

MTS 3Q09 US GAAP preview: we expect positive trends to continue



MTS share price dynamics, last 6M



Source: Bloomberg

MTS will report 3Q09 US GAAP results on Friday, November 13. The conference call on the results will start at 6.00pm (Moscow)/3.00pm (London)/10.00am (NY). The dial-in numbers to the call are as follows: +1 480 629 9798 (from US), +44 207 190 1598 (from UK and international). The conference call will also be available at: <http://www.mtsgsm.com/news/reports/> via audio webcast.

Revenue dynamics in Russia to reflect macroeconomic stabilization and positive seasonality. We project 7% q-o-q revenue growth in rubles in Russia (up 4% y-o-y) supported by continuous voice traffic recovery and seasonally high APPM. Even though the management of MTS noted that the number of roaming minutes in the first two quarters of the year visibly lagged behind the respective 2008 levels, we believe the seasonal growth in outbound tourism traffic and average price per minute should find reflection in the 3Q09 results. We project Russian ARPU in rubles at R257/month – up 4.5% q-o-q (-8% y-o-y). Dollar-nominated revenue will also be supported by 2.8%-ruble appreciation q-o-q. In our view, Ukrainian revenues are likely to remain weak on macroeconomic instability and 4% hryvnia depreciation. Telenor recently reported a 11% y-o-y decline of Kyivstar revenue in the local currency in 3Q09, and we project a similar dynamic at the Ukrainian unit of MTS. We expect consolidated MTS revenues for the third quarter at \$2.18bn – an 8% growth from 2Q08 (down 22% y-o-y).

Further EBITDA margin improvement on seasonal trends and increased profitability of the mobile retail business. We project MTS's EBITDA to grow 11% q-o-q to \$1.06 mn (48.4% EBITDA margin). For Russian mobile operators, the third quarter is traditionally the strongest in terms of profitability. We also expect some improvement in MTS's mobile retail margin in 3Q09, after the company recorded additional one-off costs on its new retail outlets rebranding and sales channels optimization.

Net income projected at 12% below 2Q09 level on lower forex gains and increased interest expense. We estimate MTS net income for the quarter at \$493 mn.

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3Q09, US GAAP	3Q08	2Q09	3Q09	% chg. YoY	% chg. QoQ
Revenues	2,812.3	2,022.4	2,185.5	-22.3%	8.1%
EBITDA	1,453.2	953.8	1,057.0	-27.3%	10.8%
Net income	515.6	563.0	493.1	-4.3%	-12.4%
EBITDA margin	51.7%	47.2%	48.4%	-3.3pp	1.2pp
Net margin	18.3%	27.8%	22.6%	4.2pp	-5.3pp

Source: Company data, Gazprombank estimates

We expect overall positive market sentiment on 3Q09 reporting, however, no major new statements are expected from the management. We believe that Comstar-UTS integration, Russian and Ukrainian general market trends, 3G launch as well as the developments in the mobile retail business would be of most interest for investors at the conference call. Overall, we anticipate some positive statements from the management with regard to mobile demand recovery prospects until the end of the year. However, the company's 2009 revenue (\$8.25 bn) and EBITDA margin (high 40ths) guidance is likely to remain unchanged.

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