

Russia's Gazprom Buys Out Its Biggest Subcontractor

The deal implies that the way the Kremlin oversees megaconstruction projects is changing.

By bne IntelliNews

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Gazprom also considered buying out another major subcontractor. Sergei Bobylev / TASS

Russia's natural gas giant <u>Gazprom</u> has closed a deal to buy out 100% of its largest subcontractor Stroygazmontazh, controlled by oligarch Arkady Rotenberg, for 70 billion-95 billion rubles (\$1.1 billion-\$1.5 billion), according to reports from the RBC news site and Vedomosti daily, citing unnamed sources.

Gazprom also considered buying out another major subcontractor controlled by Rotenberg, Gazprom Burenie (Gazprom Drilling), estimated to be worth \$0.7 billion-\$0.9 billion.

Assets of sanctioned oligarch Rotenberg, a former judo training partner of Russian President

Vladimir Putin, are one of the largest beneficiaries of state construction and infrastructure contracts. Two deals with Gazprom could lead to a shift in how the Kremlin oversees megaconstruction projects.

Another of Rotenberg's assets, StroyProyektHolding, has recently teamed up with the state development bank VEB.RF (the former Vnesheconombank). In 2018, the bank was entrusted to Igor Shuvalov, an ex-deputy prime minister and trusted Kremlin bureaucrat who revamped the bank into the main hub of state investment spending in the economy.

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VEB and Gazprom have, in effect, been vying for a chance to buy Rotenberg's assets and in the end the two entities gained one each.

This represents a change in the way mega-projects have been overseen. In the past, Putin personally supervised these projects by maintaining close contact with the owners, who are regular guests at his dacha. But in selling the companies to VEB and Gazprom, Putin is institutionalising control of the way state funds are spent on mega-projects — a role that VEB is supposed to play.

As far as Gazprom's investment case is concerned, commenting on the Stroygazmontazh deal, Sberbank CIB said: "The key factor is that the newly acquired subcontractor would be off Gazprom's balance sheet, as it would be consolidated by an affiliated entity."

The entity to reportedly absorb Rotenberg's assets is Gazstroyprom, a construction company that had 310 billion rubles in assets and 178 billion rubles in liabilities at the end of the first half of 2019, and generated 40 billion rubles in revenues and 9 billion in net income over the same period.

Based on Interfax reports, Gazstroyprom was created based on the assets of former major Gazprom subcontractor Stroygazconsulting. The company is already working on Gazprom's projects in Yamal and in East Siberia.

BCS Global Markets on September 26 warned that technical completion of the deal "may indicate impending changes in the policy of capital expenditures."

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