



Russia's Xenon eyes \$1bn fund once markets recover

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By Douglas Busvine

MOSCOW, Dec 2 (Reuters) - Russia's **Xenon Capital** Partners, which has advised on a string of acquisitions since bursting onto the investment banking scene in 2010, plans to raise a \$1-billion-plus private equity fund once markets recover.

Xenon, founded by a team of JP Morgan alumni led by Natasha Tsukanova, profiles itself as a boutique, energy-sector player, and advised on a \$3.3 billion asset sale by the state-controlled Federal Grid Company.

It also advised state-controlled power firm InterRao on its \$2.3 billion acquisition of wholesale generator OGK-3, and has set up Russia's largest specialist power-sector fund that operates as a portfolio investor.

On Xenon's to-do list for 2012 is a private-equity fund that would target opportunities such as independent gas producers who can profit from domestic price reforms, Managing Director Hamid Gayibov told Reuters in an interview.

But, with capital markets in the doldrums, sentiment will need to improve before Xenon hits the road to raise more than \$1 billion for the private-equity fund.

"We feel that when the market recovers a bit we will be able to attract international capital to Russia," said Gayibov, who returned to Moscow to head Xenon's corporate finance side after spells at JP Morgan in New York and at BP in Houston.

"In New York, you don't go out pitching 35 or 40 percent internal rates of return any more, because nobody will buy it.

"But, believe it or not, in Russia you can still generate those (returns). You just have to be smart about where you are going and who's your partner."

Xenon would consider co-investing with the Russian Direct Investment Fund, being set up with \$10 billion in state capital to partner strategic investors such as big private equity and sovereign wealth funds.

SPECIAL RELATIONSHIP

Tsukanova, when at JP Morgan, advised on landmark Russian deals such as the \$10.7 billion part privatisation in 2006 of oil major Rosneft and an \$8 billion share offering in 2007 by state-controlled Sberbank.

She left JP Morgan in 2009 to work as an adviser to Deputy Prime Minister Igor Sechin, Russia's top energy official and until last spring chairman of Rosneft, before setting up Xenon.

"We work with the government -- but who doesn't?" said Gayibov, dismissing suggestions that Xenon had a privileged relationship with the government.

"Our bet is essentially not that we know what is taking place within the government, but where the trend will be."

Gayibov identified the independent gas sector as one promising area, saying export monopoly Gazprom would have its work cut out to develop major projects, including the Yamal peninsula and the Shtokman offshore field.

"These are huge capital programmes that will require effort and focus," he said, estimating Gazprom's annual capital outlays at \$35-\$40 billion.

"We believe there is going to be a niche for independent producers in Russia because Gazprom, by definition, is going to be very busy with the big projects."

Russia's power sector has been hit by pre-election decisions to delay power tariff hikes, contributing to a 30 percent slide in utility stocks this year.

But Gayibov played down concerns that politics had undermined the long-term investment case for the energy sector, which has also hurt the performance of Xenon's Rusenergo fund.

"Our long-term view from year one to year five is that market forces are going to prevail, and that growth of the economy will dictate the prices for power, and for gas, because they are inter-related," he said.

(Reporting by Douglas Busvine, Editing by Megan Davies and Jodie Ginsberg)