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Promsvyazbank Bond Sale Keeps Capital Level Above Minimum

By The Moscow Times

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Dmitry Ananyev

Promsvyazbank, the lender owned by the billionaire Ananyev brothers, averted the risk of capital dropping below required levels as it sells bonds and boosts prospects for a $1 billion initial public offering.

The bank sold 5 billion rubles ($157 million) of 5 1/2-year bonds with a coupon of 12.25 percent last week, the lender said in a statement. The funding will lift the company's capital adequacy from just above the required 10 percent and spur investor appetite for a possible equity sale, said Dmitry Polyakov, a credit analyst at Troika Dialog in Moscow.

Bank President Artyom Konstandian said March 21 the lender planned to raise $1 billion in an IPO in London and Moscow this year. Promsvyazbank's bond sale "rescues it from the danger zone," Polyakov said. "This capital injection allays immediate pressure on the bank's borderline ratio."

The bank's capital adequacy level has always been low because the brothers don't have spare funds to bolster its finances, according to Polyakov. Yields on the company's 2014 dollar bonds tumbled as much as 51 basis points, or 0.51 percentage point, last week to a three-month low of 7.10 percent on Aug. 8, narrowing the premium over the average yield for emerging-market banks to 174 basis points, the lowest since June 13, JPMorgan Chase & Co. indexes show. The yield on Promsvyazbank's dollar bond is down from a record of 11.03 percent on Oct. 4.

Promsvyazbank, VTB Group and Trust Bank were among Russian lenders "that temporarily got very close" to the minimum capital adequacy requirements, Moody's Investors Service said in a report on May 21. Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of its capital to its assets.

"We see no danger of the indicator falling below the level set by the Central Bank," Neil Withers, vice president for capital markets and investor relations, said by e-mail Aug. 10. The company is weighing "several options" to raise capital, Withers said.

Alexei Ananyev has chaired Promsvyazbank's board since 2006, while Dmitry represents the northern Russian region of Yamal-Nenets in the upper house of parliament. The brothers started out importing computers in the early 1990s.

The Ananyevs, who control 88.25 percent of Promsvyazbank, paid about 150 million euros ($185 million) on June 19 to buy back a 14.4 percent stake that Commerzbank, Germany's second-largest lender, acquired in 2006. The European Bank for Reconstruction and Development, set up by Western governments to help former communist countries, holds 11.75 percent of the Russian bank.

Promsvyazbank's IPO would be the first for a non-state bank in Russia since Nomos-Bank raised more than $700 million in April 2011. Promsvyazbank cancelled plans in 2008 to raise as much as $1 billion selling a 25 percent stake after Russia's five-day war with Georgia and the collapse of Lehman Brothers Holdings sent Russia's benchmark MICEX Index down 65 percent in the second half of 2008.

The bond sale may be the bank's only option for funding because of stock-market turbulence amid concern Europe's debt crisis won't be contained, according to Andrei Lifchits, who helps manage $50 million in Russian bonds at Spectrum Partners in Moscow.

Promsvyazbank's sale comes after VTB Group, Russia's second-biggest lender, sold the nation's first perpetual bonds worth $1 billion to replenish capital that was depleted by the acquisitions last year of Bank of Moscow and TransCreditBank.

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