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Hungary May Buy Surgut's Stake In MOL

By Anatoly Medetsky

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Hungary's MOL has refused to register Surgutneftegaz as a shareholder. **Balint Porneczi**

The Hungarian government announced Wednesday that it had begun talks about the Russian purchase of a stake in the national energy company MOL, a deal that has long riled Hungarian authorities.

Surgutneftegaz acquired 21.2 percent of MOL for 1.4 billion euros ($1.8 billion) in April last year, but it has been unable to register as a shareholder or participate in annual meetings because of resistance from the Hungarian government as well as the company.

Hungary's National Development Ministry said it started talks with Surgut because the government considered the energy sector a priority for strengthening the state's role.

"The Hungarian government is committed to strongly asserting the national interest in every strategic area," the ministry said in a statement. "In this spirit, it has begun talks with Russia's Surgutneftegaz."

The ministry said Russia and Hungary were looking to find a "reassuring solution" to the issue as soon as possible.

A spokesman for the secretive Surgut, Russia's fourth-largest oil producer, said Wednesday that he was unaware of the talks.

As MOL's biggest single shareholder, Surgut is suing MOL for refusing to register its shareholder status, MOL said in July. MOL also attempted to defend itself from what it saw as a hostile purchase by requiring shareholders to disclose their ultimate beneficiaries or forfeit their voting rights. Surgut has a notoriously murky ownership structure.

Surgut has said its intentions were friendly. It suggested that it wanted to gain access to MOL's refineries to expand sales of refined products in Europe.

Despite the failure to establish a partnership, Surgut chief executive Vladimir Bogdanov said repeatedly that the MOL stake still made sense as a purely financial investment, although MOL has not paid a dividend in the last two years.

The Hungarian press reported in the summer that the country's government was negotiating with Surgut, but neither side confirmed the talks. The government may issue bonds to finance its purchasing of the stake from Surgut, the Napi Gazdasag daily reported in June.

Hungarian Economy Minister Gyorgy Matolcsy told reporters Wednesday that the government was not planning to use budget funds for the potential buyback.

It would be a difficult decision for Hungary to sign on for more debt because public debt rose to 83 percent of gross domestic product in the second quarter of this year. Surgut's stake in MOL is worth $2.2 billion at current prices.

Neither Hungary's government, nor MOL or a related party is likely to simply buy back the stake because it would be “too good for Surgutneftegaz,” said Alexei Kokin, an analyst at the investment company Metropol. Hungary will probably want a premium for ensuring such liquidity for the stake because it would be difficult for Surgut to sell the shares anywhere else, he said.

To sweeten the deal, the Russian government may have to issue an unofficial promise to allow MOL to buy an oil field in Russia or become a part-owner in such a field, Kokin said.

“There's no pressing need for a buyout,” Kokin said. “There must be something to sweeten the pill.”

MOL already has a 50-50 joint venture with Russneft to run the Zapadno-Malobalykskoye field with total extractable reserves of 35.1 million metric tons. The company produced 1.5 million tons of oil last year.

Alternatively, Hungary may offer Surgut some other assets for its MOL stake, Kokin said. The assets may include MOL's 49 percent stake in the Croatian oil and gas company INA, he said.

Surgut denied in November that it was holding any talks on taking ownership of an interest in INA.