

Russian Companies Could Return to International Bond Market

By [The Moscow Times](#)

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An employee stands near a window, with the company logo of Gazprom installed on a building, at the headquarters of the Russian natural gas producer in Moscow.

MOSCOW/LONDON — Russian companies could return to international bond markets later this year after being frozen out by Western sanctions over Ukraine as investor appetite for the high-yielding debt picks up.

The prospect that non-sanctioned Russian firms would be able to borrow was remote just a few months ago, but prices of outstanding bonds have rallied since February, when the latest truce was agreed in eastern Ukraine.

The Minsk agreement to end fighting between pro-Russian separatists and Ukrainian government troops has been frequently violated, however, and President Petro Poroshenko of Ukraine called it a "pseudo-cease-fire" this week.

Bankers and analysts say the first companies to test the market could be large exporters with a good track record with investors. They named Gazprom and LUKoil and said mid-sized firms could follow.

"Neither the markets, nor the issuers are quite ready, but by the end of the year they will be. It's not possible to pick up those yields anywhere else," said Andrei Solovyev, global head of debt capital markets at VTB Capital in Moscow. Solovyev did not expect a "flood" of issues, however.

Norilsk Nickel is set to meet bond and equity investors in London on Monday.

Norilsk, Gazprom and LUKoil are not under sanctions restricting their access to Western capital markets, but U.S. firms cannot support certain types of exploration or production by the latter two.

Bond sales by companies from Russia and other ex-Soviet states amount to just 1 percent of emerging corporate debt issuance so far in 2015, a 10-year low. In 2008, they made up almost half of emerging market corporate bond issuance.

Russia's pivot eastwards, championed by President Vladimir Putin and intended to help fill the void left by Western investors, is yet to result in significant corporate bond-buying by Asian investors.

But Denis Shulakov, head of capital markets at Gazprombank, said Chinese investors could also step up to the plate as trade links between Moscow and Beijing grow.

"By the end of the year we could see issuance in each other's currencies," he said. "There was no industrial need before for settlement and issuance in national currencies, but when you see the industrial logic and big projects then it's unstoppable."

Appetite Awaken

Analysts say investor attitudes to Russian debt markedly improved in February and March with interest coming from high-yield funds as well as traditional emerging market investors.

"In principle non-sanctioned companies can go to market to issue. After an extended absence of primary placements, there will be at least several new Eurobond issues from the summer," said Alexey Bulgakov, senior credit analyst at Sberbank CIB.

Yield spreads on Russian companies' bonds have almost halved from peaks above 1,000 basis points (bps) hit last December on the benchmark CEMBI index run by JPMorgan. The index contains bonds of sanctioned as well as non-sanctioned firms.

"The plausible partial lifting of European Union sanctions at the end of this year is consistent with debt capital markets becoming accessible again by non-sanctioned Russian issuers in the second half of the year," said Christopher Granville, managing director at Trusted Sources consultancy in London.

"Investors will no longer worry that companies who are not now sanctioned may suddenly appear on some new sanctions list in the near future."

That may not be the case if the cease-fire breaks down.

Premium Puzzle

The next hurdle will be pricing.

A company like Gazprom could face a premium of around 50 bps over similarly-rated and similar-maturity issues elsewhere in emerging markets, Bulgakov said. For those with a single B rating the premium could be 100-150 bps.

Gazprom last tapped international bond markets in November, when it raised \$700 million via a one-year Eurobond. At the time it paid a premium of around 40 bps over existing bonds maturing in 2015.

Since then, yields have fallen 25-50 bps on its short-dated bonds, partly reflecting growing confidence the company will escape sanctions.

Fund managers said they were open to considering new Russian issues if firms come to market at attractive prices.

"They will need to offer a little yield concession, that will unlock the market. If they give 10-15 bps above the curve that should be enough," said Claudia Calich, head of emerging debt at M&G Investments in London.

But Greg Saichin, head of emerging debt at Allianz Global Investors, said companies may prefer to wait until yields shrink further. They may also be reluctant to taking on large amounts of new foreign currency debt after the ruble collapsed in December.

Saichin said: "The ball is effectively in their court."

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