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Russian Budget Chain Lenta Raises $225 Million to Fund Expansion

By The Moscow Times

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Russian budget hypermarket chain Lenta has raised $225 million via an oversubscribed share sale, signaling investors are betting on food retail stocks to weather an economic crisis as squeezed Russian consumers seek cheaper goods.

Lenta said the new funds, less than half of which came from a state-backed private equity fund and associated investors, would help finance more store openings, saying this was opportune given economic conditions in the country.

With annual inflation running at more than 16 percent, many Russians have switched from premium to cheaper stores, hoping to cut spending as Western sanctions over the Ukraine crisis and lower oil prices put pressure on a weak economy.

Lenta said it had placed 35.2 million global depositary receipts (GDRs) at $6.40 apiece, a small

discount from its Monday closing price of $6.65. Five Lenta GDRs equate to one share.

Lenta plans to open at least 25 hypermarkets this year, having previously targeted between 20 and 25, and will stick to its goal of 10-15 new supermarkets, it said.

Shares in Lenta were up 5 percent in London after the sale.

The state-backed Russian Direct Investment Fund (RDIF) said it had acted as an anchor investor and attracted investors from the Middle East, Asia and Europe, confirming a Reuters report.

An anchor investor is offered shares before a deal opens to give confidence in the sale. Unnamed Western funds also had such a role, a financial market source said. RDIF and its partners bought about half of the newly issued shares, two sources said.

The deal comes weeks after the owner of Russia's biggest food retailer Magnit sold shares equating to 1 percent of the company, showing appetite for fast-growing food retail stocks. Low-cost Magnit has said it plans to open more stores in 2015 than ever before in one year.

"Food retail develops well and grows well. Magnit and Lenta are the best two stories in the sector and these stories are selling well," one investment banker involved in the deal said.

The order book was about two times subscribed, sources said.

Credit Suisse, JP Morgan and VTB Capital acted as joint global coordinators and bookrunners in the deal.

U.S. private equity firm TPG owned a 38.5 percent stake in Lenta, the European Bank for Reconstruction and Development had 16.6 percent and VTB Capital, part of Russia's VTB Bank, held 6.3 percent before the deal.

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