



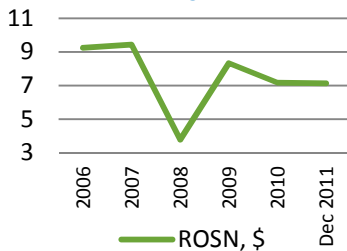
# ROSNEFT

## Analysts – Oil & Gas

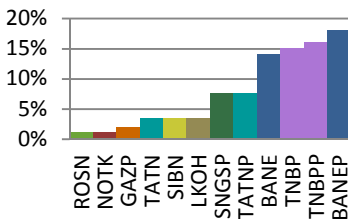
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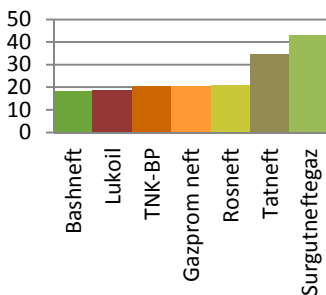
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## Dividend Yield, 2010



## Reserve life, years



With this research we are initiating coverage of Rosneft, Russia's biggest state-controlled oil company. In contrast to many other Russian oil companies, Rosneft has bright prospects, but these have been largely priced in by the market. We assign a HOLD rating to Rosneft shares with a target price of \$8.75 and upside potential of 15%.

**The strongest administrative resource.** Rosneft, as a state-run company, has priority access to Russian offshore oil fields in Russia's unallocated subsoil reserve fund. The three oilfield sections off the Kara Sea coast alone, to be developed jointly with ExxonMobil, held an estimated 36 billion bbl, which is equivalent to proven, probable and possible oil reserves of Rosneft as of 2010. However, uncertainty about the final scope of work, costs and reserves, as well as a long period before the start of production, do not allow the Arctic projects to be adequately taken into account when estimating the fair value for Rosneft shares.

**Production growth.** Rosneft's main oil fields, located in Western Siberia (67% of total production in 2010), have entered into a stage of decline, which, however, should be offset by production stabilization in the region and production expansion in Eastern Siberia, home to Russia's most promising new projects, namely: Vancor (1.6 bn boe under the PRMS classification) and Verkhnyaya Chona (1.1 bn boe under the PRMS classification, Rosneft holds 26% in the project.)

**New markets.** Development of oilfields in Eastern Siberia allows Rosneft to significantly expand into Asian markets. Rosneft has already secured a 20-year contract with CNPC for oil shipments to China, to the tune of 15 million tons per year. By 2020, the company we expect the company to export a third of its crude oil output (vs. 27% in 2010) and a fifth of its oil products (vs. 21% in 2010) into Asia.

**Further vertical integration.** Rosneft's domestically-based refining capacity, at 51 mn tons in 2010, enables the company to process almost half of its oil output. With the recent acquisition of Ruhr Oel, this ratio has increased to 57%. Rosneft owns oil terminals at the Black Sea, in Russia's Far East and in the northwest, as well as a share in the Caspian Pipeline Consortium, which allows the company to optimize its export costs. Due to a high volume of exports, Rosneft is one of the main beneficiaries of the imposition of the '60-66-90' taxation system. Net income should increase by 12% in 2012 as a result.

**Dividend growth.** Dividend yield of Rosneft shares is the lowest among peers at a mere 1% (2010), but this will change. The share of net profit paid out as dividends will grow by more than 20% y-o-y going forward. The payout ratio is forecast to grow by 2015, reaching 17% under US GAAP.

**The most effective oil company.** Rosneft is one of Russia's most efficient oil companies, based on its financial results and profitability ratios, and is to remain as such in the foreseeable future.

**The fair value.** Fair value of Rosneft shares was estimated using a DCF model, with a forecast period until 2020. We arrived at an end of 2012 target for ordinary shares of USD 8.75. Taking into account the current market price for Rosneft shares, we assign it a HOLD rating. Upside potential is currently at 15%.

## Rosneft Shares, ROSN

Target price per common share	USD	8.75
Current price per common share	USD	7.58
Upside potential on common share	%	15%
Number of common shares	mn	10,558
Free Float (commons)	%	15.3%
Market Cap	USD mn	80,072
Enterprise Value	USD mn	102,017

Sources: MICEX, Rosneft data, Investcafe estimates

## Financial and Market Indicators

	2010	2011E	2012E	2013E
Revenue (mln RUB)	63,047	77,744	87,236	94,819
EBITDA (mln RUB)	18,946	24,941	25,736	28,794
Net Income (mln RUB)	10,402	18,907	13,828	15,451
EBITDA margin (%)	30%	37%	30%	30%
Net margin (%)	16%	21%	16%	16%
EPS (RUB)	0.99	1.79	1.31	1.46
DPS (RUB)	2.76	3.45	4.49	6.05
P/E (x)	7.70	4.24	5.79	5.18
EV/S (x)	1.51	1.15	1.14	0.99
EV/EBITDA (x)	5.01	3.09	3.85	3.28
ROE (%)	19%	26%	16%	16%
Urals (\$/bbl)	81	110	105	110
Free Cash Flow (mln RUB)	6,720	9,639	4,237	4,965

Sources: MICEX, Rosneft data, Investcafe estimates

