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Kopeika Sold to X5 For $1.1Bln Plus Debt

By The Moscow Times

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X5 Retail Group, Russia's largest retailer, agreed to acquire discount chain Kopeika for 35 billion rubles ($1.1 billion) in cash to reinforce its market leadership as Wal-Mart Stores still seeks to enter the country.

X5, controlled by billionaire Mikhail Fridman's Alfa Group, will also assume net debt of no more than 16.5 billion rubles, bringing the total transaction value to 51.5 billion rubles, the company said Monday in a statement.

The purchase of closely held Kopeika will add about 700 stores in Russia, where rising commodity prices and consumer spending are fueling an economic recovery. Wal-Mart's attempts to enter the country by acquisition have been frustrated by disagreements on price, the Bentonville, Arkansas-based company said in June. The world's largest retailer held talks earlier this year to acquire Kopeika, according to Kommersant.

"We expect Wal-Mart to enter the Russian market within two-to-three years, and we think that they will seriously consider M&A opportunities," Mikhail Terentiev, a London-based

analyst at Nomura Holdings, said in a phone interview. Kopeika will strengthen X5's leadership of the market, he said.

Wal-Mart has pursued several acquisition opportunities in Russia, though has been thwarted by disagreements over price, international chief Doug McMillon said in June. A call to the company's press office out of hours wasn't immediately returned.

The transaction price values Kopeika at 12.1 times estimated earnings before interest, taxes, depreciation and amortization, according to Maria Kolbina, an analyst at VTB Capital. The compares with 14.9 times for X5 and 10.8 times for competitor Dixy Group, Kolbina wrote in a note.

Russia has attracted foreign investment as its economic growth is forecast to accelerate to 4.3 percent next year from 4 percent in 2010, according to the International Monetary Fund. PepsiCo last week agreed to buy control of Wimm-Bill-Dann Dairy & Juice for $3.8 billion to become the country's biggest food-and-beverage company.

Adding Kopeika's 317 discount stores in Moscow and surrounding areas to its own 422 outlets will give X5 a market share of about 13 percent in the capital city, leaving "significant" room for growth, X5 said. The Kopeika stores will be converted to X5's Pyatyorochka brand over two years.

"Kopeika should perfectly compliment X5's Pyatyorochka portfolio, further strengthening the company's lead in the discounter segment," Mikhail Krasnoperov, an analyst at Troika Dialog, said in an e-mailed research note.

X5 shares rose a record 6.8 percent, to $44 at the close in London, where the stock has its main listing.

X5 said it has identified "substantial scope" to improve efficiency at Kopeika through larger-scale merchandise purchasing and reduced administration costs.

The purchase from billionaire Nikolai Tsvetkov, who also controls UralSib Financial, will be partly financed with a five-year 30 billion ruble loan from Sberbank, X5 said. The rest will be funded from existing credit facilities.

After the transaction, net debt will be "slightly" more than three times earnings before interest, taxes, depreciation and amortization, which is "well within the company's balance sheet target ratios and credit facilities covenants," X5 said.

Russian regulators have approved the deal, which should be completed by the end of this month, X5 said.

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