

M&A Hit 3-Year High as Debt Costs Shrink

By [The Moscow Times](#)

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Russian mergers and acquisitions hit a three-year high this quarter as companies took advantage of a drop in dollar borrowing costs, according to data compiled by Bloomberg.

Deals involving Russian companies reached \$33.8 billion since Sept. 30, the most since the last three months of 2007 and three times the level in the same period last year. The figure compares with \$37.7 billion for China and \$8.2 billion for Brazil, the data show.

X5 Retail Group, the country's largest food retailer, VTB Capital and PepsiCo are doing deals in Russia after interest rates on loans and bonds fell.

Rates on three- to five-year ruble loans have dropped to 8 to 12 percent, from 13 to 15 percent a year ago for Russian companies, said Andrei Goltsblat, managing partner at his own Moscow law firm, which focuses on mergers and acquisitions. "Attractive rates are a key factor in the M&A pickup," Goltsblat said. "The cost of funding is dramatically cheaper than 12 months

ago."

X5 is borrowing the equivalent of \$1 billion in five-year ruble loans from Sberbank, the lender said, at a rate brokerage Renaissance Capital estimates at between 7 and 8 percent a year. The yield compares with the 18.46 percent coupon the retailer offered investors on 8 billion rubles (\$257 million) of bonds it sold in June 2009.

X5, which is half-owned by billionaire Mikhail Fridman's Alfa Group, said Monday that it was paying 51.5 billion rubles (\$1.65 billion) for supermarket chain Kopeika in a transaction to be closed later this month.

The terms of the Sberbank loan are "comparable with those provided by leading Western banks," the lender said Monday. Alexander Baziyan, a Sberbank spokesman, didn't return e-mailed requests for comment.

The purchase follows PepsiCo's pact last week to buy 66 percent of dairy and juice company Wimm-Bill-Dann for \$3.8 billion and E.On's agreement to sell its 3.5 percent stake in gas monopoly Gazprom for 3.4 billion euros (\$4.6 billion). VTB Capital said Monday that it would acquire a 19.3 percent stake in Rosbank from billionaire Vladimir Potanin's Interros Holding.

"Russian companies have recently recovered investment appetites together with the recovery of credit spreads," said Marina Vlasenko, a credit analyst at Commerzbank in London. "Cash cushions on the balance sheets of stronger companies and weakened positions of others after the crisis" are also contributing to the surge in M&A deals, she said. "Most of these deals are funded on the debt market."

The average yields on Russian dollar bonds fell 105 basis points, or 1.05 percentage point, this year to 5.93 percent on Monday, according to JPMorgan Chase's Corporate EMBI Russia Blended Yield. The yield tumbled to 5.26 percent in October, the lowest level since the index was set up in May 2002, and down from the average of 10.4 percent in 2009.

While the cost of funding acquisitions has fallen, this has only benefited larger companies, said Grigory Dudarev, managing director Evli Russia, an M&A adviser based in Moscow.

"It's still difficult for mid-cap and third-tier companies to get access to loans," he said. Current levels aren't indicative of the number of transactions because "a number of deals coming through were just delayed till the final quarter," Dudarev said.

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