The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

VTB Approves Terms of $3.3Bln Share Sale

By The Moscow Times

April 28, 2013



Russia's second-largest bank VTB is pushing ahead with a 103 billion ruble ($3.3 billion) share sale in the coming weeks to bolster its capital, even as its shares languish after a series of strategic missteps.

VTB's supervisory board on Friday approved the issue of 2.5 trillion shares at 4.1 kopeks each, a discount of around 9 percent off its closing share price on Friday of 4.5 kopeks.

The new issue will make up 19 percent of VTB's enlarged capital, according to Reuters calculations.

VTB did not say when the issue would be launched, but a source close to the matter said it could happen in mid-May.

Investors who signed up for previous share offerings by the state-controlled bank have

suffered heavy losses, and the sale will pose a major test for chief executive Andrei Kostin, one of Russia's most senior bankers, who also has close ties to President Vladimir Putin.

Shares in VTB have shed more than half their value since the bank floated on the stock market in 2007, and a share issue in 2011 was promptly followed by the takeover of Bank of Moscow, which triggered Russia's largest-ever bank bailout.

The new capital would allow VTB to expand its lending to Russian business.

But to succeed, Kostin may need to secure large "anchor" investors or win backing from government-related entities.

"There's a good chance the government buys shares ... because selling 100 billion rubles of VTB is not going to be easy," said Jason Hurwitz, analyst at Alfa Bank.

A senior VTB executive said last year that the state had no plans to participate in the sale.

The government is aiming to reduce its stake in VTB as part of a drive to reduce state holdings in businesses ranging from diamond miner Alrosa to oil major Rosneft.

A source close to the Russian Direct Investment Fund, a $10 billion state fund created to team up with foreign investors on major private equity-style deals, said it was highly unlikely to back the offering.

The government's 75.5 percent stake will be reduce to slightly more than 60 percent following the issue, provided they do not buy any shares, Reuters calculations show. Existing shareholders have the right to buy new shares under the offer.

The decision to go ahead with the capital increase comes despite a recent improvement in VTB's Tier 1 capital adequacy ratio, now at 10.3 percent and close to its top peer Sberbank .

"This speaks volumes about VTB's need for capital," said Ivan Kachkovski, a banking analyst at Moscow brokerage Aton.

Some analysts have said VTB, the Russian bank with the greatest exposure to Cyprus, may be playing down the impact of a recent European Union bailout that imposed losses on depositors at the Mediterranean island's two biggest banks.

Anchors Sought

Kachkovski said he had little doubt that the VTB deal would get done with anchor investors accounting for most, if not all, of the uptake and Russian state entities likely to be significant investors.

However, one source said that while VTB was still in talks with large foreign sovereign wealth funds, he was not aware of any positive outcome. The bank has been talking to these funds about the sale since early in the year, sources with knowledge of the discussions said at the time.

Qatar's sovereign wealth fund had hired financial advisers to investigate buying the entire

VTB stake, but nothing has been announced. Earlier in April, Kostin said the Qataris were "tough negotiators" but declined to elaborate. CFO Herbert Moos this week declined to say whether VTB was still talking to Qatar.

U.S. private equity firm TPG, which bought $100 million of VTB shares in 2011 alongside China's investment fund CIC, is not looking to increase its stake in VTB, a source recently said.

The shares will be issued on Moscow's bourse, VTB said. VTB also has global depositary receipts which closed on Friday at $2.84.

VTB's stock is currently valued at an estimated price-to-book ratio of 0.6 times, according to Alfa Bank, a steep discount to the multiple of 1.1 times enjoyed by its larger and more profitable state rival, Sberbank.

Original url:
https://www.themoscowtimes.com/2013/04/28/vtb-approves-terms-of-33bln-share-sale-a23655