

Vimpelcom comes west: genius or insanity?

As the cream of the telecoms industry debates how best to make money from mobile data, Vimpelcom's Alexander Izosimov is alone in betting his balance sheet on it in unfashionable western Europe.

Izosimov aims to make Vimpelcom the world's fifth-largest mobile phone company, competing with the likes of Vodafone and Telefonica after buying Egyptian tycoon Naguib Sawiris's telecom assets for around \$6 billion.

Russia's number two cellphone company is bidding to buy control of emerging markets-focused Orascom Telecom and 100 percent control of Italy's Wind, although Egypt is not included in the transaction.

Izosimov, speaking at the annual Mobile World Congress in Barcelona, was unapologetic about the strategy.

"We will actually create a different platform to ride the wave of data growth starting from the west to the emerging markets," Izosimov said.

The Italian market with its high smartphone penetration and margins close to 50 percent is perfectly positioned for data growth, he said, and added that he made up his mind to pursue the deal with Sawiris at last year's mobile fair.

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Emerging markets buyers have fueled telecom mergers and acquisitions in the last few years as their own markets have become more competitive and growth has slowed to the high single digits.

Not many chief executives from developing economies are expected to follow Izosimov into western Europe, where growth is much lower still, however.

"Vimpelcom is brave going west, but western Europe is a managing margins story ... on a good day you have 2-3 percent growth," said Mark Newman, chief research officer at Informa Telecoms & Media.

While other chief executives share the belief in the potential of mobile broadband -- AT&T CEO Randall Stephenson described it as the biggest transformation in his 28 years in the industry -- most companies are still deciding on the business model to tackle it.

MTS, Russia's largest mobile phone company, thinks that hurdles like the high cost of international roaming will cap demand for mobile internet in the next few years.

"I'm not seeing major money going after mobile data yet," said MTS chief executive

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Mikhail Shamolin.

"Remember, people who invested in the internet in 1998 lost everything. What they expected to happen in 2000, didn't happen until 2008. Vimpelcom may prove to be right (moving quickly), but we are taking a more conservative approach."

Cash-rich Turkcell is planning on staying close to home if it makes any acquisitions.

"We like our own neighborhood and North Africa, we understand those regions," said chief executive Sureyya Ciliv.

Even the UAE's Etisalat, a prolific dealmaker with ambitions to become a top 10 global operator, is cool on western Europe.

Jamal al Jarwan, head of international investments at Etisalat, which is looking to take a stake in Kuwait's Zain for \$12 billion, said companies needed to approach M&A selectively to be successful at it.

"We got serious in 2006, but to be honest at first we were shooting in all directions ... We looked at Portugal Telekom, assets in mature markets ... but decided we needed a more focused strategy," he said.

"M&A is sexy but it's tough to get your ABCs together."

Etisalat's portfolio includes assets in 18 emerging market countries ranging from West Africa to Indonesia.

(Editing by David Cowell)

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