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VimpelCom Aims to Boost Cash Flow by $2.9Bln Over 3 Years

By The Moscow Times

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Telecom group VimpelCom, with assets in Russia, Italy and various emerging markets, aims to deliver a major boost of up to $2.9 billion in annual cash flow by the end of 2015 to improve shareholder value.

In its first investor day since 2011, VimpelCom pledged to pay dividends equivalent to a 7 percent yield as it vies for investor dollars with its Russia-focused rivals, New York-listed MTS and recently floated MegaFon.

Amsterdam-registered VimpelCom's largest market is Russia, in which it ceded the No. 2 spot in 2010 to MegaFon while pursuing global expansion through a more than $6 billion deal for Egypt's Orascom Telecom and Italy's Wind.

VimpelCom's shares rallied 4 percent in early trading in New York. They rose 8 percent in 2012, lagging MTS's gain of 26 percent. MegaFon trades 25 percent above its November IPO

price. “The biggest message today is that our value-creation model is centered around increasing cash flows,” CEO Jo Lunder told a conference call with analysts. “That’s up to $2.9 billion in improved cash flows in a three-year perspective.”

The company detailed plans to generate annual cash flow improvements of $2 billion from operations and between $600 million and $900 million from financial improvements. It said it would achieve this by outsourcing, “lean processes” and “head-count right-sizing.”

According to VimpelCom’s financial statements, operational cash flow was around $5 billion over the past 12 months. Lunder said the bulk of the extra cash flow will come from profitable growth initiatives as the industry develops, with fourth-generation services a “game changer” and smartphones replacing computers.

“We think small screens will take out large screens and traffic in the networks will grow rapidly,” he said, adding that the telecom sector is also now more resilient to economic turmoil than a few years ago. “The services we’re providing are covering such basic needs that you can almost group them with bread and butter,” he said.

VimpelCom’s largest shareholders are Altimo, the telecom arm of Russian billionaire Mikhail Fridman’s Alfa-Group, and Norwegian telecom group Telenor, which have long been at loggerheads over strategy. Lunder noted that the shareholder dispute between the pair was now resolved, “so another uncertainty is off the table.”

Altimo is increasing its economic interest in VimpelCom to 56.2 percent from 52.7 percent by converting preferred shares. Telenor has a 35.7 percent economic interest.

The company also said it was a “reasonable expectation” that it would make some divestments over the coming year.

VimpelCom said it will make dividend payments of at least 80 cents per share a year through 2014, extending an earlier pledge by a year. It recently beat expectations for third-quarter earnings, highlighting the prospects of strong future dividends.

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