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Rostelecom Could Issue New Debt

By Rachel Nielsen

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Investment banks are advising Rostelecom to sell convertible bonds, but the move might not be in line with the government's plan to wind up as the majority shareholder of the giant to be formed by a merger of the long-distance operator with Svyazinvest.

The banks are urging top executives of state-owned Rostelecom to issue convertible bonds that can be turned into ordinary shares of Rostelecom after one year, Vedomosti reported Thursday.

Citing a source within state-owned telecom company Svyazinvest, Vedomosti said the owners of the convertible bonds would receive their shares from Rostelecom division Mobitel.

Rostelecom's management hasn't examined the proposal closely or made a decision on the matter, Vedomosti said, citing sources within the provider of land-line and mobile telephone services.

When investors receive shares to replace their convertible bonds, the company is freed

from the interest payments required by the bonds and sees a reduction in its debt level.

Because issuing stock, however, dilutes a company's equity, a share offer by Mobitel to outside investors could complicate the government's stakeholding strategy.

In March, then-President Dmitry Medvedev ordered Rostelecom and Svyazinvest to complete their long-anticipated merger within one year. Medvedev's decree stipulated that the government and state-owned bank VEB would hold more than 50 percent of the new company.

Issuing convertible bonds "actually could jeopardize the stake" that the government expects to have, said Alexander Kornilov, Alfa Bank's senior analyst for the electricity industry and telecommunications.

Rostelecom's ambitious expansion plans in mobile, cloud computing and other sectors could require more capital.

"The company might need some more borrowings down the road, depending on its capital expenditures plans," Kornilov said.

Rostelecom's press service said by e-mail Thursday that the company is financing development of services and infrastructure "mainly with the company's own funds."

It also said it will soon issue a 15 billion ruble ($488 million) tranche of "classic corporate bonds" with a five-year maturity. The company didn't say whether convertible bonds are under consideration.

Rostelecom has a smaller debt burden than do other major state corporations, Kornilov said.

In the company's latest quarterly report, for the period ending June 30, Rostelecom had a net debt EBITDA of 1.46. That is below the comparable figures at companies such as state oil pipeline monopoly Transneft, which has a net debt EBITDA of 1.7.

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