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Hypermarket Lenta to Float Shares in London

By The Moscow Times

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Russian hypermarkets retailer Lenta is to list its shares in London, the company said Monday, potentially raising at least $1 billion and tapping the demand from investors for consumer-focused businesses buoyed by Russia's rising middle class.

Such businesses have proven popular for overseas investors with Russia's second-largest telecoms company MegaFon floating in London 2012, with the share price now 50 percent higher than its flotation price.

Meanwhile Lenta reported a 38 percent rise in net profits last year to 7.1 billion rubles ($202 million), on sales up 31 percent at 144.3 billion rubles, but the IPO comes at a time when Russia's economy is faltering and a slide in the ruble is raising fears of a spark in inflation.

"Lenta should attract sufficient investment demand, it is a sizable placement but a lot will depend on the valuation," said Natasha Zagvozdina, head of research at Verno Capital. "Lenta

is the right company in the right sector."

Lenta's chief executive Jan Dunning said the retailer's focus on promotions and selling Russian products gave it resilience.

"We believe that our customer proposition is quite a universal one and will help, if needed, to guide us through any economic slowdown," said Dunning.

While Lenta did not disclose the size of the deal, sources familiar with the matter previously said Lenta was talking to banks about a listing which could raise at least $1 billion and could command a valuation of more than $5 billion.

Lenta said U.S. private equity firm TPG, which owns a 49.8 percent stake, would be selling some of its shares, as will the European Bank for Reconstruction and Development, which holds 21.5 percent, and Russian bank VTB, which owns 11.7 percent.

Lenta's listing opens a way out for TPG from what has proven a troubled but profitable investment and would prove a rare success story for a U.S. buyout firm in Russia — most have shied away from the country due to concerns over corruption and corporate governance.

There was some concern, however, that there will be no money raised for the company. UralSib analyst Marat Ibragimov said it was not a positive factor that no new shares are being sold and that proceeds will not be used for the company's development.

Lenta will also be competing for investor attention with German retailer Metro AG, which plans to sell up to a quarter of its Russian cash-and-carry unit in a London listing to raise funds for investment and pay down debt.

Metro's listing, set for the first half of 2014, is expected to raise at least 1 billion euros ($1.36 billion).

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