

Sibneft Sets Yet Another Record

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Sibneft **Common:** **BUY** **\$2.25** **Target price** **\$3.2**

Figure 1. Sibneft – Statistical Abstract, US GAAP

	Revenues	EBITDA	Net Income	EPS	P/S	EV/ EBITDA	P/CF	P/E	EV/ Reserves	EV/ Production	
	\$ mln	\$ mln	\$ mln						\$/boe	\$/boe	
1999	1,746.4	547.1	315.1	0.07	6.1	21.9	28.9	33.9	2.61	94.4	
2000	2,397.9	1,027.4	674.8	0.14	4.4	11.7	11.6	15.8	2.59	89.3	
2001	3,575.7	1,719.2	1,305.3	0.28	3.0	7.0	8.1	8.2	2.58	74.5	
2002E	4,728.1	1,801.8	1,089.4	0.23	2.3	6.7	8.1	9.8	2.58	58.5	
2003E	5,675.0	2,077.4	1,134.0	0.24	1.9	5.8	7.2	9.4	2.58	46.7	
52-week range: \$1.315 (3/6/02) - \$2.25 (3/14/03)				Common Shares Outstanding 4,741 mln				Mcap		\$10,667.3 mln	

Sources: Company reports, Alfa Bank estimates

Investment Summary

- Record dividend of \$1.09 bln implies 11% yield, the highest among Russian oil companies
- We believe Sibneft has enough resources to finance its \$925 mln capex in 2003
- We confirm our BUY rating and \$3.2 target price given Sibneft's strong growth perspectives

All free cash goes to shareholders

Sibneft offered dividends of \$0.23/share, yielding 11%

Sibneft seems determined to maintain its status as a record-setting company. Today the company's board of directors once again recommended the highest dividend payment in Russian corporate history. Sibneft offered to pay a total of \$1.092 bln in dividends based on its 2002 annual profit. This amount implies a near 100% payout ratio, based on the company's revised 2002 US GAAP net income forecast of \$1.1 bln, and is several times the anticipated 15% payout ratio. Per share, the company will be paying R7.2 (\$0.23), implying an 11% yield to the pre-announcement share price. This is substantially in excess of all expectations for common share dividend yields by other companies in Russia's oil and gas sector. The cut-off date for the reception of the dividends was set for March 28, 2003 and the AGM, which should approve these dividends, will take place on May 15.

Proposed dividends of \$1.09 bln in 2002 are 10% more y-o-y

As a reminder, last year Sibneft set its first dividend payout record when it declared a \$0.21 per share annual dividend (or \$993 mln in total), paying out 76% of its 2001 US GAAP net income. This year's payment would thus be 10% above the previous one.

Although investors should clearly be thrilled to receive such a huge chunk of the company's annual profits, the main question is what would a payment of this size mean for the company's future development strategy? Would Sibneft still be able to finance its substantial \$925 mln capex program in order to achieve ambitious growth targets, as well as necessary investments to develop the business of the recently acquired Slavneft?

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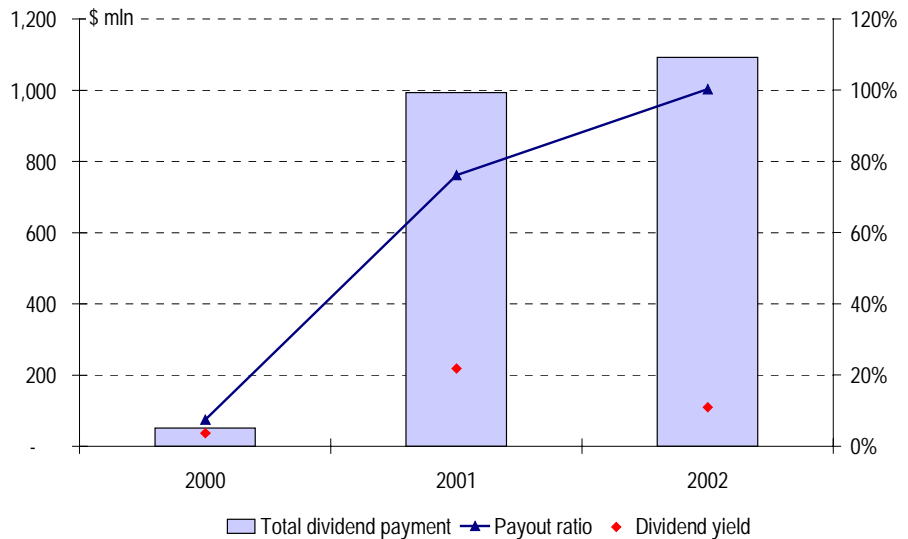
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Expected operating cash flow of \$1.5 bln is enough to cover \$925 mln capex

According to our estimates confirmed by Sibneft, this payment should not have a negative impact on the company. This year we expect Sibneft to generate an operating cash flow of \$1.5 bln, using our \$24/bbl Brent price forecast (which currently appears rather conservative).

Figure 2. Sibneft Historical Dividends, 2000-2002



Source: Company data, Alfa Bank estimates

Note: Dividend yield is calculated based on the closing share price prior to announcement date; 2001 dividend yield is the average between the yields of the two interim payments

Sibneft has a debt limit at 55% of its equity according to Eurobond terms. The company's debt was \$2.17 bln (D/E ratio of 53.8%) as of the end of 2002, of which \$750 mln is trade finance. However, the D/E ratio should decline during the year, as the company expects to keep its debt at a level of \$2.2 bln by the end of 2003 while assets grow in line with production growth. The company plans to replace short-term debt with longer-term loans, mainly by using loans pledged with crude exports. At the moment Sibneft has pledged less than 50% of its export volumes. Given the expected growth in production and exports, Sibneft, if necessary, might raise financing and cover the cash deficit.

We reiterate BUY rating and \$3.2 target price

While we believe that Sibneft stock might correct downward on the ex-dividend date (March 29), the expected 4% growth in net income in 2003 and significant dividends in the future support our positive view on Sibneft shares. We confirm our \$3.2 target price and recommendation to BUY the company's stock.

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