



# Yandex, TCS Group: Merging Assets with Digital DNA

Yandex is in talks with TCS Group Holding (Tinkoff) to acquire 100% of the share capital of Tinkoff. The deal could consist of a mix of cash and Yandex shares, totalling \$5.48 bln, or ₴417 bln. The bank is to be acquired at \$27.64 per Tinkoff share, that is 8% above the closing price per Tinkoff GDR of \$25.6 as of 21 September 2020. The price is also 10.4% higher than the volume weighted average closing price per Tinkoff GDR of \$25.04 for the one-month period. The final terms are subject to the satisfactory completion of due diligence as well as to the approval of Yandex's Class A shareholders and General Meeting of shareholders.

**Speculative positive implications for Yandex, TCS Group as well as Mail.Ru Group and Sistema. Somewhat negative for Sberbank** Potential merger looks like a win-win situation for both Yandex and TCS Group shares, taking into account a chance to enforce Yandex's ecosystem and expansion prospects for the bank. Even in case of deal's financing with shares the potential dilution effect for Yandex is to be offset by the chances to build large-scale banking franchise. Although the news sounds somewhat negative for Sberbank, the long-term risks could also force Sberbank to intensify operational/investment cooperation with Mail.Ru Group. Thus, Mail.Ru stocks could also benefit from some speculative support. It is also worth highlighting that Sberbank reportedly was interested to acquire a stake in Sistema's online retailer Ozon. Sberbank is to hold a special event on 24 September on interaction with its clientele and other strategic initiatives.

## BUY-OUT OFFER FOR TCS SHAREHOLDERS IS LIKELY.

Support level at \$27.64/share. Oleg Tinkov's family trust is the core shareholder of TCS Group - about 40.4%, management holds 6.5%, while the rest is free float. The support level for TCS group is \$27.64 per Tinkoff share. Yandex has previously been considering an IPO of its Yandex.Taxi business. It could indirectly indicate that the company is keen to crystalize the value of its assets by making them public. There is a chance that Yandex could also be comfortable with the situation when not all TCS Group's shareholders are to agree to the buy-out offer.

## YANDEX COULD GET ANOTHER LARGE SHAREHOLDER

Deducting Yandex.Taxi's assets, Yandex had ₴217 bln of cash as of 2Q20, that equals 52% of the deal's value. We assume the base-case scenario for the transaction could be 50% in cash and 50% in shares. It implies an issue of 46 mln Yandex's shares, or 12% of the new capital structure. In case the transaction is financed without cash payments, then Yandex is to issue 93 mln shares or 22%. Both stocks are traded at relatively high multiples that could increase chances for the equity financing. Yandex could use its cash to complete the purchase of Uber's stake

in Yandex.Taxi. That said, we doubt that debt-free Yandex could face any problems with the deal's financing, then Yandex is to issue 93 mln shares, or 22%.

## IS ACQUISITION VALUE ACCRETIVE? STRATEGIC MOVE TO BUILD A COMPREHENSIVE ECOSYSTEM IN RUSSIA

Tinkoff's consensus target price of \$28,7/share assumes a 4% upside to the acquisition price. In absolute terms it represents \$127 mln of TCS's MktCap upside potential. Assuming that 100% of the bank is consolidated by Yandex for cash, it adds less than 1% of Yandex's MktCap as of 21 September. That said, the synergies of the merger could be materially higher on the revenue side.

TCS Group has roughly 10 mln clients and about 5 mln daily average users of its internet application, while Yandex effectively dominates the Russian internet universe, i.e. processing 60% of the search queries, for instance. When it comes to disruptive digitalisation trends in the banking sector in terms of online access to the clients and lower costs of the "virtual online banking", the merger could represent a chance to build another dominant bank in Russia within 8-10 years. The Russian banking sector is going through consolidation and the number of banks is shrinking. Against this background, TCS Group could gain significant market share based on its partnership with Yandex. TCS Group has historically focused on SOHO/SME business, the area where Yandex is strong in terms of its contextual advertising business. The digital DNA of both assets is also set to smooth the post-merger operational process, in our view.

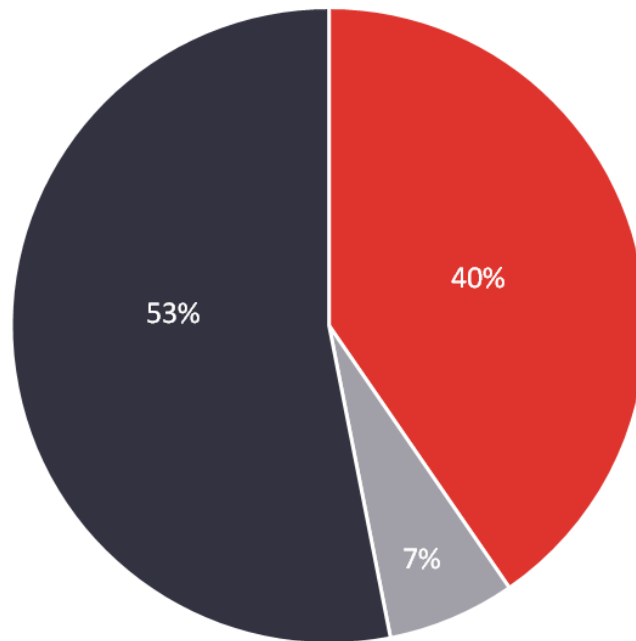
The merger could make a positive structural shift for Yandex's eCommerce business development and expansion into the new banking segment.

## OPERATIONAL BENEFITS FOR ECOMMERCE DEVELOPMENT

Yandex's increasing exposure to e-commerce makes its recent move into the banking segment reasonable from operational perspective both on revenues and costs side, including banking payments commissions. Although Amazon has no direct exposure to banking assets, it actively runs a cooperation model with banks and made a number of big investments into fintech companies. Amazon invested in payments infrastructure to make payments more cash efficient for the online-retailer and easier for its customers.

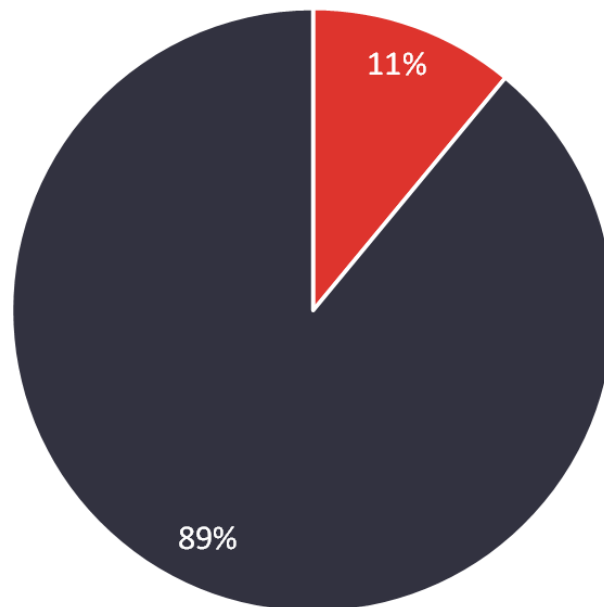
**Acquisition TCS Group could increase Yandex top-line by 50%** on a pro-forma basis. TCS Group revenues stood at ₹109.7 bln (+45% YoY), that is equal to 94% of Yandex FY19 revenue, while the bank could add about 50% to Yandex FY20 top-line. TCS Group's EBITDA was ₹71.7 bln (+28% YoY) in FY19 vs Yandex' EBITDA of ₹51 bln.

### TCS shareholder structure before the deal



■ Tinkov Family Trust   ■ Management   ■ Public Investors

### Yandex shareholder structure before the deal



■ Tinkov Family Trust and other    ■ Public Investors

Source: Yandex, TCS, ITI Capital

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