

Erste Group manages the biggest EUR bond issue of a CEE railway company up to date, a EUR 300 mn issue for České dráhy

21.06.2011

The order book grew in only one hour to just shy of EUR 400 million from 60 institutional investors

Approx. 75% have been subscribed by investors from Germany, the Czech Republic and Austria

České dráhy's successful bond issue highlights investors' confidence in the company's performance and in the growth outlook for the Czech economy

Erste Group Bank AG („Erste Group“), mandated as joint lead manager, successfully arranged the EUR 300 Mio five-year bond issue for České dráhy. The issue was priced at a spread of mid-swaps +190 bps, maturing in June 24, 2016 with an annual coupon of 4.5%. Due to strong investors' demand, mainly from fund managers, banks, central banks and insurance companies, the offering was well over-subscribed.

„The successful placement of České dráhy's EUR bond – the biggest one issued by a CEE railway company – is a clear proof that investors acknowledge the company's position as one of the 10 most important railroad businesses in the EU[1]. The fact that it is owned by a state with particularly positive prospects like the Czech Republic also played an important role,” commented Franz Hochstrasser, Deputy CEO of Erste Group. „The issuer enjoyed strong interest from well-known investors during our roadshow, with meetings held in Prague, London, Paris, Vienna, Munich and Frankfurt. Despite the very challenging capital market conditions caused by the situation in Greece, České dráhy was one of the two European investment grade issuers to have tapped the markets within a volatile time span.”

Erste Group ranks 1st as a bookrunner for corporate and sovereign bonds in Austria and CEE, with a market share of 11.9% and a volume of EUR 5,129 m in 2010[2].

České dráhy operates one of the most extensive networks in Europe with over 9,000 km of rail tracks on four major international rail corridors. The passenger segment benefits from a dense network and improving profitability, while the fully-owned cargo subsidiary is the 4th largest rail freight operator in the EU[3]. The company has recently undergone a successful turnaround which saw its EBITDA increase by 15% in 2010. České dráhy will use the bond proceeds to finance a portion of its capital investment plan, including primarily purchase and modernisation of rolling stock.

The Czech economy proved to be one of the most resilient in the EU during the economic crisis, which propelled its quick rebound. The Czech Republic is the most economically developed CEE country outside the Euro Area[4], with one of the lowest public debt levels (38.5% of GDP - less than half the EU27 average, which stood at 80% in 2010). Despite the currently fragile political situation, the government aims to further reduce the fiscal deficit below 5% of GDP this year. The economy is expected to grow by approximately 2% this year and to accelerate to 2.5% in 2012.

According to Erste Group analysts, the most active corporate bond issuers in Central and Eastern Europe since 2007 are those in the Czech Republic and Poland, issuing half respectively one third of the overall volume. The total amount of the corporate EUR bond issuance in the region is expected to be worth EUR 1.5bn in 2011 YTD. In the upcoming period, CEE companies are expected to intensify their primary market activities, due to increasing financing needs for investments as well as the optimization of their debt structure. The fact that the secondary market is rather illiquid is an additional reason for the continuously high demand in the primary market. This positive development proves that CEE companies have managed to build a compelling business case and are increasingly starting to diversify their refinancing by tapping the international capital markets. Thus, Erste Group analysts see a significant growth potential for CEE corporate bonds - predominantly EUR denominated - in the long run, especially as the number of rated companies is on the rise.

[1] Measured by the volume of passenger transport, source: International Union of Railways 2010

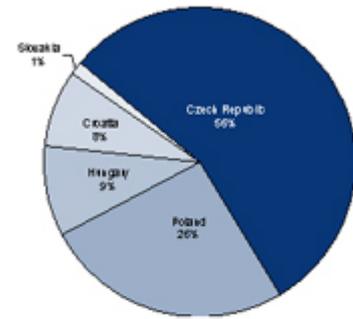
[2] According to Underwriter League Tables of Bloomberg.

[3] Ranked by the mil. tonnes transported, source: International Union of Railways 2010

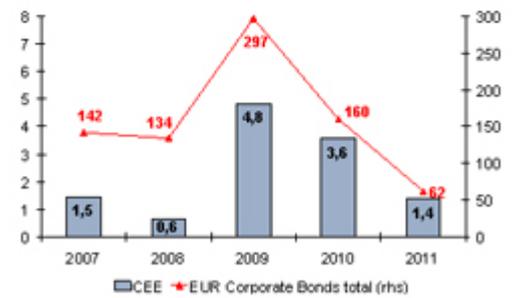
[4] The Czech Republic reaches 82% of the EU 27 average GDP per capita in PPS

[5] 80% of the outstanding volume of CEE corporate bonds is denominated in foreign currencies, mainly in EUR.

CEE countries with most corporate bond issues



EUR Corporate bond issuance in CEE vs. Total 2007-2011 YTD



Source: Erste Group Research and Bloomberg