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Russia's MTS Looks for Western Investor to Ease Pressure on Ukrainian Unit

By The Moscow Times

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Russian mobile operator MTS is considering selling a minority stake in its Ukrainian unit to a Western investor, a source close to MTS said, signaling mounting political pressure on the company due to the Ukraine crisis.

Kiev said in the run-up to a parliamentary election on Sunday that it would favor European companies in airwave auctions to curb Moscow's influence in the economy which is being drained by fighting with pro-Russian separatists in Ukraine's east.

Operators in which Russia-registered companies own more than 50 percent would probably not be allowed to participate in a long-expected 3G auction, Ukrainian media speculated last month, although Kiev has yet to announce rules and terms.

A source close to MTS said the company was looking for a Western investor to share the burden of investing in the next-generation networks after reports that put the possible

starting price for each license at about 3 billion hryvnas ($232 million).

The source said the cost was too high to bear for MTS alone as the rapidly falling economy, political uncertainty and network disruptions in eastern regions affected by the fighting have clouded prospects for those investments paying off.

However, Ivan Kim, an analyst at VTB Capital, suggested that another reason behind the move could be political pressure on MTS.

"The Ukrainian government has talked about excluding MTS Ukraine from the 3G license auction. This has not happened yet, but we think MTS might have opted for a prudent approach of getting a partner to its business to lift the political pressure," Kim said.

He added: "We doubt MTS vitally needs a partner to develop its business in Ukraine" and said it would not be easy to find a partner for Ukrainian operations in the current conditions.

The source close to MTS said the company had so far failed to draw interest from potential investors because of the political and economic turmoil.

MTS-Ukraine is the second-largest mobile operator in Ukraine and the only one controlled by a Russian company.

Rival Kyivstar is owned by Amsterdam-based VimpelCom, in which Lviv, Ukraine-born Russian oligarch Mikhail Fridman and Norway's Telenor are the biggest shareholders. The two operators control around 80 percent of Ukraine's mobile market, according to consultancy AC&M.

MTS, which has invested more than $10 billion in the Ukrainian mobile market to date, declined to comment on a possible minority stake sale, saying only it had no plans to leave the market altogether.

"We are interested in developing this asset, including next-generation networks," an MTS spokesman said.

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