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Markets Alert as Russia's Rosneft Readies $7 Billion Debt Payment

By Howard Amos

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While Rosneft's debt problems are severe enough to make it stand out among Russian companies, analysts and experts contacted by The Moscow Times said that a default was very unlikely.

Ruble traders are closely watching a $7 billion repayment by state-owned Rosneft due this week as the oil giant grapples with mountainous debt amid Western sanctions and depressed oil prices.

Rosneft's last debt payment of $7 billion in December, accompanied by opaque domestic borrowing, appeared to contribute to a dramatic 20 percent slide in the ruble's worth against the U.S. dollar.

"The market is very conscious of the [upcoming] payment," said Tom Levinson, chief currency strategist at Sberbank CIB in Moscow.

Rosneft owes a total of about $60 billion to banks and bondholders — more than the company

itself is worth — and the $7 billion payment Friday is just the first installment of $20 billion due this year.

$7 Billion Precedent

The $7 billion that Rosneft must find by Feb. 13 is the second payment of such a size for the oil giant in less than two months.

Eleven days before Rosneft paid the previous $7 billion tranche on Dec. 22, the company raised 625 billion rubles ($9.3 billion) on the domestic bond market in a controversial deal that officials and experts said played a role in unhinging the currency market.

While Rosneft denied that it was buying dollars to repay foreign debts, many currency traders were spooked by the lack of clarity over the identity of the new bondholders and feared the commodity exporter planned to dump its rubles.

Less than a week after the bond issue, on Dec. 16, the ruble crashed to over 80 against the U.S. dollar after a 6.5 percent emergency interest rate hike from the Central Bank failed to quell the panic.

"The Rosneft deal was not transparent, it was impenetrable for the market and an additional factor in volatility," Central Bank head Elvira Nabiullina said in an interview with Forbes magazine published Feb. 3.

Scrambling for Cash?

Rosneft has more corporate debt than any other Russian company. The oil giant took on huge short-term debts in 2013 when it bought TNK-BP, then Russia's third-largest oil company, for $55 billion.

This year's collapse in oil prices, which have more than halved since highs of $115 a barrel in June, have hit the company hard. And, as this month's scheduled payment of $7 billion approached, analysts and market players have been watching Rosneft closely for indicators of how it will foot the bill.

On Jan. 26, the oil giant raised 400 billion rubles ($6 billion) on the domestic bond market in a very similar sale to the one that alarmed currency traders in December. The company is receiving money from Dutch oil trading partner Trafigura, news agency Reuters reported Feb. 4 citing industry sources.

No Panic Just Yet

Rosneft is likely to have already raised the money it needs to pay the upcoming $7 billion, Sberbank CIB's Levinson said in written comments Thursday.

Head of Rosneft Igor Sechin shrugged off any problems Wednesday as he outlined to President Vladimir Putin the company's 2015 investment program, which he said he could be achieved even with an average oil price of $50 a barrel.

Rosneft easily has enough cash on its balance sheet — about $20 billion at the end

of September — to meet the repayment of the TNK-BP loan due Feb. 13, according to Alexei Bulgakov, a senior credit analyst at Sberbank CIB in Moscow.

"There are two problems however," said Bulgakov in written comments.

"Firstly, Rosneft has around $25-30 billion of debt redemptions in 2015 and cannot raise new debt abroad because of the sanctions ... [and] secondly, the company is not earning any significant positive free cash flows," or cash generated from the sale of oil.

Backdoor Bailout

While Rosneft has officially requested more than 2 trillion rubles ($30 billion) from the Russian government, some analysts suggest the company has already de facto received a state bailout.

The company's December and January bonds — together amounting to more than 1 trillion rubles ($15 billion) — were likely acquired by large banks that then re-obtained the money from the Central Bank through its regular repo auctions using the bonds as collateral.

"It is a financing scheme that is carried out with the support of the Central Bank," said Dmitry Dudkin, the head of fixed income research at UralSib.

"State support is already under way."

Russian media reports have analyzed balance sheets and quoted industry sources to suggest that state-owned VTB and privately held Otkritie Bank may have participated in the bond deals.

Default?

While Rosneft's debt problems are severe enough to make it stand out among Russian companies, analysts and experts contacted by The Moscow Times said that a default was very unlikely.

Credit rating agency Standard & Poor's said in a report on Rosneft last week that there was a "very high likelihood that the Russian government would provide timely and sufficient extraordinary support to Rosneft if the company experiences financial distress."

But one Moscow banker, who requested anonymity to speak freely, said the debt problem could become severe if oil prices remain low for a year or more and if there was no de-escalation to the Ukraine conflict.

"One of the solutions would be to restructure Rosneft debt," he said.

All Eyes on the State

Key to Rosneft's success in managing its debt mountain will be its ability to successfully lobby the government for funds expected to be distributed from the country's sovereign wealth funds to defuse the current economic crisis.

Besides Rosneft's key place generating wealth for Russia's economy, the company may also benefit from Sechin's long-standing acquaintance with Putin. Sechin served as Putin's aide during his time in the St. Petersburg mayor's office, before following him to the Kremlin in the 2000s.

But some officials, including Economic Development Minister Alexei Ulyukayev, have expressed opposition to the size of the bailout requested by Rosneft.

Theoretically, Rosneft could service all its debt even if oil prices remain low, said UralSib's Dudkin.

"But it will have to stop financing all new projects."

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