

Fridman May Spark Tele2 Bid Battle

By [The Moscow Times](#)

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Tele2 was left without a 4G license last year, limiting its market potential. **Alexander Demianchuk**

Russian billionaire Mikhail Fridman is ready to trump state bank VTB's deal to buy Tele2's Russian division and is considering an offer for the whole of the Nordic telecom group.

Fridman's investment partnership A1 said Thursday that it was prepared to make an all-cash bid of \$3.6 billion to \$4 billion for Tele2's Russian arm, which would top an agreed sale to VTB that puts an enterprise value, or equity plus debt, on the business of \$3.5 billion.

A1's statement, which sent Tele2 shares 5.5 percent higher when the market opened, raises the prospect of an almost unheard-of Russian takeover tussle, pitting Fridman — flushed with billions from the sale of oil firm TNK-BP — against the country's No. 2 bank.

"The price offered by VTB is below market, and we're prepared to increase it," an A1 spokesman said.

A1 did not indicate how much it might be prepared to pay for all of Tele2, which had an equity

market value of \$7.5 billion at the close of trading Wednesday.

"A price for the entirety of Tele2 is in the works. We are running the figures on a possible offer for the entire business," the spokesman said.

Stockholm-listed Tele2 said it was fully committed to the sale of its Russian business to VTB. The deal values Tele2 Russia's equity at \$2.4 billion and includes the assumption of net debt of \$1.15 billion.

Swedish investment firm Kinnevik, which has a 47.9 percent voting interest in Tele2, said it was "completely behind" the sale to VTB. Its shares rose 2.8 percent by 12:30 p.m., while Tele2 pared early gains to trade 3.6 percent higher.

Undervalued?

Analysts, briefed on a conference call by Tele2, said the sale to VTB looked cheap, however.

"While the deal presents Tele2 with a clean exit from Russia, we are surprised at the low multiple paid even with Tele2's lack of a data licence," Andy Parnis, telecom analyst at UBS, said in a comment on the VTB deal.

Parnis said the deal implied an earnings multiple of 4.9 times for last year, expressed as enterprise value to earnings before interest, taxation, depreciation and amortization (EV/EBITDA). The ratio reflects a company's ability to support the cost of its equity and debt out of its core cash flows.

This year, the EV/EBITDA ratio falls to an estimated 4.5 times, a 21 percent discount to what UBS considers to be fair value for the asset.

Moreover, the sale puts Tele2's Russian business in line with its larger rivals MTS and VimpelCom, which trade at multiples of 4.7 and 4.6 times, even though it has superior growth prospects.

Tele2's Russian business has been in play since it lost out in a licensing auction for next-generation 4G services. A management change at Rostelecom means the state-controlled operator may lose interest in a mobile alliance.

Analysts at Barclays were also downbeat on the VTB deal.

"This values the asset broadly in line with the big three [Russian] operators, but below our expectations which had reflected its superior growth profile," they said in a note to clients.

Tele2 investor relations head Lars Torstensson said Wednesday that analysts had put an average value of around 24 billion Swedish crowns (\$3.68 billion) on Tele2's Russian unit, just above the actual sale price of 23 billion crowns.

Lars S  derfjell, an analyst at Alandsbanken in Stockholm said he had a value of 22 billion to 25 billion crowns.

Fully Loaded

Fridman is flushed with cash after recently closing a deal alongside three other tycoons to sell their one-half stake in TNK-BP, Russia's third-largest oil firm, to state oil major Rosneft for \$28 billion.

His Alfa Group, of which A1 is a part, received \$14 billion and has said it planned to reinvest the proceeds into telecom and oil projects.

The tycoon, worth \$16.5 billion according to Forbes magazine, owns a stake in VimpelCom and only last year made \$5 billion from the sale of his stake in MegaFon, Russia's other "big three" operator.

In a statement, A1 said that it had made approaches last year to Tele2 and Kinnevik, but that its offers had been rebuffed by Tele2's advisers, investment bank Morgan Stanley. VTB is being advised by its investment banking arm, VTB Capital.

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