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Russia's Megafon Confident Downturn Won't Affect Spending on Mobiles

By The Moscow Times

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Russia's Megafon said it was confident that consumers would not cut spending on telecoms services despite the economic downturn.

Russia's second-biggest mobile phone operator Megafon said Thursday it was confident that consumers would not cut spending on telecoms services despite the economic downturn because it accounts for a tiny portion of their expenses.

The company will, however, refrain from paying interim dividends this year — a possibility it had not ruled out before — to cushion itself from possible shocks as Russia's economy flirts with recession because of Western sanctions over the Ukraine crisis.

"Already today the dollar costs more than 43 rubles — that cannot fail to drive our expenses," Ivan Tavrin, Megafon's chief executive, said, referring to the cost of purchasing foreign network equipment and settling with roaming partners.

"But we see that the telecoms sector is less prone to the negative impact from the weak economy because peoples' spending on mobile communications accounts for no more than 1 percent of their total expenses," he told reporters on a conference call following third-quarter results on Thursday.

Gevork Vermishyan, Megafon's chief financial officer, said the company's plan to cut its dollar exposure, including pushing forward remaining payments for its acquisitions, allowed it to reduce the foreign exchange impact on net profit by 80 percent.

Still, the fluctuations in the ruble, which was 10 percent lower against the dollar in the third quarter than a year ago, led to Megafon's net profit falling 16.5 percent through noncash foreign exchange losses.

Megafon said net profit fell to 12.8 billion rubles ($295.4 million) from 15.3 billion a year ago because of a revaluation of the company's dollar-denominated obligations. It was slightly above a Reuters poll forecast of 12.6 billion rubles

"We are looking to the future with confidence ... Our operational profit is growing and once the ruble stabilizes, the net profit will return to its average levels," Tavrin said.

Increased depreciation and amortization charges due to network roll-out and the acquisition of mobile Internet provider Scartel also contributed to the decline in profit, it said.

Tavrin said that Megafon would maintain annual dividend payouts but an interim payment that its management had previously considered was out of the question this year.

"The situation is indeed complicated and the company should be ready for various scenarios. The dividends on first-half results that the shareholders could have been paid now, they will get them next summer as part of a regular payout."

Sales Grow

Megafon did not provide any forecasts for next year but confirmed guidance for 6-8 percent in sales growth in 2014, saying it expected growth at the lower end of the range.

Third-quarter sales rose 4.5 percent year-on-year to 81.1 billion rubles ($1.9 billion), driven by a 37 percent jump in mobile Internet revenue and bringing growth in the first nine months of 2014 to 6.9 percent, year-on-year.

Growth was also helped by a nearly 30 percent jump in revenue from sales of equipment and accessories, partly because of increased sales of Apple's devices, Megafon said.

The company signed an agreement with Apple's Russian subsidiary in January, resuming a direct partnership with the U.S. company after a break of several years.

Megafon also confirmed a core profit (OIBDA) margin forecast of at least 44 percent for the year. The third-quarter margin rose to 46 percent from 45.6 percent, helped by an improvement in cost efficiency and reduction in operating expenditures.

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