

# Slavneft Boosts Fair Values of Sibneft and TNK

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December 18, 2002		www.alfa-bank.com			Moscow
<b>TNK</b>	<b>Common:</b>	<b>BUY</b>	<b>\$1.35</b>	<b>Target price</b>	<b>N/R</b>
<b>Sibneft</b>	<b>Common:</b>	<b>BUY</b>	<b>\$2.11</b>	<b>Target price</b>	<b>\$2.84 (Upgraded)</b>

**Figure 1. Sibneft – Statistical Abstract, US GAAP**

	Net Revenues	EBITDA	Net Income	EPS	P/S	EV/ EBITDA	P/CF	P/E	EV/ Reserves	EV/ Production	
	\$ mln	\$ mln	\$ mln						\$/boe	\$/boe	
1998	1,781.0	211.4	36.1	0.01	5.6	53.9	121.0	278.1	2.76	83.9	
1999	1,746.4	547.1	315.1	0.07	5.8	20.8	27.2	31.9	2.48	89.6	
2000	2,397.9	1,027.4	674.8	0.14	4.2	11.1	10.9	14.9	2.45	84.7	
2001	3,575.7	1,719.2	1,305.3	0.28	2.8	6.6	7.7	7.7	2.45	70.7	
2002E	4,293.9	1,860.8	1,067.6	0.23	2.3	6.1	7.7	9.4	2.45	54.7	
2003E	4,203.1	1,885.8	920.4	0.19	2.4	6.0	7.4	10.9	2.45	44.8	
52-week range: \$0.638 (12/17/01) - \$2.17 (7/10/02)				Common Shares Outstanding 4,741 mln				Mcap		\$10,050.9 mln	

Sources: Company reports, Alfa Bank estimates

**Figure 2. TNK – Statistical Abstract, US GAAP**

	Revenues	EBITDA	Net Income	EPS	P/S	EV/EBITDA	P/E	EV/Reserves	EV/Production		
	\$ mln	\$ mln	\$ mln					\$/boe	\$/boe		
2001	5,174	1,898	1,117	0.35	0.8	3.4	3.6	0.82	23.16		
2002E	5,207	1,981	1,183	0.37	0.8	3.3	3.4	0.82	22.52		
2003E	5,349	1,568	884	0.28	0.8	4.1	4.5	0.82	21.85		
52-week range: \$1.22 (12/10/02) - \$2.4 (03/28/02)				Common Shares Outstanding 3,163.3 mln				Mcap		\$4,017.4 mln	

Sources: Company reports, Alfa Bank estimates

## Investment Summary

- Reserves of Sibneft and TNK rose a respective 43% and 21% based on their stakes in Slavneft
- Slavneft acquisition boosts fair value of TNK by \$0.22/share and of Sibneft by \$0.34/share
- We reiterate BUY on TNK and Sibneft and raise Sibneft's target price to \$2.84

### Sibneft and TNK paid \$0.71 per bbl of reserves

**Sibneft and TNK bought 75% of Slavneft on 50:50 terms at 9.4% above the starting price**

A consortium comprised of Sibneft and TNK with 50:50 ownership won the Slavneft privatization auction, paying \$1.86 bln for the 75% stake (equivalent to \$0.52 per share). Slavneft was likely one of Russia's last major oil & gas holdings to be privatized in the coming years. The price the companies paid was only 9.4% above the starting price of \$1.7 bln. Most of the companies' rivals (including LUKoil, SurgutNG, Rosneft and CNPC) had previously stepped away from the bidding.

**Consolidation of Slavneft and subsidiaries' minorities to cost \$360 mln**

Currently, the two companies effectively control 99% of Slavneft (reportedly a 12.7% stake is held by Special Trust Consortium while 10.8% was purchased by Sibneft from the Belorussian government) as well as substantial stakes in the company's major subsidiaries in addition to what is held by the holding. Thus, TNK and Sibneft will now effectively control 86% of Megionneftegaz and 79% of YaroslavlNOS.

*This research report is prepared by Alfa Bank. Alfa Bank or its affiliates have financial interests in TNK and ONACO.*

Should they decide to do so, we estimate that it will cost Sibneft and TNK around \$360 mln to buy-out the minorities of Slavneft and its subsidiaries and consolidate control over the entire holding's operations. This is based on a fair value of MegionNG common shares at \$11.21 and \$5.61 for the company's prefs.

**Figure 3. Sibneft and TNK after Slavneft Acquisition**

	Reserves	Growth	Share in Russia's total	Production, 2002E	Growth	Share in Russia's total	Refining volume, 2002E	Growth
	mln boe	%	%	Mmbpd	%	%	mmbpd	%
Sibneft	6,637	42.9	9.7	0.70	28.8	9.5	0.51	60.3
TNK International	9,540	20.8	13.9	0.86	17.6	11.7	0.52	43.7

Sources: Alfa Bank estimates, company data

**Sibneft's reserves rose 43% via 55% ownership of Slavneft while TNK became Russia's third largest oil major with 9.54 bln boe of reserves**

54.8% ownership in Slavneft will boost Sibneft's reserves 43% to 6.64 bln boe and expected 2002 production 29% to 0.70 mmbpd. TNK International's reserves will grow 21% to 9.54 bln boe, which will move the company up from fourth to third place in Russia based on size of reserves (ahead of SurgutNG), and boost expected 2002 production volume 18% to 0.86 mmbpd. Based on their respective ownership stakes in Slavneft's assets, the refining throughputs of Sibneft and TNK will grow 60% and 44%. This is especially important for Sibneft, which needs sufficient refining volumes to accommodate its double-digit production growth.

However, the auction also raised several questions. The first involves what TNK and Sibneft plan to do with Slavneft. Most likely, the partners will run Slavneft together, as they already do in the case of ONACO. Since it controls approximately 55% of Slavneft, Sibneft will have more representatives within the company than TNK, whereas the latter will benefit from its portion of Slavneft's cash flow. A similar scheme was used in their joint ownership of ONACO, whereby TNK runs the company and Sibneft receives one-third of ONACO's cash proceeds.

**Question of how control over the acquired asset will be split has yet to be answered**

The second group of questions relates to the consolidation of TNK. It was supposed that TNK and ONACO would at some point finish the consolidation into TNK International. In order to do so, TNK and Sibneft agreed to swap Sibneft's stake in ONACO (1%) and Orenburgneft (38%) into 8.6% of TNK International.

A third question involves what the partners will do with minority stakes in MegionNG and other subsidiaries of Slavneft. We expect the consortium to offer a buy-back option to the minority shareholders of subsidiaries or swap their stakes into Slavneft (or even Sibneft) stock.

## Fair values of Sibneft and TNK up \$0.22-0.34/share

**Slavneft acquisition boosts Sibneft's target \$0.34 to \$2.84 per share**

According to our earlier estimates (see our desk note of December 6 entitled "Slavneft Could Boost Majors' Output 18-52%"), had Sibneft acquired Slavneft at our estimated fair value of \$2.1 bln for the 75% stake, this would have boosted Sibneft's fair Equity Value by \$2.95 bln, or \$0.62 per share. This was based on the assumption that the company would manage Slavneft's reserves as efficiently as it currently manages its own, and thus that they would eventually become equally valuable.

As Sibneft and TNK bought the asset via a 50:50 ownership structure and for \$270 mln below our estimated fair value, we adjusted the expected additional gain down to \$0.34 per share to account for TNK's participation and the less-than expected acquisition price. As a result, Sibneft's fair market price rose from \$2.50 to \$2.84, which is our new target price. We reiterate our BUY recommendation based on its 33% upside to the current market price.

**Slavneft acquisition  
boosts TNK's fair share  
price value \$0.22**

The Slavneft acquisition boosts TNK's fair Equity Value by \$710 mln, or \$0.22 per share. This is based on the fact that the company gained \$0.43 per barrel of purchased reserves, as it bought Slavneft at EV/Reserves of \$0.71/boe compared to the industry average of \$1.14/boe.

**Figure 4. Financial and Operating Multiples**

	P/E		P/CF		EV/EBITDA		EV/2002E Production	EV/2001 Reserves
	2002E	2003E	2002E	2003E	2002E	2003E	\$/boe	\$/boe
<b>Russian Companies</b>								
LUKoil	5.7	7.6	4.1	4.9	3.7	4.7	24.13	0.91
Surgutneftegaz	3.0	3.6	2.4	2.6	2.3	2.6	16.54	0.83
Yukos	5.9	5.9	5.3	5.1	3.8	3.9	34.80	1.37
Tatneft	3.1	4.4	2.0	2.4	2.4	2.8	13.87	0.47
<b>Sibneft</b>	<b>9.4</b>	<b>10.9</b>	<b>7.7</b>	<b>7.4</b>	<b>6.1</b>	<b>6.0</b>	<b>54.72</b>	<b>2.45</b>
<b>TNK</b>	<b>3.4</b>	<b>4.5</b>	<b>2.7</b>	<b>3.0</b>	<b>3.3</b>	<b>4.1</b>	<b>22.52</b>	<b>0.82</b>
Slavneft (at acquisition price)	6.7	7.1	4.9	4.9	3.7	4.0	26.06	0.71
Sibneft+Slavneft (at Sibneft current price)*	7.9	9.0	6.4	6.1	5.1	5.1	44.53	1.72
Sibneft+Slavneft (at Sibneft target price)*	10.6	12.1	8.5	8.2	6.6	6.6	57.88	2.23
TNK+Slavneft (at TNK current price)*	3.0	3.9	2.4	2.5	2.8	3.5	20.46	0.68
<b>International Companies</b>								
BP Amoco	19.7	18.3	8.4	7.9	7.3	7.0	143.4	10.9
Exxon Mobil	21.8	18.6	12.0	10.7	8.9	8.1	152.3	11.3
ChevronTexaco	15.0	13.8	7.2	6.4	7.2	6.8	86.5	7.2
TotalFina Elf	13.7	12.7	7.5	7.0	6.1	5.8	130.9	9.6
<b>Emerging Markets</b>								
Sinopec (China)	8.1	7.7	2.9	2.6	7.3	6.6	147.8	11.7
Perez Companac (Argentina)	(7.0)	14.2	14.7	3.6	4.3	3.7	26.3	1.8
Petrobras (Brazil)	4.3	3.9	2.6	2.2	2.2	2.1	26.1	1.4
PetroChina (China)	6.4	7.0	3.4	3.6	3.4	3.5	49.9	2.5
<i>Russian company average</i>	<i>5.5</i>	<i>6.3</i>	<i>4.2</i>	<i>4.3</i>	<i>3.7</i>	<i>4.0</i>	<i>27.1</i>	<i>1.1</i>
<i>International company average</i>	<i>17.6</i>	<i>15.8</i>	<i>8.8</i>	<i>8.0</i>	<i>7.3</i>	<i>6.9</i>	<i>128.3</i>	<i>9.8</i>
<i>Emerging markets average</i>	<i>6.2</i>	<i>8.2</i>	<i>5.9</i>	<i>3.0</i>	<i>4.3</i>	<i>4.0</i>	<i>62.5</i>	<i>4.3</i>

Note: \* based on respective ownership interest in Slavneft  
Sources: I/B/E/S, Company data, Alfa Bank estimates

## We cut MegionNG to HOLD with \$11.2 target

**MegionNG target cut to  
\$11.2 based on Slavneft  
acquisition price; rating  
downgraded to HOLD**

We adjusted our valuation of MegionNG based on the final auction price of \$1.86 bln. Keeping all our other assumptions unchanged, we now estimate the target price for MegionNG at \$11.2 per common share and \$5.6 per preferred share (see Figure 5). Given that the company is currently traded at a bid-offer of \$8.8-9.1 per common share, we cut our recommendation on the stock from BUY to HOLD.

**Figure 5. MegionNG Valuation**

	Unit	MegionNG	Slavneft	Share in Slavneft, %
2001 crude oil production	mln bbl	91	99	92.5
2001 crude oil reserves	mln bbl	1,743	3,633	48.0
Slavneft's estimated Equity Value	\$ mln		2,901	60
40% discount to holding value	\$ mln		1,741	
<b>Valuation of MegionNG Equity Value</b>				Weight in valuation, %
Based on share in holding's production	\$ mln	1,611		60
Based on share in holding's reserves	\$ mln	835		40
Weighted average Equity Value	\$ mln	<b>1,301</b>		
Number of shares				
common	mln	99.5		
prefs	mln	33.1		
Estimated value per share:				
common	\$	<b>11.21</b>		
prefs	\$	<b>5.61</b>		

Sources: Company data, Alfa Bank estimates

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