

Nostrum announced weak 2018 results and 16% yoy decrease in 2P reserves

Altynay Ibraimova — March 27, 2019

Nostrum yesterday reported 2018 result. The company's revenue was \$390mn, down 4% yoy. The reduction in revenue was due to a decrease in production, which averaged 31.3ths bopd versus 39ths bopd in 2017 (-21% yoy). The company's net loss increased 5-fold to \$121mn.

Cost was reduced by 7% yoy to \$165mn as a result of decrease of repair and maintenance costs by 15% yoy and depreciation by 5% yoy.

The company's net loss increased 5-fold to \$121mn, mainly due to the recognition of the impairment of assets at a significant amount of \$150mn as a result of a reduction in the volume of 2P reserves. At the same time, operating expenses, with the exception of taxes (+ 49%), were significantly reduced: expenses on sales - by 25%, general and administrative expenses - by 33%.

Cash position at the end of 2018 was \$122mn, which is 4% less than at the end of 2017.

The forecast of production in the current year is maintained at the previous 30 ths bopd. The company is still experiencing difficulties with production forecasts due to unproven reserves in active fields.

At the beginning of 2019, Nostrum's proven and probable reserves (2P) decreased by 16% to 410mn boepd, according to a report by Ryder Scott.

Our view

Nostrum results are below our expectations. The revenue that we expected given the increase in the average price of oil in 2018 by 35% is lower than our forecast by 6%, mainly due to which the gross profit is 9% yoy lower than we expected. Even without taking into account the one-time impairment charge, we see a lower net profit in comparison with our expectations. In our opinion, maintaining the forecast for production volumes at the level of 30ths bopd in the current year does not reflect a decrease of the company's 2P reserves by 16%. Nevertheless, the current Ryder Scott report allows us to take a closer look at the Nostrum production potential assessment and update our operating forecasts, and in addition, taking into account the actual backlog of financial indicators from our expectations, adjust our estimate. We put our recommendation on Nostrum under review.

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