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Analyst's Notebook

Ukraine/Telecom
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****Editor's Note:** The Analyst's Notebook is Concorde Capital's fast response tool for keeping our coverage of the Ukrainian market as up to date as possible. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

Hanging On The BeeLine?

In a nutshell: While VimpelCom (VIP) prepares to launch its "BeeLine" brand in Ukraine, in Moscow VIP's main shareholders, Telenor and Alfa, are deciding on VIP's future.

Who will run BeeLine in Ukraine?

Both Telenor and Alfa agree that the acquisition of Ukrainian mobile leader Kyivstar is the best way for VIP to enter the Ukrainian mobile market. Indeed, entrance through Kyivstar with its almost 15 mln subscriber base would be preferable to URS (already acquired by VimpelCom) with its 50x smaller base. Thus, even though URS just started preparing for BeeLine brand introduction in Ukraine, it is possible that Kyivstar will run the Russian brand here.

Still, much will depend on...

Who will run BeeLine in Russia?

Telenor agrees that purchasing Kyivstar would be good for VimpelCom, but this acquisition, as Telenor requires, can only occur if Telenor or Alfa can decide on a "separation mechanism", i.e. if either Alfa or Telenor exit VimpelCom.

However, Alfa representatives do not believe separation is the only way to solve the conflict between the two main shareholders. So, maybe there exists a way for the two shareholders to remain in VimpelCom? Alfa's proposition could very well be on the way.

The conflict can only be solved if VimpelCom does not develop two competitive operators in Ukraine. However, VimpelCom has already started marketing its own brand in Ukraine.

Who Will Bee?

If VimpelCom's intention to launch the BeeLine brand in Ukraine is serious (and we treat it seriously, as Kyiv's billboards have already begun being painted with the company's colors), this means BeeLine will be the fourth brand operated by Kyivstar or URS.

Kyivstar already has three popular brands: Kyivstar (for subscription users), pre-paid brands ASE&BASE and DJUICE (Telenor's youth-oriented brand). Each brand has its own market niche, and it looks like there is no space here for another brand.

URS also has three brands targeting different niches, but none is popular in Ukraine. Thus, it is logical for VimpelCom to close old URS brands and start developing BeeLine on the basis of URS. Still, it is unclear why VIP needs this brand in case they are going to acquire Kyivstar with its three well-known Ukrainian brands?

Thus, either VimpelCom is going to re-name one of Kiyvstar's brands into "Bee-Line", or it is going to create competition between its related companies, or it does not treat seriously the possibility to acquire Kyivstar.

Thus, VimpelCom's Has Three Choices:

- 1) Not buy Kyivstar and develop URS in Ukraine. This is possible if:
 - a. Alfa and Telenor will not reach agreement about VIP's and Kyivstar's future - **this is definitely not an equilibrium scenario**
 - b. Telenor and Alfa separate with Telenor buying out Alfa's stake in Kyivstar in exchange for Telenor's stake in VimpelCom - **a very likely outcome, especially if we take into account BeeLine's marketing in Ukraine, and that Telenor's stake in VimpelCom is close in value to Alfa's stake in Kyivstar (if its MCap is USD 5 bln)**

- 2) VIP buys Kyivstar, sells URS and develops BeeLine with Kyivstar – this is possible, but:
 - **What will VIP do with URS, which has already started marketing BeeLine in Ukraine?**
 - **Is it necessary to create competition with existing Kyivstar's brands?**

- 3) VIP buys Kyivstar and sells URS without developing BeeLine in Ukraine - **a very likely outcome if Telenor wins the "market-based separation process" and becomes the main shareholder of VimpelCom.** However, what to do with the money spent for BeeLine marketing in Ukraine? Perhaps VIP will sell URS together with Ukrainian BeeLine? This looks reasonable given the current situation, as it will not be easy to sell URS at the price at which VIP bought it in 2005.

Is Kyivstar Worth USD 5 bln?

The company looks overpriced compared to VimpelCom and Telenor's multiples. However, note that VimpelCom has acquired URS at even larger multiple, which shows it is eager to enter the Ukrainian mobile market. Thus, it could agree to pay USD 5 bln in cash for Kyivstar ...

	MCap USD mln	Subscribers (1 Mar06) mln	Sales 2005 USD mln	MCap/Subs	MCap/Sales
VimpelCom	8,820	47.17	3,400*	187	2.6
Telenor	19,220	30.00*	10,702	641**	1.8
URS	200	0.27	n/a	741	n/a
Kyivstar	5,000?	14.51	1,129	345	4.4

Source: company data, Bloomberg, Concorde Capital

* Estimates

** Note that Telenor also has a fixed line business, so we cannot treat the MCap/Subscr of Telenor as comparable to the multiples of the mobile operators listed above

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