

## Sibneft - Downgrade to Buy

### Re-rating expected to continue, but at a slower pace

Ordinary/ADR price: **\$2.17/21.7**, price target **\$2.4/24.0**, implied upside **10.6%**

#### Company snapshot, \$ m (US GAAP)

	Revenues	EBITDA	Operating profit	Net profit	P/S	EV/S	EV/EBITDA	P/E	EPS
2000	2,398	1,027	727	675	4.28	4.44	10.36	15.21	0.14
2001	3,575	1,719	1,405	1,306	2.87	3.07	6.39	7.86	0.28
% chg. y-o-y	49%	67%	93%	94%					94%
2002E	3,797	1,734	1,259	1,044	2.70	2.97	6.51	9.83	0.220
2003E	4,596	2,232	1,739	1,420	2.23	2.46	5.07	7.23	0.300

Source: Company data; Brunswick UBS Warburg estimates

- We are downgrading Sibneft from **Strong Buy** to **Buy** based solely on its impressive recent share price performance. Since the beginning of March the stock is up 72.2%, compared to the Russian market's 22%, while the MSCI EMF index is down 7% and the MSCI EMF oil and gas index is down 5%. Sibneft has been the top performing company in the UBS Warburg GEM oil and gas universe, increasing 198.3% year-to-date, compared to the Russian market's 50.4%. Now that the market has more fully acknowledged the company's fundamental merits, we expect the rapid acceleration in Sibneft's share price to slow somewhat.
- We believe Sibneft will remain one of the better performing oil companies in the GEM universe in 2002. Accordingly, we are retaining a 700-bp weighting in the UBS Warburg GEM oil and gas model portfolio (see table on p. 2), while Sibneft's benchmark weight in the MSCI EMF index is currently zero.
- We maintain our one-year price target of \$2.4, implying potential upside of 10.6%, based on our implied equity value analysis, using a 2004E target EV/DACF multiple of 5.0, which we consider conservative given the company's strong underlying fundamentals.

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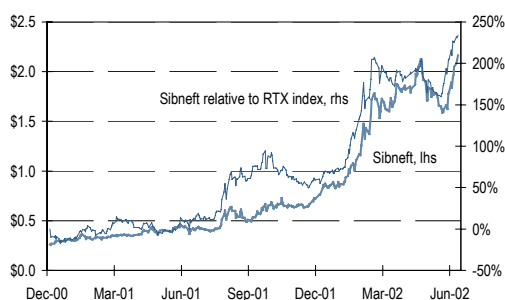
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Ordinary share price:	<b>\$2.17 (\$0.3675–2.17)</b>
No. of shares:	<b>4,741 m</b>
% of preferred:	<b>0%</b>
ADR ratio:	<b>1:10</b>
Market Cap:	<b>\$ 10,288m</b>
Freefloat:	<b>13%</b>

## The message on Sibneft's operations is taking hold in the marketplace

As noted in Sibneft report of June 19, in our opinion the emphasis on core reservoir management, in addition to outsourcing many other auxiliary functions and services to leading international providers, continues to distinguish Sibneft management's strategy not only from its Russian peers, but also from most other oil companies in the GEM universe. Sibneft is the first company to have set up a state-of-the-art field development modeling center to conduct geological and hydrodynamic simulations. In practical terms, Sibneft's understanding of the geology of its own reservoirs is enabling the company to leapfrog its rivals in terms of the efficiency of its upstream investments.

In terms of outsourcing, we believe the market is starting to price in projects such as the contract with French oil services company Pride Forasol to drill six horizontal wells this year for \$60 m (see our Sibneft note of March 4). Recent visits to this site have revealed that the project is exceeding even our aggressive expectations, currently producing close to 10,000 bbl/d—equivalent to levels in the Middle East. Pride Forasol estimates that all six wells should produce at this level, and although horizontal wells have a more unstable profile, if these estimates prove correct the wells would yield 4.4 m tons (32.1 m bbl) per year, or 21% of total 2001 production.

### GEM oil and gas model portfolio

	MSCI EMF weight, %	UBSW model portfolio weight, %
Lukoil	16%	20%
Petrobras ON	7%	31%
Sasol	11%	11%
Surgutneftegaz	12%	10%
Yukos	10%	21%
Sibneft	0%	7%

Source: MSCI, UBS Warburg estimates

### Risks

We remain concerned over Sibneft's ability to resume shipping crude through the Moscow Refinery. In addition, we believe investing in Sibneft is subject to the following risks: global and domestic oil prices, a short corporate governance track record, execution risk on its production growth and distribution plans, and whether it will find enough suitable investment projects that meet its 20% hurdle rate.

## Summary earning model 2000–05E, \$ m (US GAAP)

### Income statement

	2001	2002E	2003E	2004E	2005E
Year-average exchange rate, Rb/\$	29.18	31.70	32.50	33.00	34.00
Year-average Brent price, \$/bbl	24.50	22.50	20.00	18.50	18.50
Export net price (FOB), \$/bbl	22.86	20.50	19.00	17.50	17.00
Domestic oil price, \$/bbl	14.50	10.00	12.96	12.96	13.35
Total production, m bbl	151	193	232	267	300
Refining throughput, m bbl	96	124	125	144	162
Crude exports (ex-CIS), % of production	35%	36%	46%	46%	46%
Revenues net of intra-group transactions	3,576	3,797	4,596	5,152	5,743
EBITDA	1,719	1,733	2,232	2,556	3,079
Operating profit	1,405	1,260	1,739	1,971	2,403
Non-operating result	34	22	4	16	63
Pretax profit	1,439	1,281	1,743	1,987	2,467
Current income tax	(132)	(237)	(322)	(368)	(456)
Deferred income tax (charge)/credit	(2)	-	-	-	-
Net profit	1,305	1,044	1,420	1,620	2,010
EPS	0.28	0.22	0.30	0.34	0.42
CEPS	0.34	0.32	0.40	0.46	0.57

Source: Company data, Brunswick UBS Warburg estimates

### Cashflow statement

	2001	2002E	2003E	2004E	2005E
Net profit	1,305	1,044	1,420	1,620	2,010
Depreciation, depletion & amortization	314	474	493	585	675
Net change in net working capital	(323)	(234)	(310)	(278)	(151)
Other items	15	-	-	-	-
<b>Operating cashflow</b>	<b>1,311</b>	<b>1,285</b>	<b>1,603</b>	<b>1,926</b>	<b>2,535</b>
Capital expenditure	(619)	(758)	(819)	(826)	(879)
- E&P	(533)	(705)	(758)	(760)	(809)
- R&M	(85)	(53)	(61)	(66)	(71)
Other investments, net	(112)	(500)	(200)	(150)	(200)
<b>Free cashflow after capex and investment</b>	<b>580</b>	<b>27</b>	<b>584</b>	<b>951</b>	<b>1,456</b>
Dividends (ref. to previous year)	(850)	(322)	(370)	(400)	(851)
<b>Free cashflow after dividends</b>	<b>(269)</b>	<b>(295)</b>	<b>214</b>	<b>551</b>	<b>605</b>
Net debt/(cash)	872	1,167	952	402	(203)

Source: Company data, Brunswick UBS Warburg estimates

### Balance sheet

	2001	2002E	2003E	2004E	2005E
Cash and marketable securities	52	303	431	892	1,248
Current assets (ex-cash)	1,302	1,544	1,862	2,148	2,307
Non-current assets	4,359	5,142	5,668	6,058	6,462
<b>Total assets</b>	<b>5,713</b>	<b>6,989</b>	<b>7,961</b>	<b>9,099</b>	<b>10,017</b>
Current liabilities (ex-ST debt)	480	488	496	504	512
Non-current liabilities (ex-LT debt)	272	472	524	622	622
Debt (ST+LT)	923	1,318	1,222	1,122	872
Shareholder's funds	4,037	4,711	5,719	6,850	8,011
<b>Total liabilities &amp; equity</b>	<b>5,713</b>	<b>6,989</b>	<b>7,961</b>	<b>9,099</b>	<b>10,017</b>
Working capital (ex-cash)	822	1,056	1,366	1,644	1,795
Net debt	872	1,015	791	230	(376)

Source: Company data, Brunswick UBS Warburg estimates

## International valuation comparison

	Price 10-Jul	Curr.	M. Cap, \$ bn	EV/DACF					P/CEPS				P/E			
				01	02E	03E	04E	05E	02E	03E	04E	05E	02E	03E	04E	05E
BP	537	GBP	186.6	11.7	11.4	10.6	10.6	10.2	9.7	8.9	9.0	8.7	19.9	17.8	17.9	16.9
ExxonMobil	38.2	USD	257.5	11.2	12.0	10.8	10.7	10.4	12.1	10.8	10.6	10.3	20.5	17.3	17.1	16.5
Royal Dutch	52.5	EUR	107.3	10.4	9.7	9.4	9.1	9.0	9.1	8.6	8.5	8.3	17.8	16.6	16.2	15.9
Shell	476	GBP	70.7	10.4	9.6	9.3	9.0	8.9	8.4	8.0	7.9	7.7	16.4	15.4	15.0	14.8
TotalFinaElf	161	EUR	106.0	10.0	9.3	8.6	8.5	8.5	8.8	8.1	8.0	7.8	17.1	16.2	16.6	16.6
ChevronTexaco	84.9	USD	90.0	9.6	9.5	8.9	9.0	9.0	8.5	7.9	8.0	7.9	18.7	17.0	17.1	16.3
Conoco	26.0	USD	16.2	6.9	7.1	6.2	6.0	5.6	4.6	4.0	4.0	3.9	14.3	11.1	11.3	10.5
Eni	16.3	EUR	57.6	6.2	7.4	7.0	6.9	6.4	6.7	6.0	5.9	5.6	13.1	11.0	11.3	10.6
Repsol YPF	12.5	EUR	12.8	7.2	5.6	5.6	5.2	5.2	3.3	3.4	3.3	3.2	10.6	8.0	7.3	7.3
Phillips	55.9	USD	21.8	6.0	8.0	7.0	6.9	6.8	5.7	4.9	4.9	4.8	18.8	11.8	11.7	11.4
Norsk Hydro	345.0	NKR	12.1	6.3	5.5	5.5	5.1	4.6	2.9	2.8	2.7	2.5	8.2	7.3	6.6	5.7
Amerada Hess	77.1	USD	6.8	5.0	4.9	5.1	4.8	4.7	3.1	3.3	3.1	3.1	10.9	11.8	13.3	12.7
Occidental	27.9	USD	8.5	4.9	5.4	5.4	5.2	5.0	3.7	3.7	3.6	3.4	10.1	10.2	10.5	9.5
Murphy	74.6	USD	3.4	5.8	6.1	5.2	4.7	4.5	5.4	4.4	4.0	3.8	20.6	15.0	13.4	12.4
Imperial Oil	45.8	CAD	10.8	7.7	10.7	9.1	9.5	8.3	10.4	8.9	9.2	7.8	16.6	13.9	15.5	13.3
Petro-Canada	41.9	CAD	7.0	6.2	6.1	5.8	5.8	5.5	5.1	4.5	4.8	4.7	13.1	13.1	14.2	13.5
Shell Canada	54.5	CAD	9.6	7.4	15.1	9.6	8.7	8.2	14.3	9.3	8.9	8.6	24.2	16.3	15.3	14.5
Suncor	26.3	CAD	7.5	18.6	10.6	8.1	7.8	6.6	8.6	6.6	6.7	6.0	16.9	12.8	13.5	11.7
CEPSA	18.5	EUR	4.9	5.9	9.3	7.2	6.6	6.4	8.8	6.7	6.2	6.2	15.4	10.9	10.3	10.1
OMV	96	EUR	2.6	3.9	4.4	4.2	4.2	4.2	2.9	2.7	2.7	2.6	10.1	8.0	7.9	8.1
MOL	4,805	HUF	1.8	7.8	5.2	4.4	4.0	3.7	4.4	3.5	3.1	2.6	0.0	6.1	5.5	5.2
<b>Global integrated average</b>				<b>9.2</b>	<b>9.4</b>	<b>8.8</b>	<b>8.6</b>	<b>8.4</b>	<b>9.3</b>	<b>8.5</b>	<b>8.4</b>	<b>6.5</b>	<b>18.1</b>	<b>15.9</b>	<b>15.9</b>	<b>15.4</b>
<b>Emerging markets</b>																
Perez Companc	2.50	ARS	1.5	7.3	8.4	7.9	7.0	6.8	3.1	2.6	2.1	1.9	neg.	3.5	5.6	4.5
Petrobras	45.83	BRL	17.4	4.7	4.3	3.5	3.5	3.2	4.1	3.1	2.9	2.6	5.4	3.8	3.7	3.4
Petrochina	1.71	HKD	38.5	3.9	4.9	5.2	5.5	5.4	4.1	4.2	4.5	4.4	9.0	10.3	12.2	12.3
Sasol	11,150	ZAR	6.3	7.7	5.0	4.5	4.3	3.8	4.8	4.8	4.9	4.7	6.4	6.3	6.6	6.3
Sinopec Corp	1.43	HKD	15.9	5.1	5.7	5.1	4.7	4.2	3.6	3.2	3.0	2.7	14.6	9.9	8.5	0.2
CNOOC	10.95	HKD	11.5	5.2	6.4	6.7	5.9	4.9	6.9	7.2	6.6	5.8	10.9	12.0	11.5	10.2
PTT E&P	119	THB	1.9	5.9	6.2	6.7	5.7	5.1	6.8	7.7	7.8	7.9	8.5	9.9	9.7	9.4
Tupras	7,100	TRL	1.4	15.4	5.9	4.6	5.2	4.8	4.6	3.6	4.1	3.7	n/m	6.3	7.5	6.2
<b>GEM universe</b>				<b>7.3</b>	<b>5.9</b>	<b>5.5</b>	<b>5.2</b>	<b>4.8</b>	<b>4.8</b>	<b>4.6</b>	<b>4.5</b>	<b>4.2</b>	<b>9.1</b>	<b>7.7</b>	<b>8.1</b>	<b>6.6</b>
<b>Russia, US GAAP</b>																
Lukoil	17.2	USD	14.6	3.4	5.9	4.7	4.3	3.7	5.7	4.4	4.3	3.6	9.5	6.8	6.5	5.3
Surgutneftegaz	0.44	USD	12.1	1.7	4.0	3.4	3.0	2.5	5.4	4.9	4.8	4.3	8.0	7.1	7.2	6.2
Sibneft	2.17	USD	10.3	1.8	7.1	5.7	4.6	3.8	6.8	5.4	4.7	3.8	9.9	7.2	6.4	5.1
Tatneft	0.69	USD	1.6	2.6	3.6	2.7	2.6	2.7	2.7	2.1	2.3	2.7	4.3	3.2	3.4	4.2
Yukos	10.60	USD	23.7	1.2	5.8	4.9	4.3	3.3	6.7	6.0	5.7	4.7	8.3	7.5	7.1	5.6
<b>Russian average</b>				<b>2.1</b>	<b>5.3</b>	<b>4.3</b>	<b>3.8</b>	<b>3.2</b>	<b>5.5</b>	<b>4.6</b>	<b>4.3</b>	<b>3.8</b>	<b>8.0</b>	<b>6.4</b>	<b>6.1</b>	<b>5.3</b>
Sibneft premium/(discount) to emerging market average				-76%	22%	4%	-11%	-20%	43%	18%	4%	-9%	8%	-6%	-22%	-22%
Sibneft premium/(discount) to integrated average				-81%	-24%	-34%	-46%	-54%	-27%	-36%	-44%	-41%	-46%	-55%	-60%	-67%

Source: UBS Warburg; Brunswick UBS Warburg estimates

### Global rating definitions and allocations

Rating	Definition	% of companies under coverage with this rating	% for which IB* services have been provided
<b>Strong Buy</b>	Greater than 20% excess return potential; high degree of confidence	12%	29%
<b>Buy</b>	Positive excess return potential	39%	19%
<b>Hold</b>	Low excess return potential; low degree of confidence	44%	14%
<b>Reduce</b>	Negative excess return potential	4%	6%
<b>Sell</b>	Greater than 20% negative excess return potential; high degree of confidence	1%	3%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12-month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.

\*Investment banking services include, but are not restricted to, acting as manager/co-manager in the underwriting or placement of securities (within the past three years), acting as financial advisor, and/or providing corporate finance or capital-markets-related services to a company or one of its affiliates or subsidiaries (within the past 12 months).

Source: UBS AG, its subsidiaries and affiliates; as of 30 June 2002.

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