Features of the financial policy of Russian telecommunications companies

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ORIGINAL ARTICLE

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Abstract. The purpose of the research is to identify the features of the financial policy of the largest Russian telecommunications companies and assess the impact of financial decisions on their sustainability and development. The objects of the study are MTS, Megafon, and VimpelCom. The methodological basis of the work was the methods of comparative, financial, economic, analysis of accounting (RAS), and consolidated (IFRS) financial statements of these companies, 2018-2025. The study analyses revenue dynamics, profitability indicators, cash flows, debt structure, investment activity, and dividend policy of mobile operators. The companies under study have steady revenue growth at relatively low growth rates. However, MTS has a tendency to increase the debt burden through the cost of servicing borrowed capital and raise of financial risks. The telecommunications companies have a high level of capital investments due to continuous infrastructure modernisation. Nevertheless, significant investment costs, high dividend burden, and higher cost of credit resources limits the possibilities of their financing development from internal sources. The research identifies key features of the financial policy of Russian telecommunications companies, the main factors affecting their financial stability, and practical importance for improving financial resource management, investment and dividend policy in an unstable macroeconomics.

Keywords: financial policy; telecommunications companies; financial stability; debt burden; investment activity; dividend policy; mobile operators

JEL codes: G32, G31, G35, L96, M21

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Introduction

The telecommunications industry is one of the key components of the modern digital economy. It ensures the functioning of the information infrastructure, the development of digital services, and increasing the competitiveness of the national economy. Indeed, rapid digitalisation, fifth-generation (5G) information technologies, development of cloud services, artificial intelligence, and the Internet increase the volume and quality of investment in telecommunications infrastructure. At the same time, mobile operators work in conditions of high capital intensity, significant dependence on debt financing, and constant updating of fixed assets and software.

Recently, the financial policy of Russian telecommunications companies has been shaped by a complex of external factors, including changes in monetary policy, rising borrowing costs, sanctions restrictions, transformation of equipment supply chains, and technological import substitution. The financial decisions have a direct impact on the sustainability of companies, their investment potential, and a competitive position in the market. Therefore, it is very important to ensure the optimal balance between investment activity, debt burden, and dividend policy.

There are a lot of research devoted to the financial analysis of telecommunications industry enterprises. However, many works consider certain aspects of financial activity or outdated. Therefore, a comprehensive comparative study of the financial policies of the largest Russian mobile operators based on up-to-date financial statements is relevant on. It identifies general trends and industry-specific features of financial resource formation, debt management, investment activities, and profit sharing.

A comparative analysis of the financial condition of enterprises representing a particular industry or sub-sector includes corporate finance, industry economics, and strategic management. It also concerns with the growth of the industry and its constituent companies, financial stability, valuation, investment activity, etc.

In Russia, this particular issue is considered by Brigham E.F. & Gapenski L.C. [2], Kovalev V.V. & Kovalev Vit.V. [6], etc. The foreign researchers are as follows: Ross S.A., Westerfield R.W., Jordan B.D. [10], Buffett W. [1], Siegel J.J. [11]. Moreover, Zubkova L.D. & Dyachkov S.M. [5], Kuzovkova T.A. & Terekhova Yu.S. [7], Nikolskaya N.V. [8], Radchenko M.V. & Andreeva A.S. [9] made a financial analysis of the telecommunications industry.

The purpose of the research is to identify the features of the financial policy of the largest Russian telecommunications companies based on a comprehensive analysis of revenue dynamics, profitability, cash flows, debt burden, investment, and dividend policies. It determines their impact on the financial stability and development prospects.

Main part

For comparative analysis we selected MTS, Megafon, and VimpelCom – 'Big Three'. T2 is a part of Rostelecom; Rostelecom has different technological and product specifics, therefore, we except it from this analysis.

The comparative analysis of Big Three identifies the following methodological features: MTS is a mixed holding company; the parent company conducts its main business (telecommunications services), and owns MTS Bank. Accordingly, the consolidated IFRS financial statements include indicators of MTS Bank. It prevents their comparing with other Big Three companies. Therefore, we can use RAS reports as a source, since VimpelCom and Megafon have approximately the same revenue under RAS and IFRS (there are no large subsidiaries like MTS). In 2025 MTS has RUB 166 out of 807 bn in accordance with IFRS by the bank's revenues. The RAS reporting includes only the parent company. However, it has many advantages. In case of bankruptcy of a subsidiary, the parent company will not be liable, but may receive dividends from the subsidiary. According to RAS analysis, parent company also affects the business. 2018-2025 is the period analysed.

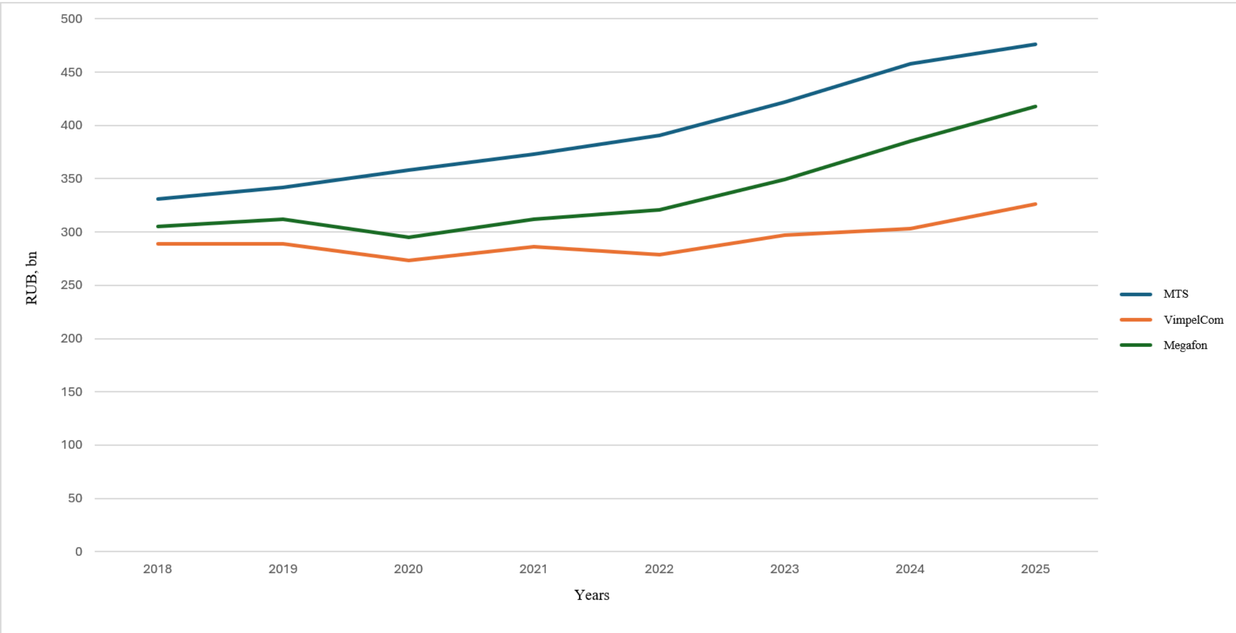

Figure 1. Mobile communications company revenue dynamics, 2018-2025

Source: compiled according to the annual reports, 2018-2025

This period can be divided into 3 stages. Until 2020 – years of stable economic growth before the COVID-19 pandemic; 2020 – is epidemic; 2021 – recovery; since 2022 – sanctions policy against Russia. In 2020 VimpelCom and Megafon had a slight profit decrease. From 2018 to 2023, VimpelCom had a slight decrease and stagnation of profit; at 2025 the company revenue begins to grow.

This kind of delay in such a market is undesirable. Over the past 8 years, all the operators show the growth of profit: Megafon and MTS revenue show a third growth; VimpelCom has weak growth; MTS has a significant growth.

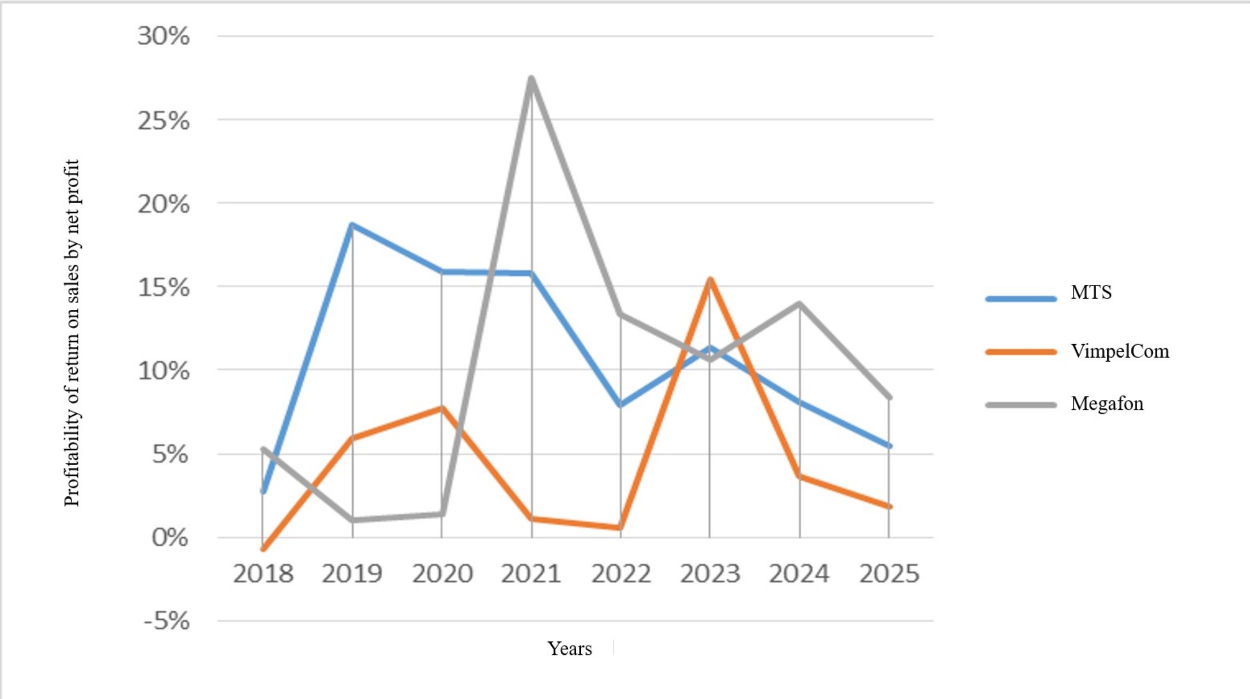

Figure 2. Dynamics of return on sales by net profit
Source: compiled according to the annual reports, 2018-2025

According to the analysis of the net profit margin indicator, the companies' net profit is in a positive zone for 8 years. However, MTS revenue does not fall below 5%; Megafon and VimpelCom indicators are lower ones. Nevertheless, the company's net profit assessment is based on the use of depreciation and revaluation of assets in calculations. It is not precisely valid. For these companies, the share of depreciation is very high – about a quarter or a third of the costs. The high degree of moral depreciation of tangible and intangible assets, this calculation can be very conditional. Therefore, it is better to use indicators from the cash flow statement to assess effectiveness. In particular, we will analyse the current account balance. It is similar to the value of net cash flow (net profit and depreciation).

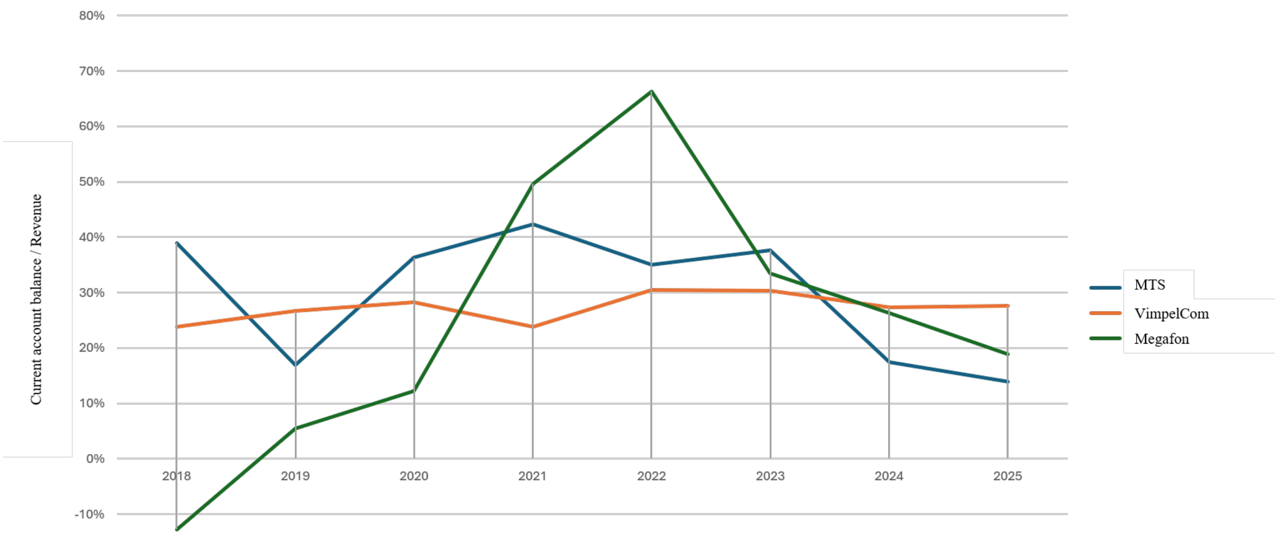

Figure 3. The share of the current account balance of revenue
Source: compiled according to the annual reports, 2018-2025

The balance of companies is positive for 8 years except Megafon in 2018. Comparing the balance, MTS has a relatively small one. VimpelCom's performance is the most stable in 2025, despite the lowest revenue; it surpassed MTS and Megafon.

However, loan repayments to the current account balance (Fig.9) are higher for MTS. Therefore, MTS is a leader in terms of revenue. Indeed, MTS is highly efficient with a high debt burden.

The debt burden of companies (Fig. 4, 5).

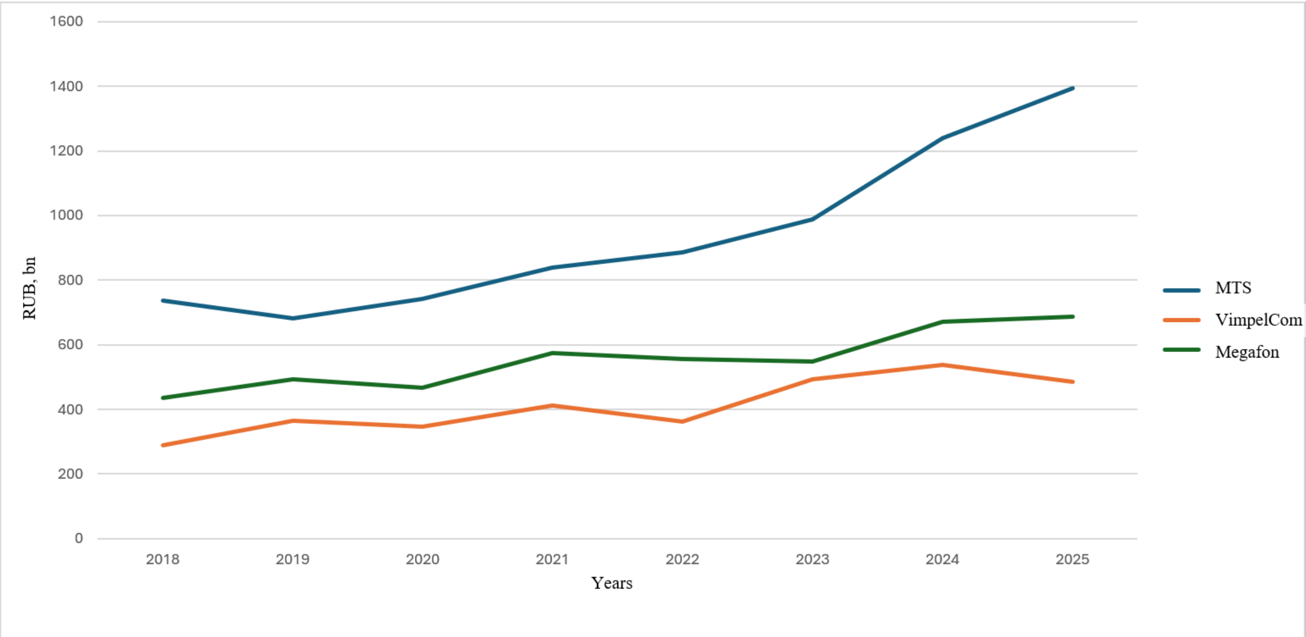

Figure 4. Dynamics of short-term and long-term liabilities for 8 years
Source: compiled according to the annual reports, 2018-2025

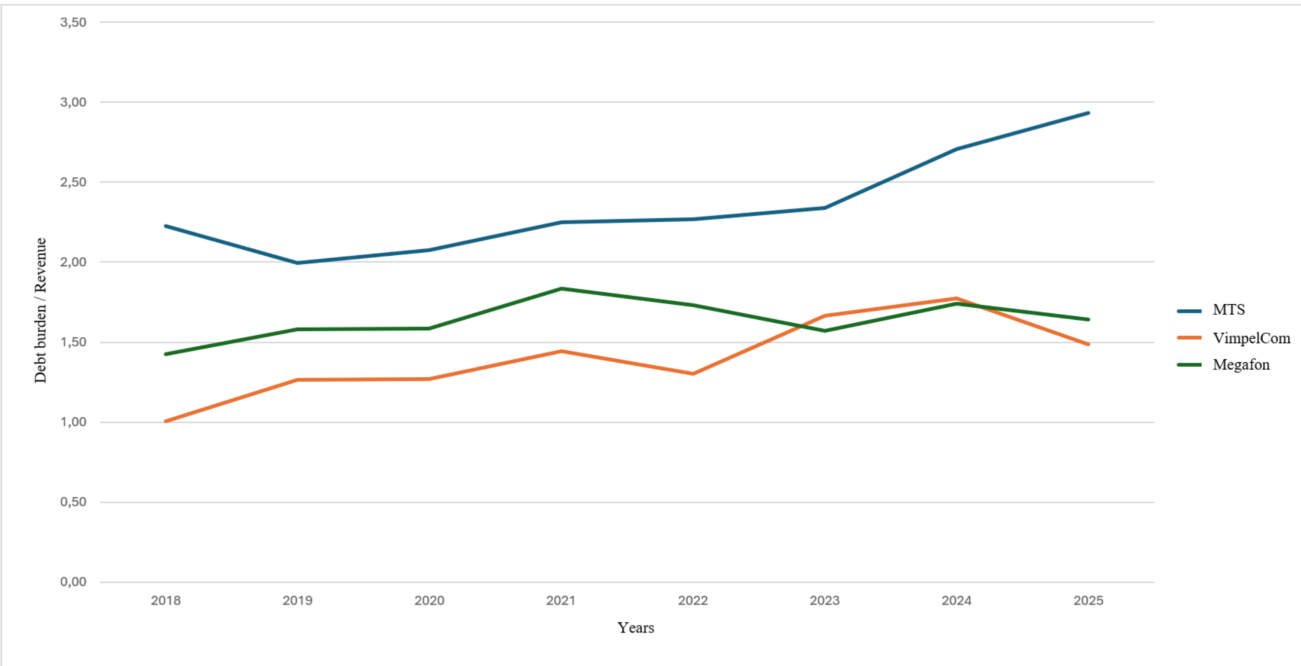

Figure 5. Debt-to-revenue ratio for 8 years
Source: compiled according to the annual reports, 2018-2025

MTS has a growing debt burden both absolutely and relative to revenue as the increase in loans exceeds the growth in revenue. In the future, the loan refinancing system may have a financial crisis, lack of liquidity, disapproval of another loan due to the increased risks of the company, etc.

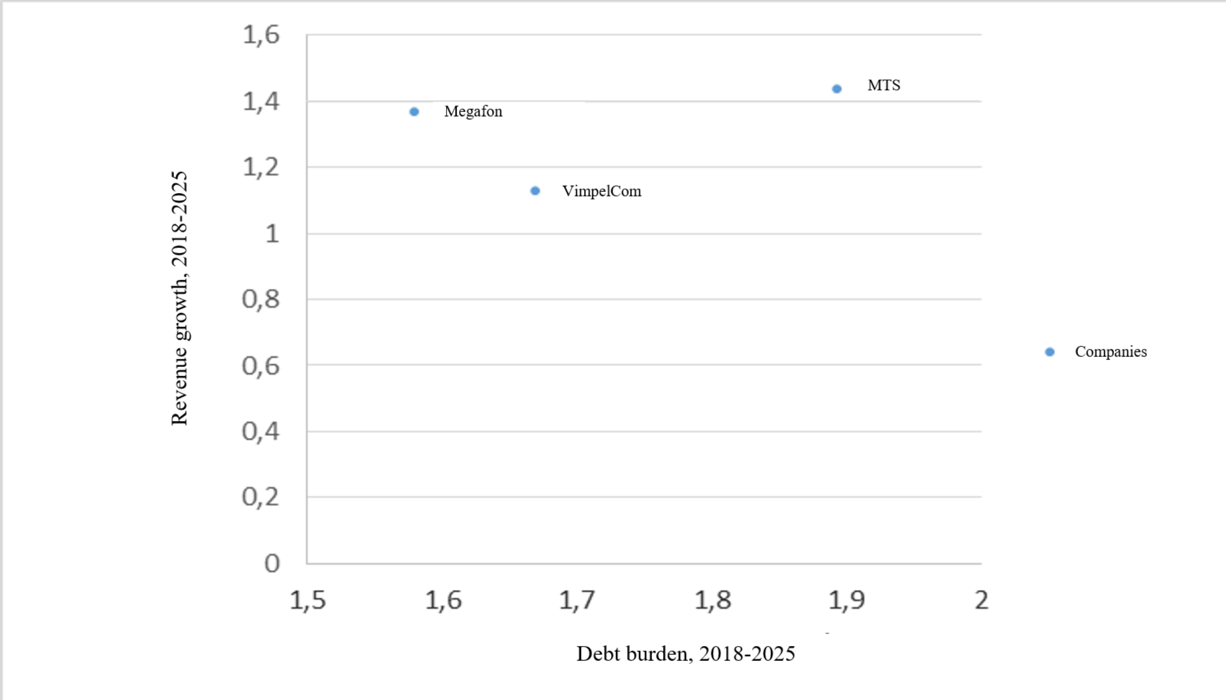

Figure 6. The relationship between revenue growth and debt burden, 2018-2025
Source: compiled according to the annual reports, 2018-2025

In Figure 6, Megafon and MTS have approximately the same revenue growth. However, Megafon's debt burden growth is significantly lower. By the results of Megafon, it is possible to have revenue growth without significant debt growth.

MTS debt growth consistently prevails a revenue growth. However, in 2025, the growth of short-term and long-term liabilities slowed down. Indeed, the increase in interest on the loan, a significant part of the current account balance and profits decreases. Debt service interest is about 40% of revenue.

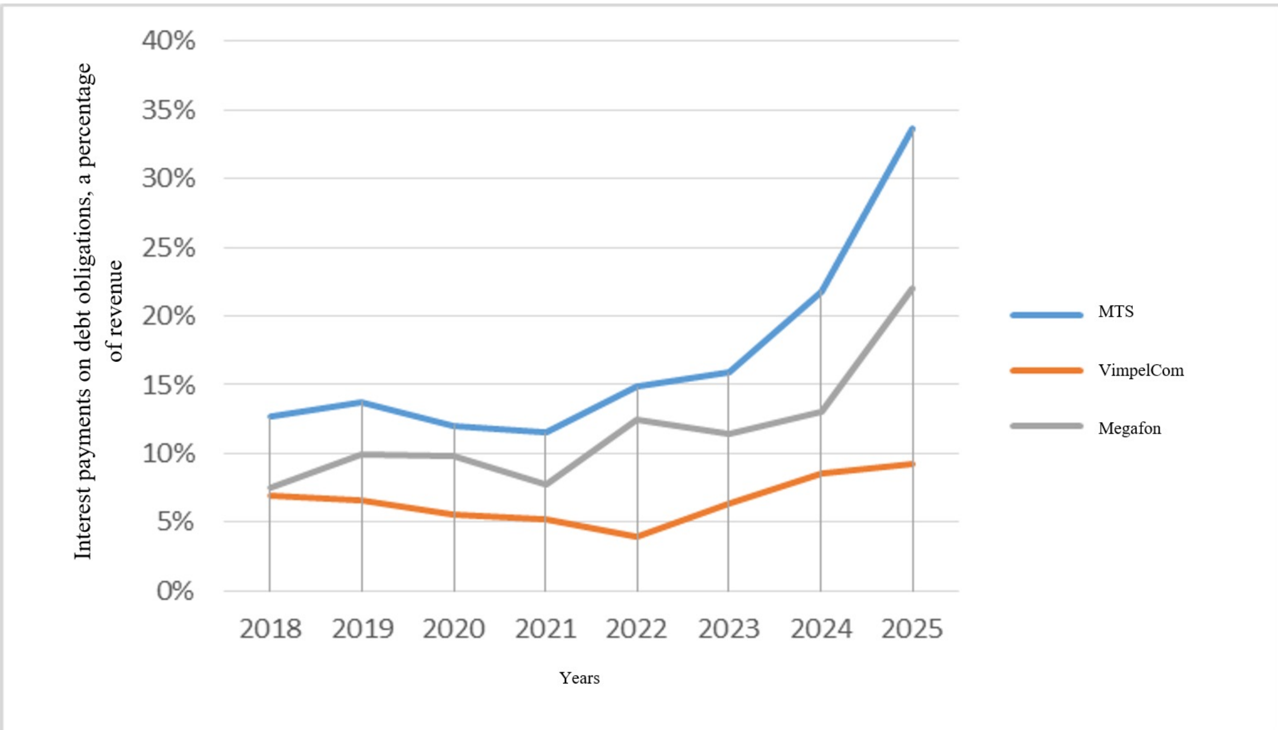

Figure 7. Interest payments on debt obligations, a percentage of revenue
Source: compiled according to the annual reports, 2018-2025

According to the graph, MTS and VimpelCom have the largest increase. Its the reason for the decrease in profitability and investment Figure 7.

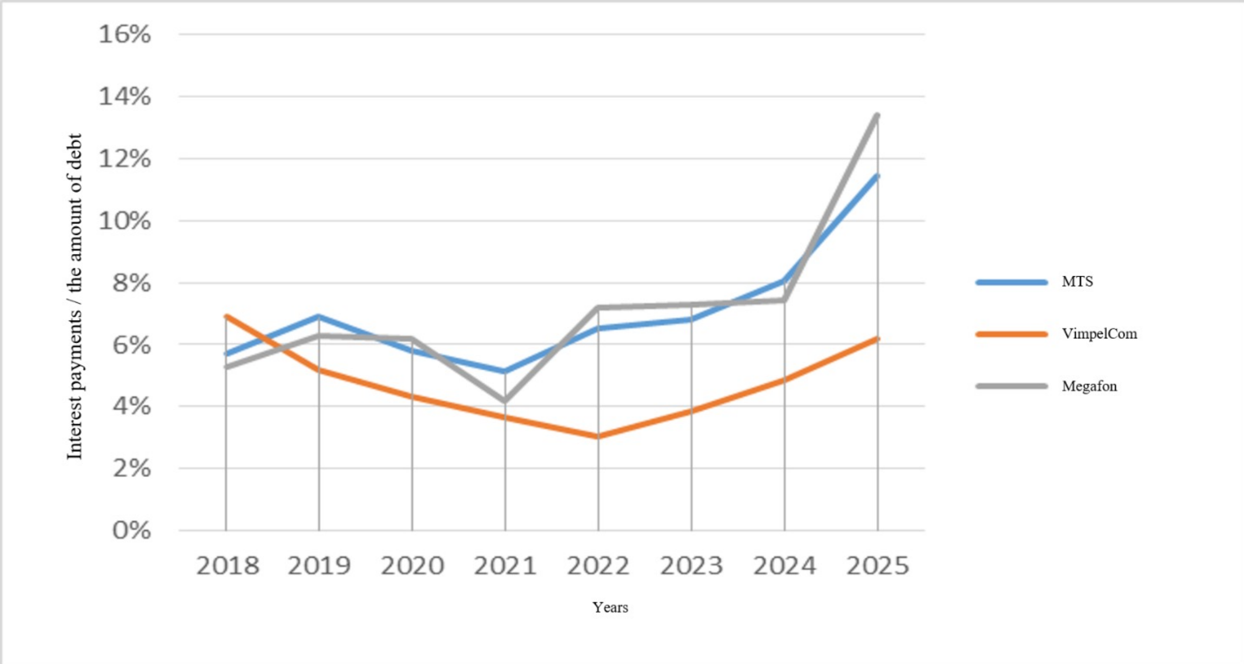

Figure 8. The ratio of interest payments to the amount of debt
Source: compiled according to the annual reports, 2018-2025

According to the graph (Fig.8), by 2022 the cost of borrowing from companies was decreasing followed by a sharp increase. Therefore, the increase in interest payments is due to two factors: the growth of debt and interest on servicing. MTS increases the percentage from 5% to 11% in 4 years, respectively. It is a key factor in increasing interest payments. At the same time, 50% decrease of interest will reduce the share of interest payments in revenue from about 34% to about 20%, respectively. It will provide about 15% of revenue. Cancelling the payment of dividends (MTS has the most significant ones) will not affect the situation.

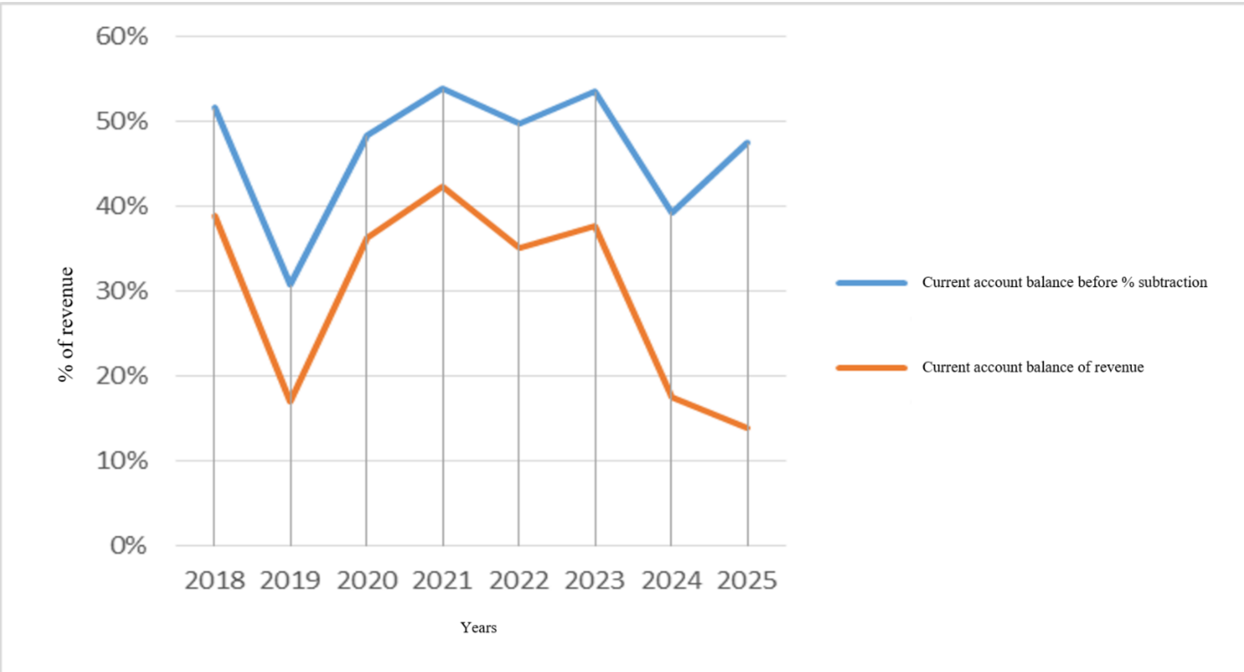

Figure 9. Dynamics of the share of MTS's current account balance of revenue from the cash flow statement
Source: compiled according to the annual reports, 2018-2025

There are no investment indicators in the financial statements. However, there are similar ones, for example, investments in non-current assets in the cash flow statement. Investments can also include investments in subsidiaries (i.e., company can buy 10 machines, or can buy a company that owns 10 machines). However, this indicator is not included in the investment in this research.

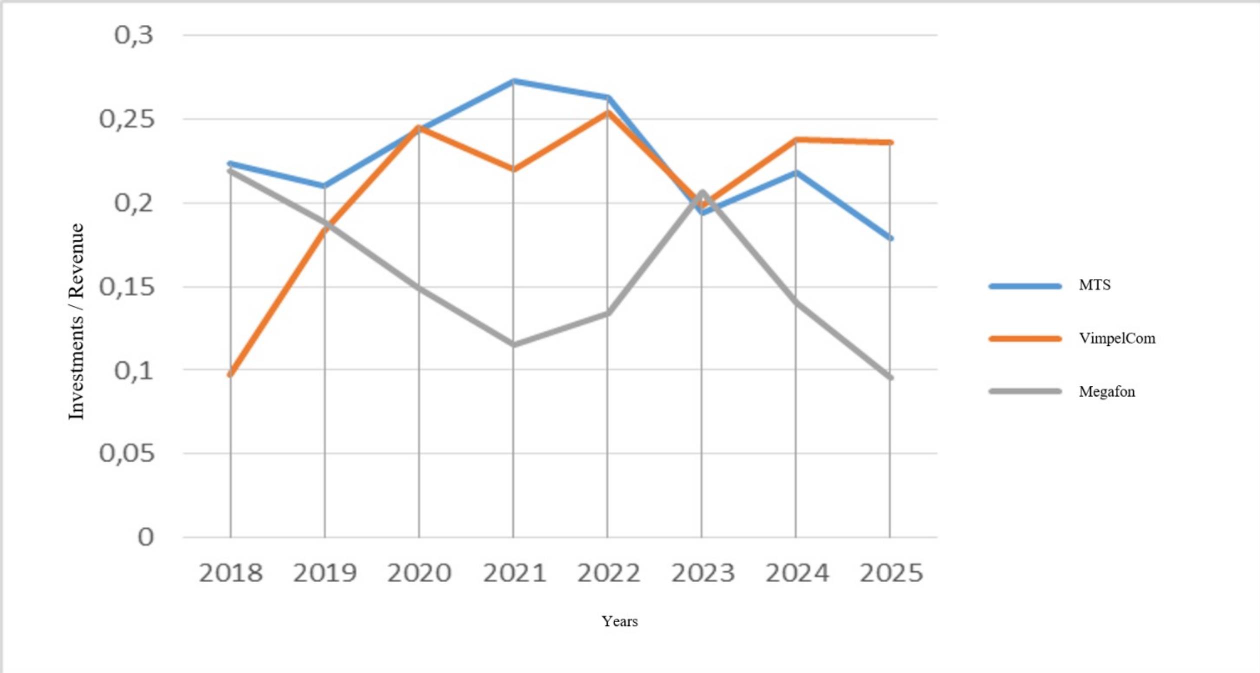

Figure 10. Share of investment expenses from revenue
Source: compiled according to the annual reports, 2018-2025

According to the graph, MTS has a relatively high and stable level of investment. However, after 2022 it began to decline. Nevertheless, it is at a consistently high level of 20-25% of revenue. We can note the relatively low level of Megafon, and the high volatility of the indicator. In particular, these fluctuations are achieved due to the drawdown of the indicator, but peak investment values usually reach the average values for MTS and VimpelCom.

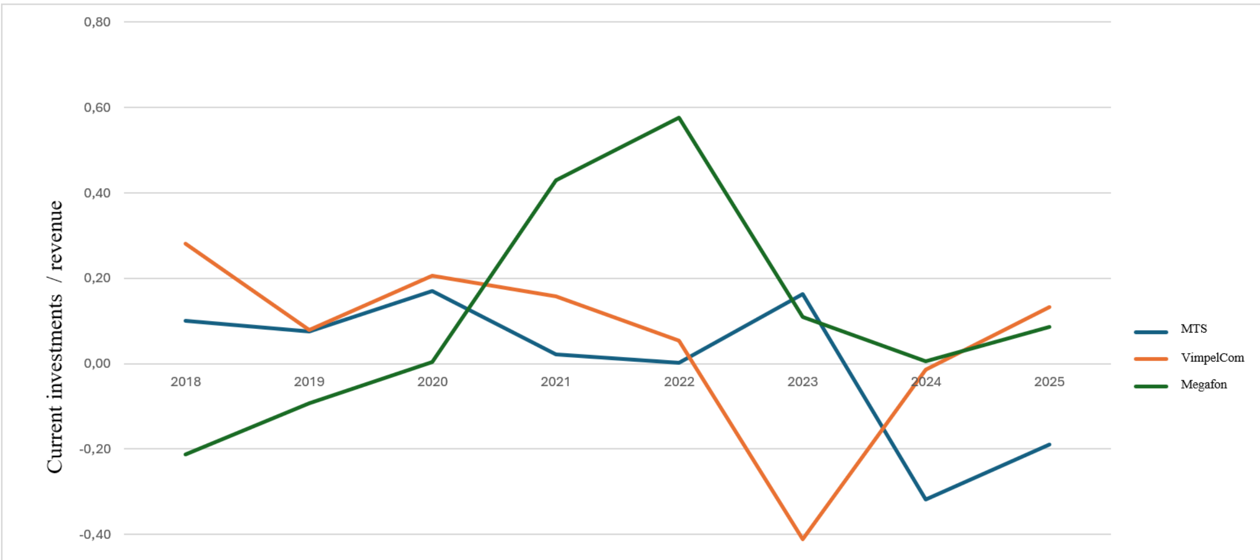

Figure 11. Dynamics of the share of current and investment balances in the revenue of companies
Source: compiled according to the annual reports, 2018-2025

According to the graph, the indicators of all three companies are quite volatile ones. In 2019 Megafon indicators are positive; VimpelCom indicators are positive, too; only in 2023 there was a significant drop;

MTS has a significant drop in 2024 and 2025, with a high negative balance from investment operations. Usually, the balance from current activities covers the negative result from investment activities (except in certain cases, for example, placing funds on deposit, etc). The presence of the total indicators in the negative zone is a signal for the company to borrow or withdraw funds from the current account, sell non-core assets unrelated to the core business. The negative balance is a factor of company's crisis.

Figure 12. Dynamics of the share of investment, current account, and dividends in the revenue of companies

Source: compiled according to the annual reports, 2018-2025

Figure 12 shows the total indicators of the current, investment balance, and dividends. Dividends serve as a reserve and can be retained in the company in case of problematic situations. MTS is being repaid through new loans.

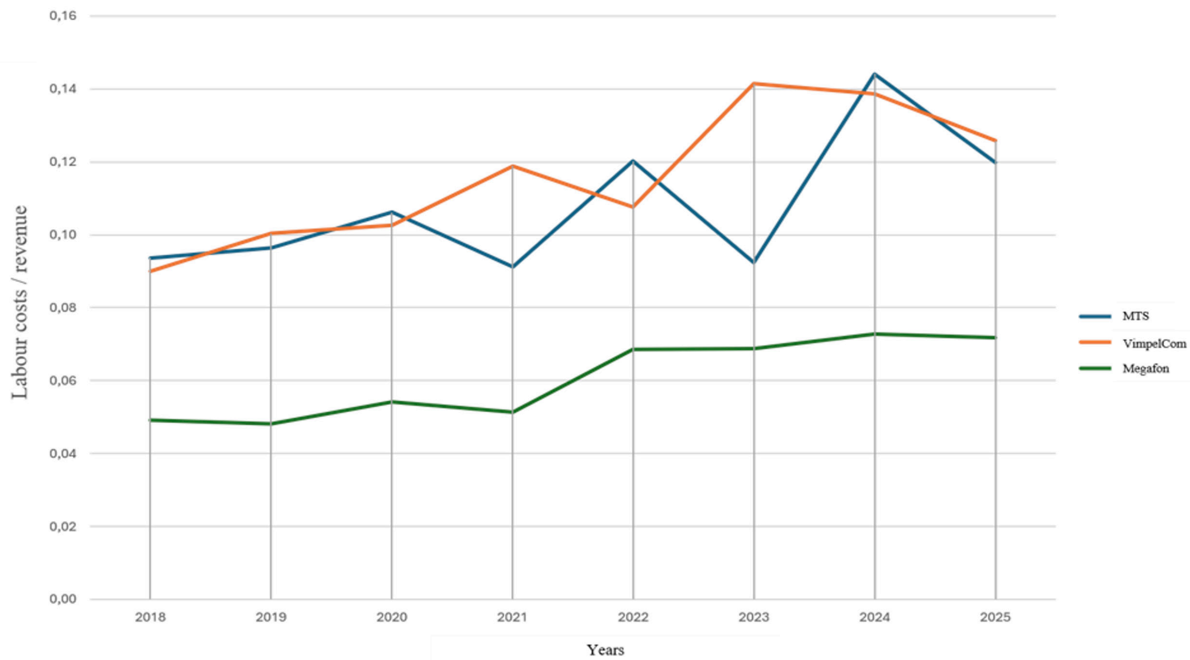

Figure 13. The share of labour costs from revenue

Source: compiled according to the annual reports, 2018-2025

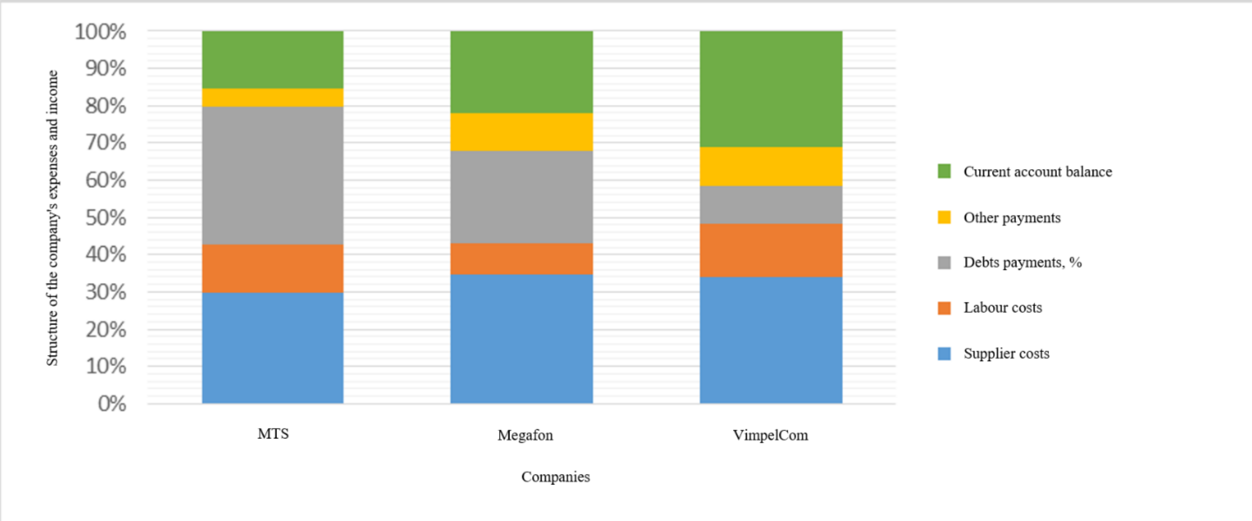

Figure 14. The cost structure of MTS, Megafon, and VimpelCom, 2025
Source: compiled according to the annual reports, 2018-2025

The structure of the company's expenses according to the cash flow statement. According to the income and expenses from current operations section, the company's income can be represented as Income = expenses + current account balance (all companies have a positive balance). Expenses are grouped.

Based on the results of 8 years, 3 companies have a range of values ranging from 5% to 14% of revenue. MTS has the highest values, and Megafon has the lowest ones – 5-7%. However, Megafon's activities can be performed by third-party organisations. Therefore, the labour costs may be lower due to expenses to third-party organisations. Telecommunications companies have relatively low labour costs. They are stable but regular ones. There is also a tendency to increase the share of labour costs from revenue. Costs to suppliers and other payments are relatively stable and do not exceed 40%. The companies' dividend policy is analysed below:

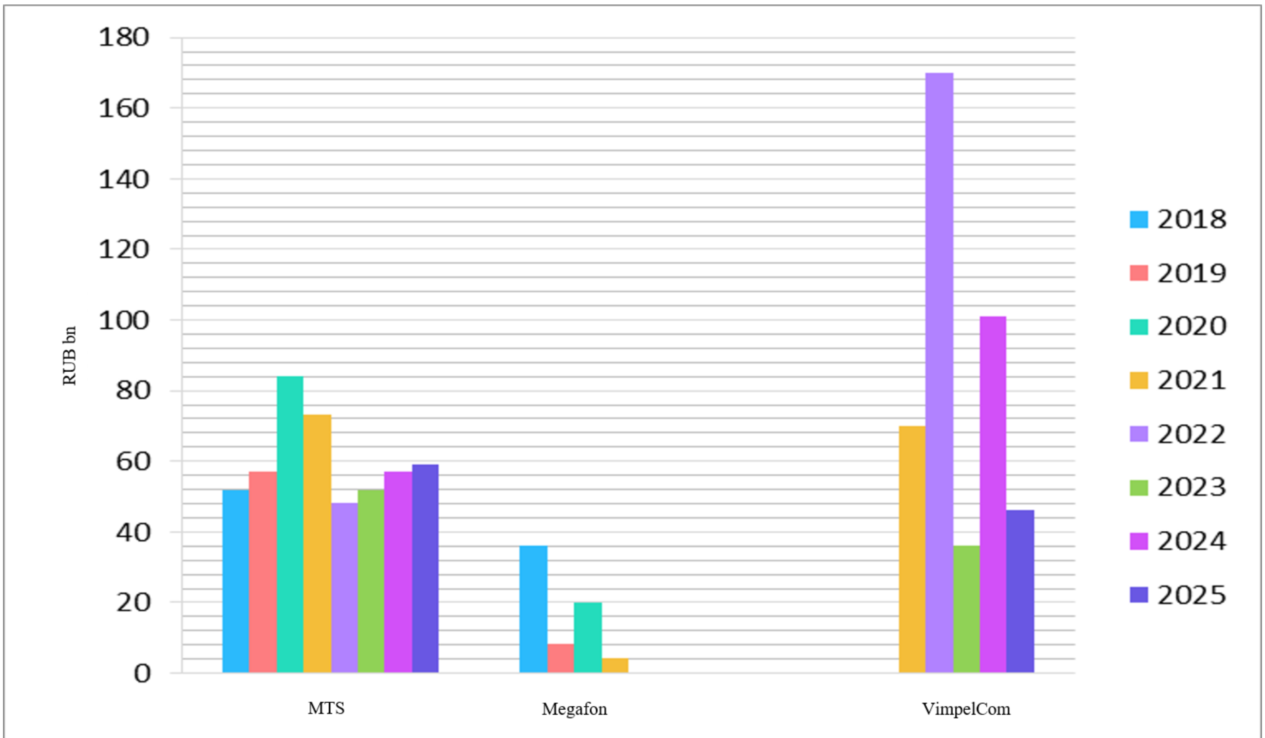

Figure 15. Dividend payments, RUB bn
Source: compiled according to the annual reports, 2018-2025

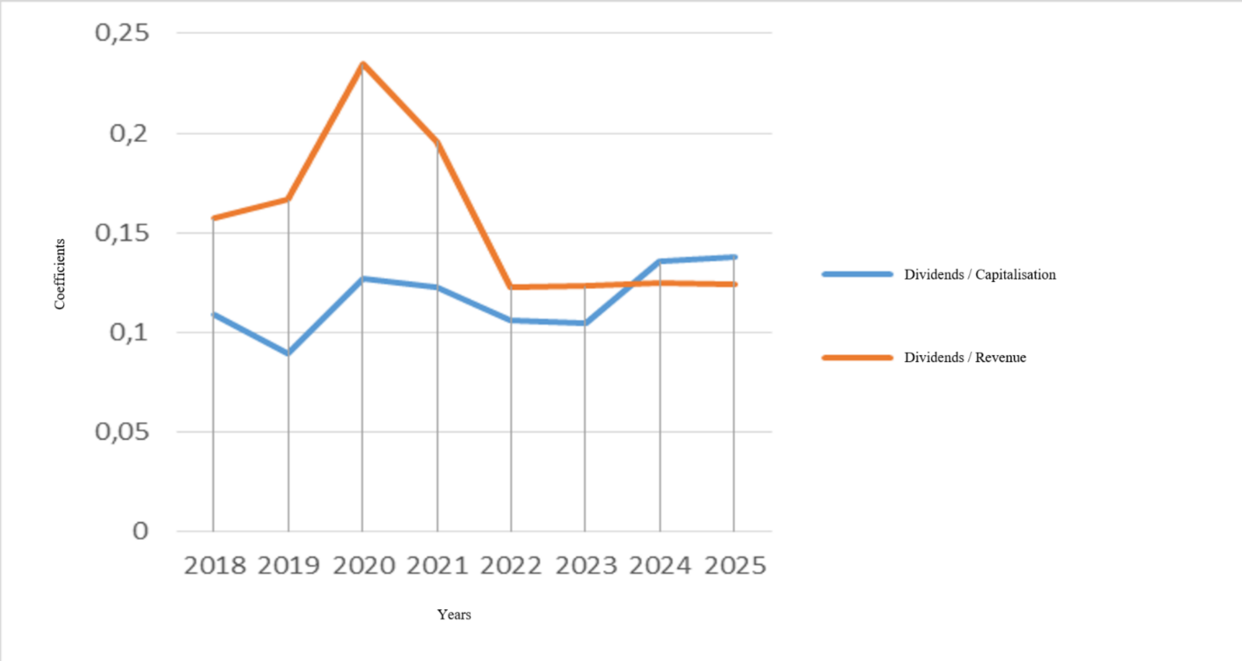

Figure 16. Dynamics of dividend payments in relation to revenue and capitalisation
Source: compiled according to the annual reports, 2018-2025

According to the graphs (Fig. 15, 16), MTS has the most stable dividend policy. This policy ensures the cash flows of shareholders (AFK Sistema for MTS) and capitalisation (for MTS only). Figure 16 shows the dividend/revenue ratio of the total burden of dividend payments on the company's resources. The dividend/capitalisation ratio shows the profitability of investors. According to the graph, at the absence of income from stock growth, shareholders have a stable dividend income of about 10-13% of the share price. Until 2022, it was similar to a bank percentage or higher. However, significant funds are being withdrawn from the company – from 13 to 20% of revenue. They could be spent on investments and the development. It can be assessed in terms of the development of AFK Sistema's parent company. In addition, despite the high dividend yield for investors, it has little effect on capitalisation. The dynamics of revenue and profit are important to investors. Moreover, earlier MTS used dividends as a significant reserve for paying off debt servicing costs; now their value is decreasing.

Therefore, the following features were identified during the research:

1. Steady revenue growth.
2. High level of debt burden and its growth.
3. Relatively high level of dividend payments (especially for MTS and Megafon).
4. High investment costs (investments in fixed assets and intangible assets): about a quarter of the revenue. It has certain advantages, since part of the investment can be postponed for a certain period of time, unlike paying salaries, taxes, and other payments. However, companies may have a loss of competitiveness in the future.
5. Relatively average capitalization in comparison with the Russian market by multipliers

Conclusion

The research studies the main features of the financial policy of the largest Russian telecommunications companies and identify key trends in their development in the context of the transformation of the economic environment. According to a comparative analysis of the financial and economic indicators of MTS, Megafon, and VimpelCom in 2018-2025, the companies under study have stable market positions and positive revenue dynamics. It shows a stable demand for telecommunications services and the continued development of the digital economy. At the same time, revenue growth rates remain relatively low. It shows the high degree of saturation of the mobile communications market and increased competition.

The one of the most characteristic features of the financial policy of the industry is a significant debt burden due to the high capital intensity of the telecommunications business and the need for regular infrastructure updates. MTS mostly depends on borrowed capital; the growth of debt obligations is accompanied by a significant increase in debt servicing costs. It provides the additional financial risks at high interest rates and limited access to external sources of financing.

All the companies under study have a significant amount of investment in fixed assets and intangible assets. It is a prerequisite for maintaining technological competitiveness. However, high investment activity, significant dividend payments, and an increase in the cost of borrowed resources reduces the possibility of financing development from internal sources and raise the dependence of companies on credit capital.

According to the results obtained, it is necessary to form a balanced financial policy aimed at maintaining an optimal balance between investment activity, debt burden, and dividend payments. In modern macroeconomic conditions, to increase the financial stability of companies by optimizing the capital structure, the efficiency of using cash flows, and improving investment management mechanisms is extremely relevant. The development of a corporate financial strategy, assessing the investment attractiveness of telecommunications industry enterprises, making managerial decisions aimed at their long-term sustainable development ensure the practical significance of the research.

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CONFLICT OF INTEREST

The author declares no conflict of interest.

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