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Russia's No. 1 Mobile Operator MTS Warns of Sanctions Risk

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A woman standing next to a sign for mobile operator MTS, which said it may limit its operations due to sanctions.

Russia's biggest mobile operator MTS has warned that it may fall foul of Western sanctions due to its business in Crimea, damaging the company's share price stability and ability to raise cash on international money markets.

In a filing to the U.S. Securities and Exchange Commission, or SEC, New York-traded MTS also warned that spiraling political tensions in the aftermath of Russia's annexation of Crimea from Ukraine last month may hit the company's business.

"Our licensing status in Crimea, as well as the ability to receive continuous cash flow is subject to uncertainty," MTS said in the filing, published on the SEC's website.

Earlier this month, the Ukrainian parliament passed a law branding Crimea "temporarily

occupied territory" and introducing restrictions on Ukrainian businesses choosing to operate on the peninsula.

In its disclosure to the SEC, MTS also flagged the risks of a widening of Western sanctions against Russia. "Sanctions may be extended and our ability to gain external funding may be affected," the company said, adding that its "indebtedness and the limits imposed by covenants in our debt obligations could limit our ability to obtain additional financing and thereby constrain our ability to invest in our business and place us at a possible competitive disadvantage."

If sanctions close international money markets to MTS, the company warned that it would struggle to satisfy its capital requirements and may be forced to limit its operations, dampening its longer-term prospects.

MTS had debt of 219 billion rubles ($6.1 billion) at the end of last year and net operating income of 101 billion rubles. About 30 percent of the company's debt was denominated in foreign currency.

MTS had 22.7 million subscribers in Ukraine of at the end of last year, giving the company 37 percent market share in the country, according to AC&M consulting. Ukraine accounts for 22 percent of MTS's total customer base, and the company generated 39.7 billion rubles of revenue in the country last year.

Crimea's telecoms market grew by 16 percent last year to reach $400 million, according to iKS-Consulting. MTS is the peninsula's biggest player, with 57 percent market share.

Investors have shared MTS's concerns. Since Thursday, when the company made its SEC filing, the MTS's shares have fallen by 4.4 percent in New York.

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