

Sibneft: Upgrade on Lower Risk

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SIBNEFT Accumulate \$0.83 Target price \$1.0 (Upgraded)
Figure 1. Sibneft – Statistical Abstract

	Revenues \$ mln	EBITDA \$ mln	Net Income \$ mln	EPS	P/S	EV/ EBITDA	P/CF	P/E	EV/ Reserves \$/boe	EV/ Production \$/boe	
1998	1,781.0	211.4	36.1	0.01	2.2	21.3	47.4	108.9	1.09	35.4	
1999	1,746.4	547.1	315.1	0.07	2.3	8.2	10.7	12.5	0.98	37.8	
2000	2,397.9	1,027.4	674.8	0.14	1.6	4.4	4.3	5.8	0.97	36.0	
2001E	3,236.7	1,570.4	1,015.4	0.21	1.2	2.9	3.0	3.9	0.97	32.4	
2002E	3,748.2	1,940.0	1,149.3	0.24	1.0	2.3	2.6	3.4	0.97	31.2	
2003E	4,349.6	2,405.5	1,491.2	0.31	0.9	1.9	2.1	2.6	0.97	30.2	
52-week range: \$0.29 (01/16/01) - \$0.87 (01/09/02)				Common Shares Outstanding			4,741 mln	Mcap		\$3,935.0 mln	

Sources: Company reports, Alfa Bank estimates:

Investment Summary

- We adjusted our DCF target prices for Russian oil companies by an average of 21%
- 35% of Moscow refinery, 15% of Mosnefteprodukt to boost Sibneft's revenues by \$270 mln
- Sibneft raised its expected oil production growth rate in 2002 by 26.7% to 26.1 mln tons
- Impressive operating results in 2001 and aggressive targets for 2002 to boost revenues \$50 mln
- We upgrade Sibneft from HOLD to ACCUMULATE and raise our target from \$0.67 to \$1.0

New target prices due to lower sovereign yields

New target prices based on lower country risk

We have upgraded our target prices for Russian oil companies following a decline in sovereign yields since our last update in September 2001. We lowered the discount rate for these companies from 12.8% to 10.5% by adjusting for a new risk-free rate as well as spreads of Russian Eurobonds over U.S. T-bills.

Figure 2. Effect of decline in risk-free rate on oil companies' target prices

	Target price		Current price \$	Upside %
	Previous \$	New \$		
LUKoil	15.95	18.50	13.75	34.6
Yukos	5.60	7.10	5.90	20.3
SurgutNG	0.41	0.49	0.332	47.4
SurgutNG, preferred	0.21	0.29 *	0.21	40.0
Tatneft	0.59	0.71	0.55	29.3
Sibneft	0.67	1.00 **	0.83	20.5

Notes: * Assuming a 40% discount to the common share price; ** including additional adjustment of the target price for recent acquisitions and new production plans

Source: Alfa Bank estimates

Production to grow 26.7% in 2002

2001 results exceed our forecasts

Sibneft's 2001 operating results exceeded our expectations. The company boosted crude oil production by 20.2% to 20.7 mln tons (408 mbpd) and significantly increased crude oil exports, by 29.9% to 143.3 mbpd, or 35.2% of oil produced. This amount was 6.7% above our forecast. Sibneft also increased refinery throughput, by 5.6% to 13.3 mln tons (261.9 mbpd), which is 2.9% above our expectation for 2001.

Aggressive 27% rise in production in 2002

The company plans to achieve even faster growth in crude output this year, at a rate of 26.7% to 516 mbpd. This represents the highest growth rate among Russian oil companies.

Figure 3. Effect of Changes in Sibneft's Operating Plans

	2001E			2002E		
	Previous	Current	Change, %	Previous	Current	Change, %
Oil production, mln tons	20.5	20.7	0.8	25.0	26.1	4.4
Refining, mln tons	12.9	13.3	2.9	17.1	17.5	2.2
Crude exports, mln tons	6.8	7.3	7.6	8.3	9.1	10.7
Revenues, \$ mln	3,119	3,237	3.8	3,540	3,748	5.9
EBITDA, \$ mln	1,522	1,570	3.2	1,784	1,940	8.7
Net income, \$ mln	959	1,015	5.9	1,048	1,149	9.6

Sources: Company reports, Alfa Bank estimates

At the same time, the company plans to expand its presence on the domestic market via the acquisition late last year of a 35% stake in Moscow refinery and a 15% stake in Mosnefteprodukt, a marketing company in Moscow region. The company bought the stakes from LUKoil and plans to deliver to the refinery LUKoil's quota of up to 6 mln tons per year. LUKoil will focus on the modernization of recently acquired NORSI-oil and the reallocation of its crude oil to Norsi refinery.

Acquisitions in Central region to boost 2002E revenues by \$270 mln

These acquisitions will help Sibneft increase fuel sales in the Central region and occupy up to 15% of the market. We expect these acquisitions to boost the company's revenues in 2002 by \$270 mln.

Strong results boost upside to 21%

As a result of the strong performance of Sibneft's share price in late 2001, the company is currently trading at a 2001E P/E of 3.9, 15% above the average for Russian oil majors. However, this still represents a 68% discount to emerging-market peers.

Cheaper than Russian peers

Irrespective of oil price declines, we believe that Sibneft will manage to increase revenues and income this year. This makes the company 8-15% cheaper than Russian oil companies based on financial multiples. In light of upgrades of Russia's country risk by all major rating agencies, we expect a narrowing of the discounts of Russian oil companies to their emerging-market peers.

Accumulate with target price of \$1.0/share

Based on the cumulative effect of strong operating results, expansion to the Central region's oil market and a decline in sovereign yields, we upgrade our target price for Sibneft to \$1.0 per share and recommend that investors ACCUMULATE the company's stock.

Figure 4. Financial Multiples Valuation

	P/E		P/CF		EV/EBITDA	
	2001E	2002E	2001E	2002E	2001E	2002E
Russian Companies						
LUKoil	3.7	5.0	3.1	3.5	2.7	3.4
Surgutneftegaz	3.4	3.7	3.1	3.2	2.5	2.8
Yukos	4.1	3.6	3.7	3.2	2.6	2.6
Tatneft	1.9	3.7	1.3	1.8	1.7	2.8
Sibneft	3.9	3.5	3.1	2.6	2.9	2.3
International Companies						
BP Amoco	14.6	16.0	8.9	9.3	7.3	7.7
Royal Dutch	15.0	16.1	10.3	10.5	6.1	6.2
Shell	12.7	14.4	7.7	8.1	6.5	6.7
TotalFina Elf	14.3	15.0	8.0	7.8	6.4	6.3
Emerging Markets						
PKN (Poland)	14.6	11.0	5.3	4.5	5.0	4.3
MOL (Hungary)	24.1	7.7	5.8	3.6	8.0	5.6
Petrobras (Brazil)	4.9	5.2	2.8	3.0	3.2	3.2
PetroChina (China)	5.3	6.7	2.8	3.1	3.0	3.3
<i>Russian company average</i>	<i>3.4</i>	<i>3.9</i>	<i>2.9</i>	<i>2.9</i>	<i>2.5</i>	<i>2.8</i>
<i>International company average</i>	<i>14.1</i>	<i>15.4</i>	<i>8.7</i>	<i>8.9</i>	<i>6.6</i>	<i>6.7</i>
<i>Emerging markets average</i>	<i>12.2</i>	<i>7.7</i>	<i>4.2</i>	<i>3.5</i>	<i>4.8</i>	<i>4.1</i>
Sibneft discount (premium) to Russian oil majors, %	-15.3	11.0	-6.9	7.9	-15.9	15.4
Sibneft discount to international companies, %	72.2	77.5	65.0	70.5	56.1	65.2
Sibneft discount to emerging markets, %	67.9	54.7	27.1	25.4	39.5	42.7

Sources: Alfa Bank estimates, Bloomberg

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