Lukoil – weak ruble in 1Q2019 leveled the effect of low oil prices

Altynay Ibraimova — May 30, 2019

As a result of higher volumes of oil trading, as well as due to the weakening of the ruble, the financial results of Lukoil in 1Q2019 continued to demonstrate a steady improvement in annual terms.

Despite the correction in world oil prices, revenue increased by 14% to 1,851bn rubles compared to 1Q2018, reflecting the increase in revenues both in exploration and production, and in processing and sales. Note that in 1Q2019 the average price of Brent oil was $63.05/barrel, which is 5.6% lower than in 1Q2018. At the same time, in ruble terms, the average price of oil strengthened by 9.7% over the same period (from 3800rub/barrel to 4169rub/barrel).

EBITDA amounted to 298bn rub, exceeding the level of 1Q2018 by 36%. The EBITDA of the Upstream segment increased by 36.8% due to an increase in the share of high margin barrels in the structure of oil production, the use of tax on additional income from hydrocarbon production in certain areas and the lag effect of export duties and MET in Russian projects and an increase in gas production abroad. In addition, in 1Q2019 the company applied the new IAS 16 "Leases" standard, which had a positive impact on EBITDA of 9bn rub, net profit of 4bn rub and free cash flow in the amount of 12bn rub.

Net income amounted to 149.2bn rubles, which is 37% higher yoy, and free cash flow increased by 96% yoy to 183bn rubles. The strengthening of the FCF was also affected by a decrease in capex by 20% yoy.

Our view

Noting a significant foreign currency share of Lukoil's incomes with predominantly expenses in ruble, the decrease of the average ruble exchange rate to the US dollar from 56.9 in 1Q2018 to 66.1 in 1Q2019 provided significant support to Lukoil's financial results. We maintain our "Buy" recommendation for Lukoil shares, remaining optimistic about the stability of cash flows from high-margin projects.

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