Russian revolution

TWO NEWLY COMPLETED PIONEERING DEALS HAVE RAISED THE PROFILE OF RUSSIA'S FAST-GROWING PETROCHEMICALS GIANT SIBUR, AS **GRAHAM BUCK** REPORTS.

Among the most interesting corporate finance deals struck in 2011 were two by Sibur, a name set to become more familiar to Western investors as Russia and Eastern Europe's largest producer of petrochemicals.

Sibur, originally the Siberia-Urals Petrochemical Company, was created by the Russian government in 1995 as part of the policy of converting state enterprises in the petrochemical and oil-processing industries into joint stock companies. It brought together nine gas processing plants in Western Siberia and began operating four years later. The company struggled in its early years, and encountered severe liquidity problems, but has enjoyed steadily improving fortunes since the appointment of a new management team in 2003. Its plants now employ more than 50,000 people across Russia.

Helped by the fact that it can now ring-fence a proportion of its debt, the company has ambitious plans for future growth. This strategy has been in evidence recently with the completion of financing deals for two major new projects. The first deal was for Sibur's petrochemical site at Tobolsk in Siberia. The new plant is designed to make Russia self-sufficient by the end of 2012 in the production of polypropylene.

The project financing deal was several years in gestation, with the original fundraising plans upset by the 2008 financial crisis and put on hold until conditions improved. Sibur's strong growth last year in both sales and earnings contributed to its ultimate success.

The $1.4bn funding provided by Vnesheconombank to complete the project came from Credit Agricole, Deutsche Bank, Intesa Sanpaolo, ING, Société Générale, KFW IPEX and Sumitomo Mitsui. Credit lines of $1.2bn were provided under a guarantee by export insurance agencies SACE and Euler Hermes, as well as a $221m commercial credit line.

The second deal is a €750m international project financing agreement to construct Europe's biggest integrated polyvinyl chloride (PVC) plant. Finalised in June, the 12.5-year financing was awarded to RusVinyl, a 50:50 joint venture between Sibur and SolVin; the latter is owned 75% by Belgium's Solvay and 25% by BASF.

Pavel Ananienko, Sibur's head of treasury, says that the RusVinyl agreement is pioneering in its involvement of a number of different lenders. While Russian banks can lend substantial amounts of money they are restricted to doing so in roubles and the aim was to achieve a blend of long tenors, competitive pricing and long-term foreign currency.

Consequently the overall total raised involved three distinct groups. Russia's Sberbank provided the rouble equivalent of €150m and the European Bank for Reconstruction and Redevelopment (EBRD) added a similar amount. The remaining €450m was split between BNP Paribas, ING and HSBC.

The deal was also marked by considerable teamwork. More than 100 individuals were involved in it, including two sponsors, the company's joint venture partners, bankers and lawyers.

"Having worked in the Russian financial sector for more than 10 years I've not seen any previous deal that is quite so oriented to Russian domestic demand or which utilises such a diverse group of lenders," says Ananienko. The almost total reliance on domestic demand means that it omits any element of market uptake and the deal required special structuring to make up for this absence.

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In the light of recent market volatility, Ananienko agrees that the deal was well timed as windows of opportunity have been fairly short-lived in recent years, although Sibur was able to secure commitments from the banks at an early stage "due in part to our strong credit mitigation structure".

As one of Russia's major borrowers Sibur has a total of 15 relationship banks, a mixture of top-tier Russian and international names. "We see it as important to have access to both sources of liquidity," says Ananienko. "The 2008–09 crisis demonstrated that Russia's banks have a mandate and a commitment to support the country's industry during hard times, so companies have rediscovered the viability and usefulness of the home banking market."

He adds that the banking market best serves the company's needs at present, and in a turbulent economic environment globally Sibur prefers to utilise a relatively small number of very reliable banks rather than have a wider group of smaller investors.

"Last year we took the decision not to explore the Eurobond market, although bankers had been consistently trying to persuade us that Eurobonds were a good idea," he says.

The company also had the choice of a syndicate or club approach for the RusVinyl deal and opted for the latter. As a result, several banks keen to participate lost out because they were not club members. "We believe that the banks selected were the most qualified," adds Ananienko.

Having secured construction of a major new plant through a pioneering project finance deal, Sibur believes that similar deals will follow. It set up an Indian joint venture last December with Reliance Industries and it is possible that the company will be looking for a similar partner in China.

Demand for its products means that Sibur can present very favourable projections to potential investors. Urban population growth, moves to greater energy efficiency and the substitution of traditional materials such as wood and glass by polymers will accelerate growth both at home and internationally. And as a low-cost producer, Sibur's strong revenue growth is set to continue, particularly as it has the dual benefit of a relatively high oil price and a relatively weak rouble.

Further multi-source project financing deals are likely to follow. Ananienko notes that there was considerable interest in the structure of the RusVinyl deal and the company's lead is likely to be followed by companies in sectors such as gas exploration and production.

"The involvement of the EBRD also means that it can be adapted by other countries fairly easily," he suggests.

Despite the positive trends, Sibur's treasury team has followed Europe's sovereign debt crisis with some concern. "The potential break up of the euro zone is of importance to us," says Ananienko, "although as Russia has its own experience of debt default, perhaps we're rather less afraid of the consequences as a result. A country can live through a default despite the short-term shocks to the system; indeed, renewed economic growth can eventually result from it."

Sibur has also experienced periods of hyperinflation. Russia's current inflation rate of around 8–9% compares very favourably with recent years. So while concerned that it could reignite, the company has survived much worse. By contrast Ananienko thinks that European treasurers are finding it tough to adapt to the current turbulence because they have enjoyed a prolonged period of comparative stability.

Ananienko believes Sibur's strength is not reflected in its credit rating: "As a Russian company we have a systemic understanding of risk, so it is surprising that the group is still regarded as meriting no more than a BB rather than an A; we're facing significant re-evaluation and re-assessment as a credit risk. Indeed, the top-tier corporates of the developing countries collectively represent a much better risk than their ratings would suggest."

He adds that an environment of persistent inflation and low interest rates creates a good opportunity for top-tier borrowers. "It's something that many European blue-chips should be able to take advantage of, borrowing at very favourable rates, although it requires bold action to distribute cash and borrow more."

Ananienko says Russia's treasurers are also less concerned than their European peers with changes in interest rates and focus more on profitability and performance. "Our concerns are pricing and ratings," he says. "Currency risks have become almost unmanageable and it is difficult to come up with a suitable hedging strategy, particularly as analysts are no longer a reliable source of industry insight."

Sibur's own treasury team comprises 15 individuals in three main units. Treasury handles forex deposits, hedging, cash management and insurance; there is a separate department for all borrowing-related activities; and an investor relations team manages communications with the financial community. There is also one member of staff independent of the units who works on the company's more complex projects.

Having paved the way, Sibur's treasury team believes others may emulate its Tobolsk and RusVinyl deals. Ananienko says: "The Tobolsk project has already shown that this type of pioneering deal is picked up by the market. Everyone has been keen to understand the structures involved, so it is likely to be followed by others."

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