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Pugachyov to Sell Shipbuilders to State

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Pugachyov's United Industrial Corp. will sell Severnaya Verf and Baltiisky Zavod to raise funds for Mezhprombank. **Denis Grishkin**

Senator Sergei Pugachyov's United Industrial Corporation will sell Severnaya Verf and Baltiisky Zavod to the state-run United Shipbuilding Corporation to raise funds for Mezhprombank, which Fitch Ratings said could have trouble paying off 200 million euros ($241 million) in eurobonds.

Mezhprombank, also known as the International Industrial Bank, had its outlook cut at Fitch Ratings from "stable" to "negative" on Wednesday on concerns that it will be unable to repay 200 million euros in bonds due July 6.

The lender, which is more than 80 percent controlled by Pugachyov's family, was Russia's 28th-largest bank by assets as of the first quarter.

Mezhprombank's primary source of funding is the Central Bank's uncollateralized loans, which account for one-third of its liabilities. MPB is the single largest recipient of the

regulator's collateral-free loans, collecting 56 percent of them, Fitch said.

"Without support from its shareholder, the bank's access to liquidity appears limited given its clearly low cash generation from its lending portfolio, lower chances of borrowing on capital markets, and the bank's already maximal use of uncollateralized borrowing," Fitch said in a statement.

The bank's management sees support from Pugachyov, who represents the republic of Tuva in the Federation Council, as the main source of additional funds to pay off the eurobonds. MPB executives informed the ratings agency that the funds could be raised by selling or putting up as collateral assets belonging to United Industrial Corporation, also known by its Russian acronym OPK.

Those assets are the shipbuilding companies Severnaya Verf and Baltiisky Zavod, which will be sold to the United Shipbuilding Corporation, or USC. Pugachyov is in talks on selling controlling stakes in both assets to the state holding, which is planning to make a decision in the next few days, a USC official said.

OPK spokesman Dmitry Morochenko confirmed that a deal was under way. He said it was in line with orders Prime Minister Vladimir Putin gave to USC and that the deal would be closed by June 20.

"We don't comment on statements like that," said Dmitry Peskov, Putin's spokesman. He added, however, that "regardless of Pugachyov's assets, we welcome the process of consolidating assets within USC."

USC spokesman Igor Ryabov said "there's no deal."

The state holding already owns a blocking stake in Severnaya Verf, which builds ships for the Navy, and the state holds a so-called golden share in Baltiisky Zavod.

There has been talk of selling the two assets to USC for more than two years, but a sale really is close now, said a senior executive at one of the defense plants. The deal will involve a loan from one of the state banks, he said.

A source at USC said a state bank would be the buyer of OPK's assets, and then it would sell them on to USC. The state shipbuilding holding last year gained control of the Amur Shipbuilding Plant under a similar deal involving Sberbank.

Pugachyov is expecting to get $2 billion for the plants, said an executive at one of OPK's holdings. He said the figure was based on an independent valuation, without mentioning who conducted it.

USC will manage to drive down the price, said a manager at the state holding. The sum is being actively negotiated, and the figures under discussion are "far from billions of dollars," he said, adding that Mezhprombank would likely be able to pay off its 200 million euros in bonds and some of its 32 billion rubles ($1 billion) in debt to the Central Bank.

A spokesman for Mezhprombank confirmed that the lender would continue to meet its debt payments, although he did not specify the source of the funds.

"I can't remember any time when a ratings agency has ever said anything like that about a Russian bank," said Yegor Fyodorov, an analyst at the Bank of Moscow. "Investors will certainly be put on guard by such an unconventional event." Most likely, the warning will force shareholders to settle the situation at the bank, he said.

The yield on Mezhprombank's eurobonds due in July was 16.5 percent on Wednesday, while those due in February 2013 was 11.86 percent. That's considerably higher than for other major private banks with eurobonds due in 2013. Alfa Bank's bonds yield 8.64 percent, while Promsvyazbank's notes were offering 9.4 percent.

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