

## Siberia Telecom: 2008 Results Confirm Speculative BUY

### Investment Summary

We slightly increase our fair prices for Siberia Telecom following FY 2008 financials. The reported figures are worse than we expected, but we now assume that the company will lower its future capex in order to maintain financial efficiency. Our Speculative BUY recommendation still reflects a number of risks associated with the stock.

- ✓ Siberia Telecom reported IFRS financial results for 2008, which are worse than we had expected. We particularly note decline of operating margin both relative to our forecast and to the result for 2007 (we had expected 19% while the company showed 15%, which is 2 p.p. lower y-o-y).
- ✓ Most cost items exceeded our forecasts and the published results do not allow any specific item to be singled out as responsible for the margins decline. We note that major growth of costs was concentrated in 4Q, while 9M figures coincided with our forecasts. However, full-year EBITDA margin remained unchanged y-o-y at 35% due to high levels of capex, which incurred a higher depreciation charge.
- ✓ We continued to see a number of threatening factors for Siberia Telecom. A high level of foreign-currency debt, totaling \$200m (denominated in US dollars and euros), still gives cause for concern. The company will face significant FX losses in case of further ruble devaluation, which we expect. We also note that total debt was 10% higher y-o-y at the end of 2008.
- ✓ Cellular business of Siberia Telecom is vulnerable to expansion by other cellular operators. The company's share of its regional cellular market is just 20-25% and competition from the Big 3 is growing. According to our estimates, the company had to cut tariffs for mobile calls by 4% on average in 2008 (in ruble terms) in order to keep its market share.
- ✓ We made amendments to our valuation model for Siberia Telecom, taking account of the latest results and reducing our forecast of future capex (such reduction looks probable in view of lower return on invested capital). The amendments slightly increase our fair prices to \$0.038 per common share and \$0.027 per preferred share. We keep our Speculative BUY recommendation for Siberia Telecom in view of the risks mentioned above.

### Previous RMG reports on this company

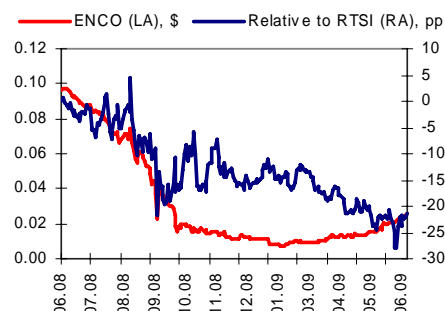
[Fixed-line Telecoms: One Dream, One Soul, One Prize, One Goal](#) from April 2, 2009

**ENCO** Spec BUY \$0.038 ▲49%  
**ENCOP** Spec BUY \$0.027 ▲78%

Current market cap, \$m	365
EV, \$m	857
Estimated free-float, %	49%
<b>Common shares</b>	
- ticker (RTS)	ENCO
- number, m	12 011
- bid-ask range, \$	0.024-0.027
- fair price, \$	0.038
- up/down, %	49%
- previous fair price, \$	0.035
<b>Preferred shares</b>	
- ticker (RTS)	ENCOP
- number, m	3 908
- bid-ask range, \$	0.010-0.020
- fair price, \$	0.027
- up/down, %	78%
- previous fair price, \$	0.025
<b>Other stock exchanges</b>	
LSE	N/L
NYSE	N/L

IFRS, \$m	07	08	09E	10E
Revenues	1 378	1 515	1 045	732
EBITDA adj.	488	542	384	268
- margin, %	35%	36%	37%	37%
Op. income	241	231	177	116
Net income	104	61	-54	32
- margin, %	8%	4%	-5%	4%
EPS, \$	0.007	0.004	-0.003	0.002

	07	08	09E	10E
EV/S	0.62	0.57	0.82	1.17
EV/EBITDA	1.75	1.58	2.23	3.20
EV/FCFF	-65.04	11.15	5.47	8.26
P/E	3.51	5.94	-6.74	11.30



**Macroeconomic assumptions**

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
Real GDP growth (y-o-y), %	8.1%	5.6%	-5.0%	2.5%	4.5%	3.5%	3.5%	
CPI (y-o-y), %	11.9%	13.3%	17.5%	12.0%	12.0%	10.0%	10.0%	
R/\$ average exchange rate	25.58	24.87	39.07	58.68	60.18	57.41	57.41	

Source: Company data, Svyazinvest, RMG estimates

**Revenue forecast, R'000**

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
Mobile	9 109 000	9 951 000	10 448 550	10 709 764	11 245 252	11 807 515	12 397 890	4.5%
- users number	4 265 700	4 832 367	5 073 985	5 200 835	5 200 835	5 200 835	5 200 835	1.5%
- ARPU, R per month	178	172	172	172	180	189	199	3.0%
Local telephony	11 547 000	11 432 000	12 539 802	13 129 624	13 747 079	14 393 455	15 070 101	5.7%
- users number	4 295 790	4 373 330	4 361 019	4 348 709	4 336 398	4 324 088	4 311 777	-0.3%
- average tariff, R per month	224	218	240	252	264	277	291	6.0%
Installation and connection	0	0	0	0	0	0	0	
Intrazone telephony	5 222 000	5 383 000	5 934 758	6 387 283	6 706 647	7 041 979	7 394 078	6.6%
- traffic, min	2 302 475	2 484 371	2 608 589	2 673 804	2 673 804	2 673 804	2 673 804	1.5%
- effective intrazone tariff, R/min	2.27	2.17	2.28	2.39	2.51	2.63	2.77	5.0%
New services	3 282 000	4 654 000	5 352 100	5 887 310	6 476 041	7 447 447	8 564 564	13.0%
- change, %	46%	42%	15%	10%	10%	15%	15%	
Payments from operators	4 255 000	4 106 000	4 434 860	4 720 594	4 973 853	5 240 746	5 522 009	6.1%
- incoming M2F traffic, min	1 541 456	1 792 713	1 882 349	1 919 996	1 919 996	1 919 996	1 919 996	1.4%
- LD traffic, min	1 768 817	1 781 540	1 794 341	1 807 219	1 820 175	1 833 210	1 846 323	0.7%
- effective price from operators, R/min	1.29	1.15	1.21	1.27	1.33	1.40	1.47	5.0%
Agent services	649 000	609 000	487 200	389 760	292 320	219 240	164 430	-23.0%
- change, %	-18%	-6%	-20%	-20%	-25%	-25%	-25%	
Other	1 182 000	1 539 000	1 633 220	1 717 681	1 810 050	1 922 933	2 046 378	5.9%
- as % of revenues	3.4%	4.1%	4.0%	4.0%	4.0%	4.0%	4.0%	
<b>Total revenues</b>	<b>35 246 000</b>	<b>37 674 000</b>	<b>40 830 488</b>	<b>42 942 015</b>	<b>45 251 241</b>	<b>48 073 315</b>	<b>51 159 451</b>	<b>6.3%</b>

Source: Company data; RMG estimates

**COGS forecast, R'000**

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
Wages	10 784 000	10 504 000	10 700 950	11 039 635	11 544 698	11 910 088	12 035 144	2.8%
- number of employees	34 337	29 945	29 945	28 148	26 459	24 872	23 380	-4.8%
- wages per employee, R/month	26 172	29 231	29 779	32 683	36 360	39 905	42 898	8.0%
Depreciation	6 128 000	7 357 000	8 082 748	8 929 684	9 938 735	11 032 207	12 190 102	10.6%
Materials	3 093 000	3 217 000	3 540 441	3 815 079	4 122 815	4 379 933	4 661 109	7.7%
- change, %	-1%	4%	10%	8%	8%	6%	6%	
Payments to operators	3 915 000	4 400 000	5 133 294	5 503 565	6 236 321	6 843 450	7 541 648	11.4%
- payments for F2M calls	1 464 383	1 703 078	1 788 232	1 823 996	2 188 795	2 188 795	2 188 795	5.1%
- other payments (Internet channels, etc.)	2 450 617	2 696 922	3 345 063	3 679 569	4 047 526	4 654 654	5 352 853	14.7%
Cost of doubtful debts (CDD)	-15 000	0	0	0	0	0	0	
Assets discharge	223 000	391 000	0	0	0	0	0	
Other	4 960 000	6 067 000	6 440 632	6 870 016	7 469 245	8 014 171	8 544 840	7.1%
- as % of revenues	17%	19%	19%	19%	19%	19%	19%	
<b>Total COGS</b>	<b>29 088 000</b>	<b>31 936 000</b>	<b>33 898 065</b>	<b>36 157 978</b>	<b>39 311 814</b>	<b>42 179 849</b>	<b>44 972 843</b>	<b>7.1%</b>

Source: Company data; RMG estimates

**P&L forecast, R'000**

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
<b>Revenues</b>	<b>35 246 000</b>	<b>37 674 000</b>	<b>40 830 488</b>	<b>42 942 015</b>	<b>45 251 241</b>	<b>48 073 315</b>	<b>51 159 451</b>	<b>6.3%</b>
COGS	29 088 000	31 936 000	33 898 065	36 157 978	39 311 814	42 179 849	44 972 843	7.1%
COGS less one-offs	28 880 000	31 545 000	33 898 065	36 157 978	39 311 814	42 179 849	44 972 843	7.4%
<b>EBITDA</b>	<b>12 286 000</b>	<b>13 095 000</b>	<b>15 015 171</b>	<b>15 713 720</b>	<b>15 878 162</b>	<b>16 925 673</b>	<b>18 376 710</b>	<b>7.0%</b>
- EBITDA margin, %	35%	35%	37%	37%	35%	35%	36%	
EBITDA adjusted for one-offs	12 494 000	13 486 000	15 015 171	15 713 720	15 878 162	16 925 673	18 376 710	6.4%
- adj. EBITDA margin, %	35%	36%	37%	37%	35%	35%	36%	
<b>Operating income</b>	<b>6 158 000</b>	<b>5 738 000</b>	<b>6 932 423</b>	<b>6 784 036</b>	<b>5 939 427</b>	<b>5 893 465</b>	<b>6 186 608</b>	<b>1.5%</b>
- operating margin, %	17%	15%	17%	16%	13%	12%	12%	
Interest income	41 000							
Interest expenses	1 527 000	1 798 000	3 483 283	3 120 726	2 637 613	2 637 613	2 637 613	8.0%
- effective interest rate, %	7%	8%	12%	11%	9%	9%	9%	
Interest expenses referred to leasing	176 000	38 000	69 000	69 000	69 000	69 000	69 000	12.7%
- effective leasing rate, %	22%	11%	20%	20%	20%	20%	20%	
Other non-operating expenses (gain)	258 000	1 550 000	4 649 439	980 374	0	0	0	
<b>EBT</b>	<b>4 238 000</b>	<b>2 434 000</b>	<b>-1 269 300</b>	<b>2 613 936</b>	<b>3 232 814</b>	<b>3 186 852</b>	<b>3 479 995</b>	<b>7.4%</b>
Income tax	1 579 000	905 000	845 035	718 862	646 563	637 370	695 999	-5.1%
- current	1 559 000							
- deferred	20 000							
- effective income tax rate, %	35%	28%	25%	20%	20%	20%	20%	
<b>Net income</b>	<b>2 659 000</b>	<b>1 529 000</b>	<b>-2 114 335</b>	<b>1 895 074</b>	<b>2 586 251</b>	<b>2 549 482</b>	<b>2 783 996</b>	<b>12.7%</b>
- referred to minority interest	0	0	0	0	0	0	0	
- as % of net income	0%	0%	0%	0%	0%	0%	0%	
- referred to shareholders	2 659 000	1 529 000	-2 114 335	1 895 074	2 586 251	2 549 482	2 783 996	12.7%
- net margin, %	8%	4%	-5%	4%	6%	5%	5%	6.0%

Source: Company data; RMG estimates

**P&L forecast, \$m**

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
Revenues	1 378	1 515	1 045	732	752	837	1 251	-3.8%
EBITDA (adjusted for one-offs)	488	542	384	268	264	295	449	-3.7%
- EBITDA margin, %	35%	36%	37%	37%	35%	35%	36%	
EBIT	232	172	58	99	99	103	151	-2.5%
- EBIT margin, %	17%	11%	6%	14%	13%	12%	12%	
Net income	104	61	-54	32	43	44	68	2.1%
- net margin, %	8%	4%	-5%	4%	6%	5%	5%	
Net income less minority interest	104	61	-54	32	43	44	68	2.1%
EPS (diluted), \$	0.007	0.004	-0.003	0.002	0.003	0.003	0.004	2.1%

Source: RMG estimates

**New vs. old forecast**

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
<b>Revenues</b>								
- new forecast	1 378	1 515	1 045	732	752	837	1 251	-3.8%
- old forecast	1 378	1 504	950	726	736	808	1 192	-4.5%
- new vs. old	0%	1%	10% *	1%	2%	4%	4%	
<b>EBITDA (adjusted for one-offs)</b>								
- new forecast	488	542	384	268	264	295	449	-3.7%
- old forecast	488	571	364	289	291	320	470	-3.8%
- new vs. old	0%	-5%	5% *	-7%	-9%	-8%	-35%	

\* extraordinary change reflects updated RMG forecast of R/\$ rates

Source: RMG estimates

### Cash flow, \$m

	2007	2008	2009E	2010E	2011E	2012E	2013E	08-13 CAGR, %
Operating income	241	231	177	116	99	103	151	-8.1%
Income tax	62	36	22	12	11	11	17	-14.1%
Depreciation & amortization	240	296	207	152	165	192	298	0.2%
Capex	439	443	180	163	170	197	287	-8.3%
Change in net working capital	-8	-30	26	-12	-12	-4	-6	
Minority interest	0	0	0	0	0	0	0	
<b>FCFF</b>	<b>-13</b>	<b>77</b>	<b>157</b>	<b>104</b>	<b>95</b>	<b>91</b>	<b>151</b>	
Discounted FCFF			157	91	73	61	89	

Source: RMG estimates

### WACC composition

Risk-free rate, %	8.5%
Equity market risk premium, %	5.0%
Extra risk premium, %	2.0%
Unlevered beta	0.9
Levered beta	1.8
Effective COE, %	19.6%
Effective COD, %	12.4%
Equity portion, %	44%
Debt portion, %	56%
<b>WACC, %</b>	<b>14.2%</b>

Source: RMG estimates

### Fair price calculation

Terminal growth rate, %	2.5%
Terminal EBIT margin, %	13.0%
Terminal EBIT*(1-T), \$m	133
Discounted terminal value, \$m	583
DTV as % of EV	55.4%
<b>Fair EV, \$m</b>	<b>1 053</b>
Net debt, \$m	492
<b>Fair equity value, \$m</b>	<b>561</b>
Number of common shares, m	12 011.4
Number of preferred shares, m	3 908.4
Fair pref/com discount, %	30%
<b>Common share fair price, \$</b>	<b>0.038</b>
<b>Preferred share fair price, \$</b>	<b>0.027</b>

Source: RMG estimates

### Common share fair price sensitivity, \$

		Terminal growth rate				
		1.50%	2.00%	2.50%	3.00%	3.50%
WACC	12.2%	0.046	0.049	0.052	0.055	0.058
	13.2%	0.040	0.042	0.044	0.047	0.049
	14.2%	0.035	0.036	<b>0.038</b>	0.040	0.042
	15.2%	0.030	0.031	0.033	0.035	0.036
	16.2%	0.026	0.027	0.029	0.030	0.031

Source: RMG estimates

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