

Lukoil's net profit is 48% higher compared to 2017

Altynay Ibraimova — March 05, 2019

The 2018 results are in line with our expectations: revenues amounted to 8,036bn rubles, an increase of 35% yoy; operating profit was 7712bn rubles, up 52% yoy; net profit amounted to 619.2bn rubles, which is 48% more compared to 2017. Considering the expectedly strong results of the company, we still expect high probability of increasing dividend attractiveness.

Yesterday, Lukoil announced financial results for 2018. Revenues amounted to 8,036bn rubles, an increase of 35% yoy, which is comparable to an increase in the average oil price of 32% yoy. The largest increase was observed in the Refining and marketing segment, in which revenues grew by 35% and amounted to 5817bn rubles or 72% of total revenues. Partial support to revenues was also provided by the weakening of the ruble and the growth in oil trading and gas sales.

Income from crude oil sales increased by 62%, oil products - by 25% and gas - by 71%.

In the cost structure, we see an increase in taxes (excluding income tax) by 48% and expenses for the purchase of oil, gas and oil products by 45% mainly as a result of an increase in the tax rate due to an increase in the price of oil. A stronger increase in oil taxes (compared to oil prices), was most likely the result of a 3% yoy increase in hydrocarbon production for the year. Meanwhile, in 2018 the Company has tripled exploration costs to 3.5bn rubles. In general, total production costs increased by 35% yoy.

Operating profit was 7712bn rubles, up 52% yoy.

EBITDA rose by 34% to 1,115bn rubles, which was also the result of higher prices for hydrocarbons and a weaker ruble. In addition, as we wrote earlier, the increase in gas production in Uzbekistan and the growth of oil production in Russia in 2H2018 also provided support.

Since Lukoil has the bulk of expenses expressed in rubles, as a result of a significant weakening of the ruble during 2018 (-21% yoy), the company received a gain on exchange difference of 33.8bn rubles against a loss a year earlier (20bn rubles).

The share in the profit of the joint venture also improved, showing an increase of 50% yoy, mainly as a result of the growth in profits of Tengizchevroil.

As a result, net profit amounted to 619.2bn rubles, which is 48% more compared to 2017.

Capital expenditures decreased by 11.7% last year to 451.5bn rubles, which was due to a reduction in investment in gas projects in Uzbekistan due to the completion of the main construction works and partially offset by the start of construction of a new refinery in Nizhny Novgorod.

Lukoil reported a more than twofold increase in free cash flow in the amount of 555.1bn rubles, which is largely due to an increase in operating cash flow of 33% to 1trn rubles.

Our view

The 2018 results are in line with our expectations. We do not observe deviations of financial results from our forecasts by more than 5%. Thus, the company's revenue exceeded our forecast by 5%, operating profit - by 4% and net profit - by 0.8%. In terms of financial parameters, we do not see strong deviations and keep our expectations for the next five years unchanged. Considering the expectedly strong results of the company, we still expect high probability of increasing dividend attractiveness. The possibility of dividend growth has already been factored in our assessment: we expect a dividend of 246 rubles/share in 2018, which is 14% higher than the dividend for 2017. We maintain our recommendation to Buy shares of Lukoil with 12M TP of 6792rub/share.

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Research	Department	Telephone	E-mail
Stanislav Chuyev	Head		s.chuyev@halykfinance.kz
Assan Kurmanbekov	Macroeconomics		a.kurmanbekov@halykfinance.kz
Dmitriy Sheikin	Macroeconomics		d.sheikin@halykfinance.kz
Zhansaya Kantayeva	Fixed income		zh.kantayeva@halykfinance.kz
Madina Meterkulova	Equity		m.meterkulova@halykfinance.kz
Vladislav Benberin	Equity		v.benberin@halykfinance.kz

Sales	Department	Telephone	E-mail
Mariya Pan	Head		m.pan@halykfinance.kz
Aizhan Moldakhmetova	Institutional		a.moldakhmetova@halykfinance.kz
Asel Baizhanova	Institutional		a.baizhanova@halykfinance.kz
Zhanna Nuralina	Retail		zh.nuralina@halykfinance.kz
Shynar Zhakanova	Retail		sh.zhakanova@halykfinance.kz
Aliya Abdumazhitova	Retail		a.abdumazhitova@halykfinance.kz
Alya Mukhametzhanova	Retail		a.mukhametzhanova@halykfinance.kz

Halyk Finance

Abay av. 109 «B», 5th fl.
 Almaty, Kazakhstan, A05A1B4
 Tel: +7 727 331 59 77
www.halykfinance.kz

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