

VTB Buyback Idea Fails to Impress

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Prime Minister Vladimir Putin's idea to buy shares of state-controlled bank VTB back from retail investors who had borne losses as a result of the global financial crisis appeared to find little support among government officials and the bank's minority shareholders.

First Deputy Chairman of the Central Bank Alexei Ulyukayev said Friday that the buyback shouldn't be conducted using money from the state budget.

"I think it's wrong that state funds be used to carry out this transaction. ... Taxpayers' money clearly must not be used for this," he told reporters on the sidelines of an investment forum.

In an obvious pre-election move, Putin, who is running for the presidency next month, proposed Thursday that VTB chairman Andrei Kostin consider buying back equity from participants in the "people's IPO" to compensate their losses.

The heavily promoted offering, which VTB made in May 2007, attracted \$8 billion but left more than 100,000 retail investors in the hole after the company's shares have slid by nearly

50 percent from the IPO price of 13.6 kopeks (\$0.005) per share.

VTB targets a stock price of 15 kopeks per share by 2013, according to the strategy announced by Kostin in 2010.

Economic Development Minister Elvira Nabiullina said Friday that Putin's initiative came as a surprise, but she suggested that retail investors not participate in big equity sales directly in the future, but rather through mutual investment funds or institutional investors.

Nabiullina, who wasn't present at the forum, also said Sberbank and Rosneft, which also carried out a people's IPOs in 2007, don't need to buy back their equity.

"The share price of Sberbank and Rosneft is above the offering price, they have no such problem," she told journalists, RIA-Novosti reported.

Meanwhile head of the Federal Service for Financial Markets Dmitry Pankin was more optimistic about the possible buy-back of VTB shares, saying that although the measure is not of a market nature, it could attract retail investors back to the stock market.

"A rational investor won't come to this market from the profitability point of view," but will rather use less risky banking deposits, said Pankin, who participated in the forum organized by Sberbank and Troika Dialog.

Pankin also said Putin's proposal of the buy-back, which resulted in VTB shares soaring more than 3 percent in the middle of Thursday trading didn't violate the law on market manipulation.

"There are no violations, everything is clear and correct," he said at a panel session.

Putin's words can't be considered market manipulation because "an experienced investor is unlikely to rush to buy VTB shares based only on Putin's question whether a buy-back is possible," said Andrei Goltsblat, managing partner at Goltsblat BLP.

It also remains questionable whether the deal will take place and in what form, since, according to current legislation, the company cannot proceed with an offer only to participants of the people's IPO because that would discriminate against other shareholders, he said by telephone.

Meanwhile minority shareholders were little impressed by Putin's initiative.

"It's an absurd statement. It's impossible to buy back [shares] only from retail investors and not to buy from legal entities" said blogger and opposition leader Alexei Navalny, who is also a minority shareholder in the bank.

Navalny sued VTB Group for allegedly laundering about \$160 million dollars while buying oil-drilling equipment through a subsidiary, but the court threw the lawsuit out.

Speaking in a telephone interview, Navalny said Putin is trying to win the support of the huge number of the bank's minority shareholders ahead of the presidential elections.

“Around 180,000 people participated in the people’s IPO, and they are extremely active in expressing their discontent,” he said.

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