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Russia Puts Privatization on the Back Burner

Government to delay plans to sell off shipping company Sovcomflot.

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Maxim Stulov / Vedomosti

The privatization of shipping company Sovcomflot has been postponed to 2017, according to a Federal Property Management Agency (FPMA) representative and one federal official with knowledge of the privatization process.

Sovcomflot is 100 percent state-owned through the FPMA. The government had originally planned to sell a 25-percent-minus-1-share stake in the shipping company this year. The postponement means that instead of several major government sell-offs scheduled for 2016, now only plans to privatize oil producer Rosneft remain in place.

According to IFRS data, in the first half of 2016, Sovcomflot saw a 23.3 percent decline in net

profits to $165.9 million, a 9.2 percent drop in revenues to $680.2 million, and a 1.9 percent fall in EBITDA to $385.8 million. The company said it was a result of lower demand for tanker shipments. "In some segments of the tanker market, spot rates fell by approximately one-third year on year and, of course, that affected the entire industry," Sovcomflot CEO Sergei Frank said.

In an interview with Bloomberg in June, Frank mentioned a possible IPO in the first quarter of 2017 and suggested that the authorities at least wait to see the result of the "Brexit" vote. "It is important that London continue operating as an international marine hub and that no additional obstacles to shipping appear," Frank said, adding that such external factors greatly influence the company's value. In early July, Deputy Transportation Minister Viktor Olersky announced that the government planned to sell the stake in Sovcomflot this year.

Sovcomflot specializes in the transportation of oil, petroleum products, and natural gas. Its clients include the largest oil and gas companies in Russia: Rosneft, Gazprom and Novatek.

Portnews development director Nadezhda Malysheva said that the later the government sells the Sovcomflot stake, the better, and that it should wait at least until the company issues its annual report for 2016. She pointed out that 2015 was one of the best in the last 20 years for Sovcomflot, with net revenues (income from freight and rent minus voyage expenses) totaling $1.24 billion, and net profits reaching $354.5 million. She predicts that results for 2016 will be as good or better. "Two years of sustained growth will increase the company's sale value," she said.

Sovcomflot is a major international company and an object of interest to not only Russian investors, but also international and portfolio investors, according to Infoline-Analytics CEO Mikhail Burmistrov. "The situation with sanctions might change in 2017," he said, "and that would have a huge impact on the value of the company."

The state first considered selling a stake in Sovcomflot on the stock exchange as early as 2015, planning at the time to generate 24 billion rubles in revenues for government coffers. However, no IPO took place at the time. Economic Development Minister Alexei Ulyukayev said in May that the value of the stake remains unchanged and confirmed optimistic predictions regarding the extent to which privatization would augment the federal budget in 2016. "We maintain plans to sell shares in major state-owned companies Bashneft, Rosneft, Sovcomflot and VTB," he told Interfax. "If privatization of major state assets proceeds successfully in 2016, the federal budget will receive up to 1 trillion rubles."

In mid-August, Prime Minister Dmitry Medvedev's spokeswoman Natalya Timakova announced that that the Prime Minister had decided to push back the privatization of a 25-percent stake in Bashneft to a later date and that President Vladimir Putin had given his approval, though she did not explain the reason why. Ulyukayev had earlier indicated that the privatization of 19.5 percent of Rosneft could also be shifted to 2017. First Deputy Prime Minister Igor Shuvalov has said that privatization of a 10.9-percent stake in VTB had been postponed to 2017.

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