

Domodedovo Ditches IPO

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A police officer at the Civil Aviation exhibit held at Domodedovo Airport in 2002. Domodedovo, widely seen as the country's most modern airport, handled 22.3 million passengers in 2010 and generated 2
Vladimir Filonov

Just a week after Yandex's triumphant debut in New York, Domodedovo Airport pulled out of a similar initial public offering over possible concerns that investors were spooked by its squabble with the government.

The abrupt cancellation of the IPO for Russia's biggest and arguably most successful airport serves as a warning for companies to make peace with the authorities before trying to tap international capital markets, analysts said.

DME Limited, which owns and operates Domodedovo, had hoped to raise \$700 million to \$1 billion from the June listing on the London Stock Exchange.

But investors may have been rattled when a Kremlin-ordered investigation following the Domodedovo suicide bombing in January resulted in a scathing appraisal of the airport's

operations by the Prosecutor General's Office.

"The company's management and its shareholder believe that in the current market conditions the IPO cannot be priced at a level which reflects a fair value of the company," DME Limited said in a statement Monday.

A person close to one of the four banks — Goldman Sachs, Morgan Stanley, JPMorgan and Citigroup — named as a bookrunner for the IPO offered a more blunt assessment.

"The market conditions suck," he said.

If the airport had gone ahead with the IPO, it might have raised only half of the desired capital, with potential investors requiring a 30 percent discount for political risk and an additional 20 percent for market volatility, said Yelena Sakhnova, a transportation analyst at VTB Capital.

The cancellation is not about doubts over the value of the airport, said Alexander Merzlenko, head of investment banking for Renaissance Capital, which has managed three successful London IPOs for Russian companies this year.

"A lot of people would dream of owning that business," he said.

Domodedovo, widely seen as the country's most modern airport, handled 22.3 million passengers in 2010 and generated 29.7 billion rubles (\$1 billion) in revenue.

But it also has a history of difficulties with the government, including an apparent attempt to nationalize it in 2008.

In January, President Dmitry Medvedev criticized Domodedovo's management after the suicide bombing, which killed 37, and the Prosecutor General's Office declared after its subsequent investigation that "a system has been created to hide the real owners and those who are making the management decisions at Domodedovo Airport."

"Considering the strategic significance of Domodedovo for guaranteeing the country's defense and the safety of the state, the current situation is unacceptable," the prosecutor's office said in a statement on April 30.

Domodedovo's IPO troubles contrast sharply with the success of Yandex, the popular search engine that raised \$1.43 billion in a heavily oversubscribed float in New York last Tuesday. Investor enthusiasm was undiminished by Yandex's IPO prospectus, where it noted that "high-profile businesses in Russia, such as ours, can be particularly vulnerable to politically motivated actions."

But the company took a path toward the IPO that appeared free of government friction. In a telling moment, after Medvedev spoke of the need of retaining control over the Internet in 2009, state-owned Sberbank bought a "golden share" in Yandex that allows it to veto the sale of stakes larger than 25 percent to individual buyers.

Medvedev lavished praise on Yandex late last week, telling a crowd of international reporters at the Group of Eight summit in France the listing was "a good sign for Yandex and for the

economy.”

The political element aside, Yandex and Domodedovo admittedly faced two very different markets with their IPOs. Technology stocks are hot these days, while investors are more wary about other sectors, as illustrated by a series of canceled IPOs in London this year by Russian companies like state-owned Russian Helicopters.

“You cannot just run with [an IPO] in a very mechanical manner — the Yandex transaction is not representative,” said Merzlenko, the analyst.

Investor appetite for Russian companies is limited, said Nikita Melnikov, a transportation analyst at Aton brokerage. “Why should you go and buy Domodedovo at this price with a political risk when it is operating in a rather negative investment climate when you could go to China, for example, and buy a very quickly growing company without these risks and for the same price?” he said.

Domodedovo’s complicated holding structure is unlikely to have deterred potential investors. East Line Group is the company which operates Domodedovo which is, in turn, owned by FML Limited — a group registered in the Isle of Man. A representative for DME Limited, also registered in the Isle of Man, declined to comment on any relationship between DME Limited and East Line Group. DME Limited’s sole owner is Dmitry Kamenshchik.

A person close to DME Limited said Monday that the company might consider an IPO when market conditions improve. “We are not saying 100 percent that we will do that, just that we will consider it,” he said.

For that to happen, Domodedovo will have to hold out to possible pressure to merge with Moscow’s other two airports, state-controlled Sheremetyevo and Vnukovo.

The government has considered merging the two airports for more than five years, and hints have circulated that Domodedovo might be included in the equation. There would be little political appetite, however, for Domodedovo management to receive a controlling stake in such a joint venture.

The Sheremetyevo-Vnukovo merger discussions gained new impetus in March when Prime Minister Vladimir Putin said its realization would have “significant synergies.”

“The government has a share in Sheremetyevo, in Aeroflot and in Vnukovo, and of course as an owner the government is looking for ways to better manage those shares,” a Transportation Ministry official said by phone. State-owned Aeroflot is based at Sheremetyevo.

In the end, Domodedovo’s IPO saga shows that the perceived level of political threat remains an important arbitrator in the success of any public listing, said Sakhnova, the analyst.

“You should first settle all your problems with the government and then bring investors on board,” she said.

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