Buy

$0.35

SIBNEFT

Mcap ($ mn)		1,659		Dividend common (2000F)			$0.02		
EV ($ mn)		1,859							
	Revenues (USD mn)	EBITDA (USD mn)	Net profit (USD mn)	EPS (USD)	CFPS (USD)	EV/EBITDA (x)	P/CF (x)	P/E (x)	EV/S (x)
1999	1,746	547	287	0.06	0.10	3.4	3.4	5.8	1.1
2000F	2,946	1,040	551	0.12	0.17	1.8	2.1	3.0	0.6
2001F	3,200	1,111	561	0.12	0.17	1.7	2.1	3.0	0.6
2002F	3,266	1,048	514	0.11	0.16	1.8	2.1	3.2	0.6

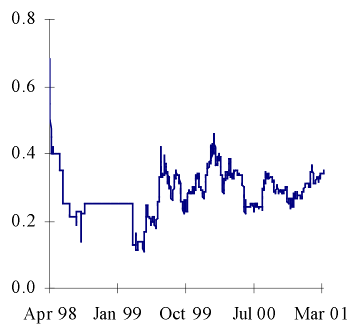
We are upgrading our recommendation on Sibneft from Hold to Buy for three major reasons.

First, Sibneft has the largest exposure to the domestic market among Russian majors. Since, as we forecast, average domestic prices in dollar terms will be higher year-on-year in 2001 (despite falling export revenues), Sibneft will be the prime beneficiary of domestic price strength.

Secondly, Sibneft is likely to deliver the largest output gain in the sector this year due to a powerful combination of fairly young reserves and a tripling of capex. Sibneft management forecasts crude oil production growth of 10.5% to 380,000bpd, double our sector growth forecast. Although such plans may seem ambitious, Sibneft's daily production did advance 20% from its February 2000 trough to December 2000. As a result of rising production and strong local prices, we expect Sibneft to be the only Russian oil company to deliver revenue growth this year.

Finally, although we tend to avoid commenting on market rumors, there may be an outside chance that Sibneft's controlling shareholders could decide to sell the company. If the sale is conducted in a manner that respects minority shareholder rights, it could represent the best way to unlock Sibneft's true value. We estimate that with a control premium Sibneft could be sold for up to $4-$6bn, or $0.85-$1.30 a share.

Key risks in respect to Sibneft are the shares' low liquidity and an intransparent ownership structure. Sibneft trades sporadically on the RTS and on the US OTC market, as well as in Germany, where weekly trading volume has averaged only $0.5mn over the past six months. Investors are also concerned about the nature of Sibneft's ownership. Although the controversial Russian businessman Roman Abramovich has admitted to owning a 46% stake in the company, questions remain in respect to the remaining 42%, reportedly held by other insiders. There are also concerns that Abramovich may divert Sibneft's cashflow to fund his other businesses, such as the aluminum holding RusAl, although there is as yet no evidence to that effect.



EQUITY RESEARCH

Moscow, 5 April 2001

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Operating performance

Production rose 5.4% in 2000 to 344,000 bpd, the first year of rising production in a decade. Production at the Sugmut field rose 45% to 48,000 bpd.

Sibneft exported 32% of its oil production and 21% of refined product output last year, largely unchanged from 1999 levels. Refinery throughput was unchanged at 250,000bpd. Light products amounted to 80% of output, which is by far the highest percentage of any major refinery in Russia and is a further improvement from the 78% achieved in 1999.

Sibneft acquired a 40% stake in Orenburgneft last year for $250mn-$300mn. We expect this equity to be used as a bargaining chip to increase the utilization of Omsk refinery (64% at present) by securing additional oil supplies from TNK, Orenburgneft's majority shareholder; but it is also possible that management may either sell the stake or insist on a joint operation with TNK.

Sibneft has also formed a 50/50 JV with Sibir Energy to develop the southern part of the Priobskoye field.

Financial performance

Sibneft skipped publication of semi-annual US GAAP numbers last year over a dispute with its auditor. On a full-year basis, we expect the company to report 69% revenue growth and 90% EBITDA growth in 2001, due to a combination of higher volume and prices. Margins are forecast to expand by 3-4 percentage points.

Operating and net margins are below the sector averages due to high depreciation charges. Sibneft carries its US GAAP books in dollars, which has made depreciation expense immune to the ruble devaluation. As a result, Sibneft's depreciation equals that of Surgutneftegaz, despite production being 60% lower.

On a cash basis, margins are traditionally slightly below those of industry peers, due to higher exposure to the domestic market. This, however, should work in Sibneft's favor this year as domestic prices outperform exports. We expect Sibneft to be the only Russian oil company to post revenue growth this year. Growth in production costs, however, will still prevent margins from expanding.

Sibneft's financial position is very stable. The company repaid its $150mn Eurobond issue last August, but subsequently had to raise $375mn in new debt financing to fund acquisition of the Orenburgneft stake and future capex needs.

Valuation

Sibneft is one the cheapest stock in the sector, trading at FY01F EV/EBITDA multiple of 1.7x. Its FY01F P/E of 2.9x is only marginally higher that of Tatneft. Despite low liquidity and stock overhang, we find the 56% discount to Lukoil and the 30%-35% discount to Surgutneftegaz and Yukos unwarranted, given the company's strong growth outlook.

Our estimate of Sibneft's fair value is $0.94 a share, implying a 169% upside potential.

In $mn, US GAAP	1998	1999	2000F	2001F	2002F
REVENUES					
Sales crude oil export	380.8	564.5	995.7	852.2	710.1
Sales products export	188.2	250.6	462.0	384.2	355.3
Sales products domestic	1075.1	879.3	1434.5	1909.8	2146.3
Sales oil & products	**1644.1**	**1694.4**	**2892.2**	**3146.2**	**3211.7**
Processing fees	30.1	3.7	4.0	4.0	4.0
Other	106.8	48.25	50.0	50.0	50.0
Sales total	**1781.1**	**1746.4**	**2946.2**	**3200.2**	**3265.7**
PROFIT & LOSS					
Revenues total	1,781.1	1,746.4	2,946.2	3,200.2	3,265.7
Production costs	-909.4	-784.1	-982.2	-1126.1	-1250.3
Non-income taxes	-218.1	-217.6	-532.6	-561.6	-549.9
Purchases	-95.6	-41.7	-150.0	-144.8	-155.8
Gross profit	**557.9**	**703.1**	**1281.4**	**1367.7**	**1309.6**
SGA	-250.9	-128.6	-191.3	-202.1	-206.2
Other	-95.6	-27.4	-50.0	-54.4	-55.5
Costs total	**-1569.7**	**-1199.3**	**-1906.1**	**-2089.0**	**-2217.8**
EBITDA	**211.4**	**547.1**	**1040.1**	**1111.2**	**1047.9**
Depreciation	-316.6	-289.8	-262.3	-256.0	-281.4
Operating profit (EBIT)	**-105.2**	**257.3**	**777.8**	**855.2**	**766.5**
Interest expense	-53.3	-21.8	-23.1	-20.0	-15.0
Interest income	6.8	0.5	3.0	3.0	3.0
Minority gain (loss)	-81.5	89.7	30.0	25.0	25.0
Other gains/losses	1.8	-30.4	0	0.0	0.0
Preferred dividends	-1.8	0.0	0.0	0.0	0.0
FX gains/(losses)	286.8	28.3	0.0	0.0	0.0
Pretax profit	**53.5**	**323.5**	**787.7**	**863.2**	**791.5**
Taxes	-17.3	-8.5	-236.3	-302.1	-277.0
Net profit	**36.2**	**315.0**	**551.4**	**561.1**	**514.4**
FX gain (loss)	-286.8	-28.3	0.0	0.0	0.0
Adjusted net profit	**-250.6**	**286.7**	**551.4**	**561.1**	**514.4**
CASH FLOW STATEMENT					
Net income	-250.6	286.7	551.4	561.1	514.4
DDA	316.6	289.8	262.3	256.0	281.4
Minority gain (loss)	81.5	-89.7	-30.0	-25.0	-25.0
Change in working capital	-367.0	-182.8	-141.0	-28.0	7.5
Other	302.6	65.3	0.0	0.0	0.0
Operating cashflow	**83.1**	**369.4**	**642.7**	**764.0**	**778.3**
Investments	30.7	-8.7	-250.0	0.0	0.0
Capital expenditures	-184.6	-120.45	-261.5	-600	-600
Net borrowings	-3.8	-258.6	38.3	-100.0	0.0
Other	0.0	0.0	-135.2	0.0	0.0
Net cashflow	**-74.6**	**-18.4**	**34.3**	**64.0**	**178.3**
Net cash at start of year	108.7	34.1	15.7	50.0	114.0
Net cash at end of year	34.1	15.7	50.0	114.0	292.4

In $mn, US GAAP	1998	1999	2000F	2001F
BALANCE SHEET				
Cash and liquid assets	34.1	15.7	50.0	114.0
ST investments	2.4	5.2	5.0	5.0
Receivables	384.6	326.4	530.3	576.0
Inventory	116.5	123.7	176.8	192.0
Other	1.9	1.6	2.0	2.0
Current assets	**539.4**	**472.5**	**764.1**	**889.1**
Fixed assets	4213.1	3610.1	3609.2	3953.3
Investments	21.6	18.1	268.1	16.0
Other	220.0	179.3	180.0	180.0
Non-current assets	**4454.7**	**3807.4**	**4057.3**	**4149.3**
Total assets	**4994.1**	**4279.9**	**4821.4**	**5038.3**
Current loans	-320.4	-211.7	-250.0	-150.0
Payables	-460.9	-227.1	-343.1	-376.0
Other	-15.8	-12.4	-10.0	-10.0
Current liabilities	**-797.1**	**-451.3**	**-603.1**	**-536.0**
Long-term loans	-150.0	0.0	0.0	0.0
Other	-105.1	-73.8	-74.0	-74.0
Long-term liabilities	**-255.1**	**-73.8**	**-74.0**	**-74.0**
Total liabilities	**-1052.2**	**-525.1**	**-677.1**	**-610.0**
Minority interest	-2015.3	-704.9	-150.0	0.0
Share capital	-1.6	-1.6	-2.0	-2.0
Reserves	-1867.4	-2675.7	-2675.7	-2675.7
Retained profit	-57.5	-372.6	-1316.6	-1750.6
Shareholders' equity	**-1926.5**	**-3050.0**	**-3994.3**	**-4428.3**
Total liabilities and equity	**-4994.1**	**-4279.9**	**-4821.4**	**-5038.3**
KEY RATIOS				
Growth				
Revenue growth (% ch.)	-40.41	-1.95	68.71	8.62
Net profit growth (% ch.)	3123.10	-214.40	92.31	1.76
Profitability				
Gross margin (%)	31.32	40.26	43.49	42.74
Operating margin (%)	-5.91	14.73	26.40	26.72
Net margin (%)	-14.07	16.42	18.72	17.53
ROA (%)	-4.72	6.18	12.12	11.38
ROE (%)	-13.13	11.52	15.66	13.32
ROCE (%)	-2.78	6.27	12.32	12.08
Cash ROCE (%)	4.40	13.58	18.29	17.67
Balance sheet				
Inventory (days)	27.08	37.64	33.85	33.55
Receivables (days)	78.82	68.22	65.70	65.70
Payables (days)	107.18	69.12	65.70	65.70
Current ratio (x)	0.68	1.05	1.27	1.66
Quick ratio (x)	0.53	0.77	0.97	1.30
Net debt / equity (%)	22.52	6.26	4.88	0.70
Equity ratio (%)	38.58	71.26	82.85	87.89
Fixed assets ratio (%)	218.68	118.36	90.36	89.27
Fixed assets mix (%)	84.36	84.35	74.86	78.46
Depreciation rate (%)	7.43	7.41	7.27	6.77

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