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VTB Bank Plans $3.3Bln Moscow Share Sale

By The Moscow Times

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VTB, Russia's No. 2 bank, set out plans for a 100 billion ruble ($3.3 billion) share sale in Moscow, that could signal a desire to secure sources of funding if talks with sovereign wealth funds come to nothing.

VTB needs to raise its capital buffer to meet tighter regulatory requirements and give it freedom to make more loans to Russian consumers and businesses.

The long-planned share sale will take place via the Moscow Exchange, VTB chief executive Andrei Kostin said Friday, as the state-owned bank heeds a government call to promote the local stock market.

The sale, which is also part of a privatization drive by Russia, could reduce the state's 75.5 percent holding in the bank by up to 25 percent.

Yet VTB faces a formidable task in completing the issue, which would be the largest-ever secondary share sale in Moscow.

The bank finds its path to international markets blocked by a wariness toward Russia among some overseas investors, while talks with sovereign wealth funds (SWFs), such as those based in the oil-rich Middle East, on a direct stake sale have so far proved inconclusive.

Three people with direct knowledge of the matter said in February that Qatar's sovereign wealth fund had hired UBS to advise it on a possible $3 billion investment in VTB.

Kostin declined to comment on whether any SWFs, including Qatar's, would support the share issue as anchor investors. But he said the bank was setting an example for other Russian and former-Soviet Union-based companies to follow.

"Bank VTB ... plans a wide-scale placement worth tens of billions of rubles. I think that our example will help other companies from Russia and [the Commonwealth of Independent States] to place here [in Moscow]," he told a conference.

VTB's tier-1 equity ratio stood at 9.3 percent in September, regarded by some analysts as relatively low given that bigger state rival Sberbank's is over 10 percent — constraining its capacity to write new loans and prompting the need for the share sale.

First Deputy Prime Minister Igor Shuvalov told reporters in St. Petersburg that the sale could be done by fall once all investors were on board.

"We will do [the additional share placement] when we have a full pocket of investors. ... We think it would be around 100 billion rubles," Shuvalov said. "We don't want do to it in parts. In principle, we can do it by autumn."

Asked whether talks with Qatar had failed, Shuvalov said: "We work with all potential investors who show interest in the bank."

Sources close to the matter said VTB had approached investment banks to arrange the offering but had not awarded any mandates.

The Russian state has compensated small-time investors who lost money on the flotation, but institutions have not received such favorable treatment and VTB is rated below Sberbank on many common measures.

The bank trades at a price-to-book value of about 0.9 times versus Sberbank at 1.4 times, according to brokerage Aton.

VTB also lags its rival on metrics such as return on equity, where Sberbank achieved 23.8 percent in the third quarter while VTB delivered 16.2 percent, and in terms of their cost-to-income ratio, where Sberbank's stood at 47.3 percent against VTB's 49.4 percent.

VTB's mistakes such as its value-destructive acquisition of Bank of Moscow in 2011 have also damaged it in some investors' eyes.

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