



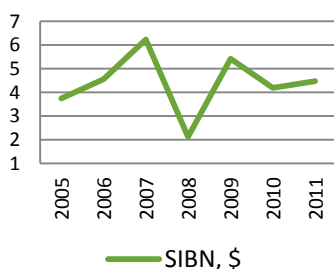
# GAZPROM NEFT

## Analysts – Oil & Gas

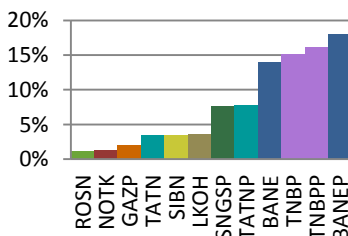
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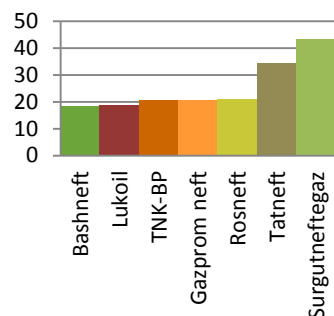
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## Dividend Yield, 2010



## Reserve life, years



We are initiating coverage of Gazprom Neft, the core of the Gazprom Group oil business. The current market price of Gazprom Neft shares is indicative of its fair valuation by the market. Investcafe has assigned Gazprom Neft shares a **HOLD** rating. The year-end 2012 target price is **USD 4.88** per share, which implies a limited upside potential of **6%**.

Membership in the state-controlled Gazprom Group plays a determining role that defines the excellent potential that Gazprom Neft has regarding the expansion of its resource base in Russia. In addition, a large share of the company's fields are viewed as promising and are in the early stages of development, as a result of which Gazprom Neft intends to almost double its hydrocarbons production by 2020 (to 100 million tons of oil equivalent), and we regard these plans as being quite realistic. By 2020, gas production by the company is forecast to reach 24 bcm and oil production is to hit 71.4 mn tons.

In 2010, Gazprom Neft produced 49.9 mn tons of oil and this sum includes 48.9 mn tons in Russia. Of this, 36.3% was extracted in the Yamal-Nenets Autonomous Region in Western Siberia. As of December 31, 2010, Gazprom Neft had proven oil reserves of 6,441 mn bbl of oil, according to the Russian classification method. The reserves have an estimated life of 20 years, which is slightly lower than the industry average.

In 2010, Gazprom Neft refineries processed 37.9 mn tons of oil. The company has one of the highest production-to-refining ratios among Russian oil companies, put at 76% for 2010. We expect a buildup in the company's refining capacity to 50 mn tons per year by 2020 and a decrease in its refining ratio to 70%. Taking a look at the the total oil product output from Gazprom Neft, gasoline makes up 25%, diesel fuel 32% and fuel oil only 22%. The imposition of the 60-66-90 taxation system is to initially benefit the company. In 2011, its EBITDA is projected to grow by 5% and its net profit is to increase by 8%, but only due to the unprecedented rise in oil prices. In the future, the company will suffer from the new taxation scheme, due to its high refining ratio. The share of revenue that the company pays as taxes and duties is forecast to rise from 37% in 2010 to 40% by 2020.

In 2010, Gazprom Neft saw its EBITDA margin contract from 25% to 22% and net profit margin narrow from 12% to 10%. In the forecast period, its profitability will continue to decline. Gazprom is not very efficient and its expenses and tax burden will grow faster than revenue, due to the forecast growth in production and oil & gas prices, which will eat into free cash flows.

In 2010, the dividend yield on the company's common shares stood at about 3.5%. This is below the industry average. Subsequently, the dividend yield is expected to increase along with the payout ratio, which is forecast to rise to 31% by 2020.

## Gazprom Neft shares, SIBN

<b>Target price (commons)</b>	USD	<b>4.88</b>
2011 Year End Price (commons)	USD	4.62
<b>Upside potential (commons)</b>	%	<b>6%</b>
Number of common shares	mn	4,741
Free Float (commons)	%	4.32
Market capitalization	USD mn	21,927
Enterprise Value	USD mn	27,417

Source: MICEX, Gazprom Neft data, Investcafe estimates

## Financial and market ratios

	2010	2011E	2012E	2013E
Revenue (USD mn)	32,772	42,086	48,178	52,873
EBITDA ( USD mn )	6,184	8,824	9,877	10,212
Net income (USD mn)	3,148	5,204	5,676	5,853
EBITDA margin (%)	19%	21%	21%	19%
Net margin (%)	10%	12%	12%	11%
EPS (USD)	0.66	1.10	1.20	1.23
DPS (USD)	4.44	7.07	7.82	8.27
P/E (x)	6.97	4.21	3.86	3.75
EV/S (x)	0.79	0.63	0.55	0.50
EV/EBITDA (x)	4.10	2.96	2.65	2.52
ROE (%)	17%	22%	20%	17%
Urals oil price (USD/bbl)	78	97	107	113
Free Cash Flow	912	286	2,568	2,081

Source: MICEX, Gazprom Neft data, Investcafe estimates

