

Family of the vice president of Lukoil Kukura can double its land bank

The Swedish company Black Earth Farming has decided to sell the business in Russia.

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Origin source

The Swedish company Black Earth Farming (BEF) announced the signing of a framework agreement between its subsidiary Planalto Enterprises Limited (Planalto) and the company Volga-donselhozinvest for the sale of Russian entities of BEF: Agro-Invest and Agro Invest regions (together, GC Agro-Invest), as well as an agreement for the transfer of requirements on intergroup loans of GC Agro-Invest to Volga-donselhozinvest, according to a report by BEF.

Volga-donselhozinvest is an entity of the Kukura family, whose main assets are located in Lipetsk and Volgograd regions, as mentioned in the BEF report. Previously, Vedomosti found out that Volga-donselhozinvest through Ermonia Enterprises Limited is controlled by Alexey Kukura, son of the first vice-president of oil company Lukoil Sergey Kukura. Beneficiaries of the Cypriot company in the register at the time were not disclosed. On December 26, 2016 100% of shares of Volga-donselhozinvest were transferred to another Cypriot company, Erneal Limited, as follows from the USRLE data. This company is 70% owned by Sergey Kukura, 30% by Alexey Kukura, according to the Cyprus Registry.

Agribusiness of the Kukura family in the last few years was represented by Volgograd Agroindustrial company (VAPK) in the Volgograd region. Its land holdings are 151 600 ha, the main crops grown are wheat, rye, corn, oats, etc., stated on its website. In April 2016 the company was 29th in the ranking of the largest landowners according to BEFL.

In 2015, Kukura Jr. created another company in the Lipetsk region: Lipetsk agro-industrial company (LAIC). Consequently, the company acquired more than 50 000 ha from VTB Bank in 2015, as the representative of the bank and a person close to LAIC told Vedomosti. It turns out that a total of two companies after the deal had about 200 000 ha of agricultural land.

Agro-Invest Group was founded by the businessman Mikhail Orlov in the early 2000s. In 2006, Vostok Nafta and AB Kinnevik funds became the co-owners of BEF. In 2007, the company held an IPO on the Stockholm Stock Exchange, investors valued BEF at almost \$1 billion; it was unprofitable at the time. As of September 30, the main owners of the BEF were Ab Investment Kinnevik (24,62%), Gomobile Nu Ab - 12,33%, Alecta Pension Funds - 4,34%, Timber Hill Europe AG - 2,46%, according to a report for Q3 2016 (more recent data are not available). The company for many years suffered losses and had its first profit only in 2012, and then again worked at a loss. In 2015, the company once again made a profit of \$14.3 million due to higher yields and lower costs, the company said in the statement.

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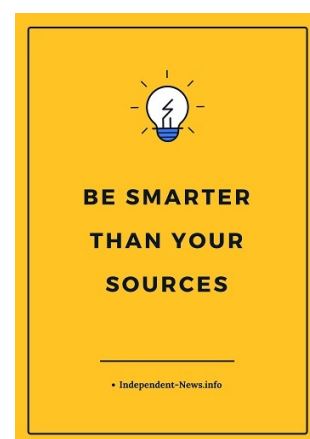
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The estimated amount of the transaction between Volga-donselhozinvesta and BEF is about \$ 184 million in cash, as indicated in the message. Estimated value of the business is about \$ 200 million excluding debt. There are additional tools and means of working capital in the amount of \$50 million, which will remain at the disposal of BEF Planalto after the transaction. Reasons for the sale are exclusively market-related, told Vedomosti CEO of BEF Richard Warburton. The price implies a substantial premium to the value of the shares, he said. The transaction is favorable for shareholders, quoted him as saying in a statement BEF. Board members recommended that the shareholders approve the transaction, stated in the message.

Given the fact that the BEF has high leverage, the price of \$184 million (the company's debt at 30 September 2016 amounted to \$56.4 million) seems adequate, says CEO of the Institute for Agricultural Market Studies Dmitry Rylko. The company was experiencing hard times over several years, starting in 2008. This is mainly due to mismanagement: the foreign management could not immediately adapt to the Russian reality, says the expert. Over the last five years of company's financial position has stabilized, but the debt burden remains high.

In the BEFL ranking, BEF has 16th place with a land bank of 256,000 ha. The largest land bank of the company is in Kursk and Tambov regions: 82 900 and 85 419 hectares respectively. So, after the transaction the Kukura family can become the owner of not less than 450 000 ha, counted Vedomosti. Purchase of 256,000 hectares is a very big deal, says the director of the analytical center Sovecon Andrey Sizov. Central Black Earth is an attractive region, said Sizov. On the ground it yields not far behind the south of Russia, but the market value of land is two to three times lower, he says. Thus, land plots in the south cost around 70 000-130 000 rubles / ha, and in the Central Black Earth the price ranges between 30 000-40 000 rubles / ha. In addition, grain producers in the south focus only on exports, which depends on the state regulation. And in the center the companies are more focused on the domestic market.

Kukura Jr. in a conversation with Vedomosti declined to comment. Request addressed to Kukura Senior to the press service of Lukoil, remained unanswered.

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