

IPO: AN EMERGING TREND FOR UKRAINIAN TELECOMMUNICATION PROVIDERS

The article considers general issues of an IPO as a way to raise capital for development of Ukrainian telecom providers. The purpose of article is to identify the prospects of using IPOs by Ukrainian telecom providers that are grounded in the conditions of the Ukrainian stock market, the International IPO market, and the IPO experience of telecom providers in the world. Method. The observation, comparison, generalization, grouping, and index scientific method are applied in the article. Results. The state of the Ukrainian stock market development, rather than the internal political and economic factors, is what interferes with IPOs among Ukrainian telecom providers. The IPOs by Ukrainian companies did not exist in national and foreign stock exchanges in 2013-2015. However, there were IPOs of Ukrainian enterprises in foreign stock exchanges. Ukrainian enterprises raised US \$2.76B with 30 agreements during 2005-2013. These characteristics predispose a practical absence of opportunities for effective IPO in the near future. IPO world market has had many changes during 1995 – 2016. There was a nearly two-fold increase in capitalization of the total IPOs. The IPO world market has had downturns that have had an increasing floor on each of next year's downturn of the total IPO capitalization. The capitalization of each IPO deal was gradually decreasing while the number of deals increasing. Alternative stock exchanges that had looser IPO requirements were opened. In addition, there is the successful experience of IPOs by many telecom providers in the world, which differ by size and geographic area. The analysis of largest Ukrainian telecom providers shows that the only Ukrtelecom is listed on the Ukrainian SEs by its own shares, but it has had a negative experience. Other large companies should restructure to become publicly owned. However, the characteristics of their activities, by size and efficiency with the IPO experience of their international parent companies, confirm real opportunities to raise IPO capital for development.

Keywords: Initial Public Offer, IPO market, Ukrainian stock market, telecom provider, stock exchange.

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IPO: АКТУАЛЬНИЙ ТРЕНД ДЛЯ УКРАЇНСЬКИХ ТЕЛЕКОМУНІКАЦІЙНИХ КОМПАНІЙ

У статті розглядаються теоретичні та практичні питання IPO як способу залучення капіталу для розвитку українських телекомунікаційних провайдерів, що працюють в складних і нестабільних соціально-економічних умовах. Метою статті є визначення можливостей застосування IPO телекомунікаційними компаніями України, виходячи зі стану і тенденцій фондового ринку України, світового ринку IPO і досвіду IPO телекомунікаційних компаній світу. Розкрито позитивні та негативні аспекти IPO, групи IPO вимог і їх характеристики. Узагальнено особливості та проблеми українського фондового ринку, вивчені обставини і можливості застосування IPO найбільшими українськими телекомунікаційними операторами на основі аналізу їх бізнес-характеристик.

Ключові слова: первинна публічна пропозиція, ринок IPO, фондовий ринок України, телекомунікаційний оператор, фондова біржа.

Urgency. Today Ukrainian telecom providers work simultaneously in complex and unstable socio-economic conditions. Although currently the majority of domestic subscribers have a low level of effective demand, Ukrainian telecom providers have a vital need to increase capital investments in the development and modernization of their networks. The research show that telecom providers in Ukraine are unable to provide sufficient and timely amounts of investment [1, 2]. In these circumstances, expanding various tools to get investments is one of the most appropriate ways to solve problems of investing in development activities.

An effective capital-raising tool, which is not yet of widespread usage in Ukraine, is a public offering of shares in the stock market or an Initial Public Offer (IPO). It is recognized as an effective instrument to obtain funds because it allows the acquisition of significant funds without a strictly established level of financial obligations. It can positively influence not only an individual company but also lead to an economy's improvement and country's image as a whole [3]. A positive effect on a country can be reflected in the activation of innovation processes, increasing economic investments, creating new jobs in the labour market, and improving the country's reputation. Ukrainian telecom companies and the country can get a significant positive effect if will use IPOs.

Actual scientific researches and issues analysis. There are works which address the general issues of Ukrainian enterprise IPOs [3–9], but in the scientific literature cited IPO opportunities of Ukrainian telecom providers are not surveyed. However, this question should be specifically researched because, as shown an international IPO could be among the most effective tools to get financing for a large-scale technical reorganization of Ukrainian telecommunication networks.

The purpose of article is to identify the prospects of using IPOs by Ukrainian telecommunications providers that are grounded in the conditions of the Ukrainian stock market, the International IPO market, and the IPO experience of telecommunication providers in the world.

The statement of basic materials. IPO is the process of offering new shares in a corporation for sale to the public as a way of launching the corporation on a stock exchange. An IPO can be internal, when the IPO procedure

is occurring in the native country of a company, or can be external if it is occurring in a foreign stock exchange [4]. The main IPO goals of an enterprise are raising funds for the long term, a real estimation of business capitalization, promotion of a company to the public, which has a certain level and structure of the corporate management and activities [4].

Researchers and practical specialists who are linked with an IPO indicate many positive aspects and results an IPO can have for a company. The research has shown that such a public status company receives [3–11, 13]:

- a more accurate market value of the company,
- makes provision for increasing of share liquidity and their conversion to the payment instrument,
- raises the image and credit rating of the company,
- makes wider opportunities for commercial activities and opening additional channels to raise funds in internal and external markets,
- strengthens the economic security of the enterprise owners.

There are negative aspects of an IPO – a necessity to collaborate with many IPO participants, a complicated IPO procedure which takes a long period of time and money, and a future need to comply with the list of requirements for the company activity and financial statements. These aspects influence the decision to use an IPO for many companies.

The willingness of an enterprise to use an IPO can be determined based on its compliance with the list of requirements that it provides [3, 10]:

- stock requirements that are accepted on the stock exchange chosen as a platform for IPO,
- legal requirements in relation to compliance with legislation that regulates the stock market,
- audit requirements for accounting standards and financial statements,
- risk management and the internal control system,
- publicity of the enterprise, investment history, and financial efficiency.

It is important to take into account the stock exchange requirements. Firstly, there are requirements for the history of the company, e.g. they include the composition of owners, the confirmation of income or profit for previous years etc. Secondly, there are the current requirements for the different aspects of the company activity. Thirdly, there are permanent requirements for the company activity after an IPO. The main reason any company does the serious previous work before an IPO, as a rule, is a restructuring. This is done to be in compliance with the stock exchange requirements where the IPO will take place.

Every stock exchange has own requirements list. It is created historically, complies to national regulation where is the stock exchange exists, and reflects the market demands. In addition, as a rule, every stock exchange has some IPO options, which have alternative conditions. These differentiate the offer requirements and listing costs, for example, “Premium” and “Standard” offer options.

The emerging trend for the most effective stock exchanges in raising capital is the alternative exchange platform. Such platforms have easier requirements for companies and are oriented towards businesses that have dynamic development. Despite different requirements, most stock exchanges have common groups of criteria for any company seeking an IPO, e.g. [5]:

- financial indexes,
- indexes of operating activity,
- corporate management composition and structure,
- owners,
- market capitalization and quantity of shareholders,
- the part and quantity of share in public offer,
- financial statements,
- audit and public corporate information, and audit committee.

The important aspects in making a choice of a stock market for an IPO, as the professional consultants note [11], is the stage of company development, complexity of the transaction structure, target investors, company size, and general strategy and goals. What is more, a company should pay attention to the amount of IPO expenses and compare them with future benefits after IPO. It is especially important for companies with small and middle capitalization.

The main components of IPO expenses are services of an invest bank or brokerage, marketing and advertisement costs, legal services, management costs, and trade services of stock exchange. A total amount of IPO expenses can vary widely. If we compare total amount of IPO expenses among London (LSE), Warsaw (WSE), and Frankfurt (Frankfurter Wertpapierbörse, FWB) Stock Exchanges, it varies from \$300K to \$1500K [6]. The composition of trade services includes one-off costs (an entrance payment) and regularly annual listing costs. For example, the FWB has an entrance payment €2.5K, the annual listing costs €7.5K for the option “Standard” [11].

Moreover, since an IPO is complicated, Ukrainian enterprises have additional difficulties. These include the shadow economy, the bureaucratic maze of the Ukrainian listing procedure, and problems in complying with requirements of foreign stock exchanges.

These problems are intensifying with the state of Ukrainian stock market. The report of Professional Association of Capital Market Participants and Derivatives in 2015 noted the two main problems for operation of

Ukrainian stock market [12]. The first is the absence IPOs by Ukrainian companies in national and foreign stock exchanges in 2013-2015. The second is the decrease of the trade amount in the Ukrainian stock exchanges apart from government obligations. This trend has lasted until the present time.

The Ukrainian stock market has not done its main function of raising capital for the real sector of the economy. Its role in the Ukrainian financial sector is insignificant. The assets of the financial sector are 163.4% of GDP. The assets of the professional participants of Ukrainian stock market is 4.9% of GDP. Their percentage of the assets of the financial sector is 3%. It is mostly the market of government securities that takes about 90% of the exchange trading. The Ukrainian stock market has low capitalization and remains fragmented [12]. The abovementioned facts show the Ukrainian IPO market is absent. However, there are IPOs of Ukrainian enterprises in foreign stock exchanges. Ukrainian enterprises raised US \$2.76B with 30 agreements during 2005-2013 [7]. Analysis of these agreements shows: most agreements (16 IPOs) were offered by agro-enterprises. In addition, Ukrainian oil and gas, real estate, steel, car production, mining, and transportation companies issued IPOs. Only three stock exchanges were chosen for the Ukrainian companies' IPOs. The WSE had 13 agreements, LSE had 12 agreements (3 in the main exchange and 9 in the alternative market AIM), and FWB had 5 agreements. The greatest amount of capital (US \$420M) was raised by "Ferrexpo" (steel company) on the LSE in 2007. According to Ukrainian researchers [3, 7, 8], the LSE is the most optimal for companies that have a high capitalization. The second is the WSE. It has more liberal listing conditions, and a lower amount of IPO expenses, but has a lower scale of activity. The data presented show that none of Ukrainian companies with IPO experience are telecommunication companies.

What follows is an analysis of the IPO world market, and the experience of telecommunication providers IPOs. An analysis of the IPO world market [9, 13-14] shows that it gradually increased from 1995 to 2016. The capitalization of the IPO world market increased nearly twofold from US \$80B to US \$141B. The year 2007 is when the IPO world market had the greatest capitalization -US \$287B. It is more than three times greater than its capitalization in 1995. The IPO world market experienced four downturns during 1995-2016. The deepest downturn of the IPO world market happened in 2003 when its capitalization fell to US \$50B. The next downturn was during the global financial crisis in 2008 when capitalization of the IPO world market reached only US \$84.5B, and then again with the capitalization of US \$117B in 2012. In the last downturn in 2016, the IPO world market capitalization was US \$141B. The leading regions in the IPO world market are Pacific and North America. The sectors of financial services, technologies, industry, energy, and real estate are the leaders in the IPO world market in 2016. The greatest capitalization and quantity of deals have run the New York, Hong Kong, Shenzhen, Shanghai, and London Stock Exchanges [9, 13, 14].

To summarize, please, note. Although the IPO world market has had downturns in 1995 – 2016, these downturns have had an increasing the floor of the each next year's downturn of the total IPO capitalization. The capitalization of deals is gradually decreasing with the number of deals increasing, the increase due to the Pacific region's role in creating demand in the IPO world market. The main trends of the IPO European market are approximately the same as the IPO world market trends. European experts note that in spite of a currently indeterminacy, the IPO European market has a big potential of investors seeking opportunities of investing in prospective companies which have positive estimates ROI. Thus, the greatest capitalization and quantity of deals have been in the LSE, FWB and WSE [15]. The alternative stock exchanges AIM and New Connect were opened on the LSE and the WSE. The trends in the IPO world market, e.g. a lower capitalization of an IPO, create favourable conditions for Ukrainian telecom providers' IPO.

It is important to note, there is much experience of effective IPOs by telecom providers in the world. The world largest IPOs include three of the largest telecommunication providers – NTT Mobile, Deutsche Telecom, and AT&T [16]. They took the second, ninth, and eleventh positions respectively. These IPOs were during 1996 – 2000 when the telecommunication sector was at the forefront of the communication market development. NTT Mobile Communications, a giant in Japanese wireless phones, issued an IPO in 1998 and raised US \$18.1B. Deutsche Telecom was the third largest telecommunication provider in the world in 1996. The company raised US \$13B by the IPO. The eleventh position of the world IPOs is AT&T. It is the world's largest telecommunications company [17]. A total of 360 million shares were sold for US \$10.6B in 2000 [18].

To provide a more complete picture of telecom IPOs, an overview of non-Ukraine telecommunication IPOs since 2000 is necessary. The main IPO characteristics of some telecom providers are presented in Table 1.

The data of Table 1 show the efficiency of the telecom providers' IPOs that choose the right criteria and time. General characteristic of the abovementioned deals is the offer of shares on the native stock exchanges, apart from MegaFon that has held a dual listing on the Moscow SE and the LSE. The experienced and well-known coordinators worked in preparation of these IPOs. The all telecom providers received the offered share price INWIT and Tele Columbus sold shares for prices which were higher than the offered prices. Some companies such as Euskaltel, Telefonica Deutschland Holding, and MegaFon, have share prices in 2017 lower than their IPO share prices.

These examples demonstrate the effective experience of the telecom providers had with their IPO. The companies raised money in compliance with their plans but only half of them have better share prices at the present.

Ukrainian telecom providers have opportunities to use the experience, taking into account the positive and negative aspects of the IPOs discussed.

To understand the real state of Ukrainian telecom providers, an overview and analysis of the main participants in the Ukrainian telecommunication market are necessary. In Tables 2 and 3, the market results and business characteristics of the main Ukrainian telecom providers are presented.

The basic sectors of the Ukrainian telecom market are mobile and Internet access services. Kyivstar and MTS Ukraine lead in these sectors. They have the highest market capitalization, EBITDA margin, and capital investments ratio to income. Their share of income is nearly half the income of the Ukrainian telecom market. Kyivstar and MTS Ukraine are private stock companies. The foreign shareholders have a majority share in these companies. Most are from Russia. The Russian businessmen own the Ukrainian telecom providers indirectly through corporate rights as company owner.

Table 1

The Results of Telecom Providers' IPOs

Company, Country, Year of IPO	IPO capital raised	Coordinator	The stock exchange	The asked share price at IPO	The received share price at IPO	The share price as at the 25 October 2017
Towerco Cellnex, Spain, 2015	€2140M (US \$2,375.4M)	Morgan Stanley, Caixabank and Goldman Sachs	Madrid SE	€12-14 (US \$13.3-15.5)	€15.9 (US \$17.6)	€20.7 (US \$24.2)
Sunrise, Swiss, 2015	US \$2,200M	Deutsche Bank AG UBS AG	SIX Swiss SE	US \$56-79	US \$ 79	US \$ 81.9
Türk Telekom Turkey, 2008	US \$1,900M	Garanti Securities	Istanbul SE	TRY 3.9 - 4.7 (US \$3.1-3.7)	TRY 4.6 (US \$3.6)	TRY 6.4 (US \$1.9)
MegaFon, Russia, 2012	US \$1,800M	Morgan Stanley Sberbank	Moscow SE, London SE	US \$20-25	US \$ 20	US \$11.6 at LSE US \$10.3 at MOEX
Telefonica Deutschland Holding, German, 2012	€1,450M (US \$ 1609.5M)	J.P. Morgan UBS Investment Bank	Frankfurt SE	€5.5-5.6 (US \$6.1-6.2)	€5.6 (US \$6.21)	€4.4 (US \$5.1)
INWIT, Italy, 2015	€780M (US \$865.8M)	Banca IMI, Deutsche Bank AG	Milan SE	€3.3-3.9 (US \$3.7-4.3)	€4.5 (US \$4.9)	€5.6 (US \$6.6)
Euskaltel, Spain, 2015	€763.9M (US \$847.9 M)	JP Morgan Chase, UBS	Barcelona SE, Bilbao SE, Madrid SE	€8.7-11 (US \$9.7-12.2)	€11.5 (US \$12.7)	€7.1 (US \$8.4)
Tele Columbus, German, 2015	€367M (US \$407.37 M)	Goldman Sachs and JP Morgan	Frankfurt SE	€8-10 (US \$8.9-11.1)	€11.8 (US \$13.1)	€8.8 (US \$10.3)

Source: [19–22].

Table 2

The Market Characteristics of Largest Ukrainian Telecom Providers in the Beginning of 2017

Indexes	Kyivstar	MTS Ukraine	Lifecell	Ukrtelecom	Intertelecom
Total Income (millions)	UAH 14 960	UAH 11 138	UAH 4 838	UAH 6 376	UAH 208 ¹
	\$585.5 ²	\$435.9 ²	\$189.3 ²	\$249.5 ²	\$8.1 ²
Subscribers of Mobile Services (millions)	26.1	20.9	12.4	-	-
Users of Internet (millions)	10.6	9.1	3.3	1.6	1.41
Total Market Share by Income ³ (%)	26.3	19.6	8.5	11.6	0.4
Market Share by subscriber of Mobile Services ³ (%)	46	37	22	-	-
Market Share of Fixed and Mobile Internet Access by Users ⁴ , %	49	42	15	7.4	≈6.5
Capitalization by data TMT Finance in 2016 (millions)	\$ 2300-26004	\$500-17004	\$244 – 1 4004	\$104 ⁵	-
EBITDA margin, %	52.2	34.1	28	26.6	-
Capital investments ratio to income, %	18	67.6	52.8	15	-

¹ data for the second quarter in 2016 from [23].

² the average annual US dollar exchange rate was 25,55 UAH in 2016 [24].

³ based on data from [25].

⁴ data from [26].

⁵ based on the share price of 31.10.2017[27].

Source: [23–32]

The Business Characteristics of Largest Ukrainian Telecom Providers

Provider	Type of company	Main shareholders
Kyivstar	Private Joint Stock Company	73.8% of shares are held by Veon Ltd. (earlier – VimpelCom Ltd). 23.7% of Veon Ltd shares are held by Telenor (the Norway telecom conglomerate). 47.9 % of Veon Ltd shares are held by Alfa Group. Alfa Group belongs to Russian businessman M. Fridman Veon Ltd shares are listed on NASDAQ
MTS Ukraine	Private Joint Stock Company. Since 2015 it has used the Vodafon brand and provided services by franchise	99% of shares are held by Preludium B.V. Its owner is Allegretto Holding, under the control of PSC MTS PSC MTS shares are listed on the NYSE and the Moscow SE (MOEX)
Lifecell	Limited liability company	100% of shares have been held by Turkcell since January 2016 Shares of Turkcell are listed on the NYSE and Borsa Istanbul
Ukrtelecom	Public Joint Stock Company	92.8% of shares are held by ESU. 100% of shares of ESU have been held by Ukrainian SKM Group since September 2013. The owner of SKM Group is the Ukrainian businessman R. Axmetov. The shares Ukrtelecom are listed on the Ukrainian Perspektiva SE, PFTS, Ukrainian exchange
Intertelecom	Limited liability company	35.7% share has been held by V. Ukraynec and 49% by the Cypriot offshore company Odinaco Ltd since 2017

Source: [33–37].

PJSC Ukrtelecom is the only company that is listed on a stock exchange by its own shares. The privatization of Ukrtelecom was as an “open sale” in which 92.8% of shares were sold to one investor in 2011. The privatization process lasted nearly fifteen years. As a result of corruption and wrong management decisions, the company was gradually losing value during this time. The preparation reached its finally in 2010. The conditions of the privatization were made in such way that Ukrainian telecom providers and international telecom holdings could not take part in the purchase [34]. That is why the only company to apply was ESU, the small company in the communication networks in the Ukrainian metros. ESU paid a nominal price for 92.8% of shares and thus became the major shareholder of Ukrtelecom. The price ESU paid was UAH 10.5B or about US \$1.32B at the time. The last change in ownership was in 2013 when Ukrtelecom became part of the SKM Group.

It was a result of the deal when SKM Group bought 100% of Telecominvest Limited shares, which was the owner of ESU. Since becoming the owner of Ukrtelecom, the SKM Group has made changes in management, and invested much money in the development of its network. However, the SKM Group attempted a restricting of ESU’s outstanding debts using Ukrtelecom shares. In addition, Ukrtelecom tried to sell its subsidiary mobile operator “TriMob” in 2016. The deal was not allowed by the Ukrainian State Property Fund that oversees the all aspects of State property. In April 2017, the Prosecutor General's Office successfully petitioned the Kyiv court to freeze 92% of the Ukrtelecom shares, as well as the corporate rights of “TriMob”. However, this decision was reversed by the court at the beginning of August 2017 [38].

The Kyiv Economic Court had nullified the privatization agreement concerning the purchase and sale of Ukrtelecom shares and returned the company to the State [39]. This decision is currently being challenged in court. The abovementioned circumstances have negatively influenced the price of Ukrtelecom shares, which have been listed on the Ukrainian Perspektiva SE, the PFTS, the Ukrainian Exchange starting in 2002. The current total number of shares is 18,726,248,000 with a nominal value of UAH 0.25 per share [27]. The Ukrtelecom shares have changed the level of listing several time. Because of on-going regulatory problems, it would come out of compliance, be listed on lower level, and then come back into compliance to return to the higher level.

The negative experience of the Ukrtelecom share trading has been caused by its mismanagement and Ukrainian political problems. As a result, the Ukrtelecom had operated a loss in spite of State support. However, other large Ukrainian telecom companies have a better chance to have an effective IPO, because of the efficiency of their activities, the changes of KPI have a positive trend, and dividends are paid. Thus, these companies are attractive for investors. A public offering, with the support of a parent company that already has had this experience, will allow these companies to raise funds for the evolution to the new 5G standards. As a consequence, this will preserve and consolidate their competitive positions in the telecom market of Ukraine.

Conclusions. In today’s world, an IPO is a powerful source to raise a capital for a company development.

The IPO procedure involves many different agents that take part in the preparation of a company for an IPO. An IPO includes the requirements of the history of company, the current requirements for the different aspects of company activity, and the permanent requirements for company activity after an IPO. As a result, an IPO is an expensive and long-term process, and not every company can take on an IPO. An IPO is expensive because of the regulatory requirements of a stock exchange which will list it.

The state of the Ukrainian stock market development, rather than the internal political and economic factors, is what interferes with IPOs among Ukrainian telecom providers. The Ukrainian stock market has low capitalization and remains fragmented. It is mostly the market of government securities. The Ukrainian stock market has not done its main function of raising capital for the real sector of the economy. The IPOs by Ukrainian companies did not exist in national and foreign stock exchanges in 2013-2015. However, there were IPOs of Ukrainian enterprises in foreign stock exchanges (LSE, WSE, FWB). Ukrainian enterprises raised US \$2.76B with 30 agreements during 2005-2013. These characteristics predispose a practical absence of opportunities for effective IPO in the near future.

In opposition, the IPO world market has had many changes during 1995–2016. There was a nearly two-fold increase in capitalization of the total IPOs from US \$80B to US \$141B. In addition, the IPO world market has had downturns that have had an increasing floor on each of next year's downturn of the total IPO capitalization. The capitalization of each IPO deal was gradually decreasing while the number of deals increasing. The increase was due to the Pacific region's role in creating demand. Alternative stock exchanges that had looser IPO requirements were opened. Most of these changes have been positive for Ukrainian telecom providers. In addition, there is the successful experience of IPOs by many telecom providers in the world, which differ by size and geographic area, proves this position.

The analysis of largest Ukrainian telecom providers shows that the only Ukrtelecom is listed on the Ukrainian SEs by its own shares, but it has had a negative experience. Other large companies should restructure to become publicly owned. However, the characteristics of their activities, by size and efficiency with the IPO experience of their international parent companies, confirm real opportunities to raise IPO capital for development.

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