

Sberbank Launches \$5Bln Stock Sale

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The Central Bank announced Monday that it would sell a \$5 billion stake in Sberbank mostly via the London Stock Exchange for about \$3 a share. Above, a woman attaching plastic rods to Sberbank balloons for City Day earlier this month. **Igor Tabakov**

A 15-month guessing game for investors ended Monday as the Central Bank announced it was launching the long-awaited sale of a \$5 billion stake in state-owned financial mammoth Sberbank.

Considered a proxy for Russia itself, a successful conclusion to Sberbank's deal would lay a stable foundation for the Kremlin's ambitious privatization program, which is looking to raise \$9 billion this year alone.

The sale of 7.58 percent of the country's biggest lender will leave the Central Bank with a majority holding of 50 percent plus one share.

A decision to go ahead with the placement has been repeatedly delayed because of turbulent market conditions, political uncertainty and fragile commodity prices.

But action by the European Central Bank and the decision of the U.S. Federal Reserve to launch another round of quantitative easing boosted stock markets last week and opened a window for Sberbank to make its move.

“They have chosen the moment correctly,” said Andrei Shemetov, chief executive at Aton brokerage in Moscow.

The price range for the sale of the 1.7 billion ordinary shares is between 91 rubles (\$3) and the market value when the books are closed, according to an e-mailed statement from the bank and the regulator.

The bid book was completely covered, Interfax reported, citing a financial market source. Another source said the bids were below the market price. Interfax also reported that investors have so far bid an average of approximately 93.5 rubles per ordinary share.

The relatively low 91 ruble threshold meant Sberbank shares dropped as much as 2 percent on news of the deal but closed at 95.57 rubles Monday. The books will be open Monday and Tuesday, but may close early if demand is sufficiently strong.

The bulk of the stake will be listed on the London Stock Exchange — Sberbank’s first listing in compliance with the United Kingdom’s Financial Services Authority — and sold to institutional investors.

“[This] represents an opportunity for us to further diversify Sberbank’s investor base and secure an international stock exchange listing,” said Sberbank president German Gref in an e-mailed statement.

“With a strong balance sheet and significant scale, Sberbank is well positioned to maintain its solid market share in Russia and to capture additional growth opportunities in Russia and beyond.”

Dependent on demand, however, up to 15 percent will be listed domestically on Moscow’s MICEX-RTS stock exchange. Sberbank has 70 million individual customers in Russia and has a 46.1 percent market share of the country’s retail deposits.

The local listing was a “gift” to MICEX-RTS, Sberbank deputy chief executive Bella Zlatkis told reporters Monday.

Once the Soviet Union’s savings bank and notorious for long queues and poor customer service, Sberbank has tried in recent years to position itself as a global player. It is currently Europe’s third-largest bank and has used the continent’s financial woes to snap up assets.

In February, it bought the international banking arm of Austria’s Volksbank for \$630 million, and in June it acquired Turkey’s Denizbank from struggling Franco-Belgian lender Dexia for \$3.6 billion.

While some experts expressed doubt that demand for Sberbank’s offering would be overwhelming, others were more upbeat.

“We expect the deal to be a success given the high risk appetite following the European

Central Bank's ... announcement and the Fed's QE3 proposal," VTB analyst Mikhail Shlemov wrote in a note to investors Monday.

Sberbank is not the only big Russian player to look to international markets recently as negative global sentiment has eased.

Earlier this month both mobile operator MegaFon and mid-sized lender Promsvyazbank requested permission from the regulator for initial public offerings worth up to \$4 billion and \$1 billion, respectively.

"The timing of the deal is very logical," said Jason Hurwitz, a financial analyst at Alfa Bank. "First, you have strong global market dynamics and, second, it seems clear that Russian banks, including Sberbank, will face diminishing profitability and tight sector liquidity."

Goldman Sachs, Credit Suisse, JPMorgan, Morgan Stanley and Troika Dialog are the global coordinators and bookrunners for the sale.

Sberbank Investments, a subsidiary of Sberbank, may acquire up to 20 billion rubles worth of ordinary shares, according to the statement. Such a provision is standard practice in placements of this size, Zlatkis said.

Top officials at the Central Bank were talking about the state divesting a portion of Sberbank as far back as 2009.

The parameters of the current sale, however, were passed by the National Banking Committee in March last year. The government approved them two months later.

"The aim of the deal is to increase the share of non-state shareholders in the capital of our leading bank, and it should facilitate the improvement of the quality of corporate governance," Central Bank deputy chairman Sergei Shvetsov told reporters Monday.

Committing to a price threshold of 91 rubles is a climb-down by the Central Bank; previously the regulator had said it would not sell below 100 rubles. During a secondary public offering in 2007, Sberbank stock was sold at 89 rubles per share.

Another idea previously floated — to reduce the Central Bank's stake in Sberbank through a share issue — was also abandoned.

"You can reach 50 percent in two ways: dilution or sale," Shvetsov said. "Since Sberbank today has enough capital for the realization of its business plan, the sale option was the only one."

A successful placement of the Sberbank stock should help kick-start the privatization agenda that has stalled since the sale of a \$3.3 billion holding in state-owned lender VTB early last year.

According to a plan confirmed by Prime Minister Dmitry Medvedev in June, in addition to the 7.58 percent stake in Sberbank, by the end of 2013 the state must sell 50 percent of shipping giant Sovkomflot, 25.2 percent of VTB and 25 percent of Russian Railways.

While a successful Sberbank international listing would be symbolically important, some experts are unsure how significant the banking giant's success would be for the financial sector as a whole.

“It will be good for Sberbank,” said Aton’s Shemetov. “But Sberbank is an exceptional phenomenon in the Russian economy.”

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