

Sibneft

De-coupling, Upgraded to HOLD

SIBN	Hold
Current Price	\$2.76
Fair Value	\$2.80
Upside	1%
Market Cap	\$13,086 mln
Average Daily Turnover	\$7.5 mln

YUKOS' official announcement that negotiations are under way on the de-merger of YukosSibneft and Sibneft's own press release, stating that the de-merger has now been agreed in principle, make divorce far more certain. Valuing Sibneft on the basis of the 4.86 SIBN/YUKO conversion ratio no longer makes sense.

Ever since the Sibneft press release of November 28, heralding suspension of the merger, we have argued that Sibneft is the relatively better bet. However, there was little official basis on which to value Sibneft other than the original terms of the merger. New developments have prompted us to switch back to a fundamental valuation for Sibneft as a standalone company. As a result, we are raising our fair value for its stock from \$2.10 to \$2.80 and upgrading our recommendation from SELL to HOLD.

The good intentions with which core shareholders of YUKOS and Sibneft entered into the merger on April 22 are gone. After an information vacuum lasting three weeks, the official news has come that these core shareholders are now negotiating terms for an unwinding of the transaction. What the final agreement will consist of and when one will come, if indeed it does, is a matter of pure conjecture, but logic dictates that we should now be valuing Sibneft once again as a standalone company.

The other side of the coin is that while the negotiations are in progress and until a deal has been agreed, Sibneft's minority shareholders are, we think, exposed to certain risks:

- The market clearly expects Sibneft to extricate itself from the merger by peaceful means, while YUKOS management has announced plans to adhere to the letter of the existing merger agreement and take every possible step to gain control of the assets that it owns. This is a stance challenged by Sibneft, which maintains that there will be no change in the management or operating control of Sibneft starting January 1, 2004. If open warfare over the assets ensues, then minority shareholders will be caught out in the open.
- It may take months to agree on final divorce terms and many more to legally transact a new deal. In the meantime, Sibneft's financial and operational reporting and transparency may suffer.
- Until the merger is legally unwound, Sibneft may suspend dividend payments. It is clear that the interests of Sibneft's current management and those of its current shareholders (YUKOS) have diverged. Minority shareholders may become hostages of the current situation.
- YUKOS management has suggested that the company should be compensated for merger-related losses. While this should concern Sibneft's core shareholders only, it could affect Sibneft as a company also.

- Sibneft's operating results, at least this year, may be somewhat below expectations, as the company seems to be underinvesting in exploration and production due to the merger process with YUKOS. Over 11m03, Sibneft produced 624 kbpd, with 655 kbpd reported in November. This indicates that the company will fall short of its annual production target of 660 kbpd.

Still, Sibneft currently trades at a 2004F EV/EBITDA multiple of 4.8, in line with the average multiple for first-tier Russian oil companies. This is despite the fact that the company is fundamentally more attractive than LUKoil, Surgutneftegaz or Tatneft, both in terms of superior growth and profitability. Sibneft currently trades at a 33% discount to LUKoil on the same multiple. Moreover, at current valuations, its 2004F free cashflow yield is 11%, lagging only behind YUKOS, which we believe poses a significantly higher risk than Sibneft if the divorce goes through.

Peer comparison

	Common price, \$	MCAP, \$ mln	EV, \$ mln	EV/EBITDA	P/E	P/CF	FCF yield
LUKoil	22.07	18,176	21,117	7.14	11.47	6.13	4%
Sibneft	2.79	13,228	14,963	4.79	6.55	5.12	11%
Surgutneftegaz	0.58	13,208	10,574	3.17	6.02	4.17	10%
Tatneft	1.06	2,201	3,381	4.66	4.85	4.48	4%
YUKOS**	10.25	19,693	22,703	4.28	5.51	4.16	14%

* Based on 2004E estimated multiples

** YUKOS capitalization and financials are on a standalone basis, with 2,237 mln shares outstanding, i.e. the number of shares before the Sibneft acquisition, but after the buyback

Source: Company, Troika Dialog estimates

We are reverting to a DCF valuation for Sibneft, which produces a rise in our fair value estimate from \$2.10 to \$2.80 per share. We are thus upgrading our recommendation on the stock from SELL to HOLD.

Key data

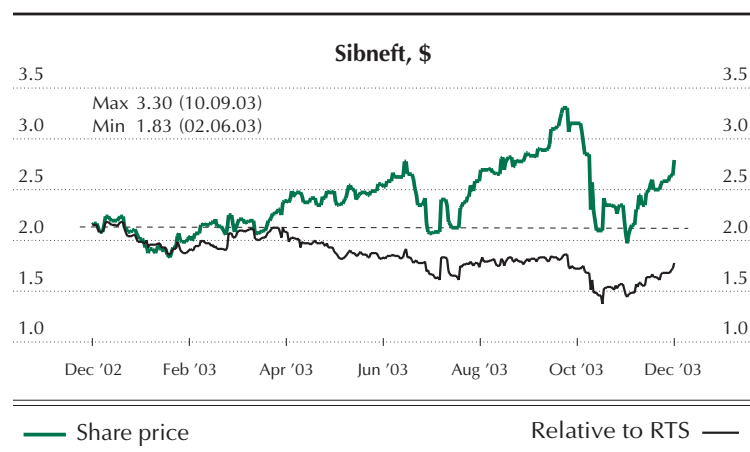
	2001	2002E	2003E	2004F	2005F
FINANCIALS, \$ mln					
Sales	3,576	4,777	6,626	7,250	6,850
EBITDA	1,719	1,803	2,596	3,122	2,997
EBIT	1,405	1,393	2,127	2,580	2,408
Net profits	1,305	1,161	2,099	2,019	1,814
EPS, \$	0.28	0.24	0.44	0.43	0.38
Dividend payout	71%	92%	49%	36%	41%
MARGINS					
EBITDA margin	48%	38%	39%	43%	44%
EBIT margin	39%	29%	32%	36%	35%
Net margin	37%	24%	32%	28%	26%
PRICE RATIOS					
P/S	3.7	2.7	2.0	1.8	1.9
EV/EBITDA	8.6	8.2	5.7	4.8	4.9
P/E	10.0	11.3	6.2	6.5	7.2
P/CF	9.7	9.6	6.3	5.1	5.0

Shares issued

Common	4,741,299,639
--------	---------------

Share price performance and relative

	1 mo	3 mo	6 mo	1 yr
Price performance	36.1%	-1.4%	9.2%	32.2%
Relative to RTS	24.7%	-1.3%	-2.4%	-27.0%



Source: Datastream

Average Daily Turnover (ADT)

ADT, 30 days, \$ mln	7.5
ADT, 100 days, \$ mln	5.5
MCap/ADT, days	1,750

Balance sheet, US GAAP, \$ mln

	2002	2003E	2004F	2005F	2006F
Fixed assets and investments	5,169	6,328	6,840	7,292	7,720
Current assets	2,380	2,618	3,333	3,895	4,596
Stock and inventories	322	356	419	416	429
Accounts receivable	1,357	1,754	1,821	1,710	1,776
Cash and securities	621	428	1,013	1,689	2,312
Other current assets	80	80	80	79	79
Total assets	7,548	8,946	10,173	11,187	12,316
Current liabilities	1,441	1,804	1,663	1,615	1,650
Accounts payable	840	1,028	1,036	987	1,027
Short-term debt	579	754	604	606	600
Other current liabilities	22	22	22	22	22
Long-term liabilities	1,816	1,935	2,091	2,065	2,034
Long-term debt	1,658	1,778	1,934	1,908	1,877
Other long-term liabilities	157	157	157	157	157
Total liabilities	3,257	3,739	3,754	3,680	3,684
Equity	4,292	5,207	6,418	7,507	8,632
Share capital	861	861	861	861	861
Retained earnings	3,431	4,346	5,558	6,646	7,772
Total liabilities and equity	7,548	8,946	10,173	11,187	12,316

Source: Company, Troika Dialog estimates

Income statement, US GAAP, \$ mln

	2002	2003E	2004F	2005F	2006F
Sales	4,777	6,626	7,250	6,850	7,052
Operating costs	3,384	4,500	4,670	4,443	4,589
EBIT	1,393	2,127	2,580	2,408	2,464
Depreciation	410	469	542	589	614
EBITDA	1,803	2,596	3,122	2,997	3,078
Net interest expenses	(115)	(141)	(159)	(145)	(126)
FX gain (loss)	4	(5)	7	3	2
Net other expenses	33	489	96	121	129
EBT	1,315	2,470	2,524	2,387	2,468
Tax	(163)	(370)	(505)	(573)	(592)
Profits before minority interest	1,152	2,099	2,019	1,814	1,876
Minority interest	10	–	–	–	–
Net profits	1,161	2,099	2,019	1,814	1,876

Source: Company, Troika Dialog estimates

Cashflow statement, \$ mln

	2002	2003E	2004F	2005F	2006F
EBITDA	1,803	2,596	3,122	2,997	3,078
Provisions and non-cash items	73	(273)	(399)	(432)	(428)
Taxes	(174)	–	–	–	–
(Increase)/decrease in working capital	(295)	(242)	(129)	54	(46)
Increase in other assets	(46)	6	(8)	(7)	(7)
Operating cashflow	1,362	2,087	2,586	2,612	2,597
Capital expenditures	(959)	(1,006)	(1,077)	(1,081)	(1,084)
Other investments	27	(219)	34	50	53
Free cashflow	430	862	1,542	1,581	1,566
Increase/(decrease) in debt	1,314	250	–	–	–
Interest paid	(75)	(122)	(149)	(179)	(192)
Dividends	(1,098)	(1,184)	(808)	(726)	(750)
Net cashflow	570	(193)	585	677	623
Change in cash position	570	(193)	585	677	623

Source: Company, Troika Dialog estimates

**President,
Chief Executive Officer**

Ruben Vardanian

Managing Director, Capital Markets

Jacques Der Megreditchian

Chief Economist

Evgeny Gavrilencov

Executive Managing Director

Sergei Skvortsov

CONTACT DETAILS

Phone	7 (501) 258 0500
Fax	7 (501) 258 0547
Internet	http://www.troika.ru

Research

Phone	7 (501) 258 0511
E-mail	research@troika.ru

Equity Sales

Phone	7 (501) 258 0550
E-mail	salesdesk@troika.ru

Fixed Income Sales

Phone	7 (501) 258 0510
E-mail	fid@troika.ru

Trading

Phone	7 (501) 258 0525
E-mail	tradingdesk@troika.ru

Structured Products

Phone	7 (501) 258 0572
E-mail	structures@troika.ru

New York Office

Phone	1 (646) 613 8585
E-mail	ny_office@troika.ru

RESEARCH

Chief Equity Strategist, Head of Research	James Fenkner, CFA
--	--------------------

Consumer, Industrial, Banking

Senior Analyst	Andrei Ivanov, CFA
----------------	--------------------

Corporate Governance

Analyst	Elena Krasnitskaya
---------	--------------------

Economy

Economist	Anton Stroutchenevski
-----------	-----------------------

Electricity

Senior Analyst	Lauri Sillantaka, CFA
----------------	-----------------------

Fixed Income

Analyst	Alexander Kudrin
---------	------------------

Metals and Mining

Analyst	Vasily Nikolaev
---------	-----------------

Oil and Gas

Senior Analyst	Kaha Kiknavelidze
Analyst	Oleg Maximov
Analyst	Valery Nesterov

Technical Analysis

Assistant Analyst	Denis Agaponov
-------------------	----------------

Telecoms

Senior Analyst	Evgeny Golossnoy
----------------	------------------

Production

Production Manager	Olga Sereda
Editor	Jonathan Pyne
Editor	Austin Peat
Editor/Translator	Vladimir Romanov
Translator	Pavel Mishachev
Translator	Anna Skvortsova
Administrator	Sergey Tkachev
Assistant	Yulia Baimler
Assistant	Marina Zhukova

Production and Layout: Karen Kessoyan, Andrey Demchuk

This report was prepared by Kaha Kiknavelidze, Oleg Maximov and Valery Nesterov, who each certify that: all of the views expressed in this report accurately reflect their personal views about the securities and issuers covered in this report; and no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This research report is prepared by TROIKA DIALOG or its affiliate named herein. It is being distributed in the United States by TROIKA DIALOG USA, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact TROIKA DIALOG USA, not its affiliate. This information herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable, but no representation is made that it is accurate or complete and it should not be relied upon as such. All such information and opinions are subject to change without notice. From time to time, TROIKA DIALOG USA or its affiliates or the principals or employees of its affiliates may have positions or derivative positions in the securities referred to herein or make a market or otherwise act as principal in transactions in any of these securities or may provide investment banking or consulting services to or serve as a director of a company being reported on herein. This information does not constitute an offer to buy or sell securities. Further information on the securities referred to herein may be obtained from TROIKA DIALOG USA upon request. This report may not be reproduced, copied nor extracts taken from it, without the express written consent of TROIKA DIALOG.