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TMK: share buyback, likely delisting

On April 8, TMK (TRMK RX) stocks rose by more than 20%, as the company decided to delist its global depositary receipts (GDRs) from the London Stock Exchange (LSE), while the Board of Directors announced its plan to buy back some of the ordinary shares with a market premium (at 61 roubles per share, +30.7% from the price at the market close on April 7, 2020) before the delisting. The programme to purchase ordinary shares will be carried out by TMK's wholly owned Volzhsky Pipe Plan by way of a voluntary tender offer under Russian law. In the voluntary tender offer, VTZ will offer to purchase for cash up to 358,826,299 of the issued and outstanding ordinary shares of the company, The voluntary tender offer will be made by VTZ to all holders of ordinary shares. TMK's GDRs are expected to be delisted from the LSE.

1. Terms

Bank of Russia The voluntary tender offer is subject to prior review by the Central Bank of Russia (the "CBR"). The voluntary offer was expected to be submitted to the CBR on April 8, the company said in a statement.

Provided that the CBR does not raise any comments, it will be submitted to the Company upon the expiry of the **15—day statutory review period**.

The launch, the timing and the terms of the voluntary tender offer are subject to the review of the voluntary tender offer document by the CBR. Accordingly, there may be no assurances as to the precise date of the launch of the voluntary tender offer and/or its terms.

FAS The purchase by VTZ of the Company's ordinary shares in the voluntary tender offer may require a preliminary consent of the Federal Antimonopoly Service of the Russian Federation (the "FAS"), depending on the number of the purchased shares. VTZ will file the requisite application with the FAS and expects to obtain a response prior to completion of the voluntary tender offer, if and when made.

The FAS approval process and voluntary offers collection may take place simultaneously.

GDR conversion into shares. The voluntary tender offer will be made by VTZ to all holders of ordinary shares. Holders of GDRs will be able to participate in the voluntary tender offer by cancelling the DRs held by them.

GDR conversion mate take 5-7 days, according to our estimates.

Holders of ordinary shares will have at least 70 days to accept the offer. In accordance with Russian law, applications for sale of shares of shareholders under the voluntary offer can be received during 70-90 days. The term of payment for the securities is specified in the voluntary offer.

It is reasonable to assume that the money may reach the shareholders' accounts in **at least in 85 days.**

In comparison, MegaFon announced the buyback programme in July 2018, completed the buyback in October 2018 and delisted its shares from the exchange in December 2018.

2. The prospects of getting a higher price is limited

The buyout will be carried out by a wholly-owned subsidiary of TMK. In theory, if 30% ownership threshold is reached, a compulsory buy-back procedure is possible. The deadline for accepting a mandatory offer is 70-80 days from the date the offer is received by the company. The term for payment for the securities is no more than 17 days after the expiration of the above term.

Nevertheless, the average price for the last six months was 52 roubles per share, which is less than 61 roubles per share under the buy-back program and less than 57 roubles per share at the market close. This means that the potential for a higher compulsory buy-back price is limited.

The price at the market close on April 8 assumes a 7% premium to the offer price under the voluntary offer, or 30% per annum if the procedure is completed in 85 days. For GDRs, this yield will be 9% to the buy-back price, i.e. 38% per annum.

Given that the cash on TMK's balance sheet at the end of 2019 corresponds to the amount of the share buy-back (22 bln roubles) and taking into account the risks of lower liquidity that may face TMK's investors, it is very likely that the company will be made non-public. This news will have an indirect positive impact not only on TMK shares and GDRs, but on the broader Russian market. Similar initiatives are expected to be made by the companies with excess cash on their balance sheets or by major shareholders seeking to obtain a controlling stake/increase stake in companies.

3. Risk of lower liquidity or making the company non-public

The offer represents a potential buy-back of almost 35% of TMK's shares, which corresponds to the company’s entire free-float, except for shares held by subsidiaries and affiliates (less than 1%, including 0.2% of treasury shares).

The company assumes a possible delisting of TMK shares from the London Stock Exchange and does not rule out a decrease in the quotation level on the Moscow Stock Exchange, to say the least.

According to the company, nearly 29% of shares were traded on LSE as GDRs as of 31.12.2019. On the other hand, he the Bank of New York Mellon owns 15%.

According to Bloomberg, TMK shareholders include Rusnano (5.3%), BNP Paribas (3.2%) and FIL limited (2.2%). In our view, given the lack of news on additional funding of Rusnano, there are high prospects that this major shareholder may sell a stake in the company.

Given market volatility, relative attractiveness of the buy-back price and risks of delisting from LSE, many GDR holders are widely expected to redeem them.

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