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Wind Mobile's owner VimpelCom Ltd writes down value of company to zero

By Armina Ligaya

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Wind Mobile has been called "all but dead" after its foreign owner VimpelCom Ltd. declared Canada's fourth-largest carrier as virtually worthless amid a "reassessment of the prospects of continuing operations in the country."

The Russian mobile phone company's writedown of its fledgling Canadian asset to zero on Thursday is the latest sign that Ottawa's policy to encourage wireless competition to take on the Big Three incumbents isn't fostering upstarts.

VimpelCom on Thursday posted a US\$2.67-billion fourth-quarter loss, mainly reflecting a US\$3-billion in non-cash impairments from slashing Wind Mobile's value and a writedown of its assets in Ukraine.

"The Company fully impaired its assets in Canada, mainly relating to the challenges the Company is facing in the country, which resulted in the strategic decision to withdraw from the 700 MHz spectrum auction and the reassessment of the prospects for continuing operations in the country," VimpelCom said in a statement Thursday.

The move by the Amsterdam-based teleco, which has long expressed its desire to exit the Canadian market, cast further doubt on Wind Mobile's future prospects and pointed to the possibility of a lower price for a potential buyer, albeit from a shrinking available pool.

The stark writedown was not a shock to industry watchers given VimpelCom's reluctance to bankroll its much-needed spectrum bid - a clear signal its foreign owner was not willing to invest any more in the country.

Dvai Ghose, head of research at Canaccord Genuity, said in a note to clients Thursday "Wind appears all but dead."

"Despite the Government's intentions, the national wireless incumbents appear to be in a strong position, while new entrant survival remains challenging with the exception of Videotron and EastLink," he wrote.



National Post Canadian partner Anthony Lacavera says it's business as usual at Wind Mobile.

Although Wind Mobile had just over 676,000 subscribers at the end of 2013, its subscriber growth fell below expectations, with just 39,382 new additions in the fourth quarter of last year, Mr. Ghose added.

"With VimpelCom's announcement we wonder if it is prepared to finance significant incremental losses at WIND," Mr. Ghose said in the note. "Consequently, we may see a contraction in its subscriber base over time, especially as we assume high churn."

Wind Mobile chief executive Anthony Lacavera, however, said it is "business as usual at Wind and this account decision by VimpelCom has no impact on our operations."

He said the declaration that Wind is on its last legs was "categorically false", as it has gained market share after the failure of its upstart competitors Public Mobile and Mobilicity and is on track to be profitable by next year.

Wind is also plans to discuss "potential joint opportunities with spectrum owners in our current operating markets", in order to roll out LTE services and compete long-term, he said.

"In any analysis ... Wind will continue as a going concern," he said.

Still, none of the three upstart carriers which entered Canada's wireless market after the last spectrum auction in 2008 have been able to mount a serious threat to the incumbents - BCE Inc., Rogers Communications Inc. and Telus Corp. - and are struggling financially.

Public Mobile has been sold to Telus, while Mobilicity is under creditor protection. Last May, Mobilicity announced an agreement to sell itself to Telus Corp. for \$380-million but Ottawa killed the deal when it blocked the spectrum transfer last June. Mobilicity has said it may ask the court to override the government's policy and order the transfer of its licences to a willing buyer, but, Industry Canada hasn't shown any indications it would waver in its decision.

Last June, VimpelCom withdrew an application for government approval of transfer of control of Wind from Mr. Lacavera, who still retains two-thirds of the voting shares through his holding company AAL Corp.

For Wind, the largest of the trio of new entrants, without further funding or additional spectrum to (upgrade its third-generation network of AWS band of spectrum to a more advanced LTE or fourth-generation network) or many viable buyers, analysts say Wind Mobile is on life support.

"It's been clear that over the last year the government has signalled enough that an incumbent acquisition of any of the new entrants is not in the offer," said Greg Macdonald, head of research at Macquarie Capital Markets. "As a result of that, there are very, very few, if any buyers, for these assets."

One potential buyer is Quebecor Inc. who emerged as the big winner in Canada's latest public auction for wireless airwaves¹, buying up prime blocks of spectrum both in and outside its home province for a bargain. Its Videotron division won 20-year licences for 700-megahertz airwaves in all parts of Quebec, southern Ontario, Alberta and British Columbia - all for \$233-million.

Although Quebecor has been silent on its plans for the valuable licences, the bold stroke has intensified speculation it could launch mobile services in new markets. One possible scenario is that Quebecor acquires one of the struggling new entrant carriers, such as Wind, allowing it to expand without building an extensive new network.

While it is unclear what prompted VimpelCom to write down its Canadian assets, it's a signal that the clearing price is likely lower than what it was just six months ago.

"I don't think you can draw a conclusion of what market value Vimpelcom would accept for the asset, just because they wrote the asset down," said Mr. Macdonald. "But I think you can draw a correlation to the fact that it's worth less now than what it was last year. And so maybe there's a deal to be done."

References

1. business.financialpost.com/2014/02/19/wireless-auction-raises-5-27-billion-allowing-quebecor-to-gain-expand

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