Citi pushes further into South Korea with KorAm buy

by Roger du Mars in Seoul
and Lisa Gewirtz in New York

Citigroup Inc. announced plans Feb. 23 to buy KorAm Bank of South Korea for as much as $2.73 billion in cash in a deal that would produce a healthy profit for the two private equity firms that helped bail out the once-troubled bank.

The deal also signals a new stage in foreign investing in Korea’s financial sector.

Citigroup said in a statement it will buy the 36.6% stake now held by Carlyle Group of Washington and J.P. Morgan Chase & Co.’s Corsair Fund and other investors, and will then bid for the remainder of the bank.

Carlyle led a consortium that bought the stake in November 2000 for $446 million. A Carlyle spokesman says the Carlyle Asia Partners fund and Carlyle affiliates put in $302 million of that, while the Corsair Fund contributed $100 million.

Citigroup will pay $999 million for the stake, or 2.2 times the sellers’ investment. Carlyle will achieve about a 25% annualized internal rate of return on its investment, the Carlyle spokesman says.

Citigroup said it will then offer W15,500 a share for the remaining stock of KorAm, which reflects a 2% discount to the closing share price Feb. 20 and a 12% premium to the share price in the past six months. U.S. and South Korean regulators must approve the deal, which requires the tendering of at least 80% of the KorAm shares.

The purchase will give Citigroup a major foothold in the South Korean market. KorAm Bank has W43 trillion (371 million) of assets, and once the deal is closed, Citigroup will become South Korea’s No. 5 bank by revenue. Citigroup has had only a 12-branch network in the country. One source says Citigroup had once considered buying credit card company KEB Credit Services Co. Ltd. but opted not to.

Linklaters partners Nick Rees in Hong Kong and David Deck in Tokyo were outside counsel to Citigroup, with Han Wonkyu at local law firm Lee & Ko as co-counsel.

Goldman, Sachs & Co. advised the selling shareholders. Cleary, Gottlieb, Steen & Hamilton partners Neil Whoriskey, Yong Lee, John Magney and Paul Glotzer and local firms Kim & Chang and Shin & Kim were counsel.

“This transaction would mark the first large-scale exit by a private equity firm in Korea—clearly demonstrating the value our industry can create in the region,” says Carlyle managing director John Ni Kwun.

Carlyle and the J.P. Morgan fund were among the private equity investors to help recapitalize the South Korean banking system after the Asian financial crisis of 1997.

At the time, the government turned a blind eye to a law stating that only a bank could purchase another bank. But that attitude will likely change now that the country’s financial system has recovered.

“In order for the Korean banking sector to mature into the world-class status, the banks need to be run by other banks and not funds,” says an official at the Ministry of Finance and Economy.

Two other private equity firms also took stakes in South Korean banks after the financial crisis. San Francisco-based Newbridge Capital LLC owns the market’s No. 8 bank, Korea First Bank, and Dallas-based Lone Star Funds owns No. 6 Korea Exchange Bank. These firms are expected to try to sell their banks in the near future, said one source in Korea.

—Additional reporting by David Carey and Peter Moreira

Our team performs like a liquid-cooled 800cc Ski-Doo®

We recently advised Bain Capital on the acquisition of Bombardier Recreational Products Inc., a world-leading manufacturer of recreational products. Bain Capital partnered with the Beaudoin and Bombardier families, and Caisse de dépôt et placement du Québec in this transaction. We aligned our experts across product groups and geographic borders to deliver results with unmatched speed, precision and insight.

At BMO Nesbitt Burns and Harris Nesbitt we deliver advice and capital to help our clients achieve their goals.

Bain Capital

CAD $1.1 Billion
Advised in acquisition of Bombardier Recreational Products

December 2003

Bombardier Recreational Products

CAD $875 Million
Refinancing arrangement including $729 Million subordinate bridge note

December 2003

Bombardier Recreational Products

CAD $250 Million
Revolving Credit Facility with first senior, non-hedging, administrative agent

December 2003

Bombardier Recreational Products

US $280 Million
Term Loan B Facility

Administrative agent

December 2003

Bombardier Recreational Products

US $200 Million
Senior Discounted Notes

Co-Manager

December 2003

For a high-performance experience, please contact the deal team:

Geoff Belsher
Executive Managing Director
Mergers & Acquisitions
416.355.5275

Dirk Leasure
Managing Director
Sponsor Coverage/
Leveraged Finance
212.605.1631

Surjit Rajpal
Executive Managing Director
Loan Products Group
312.750.1762

Jim Moglia
Executive Managing Director
Debt Products Group
212.605.1634

Members of BMO Financial Group

HARRIS NESBITT

BMO NESBITT BURNS

Harris Nesbitt is a trademark of Harris Nesbitt Corp. Harris Trust and Savings Bank and Bank of Montreal are registered trademarks of the United States. ® BMO, BMO Nesbitt Burns, BMO Nesbitt Burns Canada, BMO Financial Group, BMO Harris Trust and Savings Bank, BMO Harris Bank, BMO Capital Markets, BMO Capital Markets Canada and BMO Taxex are registered trademarks of BMO Financial Group Limited, used under licence. "Ski-Doo" is a registered trademark of Bombardier Recreational Products Inc.