

Analysts See Likely Rostelecom-Tele2 Merger

By [The Moscow Times](#)

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The naming of a former chief executive of Russia's state-controlled telecom company Rostelecom to run Tele2-Russia has increased expectations of a merger between the pair, analysts said.

Such a deal would create a stronger competitor for Russia's big three operators — MTS, MegaFon and VimpelCom — and may hit profit margins if the new player adopts an aggressive approach.

VTB bought Tele2 Russia in March from Nordic telecoms group Tele2, raising expectations that the state-controlled bank would seek to flip the business on to Rostelecom.

The appointment of Alexander Provotorov as CEO of Tele2-Russia last week has increased that speculation, as the executive had previously backed the idea of such a merger.

"The probability was already quite high, and this appointment suggests the chances are now even higher," said Sergei Libin, an analyst at Raiffeisenbank.

Provotorov left the helm of Rostelecom on March 27, hours before VTB announced its \$3.55 billion deal for Tele2.

Rival operators VimpelCom and MTS attempted to scupper VTB's deal and buy Tele2 Russia for themselves, but their efforts came to nothing as VTB won rapid regulatory approval.

"The appointment ... confirms that an alliance between Rostelecom and Tele2 Russia via a merger or a joint venture is likely in the medium term," Alfa Bank analysts commented.

VTB has said it was seeking to raise the value of the Tele2 assets by expanding it into new regions and adding new licensees to its portfolio before it attracts a strategic investor.

Provotorov said last year that Tele2 was the only target for the former fixed-line monopoly, which is seeking to offset declines in its core business by expanding in profitable sectors such as mobile, pay TV, cloud services and broadband.

Rostelecom's revamp has yet to bear fruit, as the share of overall sales and profits derived from new services is still quite marginal and growing slowly.

In the mobile segment, Rostelecom is the fifth-largest player with around 14 million users, and as the cell phone penetration rate stands at 160 percent in Russia, it has little room to grow its subscriber base without acquisitions.

Tele2 Russia has 23 million subscribers and made 59.5 billion rubles (\$1.9 billion) in last year's sales, a rise of 15 percent on the previous year, while Rostelecom's mobile revenues edged up 1 percent to 41.2 billion rubles (\$1.3 billion).

Rostelecom has data-focused 3G and 4G licenses, and analysts say its move to team up with Tele2 Russia to offer data services to clients is logical.

But as Tele2 subscribers traditionally spend less on their mobile bills than subscribers of operators offering data services, it has yet to be seen whether many would want to pay more for the services they have neglected so far.

"You can't say [Rostelecom] are buying a ready user base which can't wait to be offered mobile Internet — they will have to work with it," said Libin.

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