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VimpelCom Tops Chart With $1.5B Bond Sale

By The Moscow Times

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VimpelCom raised $1.5 billion in the largest sale of junk bonds since the credit crisis in 2008 on Wednesday, to help pay for its $6.5 billion purchase of assets from Egyptian billionaire Naguib Sawiris, data compiled by Bloomberg show.

The sale was the largest for a non-investment grade Russian issuer since steelmaker Evraz Group borrowed $2 billion in May 2008, four months before Lehman Brothers Holding's collapse froze credit markets.

"Recent oil price growth is raising investor confidence," said Dmitry Dudkin, head of fixed-income research at UralSib. "The market has been ready for bigger junk-rated sales for quite a while. It's just that the issuers did not need the money."

Russia's economy is recovering from a record 7.9 percent contraction in 2009 as the government predicts 4.2 percent growth this year. Oil, its chief export, is up 8 percent since

November and has traded above $80 a barrel in the past three months.

Investor support for Russia is driving down the cost of protecting government debt against non-payment, with five-year credit-default swaps at 142 basis points, down from last year's peak of 217, according to data provider CMA.

VimpelCom, rated BB+ by Standard & Poor's, one level below investment grade, is seeking to create the world's sixth-largest phone operator through its purchase of assets from Sawiris.

The company's 10-year bonds were priced Wednesday to yield 7.75 percent, or about 110 basis points above $2,020 bonds of Mobile TeleSystems, VimpelCom's larger competitor, which is rated one step lower at BB by S&P. MTS' yield has fallen to 6.63 percent from 8.63 percent when the securities were sold in June.

The yield makes the offer "attractive," Vladimir Malinovsky, head of fixed-income research at Otkritie in Moscow, said in e-mailed comments.

VimpelCom joins pipemaker TMK, which sold $500 million of 2018 bonds rated B by S&P last week. The total of $2 billion in issuance between VimpelCom and TMK beats the $225 million of Russian junk bonds sold in the same period last year. Russian junk bond issuance totaled $7.6 billion last year, down from a record $9.2 billion in 2008.

VimpelCom's sale is its first abroad since April 2008 when it offered investors $1 billion of 10-year bonds and $1 billion of five-year bonds.

The Economic Development Ministry urged companies this week to increase foreign borrowing to fund expansion until domestic capital markets are better developed.

"It is actually a little bit scary to see this current wave of Russian corporate borrowing rising in tandem with government comments that Russian corporates should borrow more abroad," said Luis Costa, an emerging markets debt strategist at Citigroup in London. VimpelCom's "is a big deal in terms of total size, and it also shows that even the cash rich corporates are willing to play in the Eurobond market," he said.

Russia's non-financial companies have more than tripled international debt since 2005 to $291.3 billion at the start of this year, while banks increased foreign borrowing more than fourfold in the period to $144.8 billion, Central Bank data show.

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