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Russia's Top Mobile Operator Sells Ukrainian Business

MTS backs out of Ukraine despite solid earnings, as analysts cite "higher political risk."

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MTS was operating in Ukraine under the Vodafone brand. **Maxim Stulov / Vedomosti / TASS**

Russia's biggest mobile phone operator MTS said on Monday it had agreed to sell its Ukrainian business to Azerbaijan's Bakcell for $734 million.

The company also said its board had approved a special dividend of 13.25 rubles ($0.21) per ordinary share, or 26.5 billion rubles ($420 million) in total.

"Given the small share of our Ukrainian operations in our overall business, we reaffirm our commitment to fulfilling our updated dividend policy and continuing to generate attractive returns for our shareholders," MTS Chief Executive Officer Alexey Kornya said.

The transfer of shares in VF Ukraine to Bakcell-controlled Telco Solutions and Investments is

expected to complete shortly, MTS said in a statement.

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Ivan Kim, an analyst at Xtellus Capital Partners said MTS faced "higher political risk" of doing business in Ukraine, despite strong business performance.

In a research note published Monday, Kim said: "The Ukrainian business has been growing robustly of late. The country's mobile market is structurally attractive, with three players, and the macro backdrop has improved — with lower inflation and interest rates, as well as full liberalisation of dividend upstream by foreign entities."

"While MTS's Ukrainian business has been posting solid results, with double-digit revenue growth and an earnings margin above 50%, it contributes less than 10% of MTS's total revenues," said Sberbank analyst Alexander Sychev.

Shares in MTS, which is a subsidiary of Russian conglomerate Sistema, were up 3% on the news in early morning trading.

Reuters contributed reporting to this article.

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