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Government Mulls 35% Dividend Payouts from State Companies

By The Moscow Times

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Russia is considering whether to make state companies pay higher dividends to replenish government coffers and reassure foreign investors worried by a slowing economy, falling commodity prices and an opaque business environment.

The move could help Vladimir Putin fund spending promises he made to secure a third term as president and may stem outflows of foreign money from Russia-focused funds.

Some investors say, however, that forcing state companies to give up more of their profits to shareholders could weaken the capital bases of state banks and deprive capital-intensive energy companies of funds they need for growth.

The government told state companies in November they must pay at least 25 percent of their net income in dividends, but that some could be exempted from that minimum if they were involved in state investment programs.

First Deputy Finance Minister Tatyana Nesterenko told reporters on Monday this minimum could now be raised to 35 percent of earnings, while allowing the same exemptions. Another option was to keep 25 percent as the minimum dividend payment but allow no exemptions. No consensus has yet been reached within the government, officials said.

"It was not a discussion, it was not a proposal — it was mentioned," a spokesman for First Deputy Prime Minister Igor Shuvalov said on Monday of policy talks chaired by Shuvalov last week.

The increase could potentially apply to companies that represent the backbone of the country's commodity-reliant economy such as energy giants Rosneft and Gazprom.

Profits at Rosneft and Gazprom amounted to nearly $50 billion last year, meaning a combined 35 percent payout would total $17.5 billion. The government has controlling stakes in both companies.

Increasing minimum dividends at state firms to 35 percent from 25 percent would add up to $3 billion a year to government revenue by 2015, according to the calculations of one analyst.

A source at a Russian bank said it appeared the idea was at a preliminary stage. "I've heard about such proposals but it is hard to say when or how they can materialize," the source said.

The debate comes as the federal budget strains under the impact of weaker oil prices since demand slowed in the top oil consuming countries, the United States and China.

After balancing its budget last year, Russia expects a deficit of 0.6 percent of gross domestic product in 2013. GDP grew by 1.1 percent in the first quarter from a year earlier, barely half the rate seen in the final quarter of 2012.

The government has looked to increase spending on defense, pensions and public pay, pushing federal spending up by 18 percent in nominal terms last year — Putin's re-election year. It is poised to grow 21 percent more over the next three years, putting pressure on the government to find new revenue sources.

Efforts to raise money from privatizing state assets have come to little and the government is now looking for other ways to boost its income.

"Given that privatizations are taking longer than expected and that terms are not as good as they would like, they are looking for other ways to meet that target, and dividends are one obvious choice," said Bruce Bower, a partner at Moscow hedge fund Verno Capital.

Gennady Babenko, equity research analyst at RenCap, said that higher dividends would help draw portfolio managers to Russian equities as a dividend play, given that the Russian financial market had become less dynamic than its peers.

But RenCap said an obligatory 35 percent payout would be too high for most Russian oil and gas companies to bear. If Rosneft adopted such a policy, it would have to pay around $7 billion in annual dividends, eating up too much cash flow, RenCap said.

Gazprom, however, has the capacity to increase payouts, and its dividend yield would go to 11 percent if it switched to a 35 percent dividend, RenCap said. Gazprom's dividend yield is now 6.75 percent according to Reuters data, compared to a sector average of 8 percent.

Squeezing a 35 percent dividend from Russia's state banks, VTB and Sberbank, would restrict growth and eat up capital, RenCap said. VTB is raising $3.3 billion through an offering of new shares to investors.

"VTB just raised capital for safety and growth — to then demand the company start paying it back might be seen as a pointless exercise by investors," RenCap's David Nangle wrote.

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