

Russian tycoons plan state-backed metals giant

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MOSCOW, Jan 19 (Reuters) - Two Russian metals billionaires have proposed the creation of a mining giant part-owned by the Kremlin that would wipe out existing debts and rival the world's top miners, a spokeswoman for Vladimir Potanin said on Monday.

Potanin and Oleg Deripaska, who both own stakes in Norilsk Nickel ([GMKN.MM](#)), plan to invite other companies to swap some of their debt to the state for a stake in a much larger company. Analysts were sceptical such a complex scheme could work.

"We are preparing proposals on swapping debt for a stake in a big company -- a Russian BHP Billiton," said Larisa Zelkova, spokeswoman for Potanin's company, Interros. She declined to give more details. Russia's steel and mining giants, which enjoyed record profits as commodity prices boomed, were left exposed to massive debt repayments as the global financial crisis reversed demand. Many have refinanced their loans with state-owned banks.

"The impetus for this deal is that some of these companies want state support servicing their debt and see this mega-merger as an easier path than undergoing individual restructuring," said Kevin Dougherty, co-manager of the Pharos Russia Fund.

"The state is also keen to form such a national champion, so this fits in with their interests as well," he told Reuters.

The proposed national company, in which the state could take a blocking stake of at least 25 percent plus one share, would be formed by merging Norilsk, the world's largest nickel miner, with several steel makers, Vedomosti business daily reported.

The newspaper said Metalloinvest, Evraz Group ([HK1q.L](#)) and Mechel ([MTL.N](#)) were included in a draft proposal to be sent on Monday to Deputy Prime Minister Igor Sechin. Potash miner Uralkali ([URKA.MM](#)) could also join the group, it reported.

Zelkova declined to identify the companies involved. Deripaska's company, Basic Element, declined to comment.

The state, in exchange for a stake in the company, could write off the debts of each company's owners and contribute its 60 percent stake in the world's largest titanium maker, VSMPO-Avisma ([VSMO.MM](#)).

The Russian group's market capitalisation could reach between \$70 billion and \$100 billion, Vedomosti said, placing it among the biggest mining companies in the world. BHP Billiton ([BHP.AX](#)) ([BLT.L](#)) has a market capitalisation of \$125 billion.

COMPLEX DEAL

Potanin and United Company RUSAL, the world's largest aluminium producer, are the largest shareholders in Norilsk Nickel. Alisher Usmanov, founder of Metalloinvest, has already expressed interest in uniting his assets with those of Norilsk.

Deripaska is the largest shareholder in UC RUSAL. Vedomosti said UC RUSAL itself would not be part of the original group.

The complexity of such a deal -- seen by some as a variation of a previous plan to merge Norilsk, UC RUSAL and Metalloinvest -- could cause problems, analysts said.

"The involvement of a larger group of companies will serve only to diminish the chances of this already complicated transaction taking place at all, with mutual valuations proving to be the greatest hurdle," Troika Dialog said in a note.

Analysts were also sceptical the merger would find favour among the owners of Evraz, Mechel and Uralkali, who were not mentioned as signatories to the proposal.

"The motivation behind the proposal may be to build support or create a broader dialogue and then switch to other, more favourable structures or proposals for Potanin and Usmanov," Alfa Bank said in a research note.

But should the Kremlin wish to pursue the idea, it could prove difficult to resist. "It would be hard for them to stay out, especially because of their debt issues. These companies already needed the government's support to refinance their debt and that has put them in a difficult position," Dougherty said. (Additional reporting by Polina Devitt, writing by Robin Paxton; editing by Sue Thomas)
