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Crimea Turmoil Derails Russian Companies' Multibillion Dollar Share Flotation Plans

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Shoppers milling about the roomy shop floor of Detsky Mir in Moscow.

Top Russian consumer goods companies have decided to delay their initial public offerings abroad, fearful of the economic repercussions of the political crisis unfolding in Crimea.

At the same time, oft-delayed plans for privatization — touted by Prime Minister Dmitry Medvedev in February as fuel to propel the country's flagging economy — could be put on hold yet again until the markets stabilize.

German retailer Metro announced this week that it would delay plans for an IPO of its Russian subsidiary until the economic and political situation improves.

President Vladimir Putin confirmed the annexation of Crimea in a speech Tuesday, nearly three weeks after troops thought to be Russian occupied the peninsula, and following a referendum Sunday in which more than 96 percent of Crimean voters supported leaving Ukraine and joining the Russian Federation, according to local authorities.

The U.S. and the European Union declared the referendum illegitimate, instating visa bans against certain Russian officials Monday and threatening economic sanctions.

"We continue to pursue our plans for an IPO of Metro Cash & Carry Russia, but as always stressed this would require appropriate conditions in the capital markets. In light of the recent political developments this is currently not the case," Metro Group said in an official statement.

Metro had planned to float 25 percent of its Russian unit on the London Stock Exchange by the end of June with hopes of raising at least 1 billion euros ($1.39 billion), Reuters reported.

Detsky Mir, Russia largest retailer of children's goods, will also delay its IPO until next year, PRIME reported Wednesday, citing an individual close to the organizer of the share offering.

The source added that the decision to delay was related to the events in Ukraine and the state of the Russian economy, which suffered a sharp slowdown last year. Government forecasts currently hope for economic growth of 2 percent this year, while independent analysts, often citing the consequences of the Ukraine crisis, project growth as low as zero.

Detsky Mir applied to the Central Bank on Feb. 25 for permission to list stocks on the London Stock Exchange, planning to float almost 185 million shares, the price of which was not specified.

Two sources in the banking industry told Reuters earlier this year that the retailer was going to launch its IPO in mid-March with hopes of raising between $300 million and $400 million.

A representative from Detsky Mir declined to comment on Wednesday.

While the main grounds for Detsky Mir and Metro's decisions were the situation in Crimea and accompanying risks of economic sanctions from the West, the weakening ruble was also a key factor, Investcafe analyst Roman Grinchenko said in a statement.

The ruble has fallen about 12 percent against the dollar and the euro since the beginning of the year, leading to rising supply costs for retailers generating revenue exclusively in rubles. The companies have been forced to either increase the cost of their goods, threatening consumer demand, or leave costs at their current level and see profits shrink, Grinchenko said.

Up-and-coming shoe retail empire Obuv Rossii has also reassessed its plans for an IPO on the Russian stock market. The company had intended to drum up between 1.5 billion and 2 billion rubles (between $42 million and $55 million) by floating up to 25 percent of its registered capital by the end of the year, Vedomosti reported.

"At this moment the company has not decided on any specific date for an IPO, which would depend among other things on the situation on the financial markets," director Anton Titov wrote in an email Wednesday.

Obuv Rossii opened 90 stores last year, reaching a total of 270 shops around the country, and intends to open another 120 in 2014, plans which the company currently "does not intend to re-examine," Titov said.

One more planned Russian IPO is expected to buck the trend and go on with its London flotation.

Credit Bank of Moscow, the 13th largest bank in Russia according to a Jan. 1 analysis by RIA Rating, plans to list shares worth more than $500 million in the first half of 2014.

In February the company requested permission from the Central Bank to shift 4.8 billion shares abroad, Interfax reported.

Meanwhile, repeatedly delayed government plans to privatize a number of major state-owned companies may be set back yet again due to the wobbly markets.

Federal Property Agency head Olga Dergunova said Tuesday that privatization deals scheduled for the second quarter could be pushed back to either the third or fourth quarter, Interfax reported.

Earlier this year, Dergunova said that oil giant Rosneft, leading Russian airline Aeroflot and shipping group Sovcomflot could be candidates for privatization.

Prime Minister Medvedev said February that the state hoped to raise more than $5.5 billion through the sale of shares in state-owned companies, but added that stakes in Sovcomflot or telecommunications operator Rostelecom would only be sold under favorable market conditions.

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