

# Sibneft 1H02: Profit Down 26% on Taxes, SG&A

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**SIBNEFT      Common:      HOLD      \$1.97      Target price      \$2.05 (lowered)**
**Figure 1. Sibneft – Statistical Abstract**

	Net 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	5.2	47.8	112.4	258.4	2.45	74.5
1999	1,746.4	547.1	315.1	0.07	5.3	18.5	25.3	29.6	2.20	79.6
2000	2,397.9	1,027.4	674.8	0.14	3.9	9.8	10.2	13.8	2.18	75.2
2001	3,575.7	1,719.2	1,305.3	0.28	2.6	5.9	7.1	7.2	2.18	62.8
2002E	4,293.9	1,920.2	1,125.1	0.24	2.2	5.3	6.8	8.3	2.18	48.6
2003E	4,026.8	1,846.6	956.7	0.20	2.3	5.5	6.6	9.8	2.18	41.7
52-week range: \$0.626 (12/13/01) - \$2.17 (7/10/02)			Common Shares Outstanding			4,741 mln	Mcap			\$9,339.8 mln

Sources: Company reports, Alfa Bank estimates

## Investment Summary

- Revenues up 19% in 1H02 thanks to 29% growth in output and entrance to Moscow market
- Despite 11% decline in lifting costs to \$1.58/bbl, total expenses rose 43% in 1H02
- We lowered net income for 2002-03E by 7% and 18% and target price 2% to \$2.05 per share

### Growth in expenses exceeded revenue increase

**Revenues up 19% to \$2 bln on 29% growth in production**

Sibneft's total revenues increased 19.3% to \$1.98 bln in 1H02 mainly due to a 28.9% increase in crude production and the start of operations at Moscow refinery in 2002. However, the decline in crude oil and product prices depressed growth in operating activity. Sales revenues were 3.8% lower than we had expected, but other company revenues totaling \$66 mln exceeded our forecast by 121%. We significantly overvalued export duties paid by the company during this period. Thus, excluding export duties, net revenue of \$1.9 bln was in line with our forecast.

**Lifting costs down 11% to \$1.58/bbl, but production costs up 59% to \$480 mln**

While Sibneft reported a 10.6% decline in lifting costs, from \$1.70/bbl in 2001 to \$1.52/bbl in 1H02, the company's production costs increased 58.7% y-o-y to \$480 mln. This growth was expected due to a significant increase in crude oil production in 2002 and the addition of processing fees at Moscow refinery. Per-barrel processing costs at this facility are some 20% higher than at Omsk refinery. However, after purchasing a 37% stake in Moscow refinery for \$254 mln in 2001, Sibneft gained access to the lucrative Moscow market and now owns 25 gasoline stations. The company also sells products through its network of dealers controlling around 80 stations. By the end of 2002 the company plans to control up to 80 gasoline stations in Moscow region, including 30-35 proprietary stations. Total planned capex in marketing is \$65 mln, of which \$35 mln will be spent in Moscow region.

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**Greater than expected increase in SG&A, by 77% y-o-y**

SG&A increased by 77.4% to \$312.3 mln, or 22.6% above our forecast. Such significant growth was due to the fact that 1) like other Russian companies Sibneft suffers from higher transportation tariffs, and 2) the company expanded export and marketing operations. Costs of other sales were at last year's level, whereas we had expected some decline in this item. Depreciation increased 3% to \$181 mln. Taxes grew by 36.5% y-o-y due to the new tax regime, but they were less than we anticipated due to lower-than-expected export duties. Total expenses increased by 42.5%, or 2.1% more than we forecast. The negative impact on the bottom line put the company's other non-operating expenses (social programs, provisions on some fixed assets) at a level of \$50.8 mln in 1H02 vs net other operating income of \$7.8 mln in 1H01.

**Figure 2. Sibneft 1H02 US GAAP Income Statement**

	1H01	1H02	Change	1H02E	Fact/Forecast difference
	\$ mln	\$ mln	%	\$ mln	%
<b>Sales and services</b>	<b>1,599.1</b>	<b>1,918.0</b>	<b>19.9</b>	<b>1,993.8</b>	<b>-3.8</b>
Other revenues	64.0	66.3	3.6	30.0	121.1
<b>Total revenues</b>	<b>1,663.1</b>	<b>1,984.3</b>	<b>19.3</b>	<b>2,023.8</b>	<b>-1.9</b>
<b>Net revenues</b>	<b>N/A</b>	<b>1,892.2</b>	<b>N/A</b>	<b>1,889.8</b>	<b>0.1</b>
Production costs	302.4	479.9	58.7	480.7	-0.2
SG&A	176.1	312.3	77.4	254.8	22.6
Costs of other sales	41.2	41.4	0.4	12.3	235.9
DD&A	175.7	181.1	3.1	182.8	-1.0
Exploratory expenses	5.8	-	N/A	-	N/A
Taxes other than income tax	267.0	364.6	36.5	420.7	-13.3
<b>Total expenses</b>	<b>968.2</b>	<b>1,379.3</b>	<b>42.5</b>	<b>1,351.3</b>	<b>2.1</b>
Operating income	694.9	605.0	-12.9	672.4	-10.0
<b>EBITDA</b>	<b>870.6</b>	<b>786.1</b>	<b>-9.7</b>	<b>855.3</b>	<b>-8.1</b>
Other income (Loss)	(8.2)	(83.7)	N/M	(14.6)	472.9
Income before income taxes and minority interest	686.7	521.3	-24.1	657.8	-20.8
Minority interest	3.0	(2.3)	-176.0	1.0	-328.7
Income before income taxes	683.7	523.6	-23.4	656.8	-20.3
Income taxes	67.8	66.1	-2.4	92.0	-28.1
<b>Net income</b>	<b>615.9</b>	<b>457.5</b>	<b>-25.7</b>	<b>564.9</b>	<b>-19.0</b>
EPS, \$	0.1902	0.0965	-49.3	0.1191	-19.0
<b>Tax rate, %</b>	<b>9.9</b>	<b>12.6</b>	<b>27.4</b>	<b>14.0</b>	<b>-9.8</b>
Operating margin, %	41.8	30.5	-27.0	33.2	-8.2
EBITDA margin, %	52.3	39.6	-24.3	42.3	-6.3
Net margin, %	37.0	23.1	-37.7	27.9	-17.4
<b>Oil production</b>	<b>69.1</b>	<b>89.1</b>	<b>28.9</b>	<b>89.1</b>	<b>0.0</b>
Revenues per output	24.05	22.26	-7.4	22.70	-1.9
EBITDA per output	12.59	8.82	-30.0	9.60	-8.1
Net income per output	8.91	5.13	-42.4	6.34	-19.0

Note: N/A – not available

Sources: Company report, Alfa Bank estimates

**Net income fell 26% y-o-y to \$457 mln and was 19% less than we expected**

As a result of higher costs, operating profit declined 12.9% y-o-y to \$605 mln, or 10% below our forecast. EBITDA was down 9.7% to \$786 mln, or 8.1% less than we expected. A low effective income tax rate of 12.6% slightly compensated for the decline in pre-tax profit vis a vis our forecast. Net income dropped 25.6% to \$457 mln, or 19% less than we anticipated.

**Sibneft earned net income of \$5.1/bbl in 1H02**

Still, Sibneft remained Russia's top oil company in terms of efficiency per barrel of output. The company reported \$8.82/bbl of EBITDA and \$5.13/bbl of net income in 1H02. Sibneft expects to receive around \$100 mln from Orenburgneft pertaining to its share in the latter's profit in 2002. The portion of this amount was not presented in Sibneft's semi-annual financials and will be added only to the full-year results.

## Debt of \$1.4 bln close to overall LT investment

### Significant investment activity continues

The company is continuing with its significant investment activity. Sibneft had a total of \$1.2 bln in long-term investments as of June 30, 2002. At the end of 2001 Sibneft concluded several transactions, including the sale of 4.2% of Orenburgneft for \$52 mln (\$6 mln gain) and the acquisition of a 37% stake in Moscow refinery. During 2001 the company made advance payment of \$68 mln to a 50%-owned investee who will use it to fund half the purchase price of a 30% stake in a major Russian power utility. Management refused to comment on the transaction before completion of the deal. In 2002 the company made a \$313 mln advance payment to a third party to acquire a significant stake in a Russian oil & gas company. We believe this payment was made in exchange for the remaining assets of Slavneft and its subsidiaries in Investment Trust.

**Figure 3. Sibneft's LT investments grew 95% y-o-y in 1H02 to \$1.2 bln**

	June 30, 2002	June 30, 2001	Comment
Oil and gas production	430.4	490.3	26% stake in Orenburgneft common (30% in 2001) and 12% in preferred shares; 1% in ONACO
Refining	254.2	-	37% interest in Moscow refinery
Marketing	79.7	37.6	Wholesale and retail distribution companies
Investment Trust	76.3	76.3	25% stake in the Trust, which holds a 12.7% stake in Slavneft, 26% in Megionneftegaz and 40% in Yaroslavl refinery
Other	4.9	24.8	
Other LT investments	381.1	-	Advanced \$68 mln for half of the price of a 30% stake in a major Russian utility company; Advanced \$313 mln to acquire a significant stake in a Russian oil & gas company
<b>Total LT investments</b>	<b>1,226.6</b>	<b>629.0</b>	

Source: Company report

### Long-term debt grew 268% to \$1 bln

At the same time, Sibneft's borrowings rose to \$1.44 bln as of June 30, 2002 from \$804 mln as of June 30, 2001. The company decreased short-term debt from \$533 mln to \$439 mln over this period. However, long-term debt increased by 268% to \$1.0 bln as of June 30, 2002. The company used long-term loans to replace short-term debt and finance capital expenditures. By the end of the reported period, Sibneft's D/E grew to 29.8% from 23.5% as of June 30, 2001. We do not consider this level of borrowing as dangerous. Based on the repayment schedule, slightly more than 50% of Sibneft's crude oil exports are pledged as collateral for the loans.

## 2002-03E NI lowered 7-18%, target cut to \$2.05

Based on the company's 1H02 financials, we corrected our forecasts for the full year and all consequent years. We lowered our net income estimate for 2002 by 7% to \$1.1 bln and our net income forecast for 2003 by 18% to \$957 mln. As a result, our DCF-based target price declined 2.3% to \$2.05 per share.

### We cut our target price 2.3% to \$2.05 per share

Sibneft is the most expensive GEM oil company based on a financial and asset valuation. Given that the company's current share price of \$1.97 is 4% below our target price, we keep our HOLD recommendation on the stock.



Figure 4. Comparative Valuation of Russian Oil Companies

	P/E		P/CF		EV/EBITDA		EV/2001 Production	EV/2001 Reserves
	2002E	2003E	2002E	2003E	2002E	2003E	\$/boe	\$/boe
<b>Russian Companies</b>								
LUKoil	6.3	8.1	4.5	5.1	4.1	5.1	26.50	0.96
Surgutneftegaz	6.0	7.8	3.6	3.9	3.3	3.9	20.21	0.86
Yukos	6.3	6.6	5.7	5.4	4.0	4.2	44.52	1.45
Tatneft	3.2	4.1	2.1	2.5	2.5	2.9	14.06	0.47
<b>Sibneft</b>	<b>8.3</b>	<b>9.8</b>	<b>6.8</b>	<b>6.6</b>	<b>5.3</b>	<b>5.5</b>	<b>63.37</b>	<b>2.20</b>
TNK	4.3	3.9	3.0	3.1	3.5	3.9	25.55	0.90
<b>International Companies</b>								
BP Amoco	17.1	16.1	7.9	7.4	6.9	6.6	135.6	10.3
Exxon Mobil	21.1	17.7	11.5	10.3	8.5	7.8	146.8	10.9
ChevronTexaco	15.2	13.8	7.5	6.7	7.5	7.1	90.3	7.6
TotalFina Elf	13.8	12.6	7.4	7.0	6.2	5.9	133.0	9.7
<b>Emerging Markets</b>								
Petrobras (Brazil)	4.4	3.8	2.4	2.0	2.0	1.9	24.4	1.3
PetroChina (China)	6.1	6.5	3.1	3.4	3.2	3.3	47.2	2.4
Russian company average	6.0	7.3	4.3	4.4	3.8	4.2	32.6	1.2
International company average	16.8	15.0	8.6	7.8	7.3	6.9	126.4	9.6
Emerging markets average	5.3	8.6	2.8	2.7	2.6	2.6	35.8	1.8
Russia's holdings' discount to international companies, %	64.1	51.6	50.5	43.5	47.8	38.3	74.3	88.0
Russia's holdings' discount (premium) to emerging markets, %	-14.7	15.4	-54.1	-63.1	-45.5	-61.1	9.1	37.2

Sources: I/B/E/S, Alfa Bank estimates

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