

M&A activity: a look at the Romanian market in 2008

BY ȘTEFAN DAMIAN

deputy managing partner, Țuca Zbârcea & Asociații
E-mail: stefan.damian@tuca.ro

BY SILVANA IVAN

managing associate, Țuca Zbârcea & Asociații
E-mail: silvana.ivan@tuca.ro

THE ROMANIAN M&A MARKET IS characterised by constant growth, in line with that of the country's economy. Milestones of the market in recent years include:

- UK-based Vodafone's acquisition of a 79% share stake in the mobile operator MobiFon SA, pursuant to a \$3.5bn transaction in 2005, which also included a 100% share stake in the Czech mobile operator Oskar Mobil;
- the privatisation of Banca Comerciala Romana SA, Romania's largest commercial bank, following a €3.75bn offer from Austrian Erste Bank AG in 2006; and
- the acquisition of Rompetrol SA, a large Romanian petrol producer and retailer, by the Kazakh state-owned company KazMunaiGaz, in a \$2.7bn transaction in 2007.

Level of activity

Compared to 2005, the volume of transactions increased in 2006 by 25%, while 2007 brought a further 20-25% increase. The majority of the deals were private acquisitions, and this points towards the direction in which M&A business is expected to develop.

'EXHAUSTING' OF THE PRIVATISATION POOL

With regard to the prospective privatisations of 2008, the Romanian privatisation agency, AVAS, has started

the procedures for the privatisation of the publicly traded Antibiotice Iasi – a large manufacturer of pharmaceutical products, in which the state holds a 53% stake. Also, in the energy sector, the state is planning the privatisation of the remaining energy producers and distributors (see below).

Nevertheless, it is expected that privatisation deals in 2008 and in the following years will be significantly fewer than M&A transactions in the private sector.

INCREASING ROLE OF THE STOCK EXCHANGE

The Romanian capital market, although still young and without a record of high-profile transactions, has consolidated over the past two years, notably by integrating the RASDAQ trading system into the Bucharest Stock Exchange (BVB) in 2005. In recent years, the most important European regulatory instruments (eg the Markets in Financial Instruments Directive, the Transparency Directive and the Market Abuse Directive) have also been locally transposed, bringing the BVB closer to the expectations of foreign issuers and investors.

In 2006 and 2007, two major local companies, Transelectrica (the Romanian electricity transmission and system operator) and Transgaz (the country's largest distributor of natural gas) were listed on the BVB pursuant to initial public offerings (IPOs) for 10% of their share capital. These transactions were roughly valued at €34m for Transelectrica and €65m for Transgaz.

Foreign issuers and 'passporting' rules

In January 2008, the first foreign issuer – Erste Bank AG – was formally admitted to trading on the BVB. As the company was also traded on the Vienna and Prague exchanges, local procedures were conducted through the EU 'passporting' rules. Such listing required significant amendments to the local rules for trading, and clearing and settlement, so as to align them to international standards. Initially only for the International tier, operations such as market making, short sales by market

makers, shares borrowing for settlement purposes and use of omnibus accounts are effective as of mid-February 2008. Also, the local clearing and settlement system (Central Depository), has established electronic connections with Citibank London, and is expected to also link to Clearstream (a provider of clearing and settlement and custody services), so as to allow cross-border shares delivery.

Future developments

The outlook for 2008 seems promising, as the role of the BVB is set to increase, considering that almost all companies subject to the mass-privatisation programme are listed on RASDAQ. Consequently, for those companies all IPOs, takeovers or delistings will have to be carried out through the BVB mechanisms.

Additionally, the increasing activity of foreign investment funds, as well as the major rise of the real estate business that could target public financing, could represent a further catalyst for the synergy between the M&A business and the capital market.

The state is expected to launch IPOs for the shares held in Romtelecom (former fixed-line telecoms monopoly) and in major energy producers, such as Nuclearelectrica (nuclear power producer), Hidroelectrica (electricity producer) and in Romgaz (natural gas producer). Also, since the path of listings via EU 'passporting' is now open (by ensuring easier access of local investors to the shares of a foreign company, already listed on an EU market, that would choose to list on the respective local market through a simplified procedure), it is expected that other international listings will follow in the near future.

CHALLENGES AHEAD

The private pensions system became operational in Romania in 2007. The new system is set up in two tiers:

- Tier II – whereby contribution of a certain income quota is mandatory for most individuals under 35 years old; and

- Tier III – an optional system available for all individuals registering gains out of salaries, liberal professions etc.

(Tier I is the public pensions system.)

After an initial subscription period of four months (September 2007 to January 2008), when the pensions companies fought for adhesions, the random allocation of the individuals who did not

subscribe during the process or whose adhesions were invalidated will now take place. This allocation is made to the existing pension funds *pro rata* with the market share gained during the initial four-month period.

Therefore, given that the funds of now approximately four million privately insured Romanians will have to be managed by the pension companies, an

increase of capital markets investments is also expected from this sector. In addition, since some pension funds might not reach the minimum thresholds set out by law, it is expected that there will be some consolidation of this market during 2008.

By Ștefan Damian, deputy managing partner, and Silvana Ivan, managing associate, Țuca Zbârcea & Asociații.