

Moody's Mulls Rosneft and TNK-BP Downgrade

By [The Moscow Times](#)

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Moody's warned that Rosneft's rating could be downgraded, but its stock rallied in the wake of the TNK-BP deal. **Alexander Demianchuk**

Ratings agency Moody's on Wednesday placed Rosneft and TNK-BP on review for downgrade following Rosneft's agreement to buy the joint venture between BP and a group of Russian oligarchs.

State-owned Rosneft unveiled a deal Monday to buy TNK-BP, Russia's third-largest oil producer.

It is buying the 50 percent stake of British oil company BP for \$17.1 billion in cash and a 12.84 percent share of Rosneft. It is buying the other half for \$28 billion from a group of Russian billionaires.

The deal would make Rosneft the world's largest oil company in terms of production, ahead of

ExxonMobil.

Moody's warned Rosneft and TNK-BP on Wednesday that the deal, estimated by Rosneft to be worth \$61 billion, could hit both companies' credit ratings, the Associated Press reported.

The agency said its further action would depend on the structure of the deal's financing and Rosneft's strategy regarding TNK-BP's corporate governance and dividend payments.

However, Moody's said the deal with BP could be very positive for the Russian company, offering Rosneft "an opportunity for efficiencies and cash-flow savings as well as new opportunities for the cross-sharing of best practices."

Moscow-based Sberbank CIB investment bank warned in a note that following the completion of the deal, Rosneft "will be saddled with not just debt but also a huge investment program that is eating up all its cash flow, even at the current high oil prices."

Despite Moody's statement, Rosneft shares jumped to a 15-month high, gaining 3.46 percent Wednesday as investors were optimistic about the company's takeover of TNK-BP.

Analysts see potential benefits for Rosneft from the deal. Sberbank on Wednesday expressed hope that BP as a new major shareholder could manage to persuade Rosneft to walk out of unprofitable projects, such as oil production in Venezuela or the \$10 billion upcoming construction of a petrochemical plant.

Meanwhile, the banking sector is lining up to cash in on the Rosneft deal.

Bankers will likely pick up \$30 million to \$50 million for their work on Rosneft's takeover of TNK-BP, according to Freeman Consulting, Reuters reported.

That will be less than might have been expected from a deal of that size because banks likely discounted fees of 40 to 60 percent, given the nature of the transaction, with BP pressured to sell its stake to a government-controlled entity, Freeman said.

Data from Thomson Reuters and Freeman showed fees on average of about \$35 million on \$10 billion deals.

Fees also tend to be lower when governments are involved. The prestige of winning sovereign work has its own value, and there is the hope of follow-up business in areas that grab fewer headlines.

On Tuesday, bankers said Rosneft was close to naming the coordinating banks on the \$45 billion financing for the deal.

(Reuters, MT, AP)

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