



# Ukraine Enterprise Corporation: Canadian Investors Target Ukraine

by Ron Chalmers

Investors now can bet on a Ukrainian recovery by buying into the new Canadian-based Ukraine Enterprise Corporation. "It's a high-risk country with very high-risk potential," says Charles Loewen, President of the Corporation and former chair of Loewen, Ondaatje, McCutcheon & Co. investment dealership.

He calls Ukraine an "emerging market" that is poised to modernize and possibly enter the European Economic Community. Ukraine has a strong agricultural and resource base -- plus 98 percent literacy which, Loewen says, will help build secondary and service industries. He thinks Canadians have an edge in entering Ukraine because ours was among the first countries to recognize Ukrainian independence in 1991.

"When the Soviet Union disintegrated, Ukraine was expected to be the leading country," Loewen recalls. "Unfortunately, it did not work out that way." Ukraine's GNP is only about \$2,000 per capita--but Loewen notes that low incomes--and low wages--provide growth potential in emerging markets. "I think Ukraine is about five years behind Poland," he says. The Polish GNP is about \$3,500 per capita. A Ukrainian turnaround would require monetary, economic and legal progress--with some success already seen since President Leonid Kuchma was elected in 1994.

Immediately after breaking from Russia, Ukraine was slow to reject communism for capitalism, but now Kuchma "has done all the right things" Loewen says. Inflation peaked at 4,700 per cent in 1993 but now is 26 per cent and is projected to decline to 15 per cent by 1998. Industrial production fell by 10 to 25 per cent per year from 1991 but is expected to rise by five per cent in 1997. The Ukrainian legal system, built on 75 years of communist history, presents some risk to private ownership and business contracts. But the constitutional reform of June, 1996, recognizes the principle of private property.

The Ukraine Enterprise Corporation has a dual strategy of venture investing and investment banking. The Corporation has entered understandings and agreements to invest at least \$15 million in six established businesses: Kherson Canning Plant; Perun Plastics Company; Lviv Confectionery Company; CIL Western Foods; Ecovuhillia Coal Recovery Company; and Electron Bank. Investments will be conservative, Loewen say, confined to established, profitable companies or new ventures with outstanding prospects.

The Corporation will own 10 to 25 per cent of every company that it buys into and will be actively involved in management.

Ukraine is starved for capital. Interest rates on money borrowed in hard currencies run from 22 to 28 per cent, Loewen says. So he thinks equity investment can earn exceptional returns. He emphasizes, however, that "it all depends on management." As an investment banker, the Corporation will help companies find foreign capital and will provide consulting services. "There are quite a number of investment banking organizations in Russia but very little competition in Ukraine," Loewen says. He expects investment banking to produce cash flow while the venture investments will create longer-term capital gains.

Because the Ukrainian Stock Exchange is almost inactive, Loewen suggests that Ukrainian companies could raise cash by offering shares in foreign markets--following the example of Pan Smak Pizza, a Polish company of which he is a director. Its shares trade on the Vancouver Stock Exchange.

The Ukraine Enterprise Corporation has received \$276,000 of organizational funding from the Department of Foreign Affairs plus a commitment of a \$10 million interest-free refundable contribution from the Government of Canada. Private investors have put up \$2,578,000 in organizational capital. The Corporation's initial public offering will raise a minimum of \$26,250,000 and a maximum of \$44,625,000. Loewen expects most shares to be bought by mutual funds and other institutional investors. Lead underwriter is Pacific International Securities Inc. of Vancouver.

"We don't expect massive subscription in Western Canada but are anxious that the offering be available here," he says. "There are a million Ukrainian Canadians and Alberta has been the centre of Ukrainian Canada." The Corporation is applying for listing on the Alberta Stock Exchange and the Alternative Investment Market in London, England. It will be based in Toronto and Kyiv; shares will be RRSP-eligible. *(The Edmonton Journal)*

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