Dragon-Ukrainian Properties & Development

Enter the dragon

Dragon-Ukrainian Properties & Development plc (DUPD) was admitted to AIM in June 2007, raising US$208m gross. The investment fund is focused on developing mainly new commercial properties and redeveloping existing properties in Ukraine. Eugene Baranov, a partner with Dragon Capital, notes that the company was "specifically created for an AIM admission".

As Ukraine's largest securities brokerage, Dragon Capital – DUPD's investment adviser – is well known to investors interested in the Eastern European country. London was a logical place to raise capital since it has the largest potential investor base for DUPD, according to Mr Baranov.

With a little help from its advisers

DUPD itself was established in February 2007. Subsequently, advisers were appointed to prepare the company for admission to AIM, including Zimmerman Adams - the nominated adviser or Nomad – in addition to advisers on English, Isle of Man and Ukrainian law. Mr Baranov remarks that the advisers were "extremely helpful" in bringing the company to market quickly. Admission was completed in a total of four months, from start to finish.

The process required the company's adviser on English law – Faegre & Benson LLP – to work closely with the Nomad and Dragon Capital in putting together the admission document. Donald Stewart of Faegre & Benson explains that the "primary relationship is between the company and the Nomad. We work in tandem, translating the admission document into legalese in order to satisfy the Nomad requirements and what's required by the London Stock Exchange".

Admission was achieved despite a high degree of uncertainty in Ukraine at the time. The country's parliament was unexpectedly dissolved in May and pre-term elections were called for September. Faegre & Benson's Robert Darwin notes that "it was necessary to insert a section into the document at a late stage on the political environment in Ukraine".

And an efficient admission process

A benefit of joining AIM is that an efficient admission process makes it possible to take advantage of opportunities in rapidly developing markets. As Mr Stewart of Faegre & Benson points out, "a big advantage of joining AIM is that we are masters of our own timetable since we don't have to factor in third party approval". The fact that AIM is regulated by the London Stock Exchange reduces the number of other parties involved in the process to a minimum.

Mr Baranov explains that, "since the company had no track record, joining the Main Market was not possible". The company was, however, able to leverage off Dragon Capital's track record. Mr Baranov remarks that the fact that Dragon Capital has been a "strategic investor in Ukrainian real estate since 2000 helped in proving a track record".

The admission document outlined an indicative pipeline of the types of property investments available which the company could be expected to make, reassuring investors that their funds could be put to use within a reasonable timeframe. The company's stated aim is to fully invest the proceeds within 24-30 months from admission. Mr Baranov remarks that this is "a conservative target", noting that within three months of admission, DUPD had committed US$130m – or over half – of the proceeds.

As Mr Baranov puts it, "the more definite the pipeline, the more comfort investors have" about how the proceeds will be used. However, where deals are firm there is a requirement for considerable verification and due diligence which is costly and time consuming. Thus there is a natural limit on how far the company can commit or deals can progress before the IPO. As Faegre's Mr Stewart says, "There is always a natural tendency to want to get into the investment phase as fast as possible. However investors have the right to know what is going to be done with their money. So where there is a specific acquisition or development project which has been agreed, investors are entitled to know all the details. What is important is that potential investors get an accurate picture of what stage the company is at and what the Directors intend to do. So where things are at an early stage it is important investors are left in no doubt that no commitments have been made and that what is described as a 'pipeline' is only indicative."

Mr Darwin of Faegre & Benson adds that, "the verification that you have to go through is arduous. It has to be thorough, however, in order to ensure that the admission document stands up".

Standing out from the crowd

Having successfully raised equity financing in London the company is in a strong position to stand out from the crowd. There are relatively few listed companies in Ukraine and with equity financing in place, the company will be in a strong position to gear up its investments once it begins to develop its portfolio of properties.

The company anticipates that 70-75% of project financing will be debt with funds initially sourced from local Ukrainian banks. Mr Baranov notes that "over 50% of the country's banking sector has recently been acquired by foreign banks who are looking for reputable clients and supportive of financing a company which has been admitted to AIM".

Such lenders are no doubt comforted by the fact that investors have demonstrated their confidence in the company – and the opportunities presented by the Ukrainian property market. Indeed, according to Mr Baranov, "the credit crisis is not affecting Ukraine that much".

DUPD's admission to AIM suggests that a company's fundamental prospects are more important than external factors when it comes to raising capital. As Faegre's Mr Stewart puts it, "a significant difference between US and UK-based investors is that the former invest mainly at home while the latter are more used to investing abroad resulting in UK-based investors being more sanguine about global investment".

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