

Tariko Turns Poland Bonds Around

By [The Moscow Times](#)

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Tariko wants to raise his stake. **Ekaterina Kuzmina**

Central European Distribution Corp., Poland's worst-performing corporate bonds in February, have turned into this month's best as Rustam Tariko offers to raise his stake in the vodka maker to avert a default.

Poland's second-largest vodka producer said Feb. 29 that it might not repay bondholders after posting a \$1.29 billion loss last year as sales dropped in Russia. Tariko, who controls banking and vodka assets through Russian Standard, offered \$100 million on March 9 to raise its stake in CEDC to 28 percent from 9.9 percent. CEDC is working on a deal with Tariko, Anna Zaluska, a spokeswoman for CEDC, said earlier this week.

"For now, Tariko is the only known solution to their problems," Jakub Viscardi, a Warsaw-based analyst at Dom Maklerski IDM, Poland's largest publicly traded broker, said by phone March 26. "An investor from Russia who knows the local market where CEDC has the biggest troubles may significantly reinforce it."

The yield on CEDC's 430 million euros (\$574 million) of bonds due in 2016 tumbled 314 basis points this month to 16.91 percent on March 27, beating all 10 foreign-denominated Polish corporate bonds.

CEDC, which produces the Zubrowka, Bols and Zelyonaya brands, said Feb. 29 that it might default on \$310 million of convertible bonds due in 2013. Eight days later, Moody's Investors Service cut CEDC's long-term rating for a second time in four months to Caa1, the seventh-highest noninvestment grade rating, with a negative outlook.

"The risk is still too high to hold CEDC bonds, given their difficult situation, elevated debt and poor delivery on forecasts," Michal Ferenc, who helps manage the equivalent of \$643 million in bonds at the Idea TFI mutual fund, said by phone from Warsaw on March 28. "The company's survival depends solely on the deal with Tariko."

Tariko, who initially offered on Feb. 1 to convert his CEDC bonds into shares, buy new stock and help with refinancing, revised his terms on March 9 to include the cash help to repay or redeem 2013 notes and to raise his stake. Russia's 48th-richest man, through Russian Standard, is already CEDC's largest shareholder with a 9.9 percent stake.

Mt. Laurel, New Jersey-based CEDC took an impairment charge of \$383 million in the fourth quarter to write down the value of its Russian business as the decline in vodka sales was "greater than expectations," it said in a presentation Feb. 29.

"The Tariko deal can only partially help CEDC because trends in Russia are negative due to lower vodka consumption," Lukasz Wachelko, an analyst at Deutsche Bank, said by phone on March 26 from Warsaw.

CEDC shares gained 14 percent on Nasdaq this year to \$4.99 after falling 81 percent in 2011. They climbed 3.3 percent in Warsaw this year, compared with a 10 percent rise by the broad WIG Index.

CEDC is the biggest vodka producer in Russia, the world's largest market for the drink. CEDC appointed Grant Winterton, former general manager of Red Bull Russia and senior manager at Coca-Cola, to head its Russian operations starting from April 1.

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