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Investors' Fear Crimps Russian Borrowing

By The Moscow Times

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LONDON — Usually prolific borrowers on global markets, Russian companies are finding their funding lifeblood cut off by banks and asset managers who fear their investments will get caught up in the standoff between Moscow and the West.

With military tensions running high between Russia and Ukraine and a looming threat of tough Western economic sanctions, it is getting harder for companies to issue bonds or obtain loans — a situation that could eventually threaten some of them with default.

Corporate bond sales from Russia have ground to a standstill, amounting to just $4.6 billion so far this year. That is a fifth of year-ago levels and under 5 percent of what emerging market firms have raised, according to Thomson Reuters data.

Worse still, it is a tiny proportion of the $150 billion or so of the hard currency debt due to be repaid by Russian companies in 2014

Some of that debt was taken out via loans, but the picture there is no better than on bond markets.

Russian loans worth $34 billion mature this year but just $4 billion of this has been raised, according to data compiled by Thomson Reuters Loan Pricing Corp.

For years, Russia has been a favorite credit for investors, boasting an investment-grade credit rating, half a trillion dollars in central bank reserves, big cash-generating companies and a debt ratio of just a third of annual economic output.

But in the minds of investors, all that is now overshadowed by the threat of sanctions. They could include freezes on assets or money transfers, restrictions on exports or even a bar on holding Russian companies' stocks and bonds, they fear.

Political Call

"The first call one has to make is the political one. The political turmoil and the possibility of sanctions make everyone cautious on holding Russia. The companies' fundamentals and cash balances are a secondary issue," said Hakan Enoksson, head of fixed income at RBC Wealth Management.

Enoksson says he has had no exposure to Russian debt since early March and does not plan any in the near future, given the fear of more losses as more investors exit.

Already, U.S. sanctions on businessmen such as Russian Railways boss Vladimir Yakunin and oil tycoon Gennady Timchenko have prompted a selloff in the dollar bonds issued by their companies as investors fear damage to their reputation.

Gas company Novatek for instance, where Timchenko has a stake, has seen the yield on its 2016 dollar bond rise to 5.36 percent, the highest since December 2011, almost double where it was at the end of last year.

Yield spreads on Russian companies' dollar bonds have spiralled across the board this year.

The implication of all this? A major funding crunch, or even a series of defaults, unless markets pick up soon.

Standard Bank analyst Tim Ash terms Russia's short-term debt — what's maturing in the coming year — its "soft underbelly".

"I think this debt will be increasingly difficult to refinance if, as seems likely, relations with the West further deteriorate over Ukraine, as the sanctions list is expanded and few foreign institutions are willing to finance Russian entities," Ash said.

End of the Affair

All this marks a major hiatus in a decade-long love affair between Western investors and Russia's corporate sector, which has seen companies — oil and mining firms as well as telecoms and banks — chalk up overseas debt of around $650 billion.

They now account for over a tenth of the main emerging corporate bond index, JPMorgan's CEMBI.

Even now, the default threat is not immediate — data compiled by various banks shows most big Russian companies have cash balances that are up to three times the value of short-term debt repayments. Prominent exceptions include diamond miner Alrosa and oil major Rosneft, research from Barclays shows.

There are also expectations that Russia's government will help companies avoid default, as it did during the 2008-2009 global crisis. Crucially though, it could be less willing this time to ensure Western investors get paid.

"I'm looking at all the Russian companies we hold in terms of their total debt, how much short-term debt is maturing and what is their free cash position," said Okan Akin, an investment strategist for fixed income at U.S. asset manager AllianceBernstein.

"At the end of the day, if sanctions are imposed it is not clear if the Russian government would step in to help companies to repay debt."

Fund managers such as Samantha Lamb at Standard Life in London are also reluctant to dump Russia entirely — she holds bonds from Gazprom and Vimpelcom for instance, noting they will not need external funding for the next year or so.

But with lenders reluctant to engage, companies may increasingly have to run down their coffers. State development bank VEB was this week forced to repay maturing debt worth $2.5 billion, rather than refinance it with a fresh loan.

Another bank, VTB, will be forced to repay a $3.13 billion due in July, bankers said, describing a rollover of the loan as "out of reach" for the company.

Meanwhile Standard & Poor's decision on Friday to cut Russia's rating — placing it on the brink of becoming a junk credit — will make borrowing even more difficult and costly.

"If Russia goes to junk, that would have consequences for the private sector," said Cristian Maggio, an analyst at TD Securities. "Every company rated above would be cut to the same rating. That could trigger pretty sharp capital outflows."

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