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MegaFon Misses Expectations as Q1 Profit Plummets 43%

By The Moscow Times

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Megafon said that its first-quarter net profit fell 43 percent from a year ago.

Mobile phone operator MegaFon said a weaker ruble and depreciation costs related to last year's acquisition of Scartel hurt first quarter earnings, but its core profit and sales growth targets remained intact.

The country's economic downturn has so far not hurt telecoms operators because consumers are still spending. But the weakening of the ruble — resulting from the Ukraine crisis and prospect of recession — has prompted a revaluation of foreign-currency liabilities that translates into noncash losses.

MegaFon, the second-largest operator behind MTS, bought high-speed wireless Internet provider Scartel to get ahead of rivals in 4G infrastructure and boost its customer base and revenue.

But the acquisition brought depreciation and amortization costs of about 14 billion rubles ($404 million), which contributed a 43 percent drop in first quarter net profit to 7.2 billion rubles ($208 million), along with a foreign exchange loss of about 5 billion rubles ($145 million) due to the revaluation of its foreign currency debt.

Analysts had forecast net profit of 10 billion rubles ($289 million).

MegaFon, which is cutting costs to counter the recent hit to its profits, said it expected to grow revenues by 6 to 8 percent this year and achieve a core profit margin of at least 44 percent despite the weaker economy.

Russia is now forecast to achieve growth of just 0.5 percent this year, hurt by Western sanctions and instability brought by the Ukraine crisis and wider emerging market uncertainty.

Conservative Guidance

Analysts at JPMorgan said revenue guidance from MegaFon, the last of the "Big Three" mobile operators to report first quarter results, seemed conservative given that it reported a 10.6 percent rise in first-quarter sales to 74.9 billion rubles ($2.2 billion), slightly above estimates. Mobile revenues rose 8.5 percent, driven by an increase in subscriber base and booming data revenues.

That compares to a forecast from rival MTS of 3 to 5 percent sales growth this year while VimpelCom recently cut forecasts and now expects "low to mid single digit" declines in revenue.

MegaFon also reported forecast-beating operating income before depreciation and amortization (OIBDA), up 0.4 percent to 32.5 billion rubles ($937 million) versus the 32.3 billion ruble ($929 million) forecast, and OIBDA margin at a slightly better-than expected 43.3 percent.

Its London-listed shares rose 4 percent by 10:55 a.m.

In addition to Scartel, MegaFon's margins were hurt by an increase in international interconnect termination rates due to the ruble depreciation and additional sales and marketing expenses as part of its sponsorship of the Sochi Olympics.

A drive to offer cheap smartphones also hurt margins, though revenues from the sales of handsets rose 35 percent. MegaFon, controlled by Russia's richest person Alisher Usmanov, hopes high handset sales will ultimately drive data consumption.

See also:
[MegaFon Says Sanctions Unlikely to Affect Telecoms Industry]

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