

YUKOS/Sibneft

Merger on Hold, Sibneft Poised to Outperform

YUKO	Hold
Current Price	\$11.38
Fair Value	\$12.30
Upside	8%
Market Cap	\$21,980 mln
Average Daily Turnover	\$160 mln
SIBN	Hold
Current Price	\$2.30
Fair Value	\$2.53
Upside	10%
Market Cap	\$10,905 mln
Average Daily Turnover	\$5 mln

On Friday, Sibneft released what it called a "joint statement" by itself and YUKOS, announcing that "completion of the merger between YUKOS and Sibneft has been put on hold in accordance with a mutual agreement between the shareholders of the two companies". YUKOS itself declared that this was not a joint statement, suggesting that its management was not aware of any agreement.

But some type of agreement, putting the merger on hold, there does appear to have been. At the subsequent YUKOS EGM, dividends were approved of \$0.89 per share (payable by February 28, 2004), but proposed changes to the charter and a new board of directors, both necessary for the merger, were not voted through as 75% of shareholders abstained. The fact that the sequestered MENATEP shares were admitted to the vote and the approved dividends were, however, welcome.

Leonid Nevzlin, who votes MENATEP's stake, claimed that the decision to abstain was made at the request of Sibneft, which was experiencing "technical problems". The nature of these is unclear, casting doubt over the whole merger. In the *Vedomosti* daily, Nevzlin is cited as criticizing Sibneft's core shareholders for not giving a "reasonable" explanation for the delay and suggesting that they may be taking advantage of the fact that Mikhail Khodorkovsky is in jail. The *Wall Street Journal* claims that the likelihood now is that the merger will not be completed.

There are, we think, three possible scenarios:

- **Sibneft's core shareholders opting out.** Sibneft's core shareholders have decided to unwind the merger in order to protect their assets, as the recent turmoil surrounding YUKOS has become a liability. This, the simplest explanation, would suggest that they regard the political problems as very serious, in which case YUKOS may have further downside ahead of it. Why would MENATEP agree to put the merger on hold, though?
- **Sibneft's core shareholders being forced out.** The Kremlin could be piling on the pressure to call off the merger, which may have been one of the reasons for the attack against YUKOS shareholders in the first place. Again, it is not clear why MENATEP would wish to tag along. Perhaps Sibneft is brokering a deal between the Kremlin and MENATEP shareholders, or else settling private matters with the government, one of the conditions for which could be the dissolution of YukosSibneft.

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Russia ■ Oil and Gas

Sibneft's core shareholders forcing themselves in. Sibneft's core shareholders are, with or without Kremlin backing, on the offensive and seeking control of the combined company. This would mean a long, drawn-out campaign, with Sibneft shareholders and the Kremlin pressuring MENATEP to sell its stake in YukosSibneft for less than its fundamental value.

Any of these would appear to make Sibneft a better bet than YUKOS; by forcing itself out of the merger and out of the political fray, the company should, we think, benefit. In relative terms, Sibneft should therefore outperform YUKOS on the news.

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