a figure in the range of €1-1.5 billion and the listing procedures are scheduled to be finalised by the end of 2008.

Furthermore, the role of

the stock exchange is set to increase in the future due to the fact that almost all companies privatised through the mass privatisation program in the nineties have ended up listed on RASDAQ (now part of BVB).

Consequently, any capital increase, IPO, takeover or delisting will have to be carried out through the specific mechanisms available on the stock exchange. Additionally, the participation of foreign investment funds and the increasing roles they are expected to assume in the right market conditions will most probably continue to represent a further catalyst for the synergy between the M&A business and the capital market.

The challenges ahead

The estimates for the Romanian economy in 2007 predict the continued increase in Foreign Direct Investment to a figure ranging between €7.6-8 billion and the upwards trend of the M&A market is expected to continue. Apart from the announced privatisations, some estimates indicate a volume of approximately 150 transactions that are expected to be concluded in the private sector this year with an aggregated value of more than €2.5 billion and an average price per transaction of €15 million.

In these conditions, it is expected that Romanian legal industry will try to

adjust and accommodate the new challenges posed by the M&A business, and most notably, the shift from predominantly privatisation work to more varied and diversified approaches, in particular, the capital markets and the private equity sectors. Moreover, the country's accession to the EU and the alignment of its legislation with the European acquis will most probably continue to represent an ongoing challenge for all market players, especially with respect to the capital markets, where most of the required changes occurred during 2006 or at the beginning of 2007. In this respect, the Romanian legal professionals advising on capital markets

will need to adjust to and assimilate recent changes implemented by the country's capital market regulatory, top among which are the new Rules on Financial Investment Services (in force since February 2007), the new Rules on Securities Trade and Issuers of Securities (in force since April 2006), the new Rules on Securities Markets and Alternative Trading Systems (in force since March 2006), together with Rules no. 31/2006 (in force since January 2007) which represents the most notable piece of secondary legislation implementing full updates in accordance with European Law on various capital market topics. ■

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