

# IPOs Offer Access to New Sectors

By [The Moscow Times](#)

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MOSCOW/LONDON — The latest batch of firms attempting London listings could fare better than their predecessors as they offer investors access to more attractive sectors at a time of improving economic conditions.

Four companies plan to float this month, seeking to raise a combined total of up to \$3 billion — just over half the amount raised by Russian issuers in the whole of 2010.

The rush resembles a similar charge earlier in the year, when a different quartet, all with links to the natural resources sector, tried to raise up to \$2.6 billion.

Then, the results were dismal: Three pulled their listings, and a fourth, pump manufacturer Hydraulic, had to drastically cut the size of its offering.

"The appetite for stocks in industries that are already well represented on the stock market, such as metals and mining, is a lot less than for stocks that offer exposure to high-growth industries," said Chris Weafer, chief strategist at UralSib.

The latest wave of candidates would give investors exposure to the consumer side of the Russian economy via retail, property, banking and farming stocks.

Sugar and pork producer Rusagro is due to complete its \$300 million offering on April 8. That will be followed by a \$700 million listing by bank Nomos, real estate developer Etalon's \$500 million share sale and mobile phone retailer Yevroset's float of up to \$1.5 billion. All are due to be wrapped up in mid-April.

Yevroset, with more than 4,300 stores, will generate sales in rubles before converting into the weaker dollar, creating a foreign exchange boost for investors.

The lack of any imminent major privatizations is also likely to help these issuers. The previous wave of IPOs coincided with the privatization of a \$3.3 billion stake in bank VTB, which sucked up demand for Russian stocks.

Getting these IPOs done will be particularly important for the Russian investment banks involved, as they look to grow their presence in a competitive market.

VTB Capital, Moscow's dominant domestic investment bank, worked on just one of February's IPOs but has now won mandates on Yevroset, Nomos and Etalon.

Managing price expectations will be a key task for the banks if they don't want to be left with a string of failed IPOs.

The issue of valuation, largely blamed for February's failures, has long dogged Russian listings, with billionaire owners often demanding higher sums than investors will tolerate.

"Where you have a financial investor who is basically getting out having made a nice turn, [that] creates skepticism and almost resentment from your traditional fund manager — they just don't like the idea of it," said one London-based banker, who declined to be named.

While a valuation gap between issuers and investors may be inevitable, it is likely to be more easily overcome when a company is investing the cash back into the business rather than generating a windfall for owners.

"Ideally what you want is for the money to be reinvested into growth instead of going out of the company straight away," said a fund manager at one of the biggest Russia-focused funds. "When an IPO is used as an exit it raises eyebrows."

Perhaps taking that into account, both Etalon and Rusagro have said they would sell new shares before gauging demand for owners' stock, while Nomos has pledged a mixture of new and existing shares.

Investors will likely demand more of a discount from Yevroset, whose majority owner Russian businessman Alexander Mamut stands to bank as much as \$1.35 billion from selling down his stake, as it is raising just \$170 million from new shares.

With this extended break looming and a rebound in markets following volatility earlier this month, a glut of more than 10 bookbuilds are set to be running alongside each other next week.

This competition for investor attention will make price and investment story particularly key, bankers said.

"It is definitely a buyer's market," one said.

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