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Polyus Turns to Share Swap Offer to Curb Buyout Cost

By The Moscow Times

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Polyus Gold International could offer to acquire the minority shareholdings of Russian unit Polyus Gold in exchange for equities in the parent, reducing the amount of cash it needs to complete a full takeover.

"We are considering an exchange offer to the remaining minorities," German Pikhoya, chief executive of the London-listed company, said Wednesday.

Polyus Gold International, formerly named KazakhGold Group, completed the purchase of about 89 percent of Polyus Gold this week to inject the Russian operation's assets into the London-listed company and boost the group's access to investors abroad. Only about half the minorities, or a tenth of holders, joined the so-called reverse takeover, KazakhGold said July 19.

"The new swap offer is favorable for Polyus Gold as it may reduce company spending"

on buying out minorities, Dmitry Smolin, an analyst at UralSib Capital, said Wednesday. About 2 percent to 3 percent of them may tender shares, he said.

The company must declare a mandatory offer to minorities within 35 days of Wednesday's completion of the takeover under Russian law, Pikhoya said. On the timing of a possible share exchange, "we may be able to do it before the mandatory offer to the Polyus Gold minorities" due by September, he added.

A cash buyout at the earlier takeover price of $68.60 a share, which Polyus would be required to offer, may cost the company as much as $1.4 billion, according to UralSib Capital.

"The offer price is yet to be approved by the board," Pikhoya said. "We plan to finance it through a sale of treasury stock or borrowing from banks, depending on market conditions."

Polyus, which began trading Thursday in London under its new name and the ticker POLG LI, is seeking to gain entry to the benchmark FTSE 100 Index by the end of the year, he said.

"Comparing the MCSI Index and FTSE 100 is like comparing the sea and the ocean," Pikhoya said. "We hope if our shares are in the index, it will partly reduce the discount at which they are traded compared with our peers."

The company plans to meet index requirements in November and is studying a Russian Depositary Receipt program, he said.

Pikhoya declined to comment on a statement by billionaire co-owner Mikhail Prokhorov in December that the company was seeking to merge with an international rival as early as this year to become one of the world's three biggest gold miners.

Polyus Gold International will focus on doubling output to 2.8 million ounces by 2015 and may sell debt to fund spending of as much as $4.7 billion on the program, the chief executive said.

"If the gold price declines, we may borrow $200 million to $300 million next year or in 2013," Pikhoya said.

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