
RUSSIA'S OIL GIANT JUST SAW ITS PROFITS DROP 75%

-

09.06.2016

CNBC, 08 June 2016

Russian majority state-owned oil giant Rosneft posted a swingeing 75 percent drop in first-quarter net profit, raising questions over how much money the government will be able to glean from its crude producers as commodity prices continue to lag.

Rosneft missed analyst forecasts, reporting 14 billion rubles (\$216.8 million) in net profit, against Reuters consensus polls predicting 33 billion roubles in net income.

Rosneft oil company CEO Igor Sechin attends a meeting of the Commission for the Strategic Development of the Fuel and Energy Sector October 27, 2015 at the Kremlin in Moscow, Russia.

The drop didn't seem to worry equity investors, with Rosneft's Moscow-listed stock jumping around 2.8 percent to 30-day highs by 4:30 a.m. ET.

However, the plunge is likely to disappoint Moscow, which is banking on state-owned companies like Rosneft to bolster revenues. The Russian government holds a 69.5 percent stake in Rosneft through state-owned firm Rosneftgaz.

In April, Russian Prime Minister Dmitry Medvedev announced he had signed a resolution requiring state-owned companies to distribute no less than 50 percent of their net profit in dividends. He said the budget was likely to receive an additional 100 billion roubles (\$1.6 billion) as a result.

But, Chris Weafer, a senior partner at Macro-Advisory, told CNBC in a phone interview that the urgency to impose those income-generating proposals has somewhat subsided thanks to a slight oil price recovery, continued ruble weakness, and prospects of a Rosneft stake buy-out.

The Russian government is planning to sell stakes in some state-owned firms in another bid to shore up cash. Moscow is expected to maintain a majority stake of at least 50.1 percent in Rosneft, leaving about 19 percent up for grabs.

Economy Minister Alexei Ulyukayev told reporters on Wednesday that they may consider selling stakes to both strategic investors and the stock market, according to Reuters.

At a valuation of nearly \$54 billion, a full 19 percent stake sale could deliver over \$10 billion in income for the Russian government.

"The sale of the surplus equity or even half of that would greatly ease pressure for the government to implement either extra taxation, or dividend requirements on Rosneft," Weafer explained, saying investors are also holding out hope for a buy up that could create new energy partnerships and developments going forward.

And rather than focus on the dismal profit drop, investors turned their attention to Rosneft's cost controls; the group reduced net debt by 45 percent to to \$23.9 billion by the end of the first quarter.

Big companies like Rosneft have Russia's central bank to thank for maintaining policies that have kept the ruble relatively weak, Weafer said, boosting revenues for those earning in dollars or other foreign currencies.

Russia's ruble has appreciated 10 percent versus the U.S. dollar over the past 3 months, trading between 60 and 70 roubles over that period.

Rosneft ended up proposing a dividend payout worth 35 percent of their income for full-year 2015, successfully deflecting the 50 percent government requirement on the idea that production would suffer without enough reinvestment, Weafer explained.

In the meantime, global benchmark crude oil prices have jumped over 38 percent year-to-date to over \$50 per barrel, raising government income and easing the urgency of a stake sale and high dividend requirements.

However, if the oil price weakens, both energy sector taxation reforms and the higher dividend requirements will be back on the table after Russia's state Duma lower house elections in September, Weafer said.

Rosneft shares are up over 34 percent year-to-date.

Kaynak/Source: