

Limited upside

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Ticker	SIBN RX
Recommendation	Hold
Current price, RUB/share	418
12M target price, RUB/share	446
Upside	7%
Dividend - 2019F, RUB/share	37
Dividend return	9%

Ticker	GAZ LI
Recommendation	Hold
Current price, \$/share	33
12M target price, \$/share	35
Upside	6%
Dividend - 2019F, RUB/GDR	2.8
Dividend return	9%
No. of ordinary shares (mn)	4 741
Free float (%)	7.3%
3M av. daily turnover (RUB mn)	266
Market cap. (RUB bn)	1 980

Financials (bn RUB)	2018	2019O	2020P
Revenues	2 419	2 528	2 572
EBITDA	632	663	683
Net profit	401	455	493
Equity	1 840	2 101	2 383
Net debt	517	475	406
EPS (RUB)	79.8	92.0	99.7

Valuation	2018	2019O	2020P
Net Debt/EBITDA (x)	0.82	0.72	0.59
Debt/Equity	0.39	0.33	0.28
EV/Sales (x)	1.03	0.97	0.93
EV/EBITDA (x)	3.26	3.13	3.26
P/E (x)	5.23	4.54	4.19

LKOH RM price dynamics	Abs.	Relative MICEX
1M	-0.4%	3.8%
3M	3.5%	-4.4%
6M	12.8%	12.3%
Max 52 week	438.1	
Min 52 week	312.2	

LKOD LI price dynamics	Abs.	Relative FTSE 100
1M	2.2%	2.7%
6M	-0.2%	-1.5%
6M	13.2%	-2.9%
Max 52 week	34.2	
Min 52 week	23.7	



We recommend to Hold Gazprom Neft's shares with 12M TP 446rub. per share. After reaching our target level of 416 rubles, upside of the shares is limited to 7% and is no longer sufficient for the Buy recommendation. We believe that long-term growth triggers and market expectations of strong results for 2019 already accounted for in the current price. At the same time, the Gazprom Neft shares remain interesting due to the expected semi-annual dividend payments at the beginning of the 4th quarter of this year.

Strong results for 1H2019 due to a weakening of ruble. For 1H2019 Gazprom Neft's revenue increased by 7% yoy to RUB1215 bn. Revenue from the sale of petroleum products increased by 5% and amounted to 788bn rubles or 65% of all revenue. Revenue from the sale of oil increased by 12%, providing 377bn rubles or 31% of total revenue. A strong increase in sales was mainly in the export sector, both for petroleum products (+15% yoy) and for oil (+13% yoy). Similarly, in physical volumes of oil products sold a growth was recorded only in export sales - 5.5mn tons (+ 8% yoy), while the total volume of oil products sales decreased by 0.8% yoy to 21.9mn tons. In crude oil, there is an increase in sales volumes in all directions, mainly in export (+ 8% yoy), which ensured an increase of 6% yoy to 12.9 mn tons. Despite the fact that the average world oil price in the reporting period weakened by 6.7% yoy to \$65.97/bbl (Brent), having an impact on the price of diesel fuel (-4% yoy), gasoline (-10% yoy) , naphtha (-16% yoy) and other petroleum products, the selling price of both oil and petroleum products in rubles/ton showed an increase due to the weakening of the average ruble/dollar exchange rate from 59.35 to 65.32. As a result, the main expenses of the company related to the purchase of finished raw materials increased by 17% yoy, mainly influencing the growth of operating expenses by 5% to 977bn. Operating profit amounted to 238bn rubles, which is 13% higher than in the previous year. EBITDA increased by 12% to 369bn rubles. Other expenses increased 17 times due to the growth in revenue from the joint venture (11% yoy) and financial income 4 times. Net profit increased by 27% yoy to 225bn rubles.

We remain optimistic about the results for 2019. We expect that by the end of 2019 crude oil, condensate and liquid hydrocarbon production will amount to 62mn tons (-1% yoy) and will reach 72mn tons to 2022, followed by stabilization at 72-73mn tons in 2023-2027. The processing volume this year will be about 42.6mn tons and we expect gradual growth by an average of 2% during 2020-2027. For 2019, we expect that the world oil price will average \$66.4/bbl, which is 7% lower than the previous year. The average ruble exchange rate against the US dollar, based on Bloomberg data, by the end of 2019 will also weaken to approximately 66rub/\$1 against 62.7rub in 2018. We believe that the influence of relatively weak oil will have a significant effect on revenues, while the weakening of the ruble partially compensates for the loss in selling price. At the end of 2019 we expect a slight increase in revenue within 2% to the level of 2571bn rubles and an increase in operating profit by 6.4% yoy. We estimate an EBITDA of 662bn rubles quite achievable level at the end of 2019 and we are laying the increase in free cash flows from the level of 229bn rubles in 2018 up to 315bn rubles by 2024, largely influenced by rising average oil prices to \$68/barrel. However, in the future, the price of rising oil will weaken, which, coupled with the stability of production, will affect the narrowing of FCF to the level of 182-274bn.

Dividends can get higher. Based on 1H2019 results, Gazprom Neft decided to pay semi-annual dividends in the amount of 18.14rubles/share or 40% of net profit. The last time the company paid semi-annual dividends was in 2015. According to the results of 2018, 37.8% of net profit was sent to the payment of dividends, which is equivalent to 30 rubles/share. According to the results of full 2019, we expect the company to pay dividends at the level of 37 rubles/share while maintaining the payout ratio of 40% of net profit. Subsequently, we maintain a neutral dividend forecast and lay 40% as the optimal payout level.

Fig. 1. 1H2019 financial results

bn rubles	1H2018	1H2019	yoy
Revenue	1 138	1 215	7%
Cost of purchased crude oil	-266	-310	17%
Production costs	-108	-116	8%
General costs	-53	-58	10%
Transportation costs	-71	-71	1%
D&A	-80	-87	8%
"Oil" taxes	-307	-301	-2%
Export duties	-42	-34	-21%
Exploration costs	-0.5	-0.2	-56%
Operating profit	210	238	13%
Share in JV profit	40	45	11%
Exchange difference	-24	5	н/д
Financial income	3	12	4x
Financial expenses	-11	-19	62%
Other expenses	-6	-10	84%
PBT	212	270	27%
Income tax	-35	-45	27%
Profit for the period	177	225	27%

Fig. 2. Key assumptions

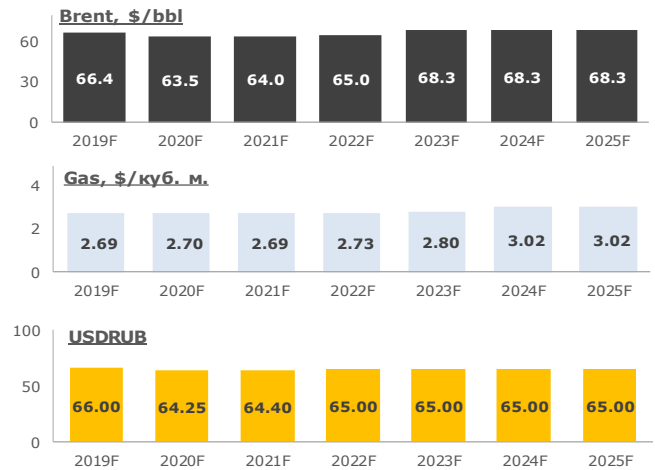


Fig. 3. Hydrocarbon production will slow growth after 2020, but will remain at an acceptable level above 1.52mn boe.

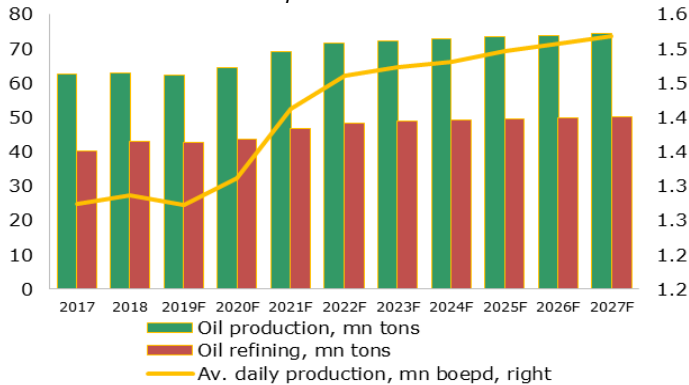


Fig. 4. Revenues (in bn rubles) will not show significant growth in the next 8 years.

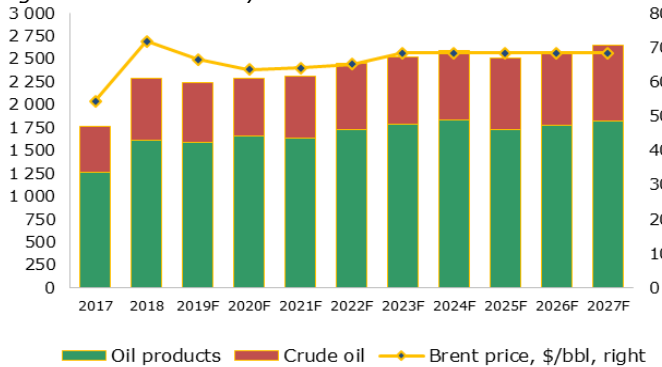


Fig. 5. A record high DPR (40%) will remain until 2027.

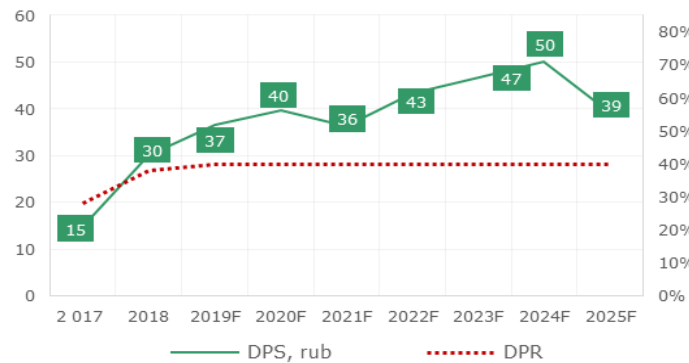


Fig. 6. Stable positive FCF in 2019-2027.

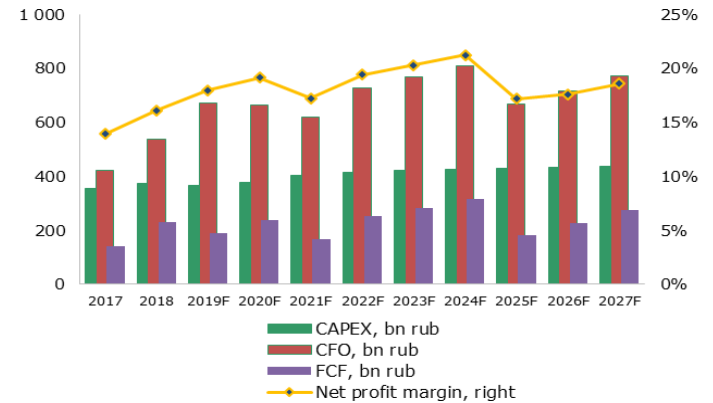


Fig. 7. 12M TP calculations

in rub mn. except per share	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
EBIT	517 974	462 307	548 698	579 039	625 645	478 959	506 265	550 902
Depreciation	164 621	178 096	191 959	205 584	201 532	213 973	225 927	237 478
Capex	-376 530	-401 870	-416 424	-421 672	-426 382	-428 856	-433 350	-438 110
Change in WC	-1 780	-441	-6 977	-3 486	-3 397	5 835	-3 240	-3 706
Income tax	-64 464	-69 808	-63 808	-76 098	-81 976	-87 982	-68 955	-72 490
Free cash flow	239 822	168 283	253 448	283 367	315 423	181 929	226 648	274 073
WACC	11%							
First stage DCF	1 218 656							
Terminal value	3 678 830							
PV of terminal value	1 590 504							
Enterprise value	2 809 160							
Net debt	-693 561							
Fair value	2 115 599							
Target price, RUB/share	446							
Upside, %	7%							

Source: Company data, Halyk Finance forecasts, Bloomberg Appendix 1. Forecasts of financial indicators, rub. million, except per share.

Consolidated statement of financial position	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
ASSETS										
Cash and cash equivalents	248 432	247 585	297 815	339 586	387 274	427 078	351 153	344 909	348 683	358 246
Receivables	129 150	132 395	134 695	136 803	144 871	149 110	153 252	148 179	152 174	156 348
Inventories	149 956	149 591	151 666	158 302	162 642	165 641	168 607	171 641	174 649	176 513
Prepayment on current income tax	3 179	3 179	3 179	3 179	3 179	3 179	3 179	3 179	3 179	3 179
Other current assets	132 412	128 283	130 063	135 753	139 475	142 047	144 591	147 193	149 772	151 371
Total current assets	663 129	661 032	717 419	773 623	837 440	887 055	820 781	815 101	828 457	845 656
Fixed assets	2 366 069	2 555 415	2 767 323	2 991 098	3 215 563	3 431 652	3 656 501	3 871 384	4 078 808	4 279 440
Goodwill and other intangible assets	80 139	80 139	80 139	80 139	80 139	80 139	80 139	80 139	80 139	80 139
Investments in associates	328 937	328 937	328 937	328 937	328 937	328 937	328 937	328 937	328 937	328 937
Long-term receivables	980	980	980	980	980	980	980	980	980	980
Long-term financial assets	10 345	10 345	10 345	10 345	10 345	10 345	10 345	10 345	10 345	10 345
Deferred tax assets	19 127	19 127	19 127	19 127	19 127	19 127	19 127	19 127	19 127	19 127
Other noncurrent assets	52 200	52 200	52 200	52 200	52 200	52 200	52 200	52 200	52 200	52 200
Total non-current assets	2 857 797	3 047 143	3 259 051	3 482 826	3 707 291	3 923 380	4 148 229	4 363 112	4 570 536	4 771 168
TOTAL ASSETS	3 520 926	3 708 175	3 976 470	4 256 449	4 544 732	4 810 435	4 969 010	5 178 213	5 398 993	5 616 825
LIABILITIES AND CAPITAL										
Short-term loans and borrowings	90 923	4 258	0	32 373	164 180	213 451	71 922	0	263578.7	159372.4
Accounts payable	307 604	276 599	280 437	292 706	300 730	306 276	311 761	317 371	322 933	326 379
Other current liabilities	41 339	42 040	42 623	44 488	45 707	46 550	47 384	48 237	49 082	49 606
Current income tax liabilities	3 328	3 328	3 328	3 328	3 328	3 328	3 328	3 328	3 328	3 328
Other tax liabilities	99 085	99 085	99 085	99 085	99 085	99 085	99 085	99 085	99 085	99 085
Short-term reserves	20 043	20 043	20 043	20 043	20 043	20 043	20 043	20 043	20 043	20 043
Total current liabilities	562 322	445 353	445 516	492 823	633 074	688 733	553 522	488 063	758 506	657 813
Long-term loans and borrowings	684 530	728 190	714 166	689 730	529 381	408 084	346253.3	342206.2	-	-
Other long-term financial liabilities	68 511	68 511	68 511	68 511	68 511	68 511	68 511	68 511	68 511	68 511
Deferred tax liabilities	127 448	127 448	127 448	127 448	127 448	127 448	127 448	127 448	127 448	127 448
Long-term reserves	67 192	67 192	67 192	67 192	67 192	67 192	67 192	67 192	67 192	67 192
Other long-term liabilities	19 104	19 104	19 104	19 104	19 104	19 104	19 104	19 104	19 104	19 104
Total long-term liabilities	966 785	1 010 445	996 421	971 985	811 636	690 339	628 508	624 461	282 255	282 255
Equity	98	98	98	98	98	98	98	98	98	98
Own shares redeemed from shareholders	-1 170	-1 170	-1 170	-1 170	-1 170	-1 170	-1 170	-1 170	-1 170	-1 170
Additional capital	60 397	60 397	60 397	60 397	60 397	60 397	60 397	60 397	60 397	60 397
Retained earnings	1 680 978	1 941 536	2 223 693	2 481 600	2 789 182	3 120 522	3 476 139	3 754 848	4 047 847	4 365 915
Other reserves	99874.0	99874.0	99874.0	99874.0	99874.0	99874.0	99874.0	99874.0	99874.0	99874.0
Majority interest	1 840 177	2 100 735	2 382 892	2 640 799	2 948 381	3 279 721	3 635 338	3 914 047	4 207 046	4 525 114
Minority interest	151 642	151 642	151 642	151 642	151 642	151 642	151 642	151 642	151 642	151 642
Total Equity	1 991 819	2 252 377	2 534 534	2 792 441	3 100 023	3 431 363	3 786 980	4 065 689	4 358 688	4 676 756
TOTAL LIABILITIES	3 520 926	3 708 175	3 976 470	4 256 449	4 544 732	4 810 435	4 969 010	5 178 213	5 398 993	5 616 825
Consolidated statement of comprehensive income	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Revenue	2 418 717	2 528 011	2 571 946	2 612 197	2 766 242	2 847 187	2 926 272	2 829 404	2 905 689	2 985 384
Total sales revenue	2 489 292	2 528 011	2 571 946	2 612 197	2 766 242	2 847 187	2 926 272	2 829 404	2 905 689	2 985 384
Cost of purchased crude oil	-617 306	-629 652	-636 280	-652 150	-665 193	-678 497	-692 067	-705 908	-720 026	-720 026
Production and operating expenses	-228 618	-233 190	-240 804	-258 767	-267 467	-269 949	-272 023	-274 228	-276 119	-278 147
Commercial and administrative expenses	-114 882	-120 281	-125 093	-130 096	-135 300	-140 712	-146 341	-152 194	-158 282	-164 613
(Impairment) / Recoveries of receivables	-	-	-	-	-	-	-	-	-	-
Transportation costs	-147 182	-150 126	-155 027	-166 592	-172 192	-173 790	-175 126	-176 545	-177 763	-179 068
Depreciation	-175 451	-176 603	-164 621	-178 096	-191 959	-205 584	-201 532	-213 973	-225 927	-237 478
Taxes, except for income tax	-652 784	-639 260	-639 410	-667 656	-686 550	-699 352	-711 919	-724 585	-736 858	-749 291
Expenses for geological exploration work	-1 411	-402	-897	-890	-885	-833	-812	-787	-851	-843
Total operating expenses	-2 032 550	-2 041 864	-2 053 971	-2 149 890	-2 217 543	-2 268 149	-2 300 627	-2 350 445	-2 399 424	-2 434 482
Operating profit	456 742	486 147	517 974	462 307	548 698	579 039	625 645	478 959	506 265	550 902
Share of profit of JV	90 704	44 938	44 938	44 938	44 938	44 938	44 938	44 938	44 938	44 938
Financial income	7 506	37 691	55 185	53 390	63 643	81 006	90 757	86 732	76 974	76 699
Financial expenses	-21 476	-34 505	-35 807	-26 686	-24 304	-24 642	-32 604	-35 211	-24 271	-18 657
Other income (expenses)	-19 796	-19 796	-19 796	-19 796	-19 796	-19 796	-19 796	-19 796	-19 796	-19 796
Total other income / (expenses)	23 380	33 289	44 520	51 846	64 481	81 506	83 295	76 663	77 845	83 184
Profit / (loss) before taxation	480 122	519 436	562 495	514 152	613 180	660 545	708 940	555 621	584 110	634 086
Current income tax expense	-59 585	-64 464	-69 808	-63 808	-76 098	-81 976	-87 982	-68 955	-72 490	-78 692
Total income tax expense	-79 129	-64 464	-69 808	-63 808	-76 098	-81 976	-87 982	-68 955	-72 490	-78 692
Profit / (loss) for the period	400 993	454 972	492 687	450 344	537 082	578 569	620 958	486 667	511 620	555 393
to shareholders of the Company	376 667	434 263	470 261	429 846	512 636	552 234	592 694	464 515	488 333	530 114
to minority shareholders	24 326	20 709	22 426	20 498	24 446	26 335	28 264	22 151	23 287	25 280
Consolidated statement of cash flows	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Net cash from:										
-operating activities	537 523	672 021	664 579	621 048	727 838	768 313	810 779	667 301	715 635	772 289
-investing activities	-335 038	-443 734	-388 179	-266 660	-389 762	-401 762	-359 961	-196 719	-522 183	-561 715
-financing activities	-56 543	-239 322	-303 545	-257 312	-301 424	-337 781	-537 778	-493 241	-195 333	-212 045
Net change in cash for the period	145 942	-11 035	-27 145	97 075	36 653	28 769	-86 960	-22 659	-1 881	-1 472
Cash at the beginning of the period	90 608	247 585	247 585	231 475	339 586	387 274	427 078	351 153	339 528	348 683
Cash at the end of the period	247 585	247 585	231 475	339 586	387 274	427 078	351 153	339 528	348 683	358 246

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