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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 delayed. The shares, which are traded on the Moscow Stack Exchange, had 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 announcement 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 priority 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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