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MegaFon Trading Down at Start of IPO

By The Moscow Times

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Shares in MegaFon fell nearly 3 percent in their market debut Wednesday following a bumpy ride for the issue.

Once again, there was limited demand among investors for stock in another Russian wireless carrier.

The country's second-biggest cellular provider priced its London and Moscow offer at the bottom of the indicated range, raising $1.7 billion and creating a market alternative to established New York-listed Russian players MTS and VimpelCom.

Investor caution toward MegaFon in part reflects the patchy performance of Russian companies' initial public offerings. MegaFon has also struggled to differentiate itself from leader MTS, which has a bigger free float, a similar dividend yield and a long track record as a public company.

"MegaFon is five years late with its IPO, as the phase of active growth of the Russian telecom

market is already over," said Yevgeny Golosnoi, an analyst at the brokerage Metropol. "Global investors ... need either a very low price or growth potential."

MegaFon's IPO at $20 per global depositary receipt, the bottom of the range of between $20 and $25 it had set, valued the company at $11.1 billion.

Leaving the London Stock Exchange after a ceremony to mark the start of trading, MegaFon Chief Executive Ivan Tavrin high-fived a colleague and appeared elated. He declined comment.

MegaFon shares traded at $19.46 in London, 2.7 percent below the issue price. The deal was covered 1.3 times, one market source said, but it was a struggle to fill the book, said another.

MegaFon is focused on Russia and is outpacing its peers in a maturing, though still lucrative, cellular market. Still, some analysts have said the IPO would be interesting only if priced at a clear discount to MTS.

Alexander Vengranovich, of brokerage Otkritie, said the offer price valued MegaFon at a discount of about 12 percent to MTS and gave it an enterprise value/EBITDA multiple of 3.6 for 2013.

In the same deal, TeliaSonera reduced its stake, at an implied value for MegaFon of $17 billion. The Nordic telecom firm said at the time that it would sell more shares via a market float, leaving it facing market risks.

Golosnoi said he expects MegaFon's stock price to fall further, and he suggested buying only at $17 to $18.

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