

Research  
March 30, 2010

Telecommunications  
Russia

# Vimpelcom

*The worst is all behind us!*

Recommendation: BUY

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## Bullet moments

☎ Late last week Vimpelcom disclosed its annual financial results by US GAAP. Sales of the company formed 8.7 bn USD, OIBDA – 4.3 bn USD, net profit – 1.1 bn USD.

☎ We estimate given estimates of the company as strong ones – despite the crisis Vimpelcom returned efficiency estimates to the levels, indicated before the purchase of Golden Telecom, efficiency of which was significantly lower than similar figures of Vimpelcom.

☎ Among the other interesting moments within the previous year we might outline the fact that the company stopped using aggressive methods in the fight for the subscribers – APPM is changing insignificantly, but the subscribers' base in some regions displays negative dynamics, while the financial estimates on contrary are climbing up.

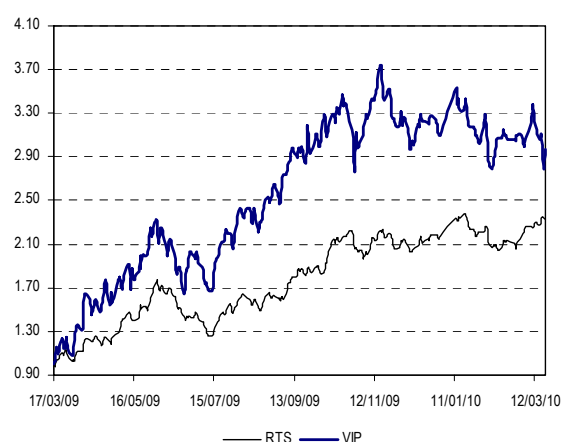
☎ Speaking about the problem important to Vimpelcom early this year – the debt load – we should outline that the company reduced its interest debt by more than 1 bn USD within the previous year, which lowers the company's dependency on profit and loss on the currency exchange.

☎ We revised our model of Vimpelcom having introduced some changes to it related to the annual results, and also with the correction of targets. Our new fair estimation of the company's ADR forms 23.23 USD per note (former estimation – 18.13 USD). We should outline the improvement of the macroeconomic estimates of Russia, primarily the stabilization of ruble rate versus dollar, among the factors that affected positively. Along with that we introduce additional premium to the discount rate which reflects the process of Vimpelcom and Kievstar consolidation within the frames of Vimpelcom LTD.

☎ Anyhow our estimation of cost is 30% higher than the current market quotes, which correlates with the recommendation BUY (the former recommendation – HOLD).

## Principal estimates

Company's shares vs. the RTS index



### Information about Vimpelcom

Ticker NYSE	VIP
Market price, USD	17.82
Min / max price during last year, USD	6.46 / 22.47
Fair price at year end, USD	23.23
Upside (downside), %	30.4
Total ADR, units <sup>1</sup>	1,014,291,580
MC, mn USD	18,075
EV, mn USD	24,439
<sup>1</sup> Excl. treasury stocks	

Financial values (US GAAP)	2009	2010 (F)	2011 (F)
Sales, mn USD	8,703	9,974	10,597
OIBDA, mn USD <sup>1</sup>	4,273	4,833	4,894
Net income, mn USD	1,122	1,617	1,411
OIBDA margin, % <sup>1</sup>	49.1	48.5	46.2
Net income margin, %	12.9	16.2	13.3

<sup>1</sup> Figures are given excluding impairment losses

Financial coefficients	2009	2010 (F)	2011 (F)
EV / S	2.81	2.45	2.31
EV / OIBDA	5.72	5.06	4.99
P / E	16.11	11.18	12.81
ROIC, %	16.5	18.5	18.3
ROE, %	23.5	25.2	19.3

## Operating and financial results

### Operating results of Vimpelcom

	2008	Chng., %	2009	4Q08	Chng., %	1Q09	Chng., %	2Q09	Chng., %	3Q09	Изм., %	4Q09
<b>Active subscribers (cellular), th.</b>	<b>61 029</b>	<b>5,5</b>	<b>64 408</b>	<b>61 029</b>	<b>2,8</b>	<b>62 724</b>	<b>1,4</b>	<b>63 615</b>	<b>2,6</b>	<b>65 263</b>	<b>-1,3</b>	<b>64 408</b>
Russia	47 677	6,7	50 886	47 677	3,5	49 351	1,3	49 971	2,1	51 028	-0,3	50 886
Kazakhstan	6 270	0,7	6 315	6 270	1,7	6 377	4,3	6 653	2,7	6 835	-7,6	6 315
Ukraine	2 052	-2,3	2 005	2 052	-7,7	1 894	2,1	1 934	13,7	2 199	-8,8	2 005
Uzbekistan	3 636	-3,3	3 515	3 636	0,5	3 653	-1,3	3 605	1,3	3 652	-3,8	3 515
Tajikistan	625	18,9	743	625	15,5	722	-6,2	677	4,3	706	5,2	743
Armenia	544	0,2	545	544	-11,6	481	1,0	486	3,3	502	8,6	545
Georgia	225	77,3	399	225	9,3	246	17,5	289	18,0	341	17,0	399
<b>ARPU (cellular), USD</b>												
Russia	13,8	-27,4	10,1	12,5	-28,7	8,9	12,1	10,0	5,8	10,6	1,7	10,7
Kazakhstan	11,7	-30,8	8,1	10,8	-27,7	7,8	0,7	7,9	4,7	8,2	3,0	8,5
Ukraine	7,6	-38,2	4,7	7,0	-37,1	4,4	17,4	5,2	3,9	5,4	-28,5	3,8
Uzbekistan	6,4	-26,6	4,7	6,8	-24,3	5,1	-9,3	4,7	-3,8	4,5	2,5	4,6
Tajikistan	9,5	-25,3	7,1	9,6	-27,4	7,0	-1,4	6,9	4,1	7,2	0,7	7,2
Armenia	14,6	-9,6	13,2	13,6	2,4	13,9	-2,7	13,5	1,2	13,7	-16,3	11,5
Georgia	9,0	-1,1	8,9	9,7	-14,4	8,3	5,9	8,8	4,7	9,2	-8,8	8,4
<b>MOU (cellular), min.</b>												
Russia	219,1	-3,5	211,4	227,8	-10,9	203,0	4,3	211,8	0,8	213,6	1,9	217,7
Kazakhstan	104,3	-10,7	93,1	100,5	-19,3	81,1	11,8	90,7	8,2	98,1	4,3	102,3
Ukraine	231,8	-10,0	208,7	230,0	-7,3	213,3	2,1	217,8	-6,5	203,7	-1,2	201,3
Uzbekistan	287,8	9,1	314,0	288,6	-17,3	238,6	-5,4	225,6	81,4	409,3	-5,4	387,3
Tajikistan	243,4	-28,7	173,6	243,4	-29,5	171,7	0,8	173,1	0,1	173,3	0,2	173,6
Armenia	152,2	56,2	237,8	150,0	16,5	174,7	36,5	238,4	12,8	269,0	-0,3	268,2
Georgia	113,6	21,7	138,3	129,8	-6,6	121,2	1,6	123,1	5,0	129,3	1,4	131,1
<b>Active subscribers (broadband), th.</b>	<b>1 221</b>	<b>84,8</b>	<b>2 257</b>	<b>1 206</b>	<b>27,5</b>	<b>1 538</b>	<b>13,1</b>	<b>1 739</b>	<b>11,0</b>	<b>1 930</b>	<b>17,0</b>	<b>2 257</b>
Russia	1 182	78,6	2 111	1 182	26,7	1 498	10,7	1 659	10,5	1 833	15,2	2 111
Kazakhstan	0	550,0	1	n/d	n/m	n/d	n/m	0	0,0	0	333,3	1
Ukraine	24	355,4	109	24	66,7	40	32,5	53	32,1	70	56,1	109
Uzbekistan	6	55,2	9	n/d	n/m	n/d	n/m	8	9,2	8	8,4	9
Armenia	9	184,8	26	n/d	n/m	n/d	n/m	19	-5,7	18	44,8	26

Source: company, estimates: Veles Capital

### US GAAP financial results of Vimpelcom, mn USD

	2008	Chng., %	2009	4Q08	Chng., %	1Q09	Chng., %	2Q09	Chng., %	3Q09	Chng., %	4Q09
Sales	10 117	-14,0	8 703	2 555	-23,9	1 944	10,1	2 140	6,4	2 276	2,9	2 343
Cellular	8 672	-15,9	7 292	2 148	-25,7	1 597	13,0	1 804	7,3	1 936	1,0	1 955
Fixed	1 661	10,1	1 829	499	-22,5	387	16,8	452	6,9	483	4,9	507
Costs	(7 138)	-14,2	(6 125)	(1 905)	-27,4	(1 383)	4,8	(1 450)	7,9	(1 565)	10,3	(1 726)
Amortization	(1 881)	-9,9	(1 694)	(473)	-20,7	(375)	5,0	(394)	10,8	(437)	11,9	(489)
Operating income	2 979	-13,4	2 578	651	-13,9	560	23,1	690	3,2	712	-13,3	617
<b>Operating income margin, %</b>	<b>29,4</b>	<b>0,2</b>	<b>29,6</b>	<b>25,5</b>	<b>3,4</b>	<b>28,8</b>	<b>3,4</b>	<b>32,2</b>	<b>-1,0</b>	<b>31,3</b>	<b>-4,9</b>	<b>26,3</b>
OIBDA	4 860	-12,1	4 273	1 124	-16,8	935	15,9	1 084	5,9	1 148	-3,7	1 106
<b>OIBDA margin, %</b>	<b>48,0</b>	<b>1,1</b>	<b>49,1</b>	<b>44,0</b>	<b>4,1</b>	<b>48,1</b>	<b>2,5</b>	<b>50,6</b>	<b>-0,2</b>	<b>50,4</b>	<b>-3,3</b>	<b>47,2</b>
Impairment losses	(443)	n/m	0	(443)	n/m	0	n/m	0	n/m	0	n/m	0
Interest expenses	(496)	20,8	(599)	(154)	-12,0	(135)	3,6	(140)	12,2	(157)	6,1	(167)
Other non-operating incomes / expenses	(1 149)	-62,8	(427)	(1 061)	-32,8	(712)	n/m	353	-91,1	31	n/m	(100)
EBT	891	74,2	1 552	(1 006)	-71,5	(287)	n/m	903	-35,1	586	-40,2	350
<b>EBT margin, %</b>	<b>8,8</b>	<b>9,0</b>	<b>17,8</b>	<b>Neg.</b>	<b>24,6</b>	<b>neg.</b>	<b>57,0</b>	<b>42,2</b>	<b>-16,5</b>	<b>25,7</b>	<b>-10,8</b>	<b>15,0</b>
Income tax	(304)	43,1	(435)	209	-86,3	29	n/m	(195)	-21,5	(153)	-25,2	(115)
Minority interest	(63)	n/m	4	(18)	n/m	11	n/m	(7)	-80,4	(1)	n/m	2
Net income exc. Impairment losses	816	37,5	1 122	(465)	-46,7	(248)	n/m	701	-38,5	431	-44,9	238
Net income	524	114,0	1 122	(816)	-69,7	(248)	n/m	701	-38,5	431	-44,9	238
<b>Net income margin, %</b>	<b>5,2</b>	<b>7,7</b>	<b>12,9</b>	<b>Neg.</b>	<b>19,2</b>	<b>neg.</b>	<b>45,5</b>	<b>32,7</b>	<b>-13,8</b>	<b>18,9</b>	<b>-8,8</b>	<b>10,1</b>
Average RUR/USD exchange ratio	24,87	27,7	31,77	27,26	26,2	34,39	-6,2	32,26	-2,9	31,34	-5,9	29,48

Note 1: percentage changes are given in percentage points

Note 2: operating expenses, OIBDA and operating profit age given excluding impairment losses

Source: company, estimates: Veles Capital

## Financial model

### Income statements of Vimpelcom, mn USD

	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Sales	4,868	7,171	10,117	8,703	9,974	10,597	11,337	12,486	13,316	14,819
Costs	(2,416)	(3,574)	(5,257)	(4,430)	(5,141)	(5,704)	(6,324)	(7,181)	(7,875)	(8,652)
<b>OIBDA</b>	<b>2,452</b>	<b>3,597</b>	<b>4,860</b>	<b>4,273</b>	<b>4,833</b>	<b>4,894</b>	<b>5,012</b>	<b>5,305</b>	<b>5,441</b>	<b>6,167</b>
<i>OIBDA margin, %</i>	50.4	50.2	48.0	49.1	48.5	46.2	44.2	42.5	40.9	41.6
Amortization	(1,054)	(1,391)	(1,881)	(1,694)	(2,037)	(2,167)	(2,270)	(2,406)	(2,493)	(2,594)
<b>EBIT</b>	<b>1,397</b>	<b>2,206</b>	<b>2,536</b>	<b>2,578</b>	<b>2,796</b>	<b>2,726</b>	<b>2,742</b>	<b>2,899</b>	<b>2,948</b>	<b>3,573</b>
<i>EBIT margin, %</i>	28.7	30.8	25.1	29.6	28.0	25.7	24.2	23.2	22.1	24.1
Non-recurrent items	0	0	(443)	0	0	0	0	0	0	0
Interest expenses	(186)	(195)	(496)	(599)	(593)	(510)	(438)	(332)	(219)	(163)
Non-operating income (losses)	1	109	(1,149)	(427)	163	(122)	100	(64)	(73)	(20)
<b>EBT</b>	<b>1,212</b>	<b>2,120</b>	<b>891</b>	<b>1,552</b>	<b>2,365</b>	<b>2,094</b>	<b>2,404</b>	<b>2,502</b>	<b>2,656</b>	<b>3,391</b>
<i>EBT margin, %</i>	24.9	29.6	8.8	17.8	23.7	19.8	21.2	20.0	19.9	22.9
Income tax	(393)	(594)	(304)	(435)	(554)	(514)	(490)	(506)	(537)	(682)
Minority interest	(8)	(64)	(63)	4	(194)	(169)	(205)	(214)	(227)	(290)
<b>Net income</b>	<b>811</b>	<b>1,463</b>	<b>524</b>	<b>1,122</b>	<b>1,617</b>	<b>1,411</b>	<b>1,708</b>	<b>1,783</b>	<b>1,892</b>	<b>2,419</b>
<i>Net income margin, %</i>	16.7	20.4	5.2	12.9	16.2	13.3	15.1	14.3	14.2	16.3

Source: company's data, Estimation: Veles Capital

### Balance sheets of Vimpelcom, mn USD

	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>ASSETS</b>										
<b>Non-current assets</b>										
PPE and intangible assets	7,122	8,338	12,100	10,537	10,984	10,283	10,199	9,573	8,945	8,494
Other non-current assets	190	504	1,219	1,229	1,286	1,271	1,332	1,320	1,301	1,289
<b>Total non-current assets</b>	<b>7,312</b>	<b>8,842</b>	<b>13,319</b>	<b>11,766</b>	<b>12,269</b>	<b>11,554</b>	<b>11,532</b>	<b>10,892</b>	<b>10,246</b>	<b>9,782</b>
<b>Current assets</b>										
Current assets	780	723	1,492	1,520	1,690	1,738	1,909	2,035	2,157	2,406
Short-term investments	0	0	0	0	0	138	1,304	1,064	2,475	4,447
Cash and equivalents	344	1,004	915	1,447	1,125	1,667	1,838	1,967	2,092	2,334
<b>Total current assets</b>	<b>1,125</b>	<b>1,727</b>	<b>2,407</b>	<b>2,967</b>	<b>2,815</b>	<b>3,543</b>	<b>5,050</b>	<b>5,065</b>	<b>6,724</b>	<b>9,187</b>
<b>Total assets</b>	<b>8,437</b>	<b>10,569</b>	<b>15,725</b>	<b>14,733</b>	<b>15,084</b>	<b>15,097</b>	<b>16,581</b>	<b>15,958</b>	<b>16,969</b>	<b>18,969</b>
<b>LIABILITIES</b>										
Shareholder's equity	3,943	5,412	4,577	5,015	6,565	7,286	8,843	9,891	10,979	12,594
Minority interest	258	288	33	2	201	367	595	802	1,016	1,296
<b>Non-current liabilities</b>										
Long-term borrowings	2,489	2,767	8,443	7,353	5,770	4,885	4,405	2,443	2,081	1,953
Other non-current liabilities	558	629	767	761	796	787	825	817	806	798
<b>Total non-current liabilities</b>	<b>3,048</b>	<b>3,395</b>	<b>9,210</b>	<b>8,114</b>	<b>6,566</b>	<b>5,672</b>	<b>5,230</b>	<b>3,260</b>	<b>2,887</b>	<b>2,751</b>
<b>Current liabilities</b>										
Current liabilities	873	1,050	1,898	1,592	1,742	1,762	1,902	1,992	2,074	2,314
Other current liabilities	314	424	7	9	10	11	12	13	13	15
<b>Total current liabilities</b>	<b>1,188</b>	<b>1,473</b>	<b>1,905</b>	<b>1,601</b>	<b>1,752</b>	<b>1,772</b>	<b>1,913</b>	<b>2,005</b>	<b>2,087</b>	<b>2,329</b>
<b>Total liabilities</b>	<b>8,437</b>	<b>10,569</b>	<b>15,725</b>	<b>14,733</b>	<b>15,084</b>	<b>15,097</b>	<b>16,581</b>	<b>15,958</b>	<b>16,969</b>	<b>18,969</b>

Source: company's data, Estimation: Veles Capital

**Cash flow statements of Vimpelcom, mn USD**

	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Cash flows from operating activities</b>										
Net income	811	1,463	524	1,122	1,617	1,411	1,708	1,783	1,892	2,419
Minority interest	8	64	63	(4)	194	169	205	214	227	290
Amortization	1,054	1,391	1,881	1,694	2,037	2,167	2,270	2,406	2,493	2,594
Other	103	184	1,481	500	(236)	48	(171)	26	29	18
Changes in working capital	(5)	(63)	(528)	201	(23)	(27)	(30)	(35)	(40)	(9)
<b>Net cash provided by operating activities</b>	<b>1,971</b>	<b>3,038</b>	<b>3,422</b>	<b>3,513</b>	<b>3,590</b>	<b>3,768</b>	<b>3,983</b>	<b>4,394</b>	<b>4,601</b>	<b>5,313</b>
<b>Cash flows from investing activities</b>										
CapEx	(1,297)	(1,312)	(2,391)	(892)	(1,996)	(1,591)	(1,702)	(1,875)	(1,999)	(2,225)
Other	(990)	(922)	(5,779)	(560)	0	(139)	(1,132)	229	(1,437)	(2,005)
<b>Net cash provided by investing activities</b>	<b>(2,287)</b>	<b>(2,235)</b>	<b>(8,170)</b>	<b>(1,452)</b>	<b>(1,996)</b>	<b>(1,730)</b>	<b>(2,834)</b>	<b>(1,646)</b>	<b>(3,436)</b>	<b>(4,229)</b>
<b>Cash flows from financing activities</b>										
Proceeds from borrowings	925	666	6,209	1,270	0	0	0	0	0	0
Repayments of borrowings	(607)	(487)	(721)	(2,433)	(1,645)	(870)	(529)	(1,955)	(358)	(128)
Other	(26)	(373)	(744)	(365)	(330)	(610)	(532)	(645)	(653)	(693)
<b>Net cash provided by financial activities</b>	<b>293</b>	<b>(194)</b>	<b>4,744</b>	<b>(1,527)</b>	<b>(1,974)</b>	<b>(1,480)</b>	<b>(1,061)</b>	<b>(2,600)</b>	<b>(1,010)</b>	<b>(821)</b>
Currency exchange differences	4	50	(85)	(2)	58	(16)	83	(18)	(29)	(21)
<b>Net change of cash</b>	<b>(19)</b>	<b>659</b>	<b>(89)</b>	<b>532</b>	<b>(322)</b>	<b>543</b>	<b>170</b>	<b>129</b>	<b>126</b>	<b>242</b>
<b>Cash at the beginning of period</b>	<b>364</b>	<b>344</b>	<b>1,004</b>	<b>915</b>	<b>1,447</b>	<b>1,125</b>	<b>1,667</b>	<b>1,838</b>	<b>1,967</b>	<b>2,092</b>
<b>Cash at the end of period</b>	<b>344</b>	<b>1,004</b>	<b>915</b>	<b>1,447</b>	<b>1,125</b>	<b>1,667</b>	<b>1,838</b>	<b>1,967</b>	<b>2,092</b>	<b>2,334</b>

Source: company's data, Estimation: Veles Capital

## Price estimation

### Discount rate (WACC) of Vimpelcom, %

	2010	2011	2012	2013	2014	2015
<b>Cost of equity (<math>k_e</math>)</b>	<b>19.40</b>	<b>18.97</b>	<b>17.53</b>	<b>15.81</b>	<b>15.62</b>	<b>15.50</b>
Risk-free rate	7.9	8.1	7.2	6.3	6.3	6.3
Stock market risk	5.0	5.0	5.0	5.0	5.0	5.0
Coefficient $\beta$	1.5	1.3	1.2	1.1	1.0	1.0
Corporate risk	4.2	4.2	4.2	4.2	4.2	4.2
Share of equity, %	54.0	61.0	68.2	81.4	85.2	87.7
<b>Cost of debt (<math>k_d</math>)</b>	<b>9.62</b>	<b>9.55</b>	<b>8.52</b>	<b>7.57</b>	<b>7.53</b>	<b>7.50</b>
Risk-free rate	7.9	8.1	7.2	6.3	6.3	6.3
Debt premium	1.8	1.5	1.3	1.3	1.2	1.2
Tax rate	26.0	24.0	22.0	20.0	20.0	20.0
Share of debt, %	46.0	39.0	31.8	18.6	14.8	12.3
<b>WACC</b>	<b>13.75</b>	<b>14.41</b>	<b>14.07</b>	<b>14.00</b>	<b>14.20</b>	<b>14.33</b>

Estimation: Veles Capital

### Cash flows of Vimpelcom, mn USD

	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Net income (corr.)</b>	<b>983</b>	<b>1,648</b>	<b>2,668</b>	<b>2,162</b>	<b>2,177</b>	<b>2,140</b>	<b>2,181</b>	<b>2,355</b>	<b>2,367</b>	<b>2,890</b>
Depreciation and amortization	1,054	1,391	1,881	1,694	2,037	2,167	2,270	2,406	2,493	2,594
CapEx	(1,977)	(1,613)	(8,360)	(1,045)	(1,996)	(1,591)	(1,702)	(1,875)	(1,999)	(2,225)
Changes in working capital	(5)	(63)	(528)	201	(23)	(27)	(30)	(35)	(40)	(9)
<b>Free cash flow</b>	<b>56</b>	<b>1,362</b>	<b>(4,338)</b>	<b>3,012</b>	<b>2,195</b>	<b>2,688</b>	<b>2,718</b>	<b>2,852</b>	<b>2,820</b>	<b>3,251</b>
Discount rate, %					13.7	14.4	14.1	14.0	14.2	14.3
Discount coefficient					1.00	0.87	0.77	0.67	0.59	0.51
<b>Discounted cash flow</b>					<b>2,195</b>	<b>2,350</b>	<b>2,083</b>	<b>1,917</b>	<b>1,660</b>	<b>1,674</b>

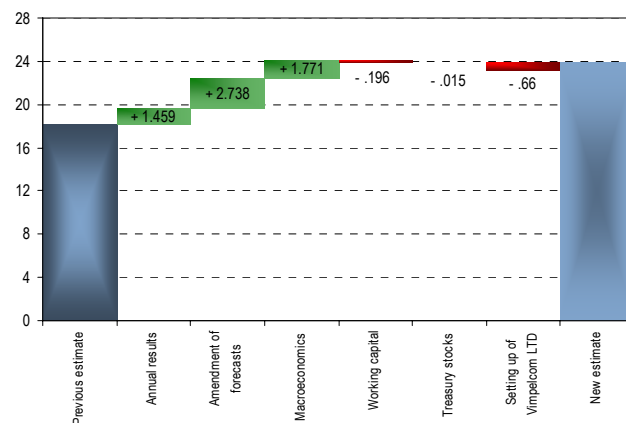
Source: company's data, Estimation: Veles Capital

### Vimpelcom's ADRs valuation

TGR, %	3.0
Sum of cash flows, mn USD	16,780
Terminal value, mn USD	40,968
Discounted terminal value, mn USD	12,146
Enterprise value, mn USD	28,926
Net debt, mn USD	4,645
Shareholder's equity (incl. minority interest), mn USD	24,281
Minority interest, mn USD	721
Shareholder's equity, mn USD	23,561
Number of shares, mn units	1,014
<b>Fair value of stock at the year end, USD</b>	<b>23.23</b>
Upside (downside), %	30.4

Source: company's data, Estimation: Veles Capital

### Factors, altered valuation



## Comparables

Comparables								
Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	NI margin, %	ROIC, %
<b>Russia</b>								
Mobile Telesystems OJSC	Russia	24 903	21 887	2,43	4,84	11,34	18,84	29,38
<b>Vimpel-Communications</b>	<b>Russia</b>	<b>25 805</b>	<b>18 277</b>	<b>2,55</b>	<b>5,31</b>	<b>34,86</b>	<b>5,18</b>	<b>26,30</b>
Sibirtelecom	Russia	2 281	1 501	1,50	4,32	24,34	4,06	9,35
VolgaTelecom	Russia	2 109	1 587	1,63	4,30	13,53	9,06	10,56
Uralsvyazinform	Russia	3 101	2 196	1,89	5,43	21,48	6,23	10,33
<b>Weighted average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,35</b>	<b>5,02</b>	<b>16,61</b>	<b>11,02</b>	<b>23,51</b>
<b>Emerging markets</b>								
Advanced Info Service PCL	Thailand	8 151	7 793	2,73	6,06	15,67	16,65	19,46
America Movil SAB de CV	Mexico	86 787	78 710	2,96	7,43	15,05	17,86	28,70
Bharti Airtel Ltd	India	28 390	26 428	3,47	8,41	15,35	21,04	26,51
China Mobile Ltd	Hong Kong	160 644	194 369	2,43	4,79	11,53	25,47	42,84
DiGi.Com Bhd	Malaysia	5 392	5 249	3,87	8,93	18,47	20,38	51,07
Emirates Telecom Corp	UAE	22 559	24 363	2,69	7,77	10,13	28,66	31,55
Ethiad Etisalat Co	Saudi Arabia	10 946	8 903	3,14	8,49	11,08	23,08	n/d
XL Axiata Tbk PT	Indonesia	4 510	3 169	3,40	7,55	19,14	12,47	8,99
Far EastOne Telecommunications	Taiwan	3 619	3 890	1,99	5,15	13,91	15,37	13,78
Idea Cellular Ltd	India	6 315	4 571	2,85	10,20	23,67	8,70	11,59
Magyar Telekom Telecommunicati	Hungary	5 936	3 993	1,85	4,77	10,30	12,05	12,24
Maroc Telecom	Morocco	16 261	15 763	4,33	7,27	13,51	31,07	49,04
MTN Group Ltd	SAR	32 768	31 017	2,43	n/d	17,58	13,09	24,91
Oman Telecommunications Co	Oman	2 778	2 632	2,59	4,57	8,10	30,36	39,18
Philippine Long Distance Telep	Philippines	11 717	10 405	3,76	6,06	12,44	26,88	32,65
Qatar Telecom Q-Tel QSC	Qatar	13 323	5 916	2,02	4,61	7,75	11,57	8,89
StarHub Ltd	Singapore	3 236	2 765	2,19	7,17	12,56	14,87	37,71
Taiwan Mobile Co Ltd	Taiwan	7 648	7 246	3,69	8,62	17,22	20,28	22,28
Telecom Argentina SA	Argentina	3 681	3 481	1,12	3,52	9,23	11,49	26,84
Telekom Malaysia Bhd	Malaysia	4 470	3 533	1,83	5,07	19,34	7,47	4,97
Telemar Norte Leste SA	Brazil	24 370	7 247	1,61	6,52	neg.	neg.	8,46
Telkom SA Ltd	SAR	4 190	2 413	1,02	n/d	5,04	11,60	6,90
Total Access Communication PCL	Thailand	3 038	2 653	1,60	5,19	13,73	10,15	9,37
Turkcell Iletisim Hizmet AS	Turkish	11 540	13 132	2,00	6,01	11,86	19,21	35,66
<b>Weighted average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,50</b>	<b>5,93</b>	<b>12,95</b>	<b>18,78</b>	<b>25,79</b>

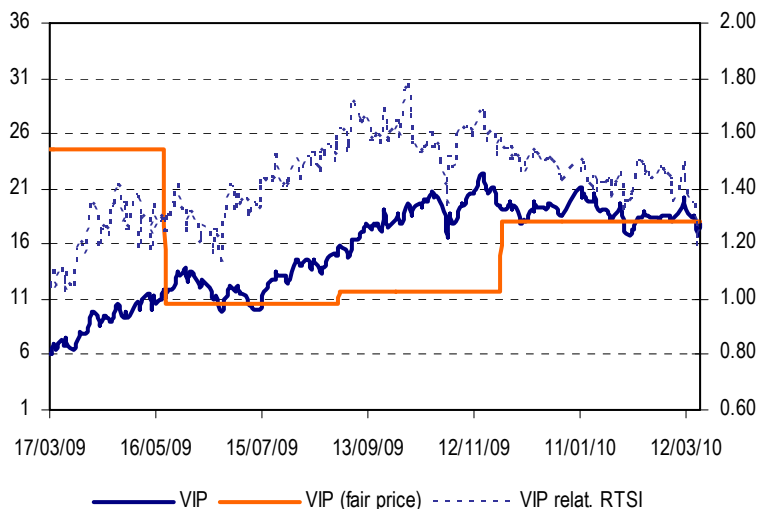
*Estimates: Veles Capital*

**Comparables**

Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	NI margin, %	ROIC, %
<b>Developed markets</b>								
AT&T Inc	USA	223 149	154 870	1,81	5,42	12,36	10,19	8,57
BCE Inc	Canada	32 688	22 924	2,09	5,24	14,98	9,80	12,26
CenturyTel Inc	USA	18 035	10 443	3,63	8,17	16,14	13,01	12,45
Deutsche Telekom AG	Germany	124 307	58 143	1,38	3,98	118,12	0,55	3,23
Elisa OYJ	Finland	4 423	3 393	2,22	6,55	13,80	12,33	11,94
France Telecom SA	France	111 470	62 935	1,74	5,01	15,06	6,52	8,42
Hellenic Telecommunications Or	Greece	12 532	6 007	1,50	4,05	10,66	6,75	8,05
KDDI Corp	Japan	31 358	23 575	0,90	3,54	10,59	6,37	11,36
Manitoba Telecom Services Inc	Canada	2 927	2 011	1,84	5,44	22,45	5,62	7,97
NTT DoCoMo Inc	Japan	69 415	68 945	1,56	4,25	14,62	10,61	12,20
Koninklijke KPN NV	Netherlands	40 794	25 487	2,17	5,63	8,39	16,19	n/d
Sprint Nextel Corp	USA	28 531	11 289	0,88	4,41	neg.	neg.	n/d
Swisscom AG	Switzerland	28 337	19 177	2,56	7,00	10,77	16,07	11,50
TDC A/S	Denmark	15 232	8 754	2,26	6,23	19,28	6,74	10,53
Telefonica SA	Spain	177 943	109 616	2,25	5,70	10,11	13,71	14,99
Telekom Austria AG	Austria	10 629	5 812	1,59	4,25	43,83	1,98	5,40
Telenor ASA	Norway	26 797	21 985	1,72	5,04	15,32	9,20	9,14
Telephone & Data Systems Inc	USA	4 230	3 406	0,84	3,56	17,57	3,86	5,46
TeliaSonera AB	Sweden	39 476	32 580	2,75	8,51	13,13	17,27	8,85
TELUS Corp	Canada	17 130	11 267	2,03	5,28	12,82	10,39	12,98
United States Cellular Corp	USA	4 182	3 609	0,99	4,51	16,71	5,13	5,87
Verizon Communications Inc	USA	146 481	86 234	1,36	4,07	23,62	3,39	14,41
<b>Weighted average</b>	-	-	-	<b>1,67</b>	<b>4,92</b>	<b>14,96</b>	<b>7,21</b>	<b>9,93</b>

*Estimates: Veles Capital*

## Vimpelcom's fair price history



## Sector coverage

Share	Tiker	Current price, USD	Target for year end, USD	Current growth potential, %	Recommendation	Date of recommendation revision	Investment idea
<b>Traditional telephony</b>							
Volgatelecom, cs	NNSI	3.5500	3.0523	-14.0	BUY	7/3/2009	
Volgatelecom, ps	NNSIP	3.0000	2.2893	-23.7	BUY	7/3/2009	
Dalsvyaz, cs	ESPK	3.5000	4.1875	19.6	BUY	10/29/2009	
Dalsvyaz, ps	ESPKP	3.2000	3.1406	-1.9	BUY	10/29/2009	
NWT, cs	SPTL	0.8400	0.5030	-40.1	BUY	7/17/2009	Rapidly fall quotes last year intends considerable potential of growth despite of negative moments
NWT, ps	SPTLP	0.6700	0.3773	-43.7	BUY	7/17/2009	
Sibirtelecom, cs	ENCO	0.0623	0.0379	-39.1	BUY	8/19/2009	
Sibirtelecom, ps	ENCOP	0.0550	0.0285	-48.3	BUY	8/19/2009	
Uralsvyazinform, cs	URSI	0.0318	0.0323	1.6	BUY	6/25/2009	
Uralsvyazinform, ps	URSIP	0.0280	0.0242	-13.4	BUY	6/25/2009	
Centrtelecom, cs	ESMO	0.7000	0.3072	-56.1	REDUCE	8/10/2009	Shares reached their fair values. Growth potential are contained by credit risks
Centrtelecom, ps	ESMOP	0.4900	0.2304	-53.0	REDUCE	8/10/2009	
STC, cs	KUBN	0.1400	0.0461	-67.1	HOLD	8/14/2009	High debt level carries highly risks of investments in this shares
STC, ps	KUBNP	0.1120	0.0346	-69.1	HOLD	8/14/2009	
<b>Alternative telephony</b>							
Vimpelcom	VIMP	17.82	23.88	34.0	BUY	3/22/2010	High debts cuts up development
MTS	MTSS	8.35	11.25	34.7	BUY	11/20/2009	Aquisition of Comstar
Comstar-UTS	CMST	6.2000	6.4090	3.4	BUY	9/4/2009	Company has all chances to live out crisis with minimum losses
<b>Long-distance communication</b>							
Rostelecom, cs	RTKM	5.1000	2.9641	-41.9	SELL	11/10/2009	Limited perspectives of company's business development
Rostelecom, ps	RTKMP	2.6100	2.2231	-14.8	HOLD	11/10/2009	
<b>Media</b>							
CTC Media	CTCM	15.68	13.85	-11.7	ACCUMULATE	8/7/2009	Quotes are slightly moving to fair value

*Estimation: Veles Capital*

## Brief investor's guide

Methods, used for company's share evaluation				
Income approach			Comparables approach	Expenses approach
DCF method		EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *	FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **	FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

\*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

\*\*

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

### Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of united object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + \text{Cash} + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + \text{Cash} + NA$

### Signs:

EV	- Enterprise Value
SV	- Shareholders Value
TV	- Terminal Value
Cagr	- development rates within the target period
BV, E	- Balance Value, Equity
EBIT	- operational profit from selling, profit before payments of credit interest and income tax
EBITDA	- operational profit before payment of credit interest, income tax and amortization
EBT	- Earnings Before Tax
EAT	- Earnings After Tax
EPS	- Earnings Per Share
NOPAT	- net operational profit, free from effects of debt financing $NOPAT = EBIT * (1 - \text{income tax effective rate})$
FCFF	- Free Cash Flow to Firm $FCFF = \text{gross cash flow} - \text{gross investments}$ $\text{Gross cash flow} = NOPAT + \text{amortization}$
FCFE	- Free Cash Flow to Equity $FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$ $\text{Gross shareholders' cash flow} = \text{EAT of operational profit (including interest payoffs)} - \text{annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$
EVA	- Economic Value Added $EVA = \text{economic profit spread} * IC = (ROIC - WACC) * IC$
SVA	- Shareholders Value Added $SVA = \text{spread} * E = (ROE - k_s) * E$
WACC	- Weighted Average Cost of Capital
$k_s$	- required shareholders' yield
D	- fair (market) cost of net debt
Cash	- cash assets, along with market securities on the balance
NA	- non-operational assets
IC	- Invested Capital
ROIC	- Return on Invested Capital $ROIC = \frac{NOPAT}{IC}$
ROE	- Return on Equity
ROA	- Return on Assets

## Information disclosure

### The statement of an analyst and confirmation of the responsibility withdrawal

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### The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

**BUY** – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

**ACCUMULATE** – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

**HOLD** – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

**REDUCE** – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

**SELL** – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

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