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VimpelCom Says Business in Russia Looking Up

By The Moscow Times

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Russia's third-biggest mobile operator, VimpelCom, said it had seen the lowest rate of customer outflows in three years in its home market in the second quarter, but other challenges lay ahead.

VimpelCom has been struggling to turn around its Russian operations since losing the No. 2 spot to MegaFon in 2010, having underinvested at home while pursuing a global expansion.

Its shares are down 37 percent since the beginning of 2014, pressured by a weak performance in Russia — still its biggest market — and a decision in January to slash dividends to free up cash for debt repayments.

In the second quarter, its Russian mobile service revenue fell 5 percent in ruble terms to about 55 billion rubles ($1.5 billion), while MegaFon last week reported a 4 percent rise to about 65 billion rubles.

Core profit in Russia fell 10 percent due to continued investments in networks and distribution, the company said, adding those investments started to bear fruit as the churn rate reached its lowest in three years.

However, the number of VimpelCom's mobile customers was still down 1 percent from a year earlier.

"One quarter does not make it a trend," chief executive Jo Lunder said Wednesday. "We need to see a couple of more quarters before we can call it sustainable but we are quite optimistic in terms of the lower churn coming as a result of improved network quality and more customer-friendly action."

VimpelCom's revenues fell 11 percent to $5.07 billion. It cited continued market weakness in Italy and economic slowdown in Russia, crisis-hit Ukraine and Pakistan among the reasons.

"There was some operational improvement in Russia [on churn], but we need to see improvement on revenue market share before turning more positive," analysts at VTB Capital said.

Net profit fell 83 percent from a year ago to $100 million, missing expectations due to a noncash tax charge. Analysts had forecast net profit of $270 million, revenues of $5.10 billion and EBITDA of $2.12 billion.

VimpelCom, in which Russia's Alfa Group and Norway's Telenor are the biggest shareholders, confirmed annual targets. It expects low to mid single digit percentage declines in sales and EBITDA this year.

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