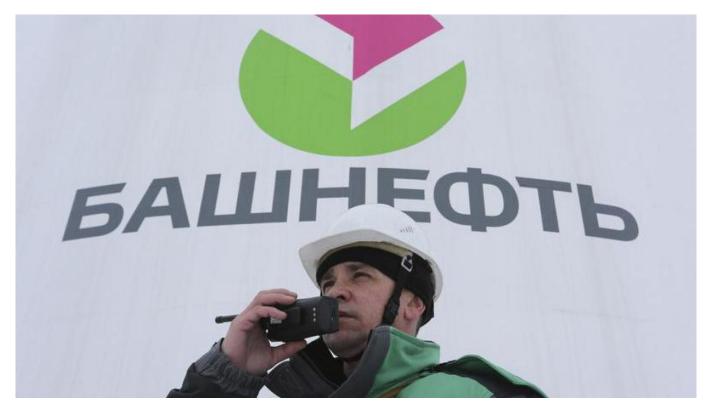


Bashneft Shares Fall After Privatization Delay

The Russian government will now focus on its Rosneft privatization deal.

By Galina Starinskaya

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A worker speaks on the radio at an oil gathering facility owned by Bashneft company. Sergei Karpukhin / Reuters

General shares for⊠Russian state oil giant Bashneft fell by 9.5 percent on Wednesday⊠after the Kremlin announced that the company's privatization would be⊠ <u>delayed</u>. The shares,

which are traded on the Moscow Stack Exchange, And rebounded slightly by the close of trading.

Preferred shares also fell by 6 percent, while the company's capitalization fell by 7.5 percent to 482.4 billion rubles (\$7.6 billion).

Bashneft's value skyrocketed following the Kremlin's <u>announcement</u> of the company's privatization, with many investors snatching up shares in the certainty that the government would announce the sale of its stake at a fair value and at a premium to the market price, according to analysts from the Aton Investment Management Company.

After the sale was⊠postponed, a significant number of those investors sold their shares,⊠said Vasily Tanurkov, Deputy Head of Shares Market Management for⊠Veles Capital. Share value might drop further, but not by much,⊠Tanurkov said. "Some might still sell who had resolved not to do so⊠during the initial panic,"⊠he said.

The state had planned to sell its 50.08 percent stake in Bashneft, which had been valued at 306 billion rubles (\$4.8 billion) by Ernst & Young.

The government is now set to concentrate on its other major privatization project: selling its shares in the Rosneft oil company, First Deputy Prime Minister Igor Shuvalov said on Wednesday. Parent company Rosneftegaz has until September 1 to present its recommendations for the sale of its 19.5 percent stake in Rosneft.

Officials had earlier⊠hoped to earn 700 billion rubles from the Rosneft sale. "Rosneft is⊠the <u>priority</u> now," Shuvalov said. "We need to focus on that.⊠After selling the Rosneft stake, we will return to the Bashneft sale.

"There are solid⊠bidders and we know how much they are prepared to pay for Bashneft,"⊠Shuvalov said. "We are also⊠looking at recommendations⊠from the leadership of the Republic of Bashkortostan [which also own⊠a 25 percent share in Basneft] on how to best sell the asset."

Russian banks VTB⊠Capital and Sberbank CIB are in charge of organizing the Bashneft⊠sale. They have announced that potential bidders include Rosneft,⊠Lukoil, Tatneft, the Independent Oil Company, the Russian Direct⊠Investment Fund, the Antipinsky refinery, Tatneftegaz, and the Energy⊠Fund.

"Obviously, this⊠ postponement is not a⊠positive signal to the market," said Sberbank president German⊠Gref. If the authorities⊠clarify their reasons for the decision, it would quell concerns and⊠misunderstandings on the market, he said.

According to the RBC⊠newspaper, the formal reason for delaying the sale was an appeal by⊠the republic of Bashkortostan's president Rustem Khamitov. The⊠republic currently has a 25 percent stake in the company, and⊠supposedly raised concerns over whether it would be able to fulfill⊠its social obligations to the republic post⊠sale.

Speaking in an⊠interview with the Rossiya 24 TV channel, Bashkortostan President⊠Rustem Khamitov said that it was a mistake privatize Bashneft while⊠the economy was still unstable.

Yet continuing⊠postponement will have serious consequences for the Russian treasury.⊠The Bashneft sale should have brought in up to 315⊠billion⊠rubles ⊠(\$4.9 billion) to the government coffers — a significant⊠source of income for Russia's budget in 2016. Instead, the⊠postponed privatization will speed up the depletion of Russia's reserve fund, which could be depleted before the end of the year.

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