

SUEK: downgrades, index expulsion, coupon payments?

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On March 10th, Moody's downgraded thermal coal miner SUEK¹ along with 94 other Russian corporates to Caa2. SUEK's prior rating was Ba.² It was also announced³ that Andrey Melnichenko, who previously owned 92.2% of the company's share capital, resigned from the board. Mr. Melnichenko was put on sanctions list by the EU on 10 March. The company claims that "the share [now] controlled beneficially by Mr. Melnichenko is 0%."

Figure 1. SUEK 3.875 09/26 bond price, ISIN: XS2384174228/US78486MAA80. Source: Bloomberg (BGN/BVAL), AFII.



The possibility of SUEK being added to a sanctions list is likely a topic of conversation among its investors, and in particular its bond holders. SUEK placed its debut Eurobond in September of last year, raising USD500mn with a global investor base.

The bond is supposed to pay its first coupon on 15 March making next week interesting for bond holders. We note that the Russian sovereign has dollar coupons (e.g. from the 4.875 23s, XS0971721450) to pay on 16 March. Gazprom and Rosneft have reportedly been repaying bonds maturing in recent days,⁴ however, with some question marks whether instructions to pay were sent prior to the imposition of sanctions versus some Russian financial interests. SUEK has indicated that it has recently paid interest (4 Mar) to UK Export Finance, see "[UK taxpayer potentially on hook for £50mn in Russian loan guarantees](#)", Financial Times, 8 Mar 2022.

As illustrated in Figure 1, the SUEK bonds have fallen dramatically with some pricing services indicate mid prices in the low-30s to mid-20s. In terms of flow dynamics, we note that the SUEK bond will fall out of the market-leading JPMorgan CEMBI index by the end of the month.⁵

¹ Previous AFII work on SUEK include "[Update on Russian coal miner SUEK's new USD bond](#)", 24 Feb 2022; "[Banking on coal: SUEK bond review](#)", 2 Sep 2021; "[SUEK calls force majeure: bank and bond investor implications](#)", 14 Oct 2021. AFII ranked SUEK at the top in "[Notable fixed income fossil funding deals 2021](#)", 21 Dec 2021.

² Fitch rated SUEK BB at time of issuance of the 3.875% 26 bond, and downgraded the company to B* (negative watch) on 4 March.

³ "[Andrey Melnichenko resigns from SUEK Board of Directors](#)", SUEK press release, 10 Mar 2022.

⁴ "[Gazprom Pays Foreign Bondholders; Rosneft Hasn't Yet](#)", WSJ, 7 Mar 2022. It has since been reported that the Rosneft bonds have been repaid as well. Yandex is another corporate that has repaid their dollar bond: "[Bondholders Say Russia's Yandex Has Paid Coupon on Dollar Debt](#)", Bloomberg, 3 Mar 2022.

⁵ "[JPMorgan to remove Russian debt from widely tracked bond indices](#)", Financial Times, 7 Mar 2022.

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