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KazMunaiGas

Vitol in \$3bn deal with Kazakh state oil group KMG

Agreement cements trading house's leading position in country



DECEMBER 2, 2015 by: Jack Farchy in Moscow

Vitol, the world's largest independent oil trader, will extend up to \$3bn in advance payments to KazMunaiGas, as Kazakhstan's indebted state oil company seeks new sources of financing amid falling oil prices.

The group, which is wholly owned by the Kazakh government, said on Wednesday that the deal would involve an advance payment of "up to \$3bn" in exchange for future oil supplies from its 20 per cent stake in the Tengiz oilfield, which accounts for a third of Kazakhstan's oil production.

Large-scale [prepayment deals](http://next.ft.com/content/ed669468-935c-11e5-bd82-c1fb87bef7af) (<http://next.ft.com/content/ed669468-935c-11e5-bd82-c1fb87bef7af>) have been made popular by Russia's Rosneft, which has raised more than \$40bn in the past three years through advanced payments. This is first such deal for KazMunaiGas, also known as KMG.

The deal will further cement Vitol's position in Kazakhstan, where rival executives say the business is the dominant international trading house.

Kazakhstan's state oil group, a sprawling organisation that employs 80,000 and accounts for 27 per cent of Kazakhstan's oil production, has been working aggressively to reduce its debt

load after the fall in global oil prices put it in danger of breaching debt covenants.

This summer, it sold [half of its stake \(http://www.ft.com/fastft/368041/post-368041\)](http://www.ft.com/fastft/368041/post-368041) in the troubled Kashagan project to its parent company, receiving a \$4.7bn cash injection which it used to launch a \$3.4bn bond buyback last month. That move should reduce the company's gross debt by 34 per cent from \$17.2bn directly before the deal, according to a company spokesperson.

KMG also needs funding for its share of capital expenditures for potential future expansions of Tengiz and Karachaganak, the country's other two major oilfields. The Tengiz consortium, led by Chevron, is preparing to take a final investment decision early next year on an expansion project set to cost some \$34bn.

KMG said Vitol had won a tender for the Tengiz prepayment deal, and that the first payments would be received in the next two to four months.

The arrangement also comes amid fresh efforts by KMG to launch an initial public offering. The idea has long been discussed, but it was recently given fresh impetus by a new government [privatisation programme \(http://next.ft.com/content/5b509962-824e-11e5-a01c-8650859a4767\)](http://next.ft.com/content/5b509962-824e-11e5-a01c-8650859a4767). Umrizak Shukeyev, the head of Kazakhstan's sovereign wealth fund Samruk-Kazyna, told the Financial Times last month that an IPO of KMG was planned within 3-4 years.

The state oil company last month launched a fresh attempt to take [greater control \(http://www.ft.com/fastft/426021/post-426021\)](http://www.ft.com/fastft/426021/post-426021) of its London-listed subsidiary, KMG Exploration Production, proposing to rewrite the agreement that governs the relationship between the two companies and to buy back the shares of minority investors wishing to sell.

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