

Russian Oil Firms Increase Profits and Output On Weak Ruble

By [The Moscow Times](#)

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Russian oil firms are increasing their ruble profits and raising production as a weak currency protects their business, which has turned into one of the world's most profitable. Russia has kept its production, which includes gas condensate, near post-Soviet highs as its producers benefit from receiving the bulk of their export revenues in dollars while most of their expenditure is in rubles.

On Friday, Bashneft posted a 13 percent increase in second quarter net profit to 17.9 billion rubles (\$272.7 million), following strong results by Gazprom Neft earlier this month.

Bashneft, Russia's fastest-growing oil firm by output, saw its average oil production at 387,500 barrels per day (bpd) in the second quarter, up from 350,900 bpd at the same period a year ago.

Gazprom Neft, the oil arm of state gas producer Gazprom, had earlier reported a 47 percent increase in the second quarter net profit and its output jumped 25 percent. Net profit at Surgut

was flat in the first half of the year at 135 billion rubles.

“In our global energy universe, the Russian oils screen [rank] strongly versus global peers on most metrics: highest free cash flow yields, dividend yields, lowest leverage, and lowest sensitivity to changes in oil prices,” Goldman Sachs said in a report earlier this month.

Goldman added that current valuations offer an attractive entry point into the sector, upgrading Bashneft, Gazprom Neft and Rosneft to ‘buy’ and forecasting Russian oil output to grow by 1.1 percent this year. Rosneft, Russia’s top oil producer, is expected to report second quarter results next week.

Global oil prices have fallen below \$50 per barrel from over \$100 last August, while the ruble dropped to an average of 52.6 per dollar in the second quarter from 34.99 a year ago.

“Hedged from falling oil prices thanks to the weakening ruble and reduced tax burden, Russian oil firms are now in a better position compared to their global peers,” Alfa Bank said this week, upgrading recommendations on oil firms it covers.

Drilling and Costs

In ruble terms, state-controlled Bashneft’s production costs were 281 rubles per barrel in the second quarter, slightly up from 264 rubles a year ago, the firm said in a presentation on its website. In dollar terms, costs were down to \$5.3 from \$7.5.

“The weaker ruble has helped bring down the Russian majors’ cash flow breakevens to less than US\$50/bbl out to 2017 in our base case,” said Valentina Kretzschmar, a research director in Wood Mackenzie.

Russian drilling volumes were up 10 percent in the first six months of the year, year-on-year, said Renaissance Capital analyst Ildar Davletshin.

LUKoil, Russia’s No. 2 oil producer, was the only one hit by low oil prices among Russian oil producers so far as it reports in U.S. dollars. On Friday, it said its net profit more than halved, year-on-year, to \$1 billion. Still, its oil production was up 2.7 percent in the second quarter, year-on-year.

LUKoil Vice-President Leonid Fedun told a conference call on Friday the firm would switch to reporting in rubles from 2016.

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