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Promsvyazbank Goes Ahead With $500M IPO

By Howard Amos

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Promsvyazbank's majority shareholders, the Ananyev brothers, sitting side by side at the opening of the Skolkovo School of Management in 2006. **Denis Grishkin**

Promsvyazbank, one of Russia's biggest privately owned lenders, announced Monday that it will proceed with a $500 million listing in London and Moscow.

The move comes less than a week after market leader Sberbank's $5.2 secondary public offering, in which high demand meant its books closed in under 48 hours.

Medium-sized Promsvyazbank, which is controlled by the billionaire Ananyev brothers, abandoned an initial public offering attempt in 2008, but a successful placement this time around could make it only one of three Russian financial institutions trading on the London Stock Exchange alongside state-owned giants VTB and Sberbank.

Management will seek to sell the bank to investors as a unique access point to non-state,

liquid banking stocks. Privately held Nomos Bank successfully completed a $700 million IPO last year, but will be de-listed in the wake of a tie-up with Otkritie Financial Corporation.

"There are customers who are quite happy not to be too close to government," said Neil Withers, vice president of capital strategy and investor relations at Promsvyazbank. "We don't try to lend money to companies that VTB and Sberbank lend to."

Promsvyazbank is the 10th-largest bank in Russia by assets and the second-largest domestically owned private bank in the market behind Alfa Bank, according to the Banki.ru financial website.

The primary purpose of the IPO is to raise new capital, and the impressively bearded brothers Dmitry Ananyev and Alexei Ananyev, who control 88.3 percent of the bank, will not subsequently seek to remove cash, according to president Artyom Konstandyan.

"Given current market conditions, our shareholders are not very interested in cashing out," he said, Reuters reported.

The Ananyev brothers have a combined fortune of $3.6 billion and are ranked by Forbes magazine as the 49th and 50th richest businessmen in Russia.

The size of the listing will be about $500 million, said a person close to the bank who requested anonymity to speak freely. About 30 percent of the bank's stock will be offered to investors, Vedomosti reported.

Promsvyazbank has hired HSBC, JPMorgan and Renaissance Capital as bookrunners for the placement, according to an e-mailed statement Monday.

The road show during which management will meet with investors is due to begin in two weeks, Withers said, but it could get under way sooner if demand is high. "Technically [the IPO] can't be done in less than 3 weeks," he added.

While Sberbank was significantly oversubscribed during its placement, some experts said that Promsvyazbank could have problems attracting sufficient interest.

"The track record of small-cap bank equity is patchy," one Western banker said. "It will be a challenge to take them seriously."

Some who bought into mid-sized Nomos Bank during its 2011 IPO, with which Promsvyazbank will face comparison, were angered by the announcement earlier this month that minority investors were being bought out as part of a merger with Otkritie at $3 less per share than the IPO price.

Management will point to Promsvyazbank's profitability and the growth potential within the market.

In the first half of this year the bank reported a net profit of 3.8 billion rubles ($122 million), up from 1.2 billion rubles in the same period in 2011.

And with over a million clients and 290 offices, the bank has been seeking to diversify away

from a traditional focus on corporate lending to take advantage of the opportunities in other sectors.

"There is a much greater potential for profitable growth in [small and medium-sized enterprises] and retail," Withers said.

The European Bank for Reconstruction and Development is likely to participate in the IPO by converting a 3.5 billion ruble loan extended in 2011 to maintain its 11.6 percent in the bank.

Promsvyazbank applied for a license from the Central Bank to list 25 percent of its shares outside the country earlier in September.

It is the first Russian company after Sberbank to look to tap capital markets as international volatility eases in the wake of the Federal Reserve's decision to launch a third round of quantitative easing — but it may not be the last.

Medical Group Investments, the country'a largest network of maternity centers, is currently considering an IPO and giant mobile operator MegaFon is eyeing a $4 billion listing in London.

Banking assets may be given a particular boost by the success of Sberbank, said Vladimir Savov, head of equity research at Otkritie, although there are also domestic factors at play.

"The issue of raising more capital in the Russian banking sector is becoming more and more pressing," he said.

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