MARKETING MATERIAL

RUSSIAN EQUITY RESEARCH: OIL & GAS

Nizhnekamskneftekhim

Resumption of coverage

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▲ Both common and prefs rated as Buys, although we think prefs look more attractive

We resume coverage of Nizhnekamskneftekhim (NKNC) common stock with a new DCF-based fair value of USD 0.59 per share and a 12% upside. We note the recovery of the petrochemical market in short-term, but we think this is limited with an unfavorable outlook for the operating environment in the medium-term as well as the possibility of an additional equity placement. However, our fair value for preferred shares is USD 0.32, providing an upside of 58%, and we upgrade to a Buy.

▲ Adverse trends for feedstock vs. product prices should squeeze margins in 2011 after a recovery in 2010

We argue that the addition of significant polyethylene (PE) and polypropylene (PP) capacity worldwide during 2010-2011, as well as weak natural gas prices, should put pressure on prices for the synthetic rubbers and plastics that are NKNC's major products. Combined with a strengthening rouble, we expect that higher crude oil prices should compress petrochemical margins starting in 2011, following a recovery in 2010.

▲ Multiples-based comparison indicates limited upside

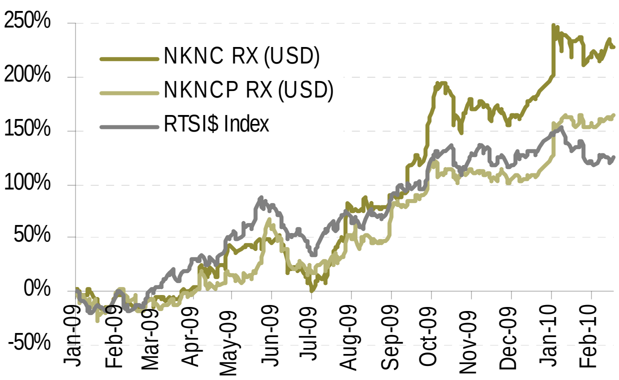
NKNC looks overpriced relative to peers, primarily due our bearish operating outlook for the company. Nevertheless, even on 2008 multiples, when NKNC saw a record EBITDA margin of almost 11.2%, the company appears to be priced at the level of international peers despite material company-specific risks. Although we do not regard multiples-based comparison as a sustainable valuation approach, we see this as an additional reason for our cautious valuation.

▲ We believe prefs could provide a material upside

Our view is that buying preferred stock is a good idea both in the long and short term. Beyond our fundamental view, reinforced by a DDM valuation, we draw attention to the technical attractiveness of the prefs: the market-implied discount rate is currently near 64%, or close to the upper bound of the historical corridor, while the 1-year average discount is 61%.

Bloomberg	NKNC RU, NKNCP RU
Rating	BUY
Fair Value (Comm.), USD	0.59
Fair Value (Pref.), USD	0.32
Current Price (Comm.), USD	0.53
Current Price (Pref.), USD	0.20
Market Cap, USD mn	854.0
EV, USD mn	1,520.9
Common Shares Per ADR	10
Common Shares Outstanding, mn	1,611
Preferred Shares Outstanding, mn	219
52 Week High:	0.59
52 Week Low:	0.14
Free float %	9%
Average daily traded volume, USD '000	42
Share price performance over the last:	
1 month	-10%
3 months	20%
12 months	253%

NKNC share price performance vs. RTS



Source: Bloomberg

Summary Valuation and Financials

	Revenues, RUB mn	EBITDA, RUB mn	EBITDA margin, %	Net income, RUB mn	P/E (x)	EV/EBITDA (x)	Free cash flow yield, %
2008	77,868	8,751	11.2%	1,532	13.9	4.3	3.6%
2009E	65,877	3,579	5.4%	309	86.5	13.3	-8.2%
2010E	76,359	7,459	9.8%	2,699	9.1	5.9	11.3%
2011E	79,537	5,068	6.4%	866	27.6	8.4	1.4%

Table of Contents

Investment summary and conclusions

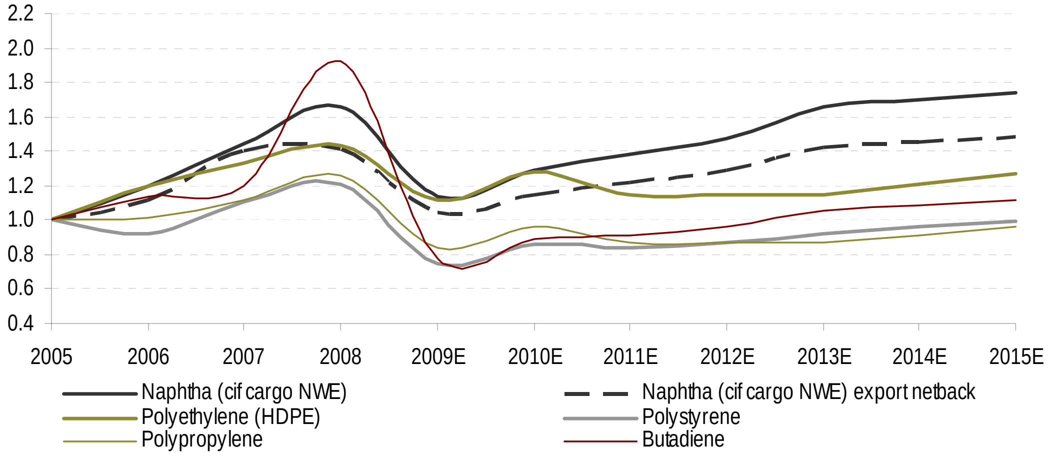
We assign a new DCF-based fair value for Nizhnekamskneftekhim (NKNC) of USD 0.59 per common share and set a Buy recommendation. For preferred shares we set a fair value of USD 0.32 per share, recommending them as a Buy due to the current upside of 58%.

Petrochemical margins should be under pressure starting 2011

Synthetic rubbers and plastics, namely polypropylene (PP), polystyrene (PS) and polyethylene (PE), generate approximately 70% of NKNC revenues and are a key growth target for the company. While product prices are normally driven by global production, consumption and feedstock prices, NKNC's raw material costs are predominantly linked to the European netback crude oil price due to the company's feedstock structure (Figure 2).

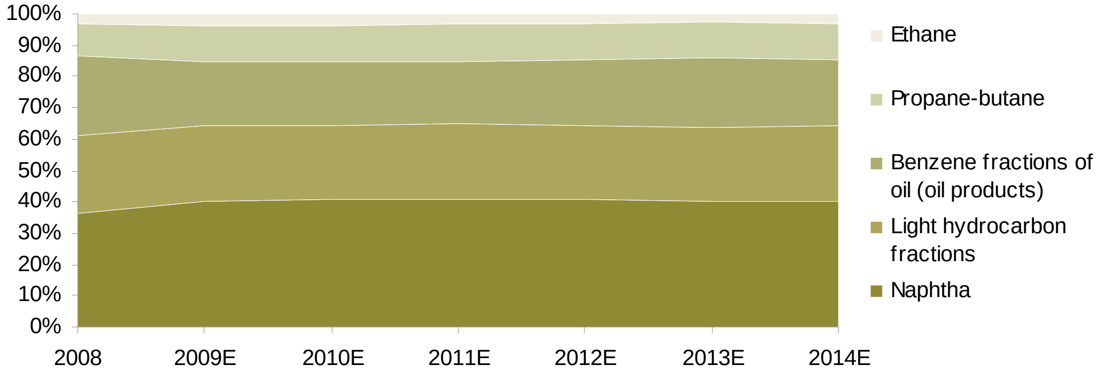
Our principal argument is that major new PE and PP production facilities scheduled for launch worldwide in 2010-2012 could put prices under pressure from 2011 until 2014. Our outlook is reinforced by the fact that a higher share of global ethylene – the PE monomer – should be produced from natural gas, which is a cheaper feedstock than the naphtha that NKNC currently uses. Overall, although the outlook for synthetic rubber prices appears more optimistic, we believe that NKNC's naphtha-fueled polymer production method will significantly depress operating margins.

Figure 1:
Major feedstock and product prices: history and outlook (relative to 2005-base year)



Source: Bloomberg, IFC Metropol estimates

Figure 2:
NKNC feedstock structure



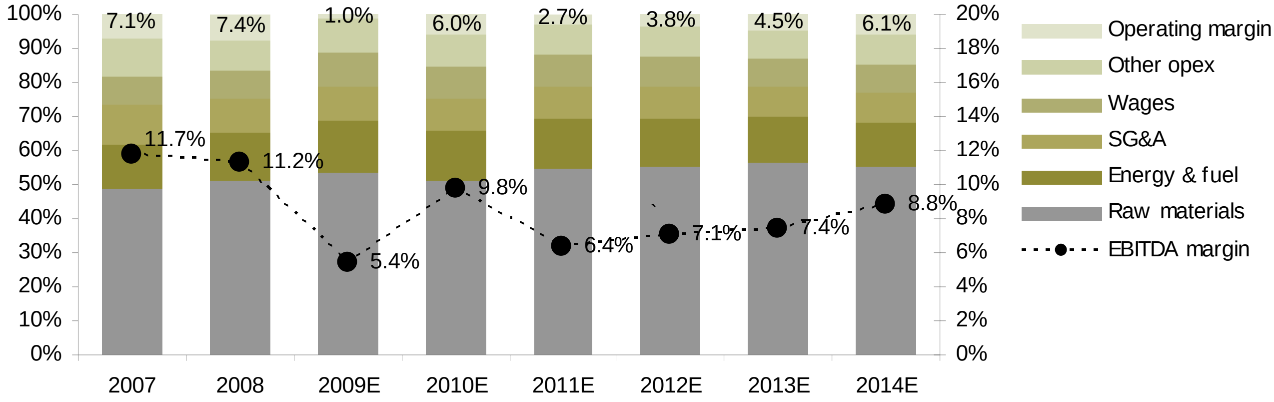
Source: Company data, IFC Metropol estimates

Cutting capex and operating expenses is critical for profitability, in our view

Following EBITDA margins of 10-12% between 2005 and 2008, we expect NKNC's margin to collapse to 5.4% in 2009, primarily driven by the combination of a relatively mild decline in netback prices for naphtha (vs. international prices) with the strengthening rouble. The key point is that despite a roughly 30% discount to its major feedstock price, facilitated by the export duty, which effectively grants a significant buffer to petrochemical margins, NKNC did not outperform its international peers in terms of profitability – in 2008, for instance, the median EBITDA margin for international peers was 12% (see multiples-based valuation).

In our view, the reduction of energy & fuel, SG&A and payroll costs is a prerequisite for NKNC restoring EBITDA margin, given our conservative outlook for product and feedstock prices. In particular, we model that NKNC will reduce its energy & fuel consumption through modernization and lower energy prices from the Nizhnekamsk power station. The latter was recently acquired by TAIF, which admitted earlier that it could afford a twofold decrease in prices for heat and energy supplied to its petrochemical arms. For example, by 2016, when we believe polymer prices will approach the 2008 level, NKNC would have to decrease energy & fuel and SG&A costs as a percentage of total revenue to 13% (vs.14.5% in 2008) and 8.5% (vs.10%) respectively, in order to restore EBITDA margin to 11.2%. We consider this to be an optimistic scenario.

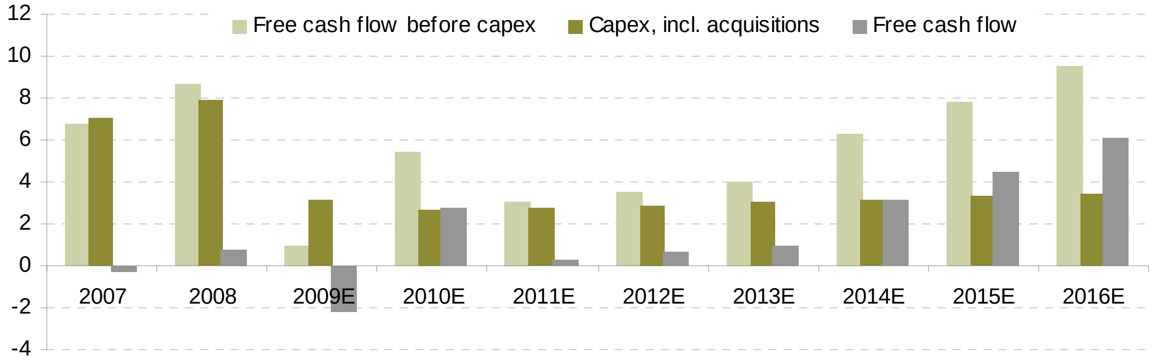
Figure 3:
NKNC operating cost structure (% of total revenues) vs. EBITDA margin dynamics



Source: Company data, IFC Metropol estimates

Apart from inflated opex, NKNC has an extensive investment program that has been absorbing virtually all operating cash flow for the last two years. We argue that NKNC doesn't need to be making such significant capital expenditures and cannot afford to in the medium term. Instead, we base our capex projections on estimates for maintenance and modernization capex, which we project at RUB 2.5bn pa at least due to the high share of obsolete capital equipment, plus required investments in ABS-plastics capacity.

Figure 4:
Free cash flow and capex estimates, RUB mn



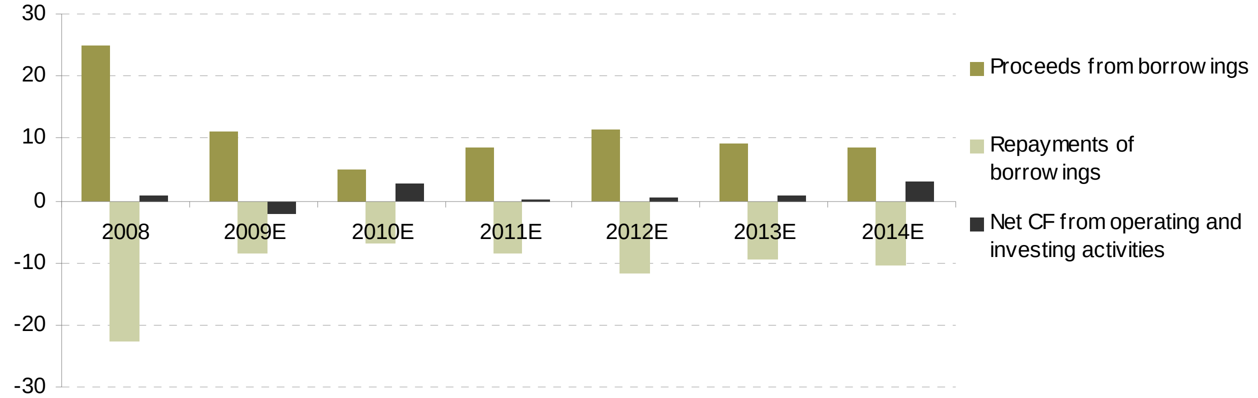
Source: Company's data, IFC Metropol estimates

Debt is a concern, but manageable

At the beginning of 2009, NKNC's total debt was RUB 20.1bn, implying net debt to EBITDA of a reasonable 2.1x. According to 3Q 09 RAS accounts, total debt decreased to RUB 17.8bn. Despite this reduction, we anticipate close to 5.8x net debt / EBITDA mainly due to a 59% decline in EBITDA, as well as an increase of RUB 2.4bn in total debt needed to finance capex in excess of operating cash flow. Moreover, amid the unfavorable operating environment, we expect the ratio to stay above 2.5x over 2010-2013.

Despite this gloomy outlook, total outstanding debt does not appear threatening to us. We believe NKNC will roll over its maturing plus amortizing debt, until the environment starts to improve (Figure 5). This should not be difficult as the company has good refinancing opportunities from domestic banks, and had RUB 3.4bn in undrawn facilities as of March 09.

Figure 5:
Debt issuance and repayment forecast, RUB bn



Source: Company's data, IFC Metropol estimates

Risks

Additional share issue still a major risk for minorities, but is unlikely before 2014, in our view

We reiterate our major concern of a possible additional equity placement by NKNC. In 2006, the company's Board of Directors approved an additional share issue of 25.78bn shares at a par value of RUB 1, distributing it among existing shareholders in proportion to their stakes. The dilutive effect for non-participating common shareholders was estimated at 15x, while for prefs it was significantly higher, since the additional equity registered consisted of only common stock. However, the Federal Financial Markets Service (FSFR) blocked the issue at that time, insisting that the stock be issued at the market price.

Nevertheless, since the deal could have been restructured to meet legal requirements, we believe the apparent delay by NKNC's major shareholders may have been due to the economic downturn. Moreover, in 2009, TAIF CEO Albert Shigabutdinov claimed that 'the rights issue will always be germane if the market situation improves'.

On the other hand, we believe NKNC could renounce its plans altogether. There seems to be no sense in expanding capacity since we estimate polymer prices are unlikely to increase before 2014. Any public comments by management or shareholders on the cancellation of NKNC's additional equity placement could cause the company's shares to soar, as the market is probably still pricing in this event.

Numerically, if we reduce our company-specific risk premium for the WACC by 3%, and apply a 40% discount for lack of voting rights in valuing the preferred shares, our target prices for common and preferred shares would then climb to USD 0.87 (up 48%) and USD 0.64 (up 103%) respectively.

New Tatar President could trigger a change in the controlling shareholder

At the end of January Mintimer Shaimiev, the current president of Tatarstan, reportedly asked Russian President Dmitry Medvedev not to consider him as a candidate for the next Tatar presidency. On the same day, Medvedev said that Rustam Minnikhanov, Tatarstan's current prime minister, would likely be put forward as the next president.

We believe it is unlikely that such a change would affect the political climate in Tatarstan. Minnikhanov has been on Shaimiev's team since the beginning of the 1990s, and prime minister since 1998. We named Minnikhanov as the next possible Tatar president in our initiation report on Tatneft back in October 2007. Radik Shaimiev, the son of the current president, is rumored to be TAIF's controlling shareholder. After his father's resignation, Shaimiev could potentially lose control over TAIF or local and federal government support, which has previously been crucial for TAIF controlled companies such as KZOS.

However, we doubt that the political risk to TAIF is currently high. Mintimer Shaimiev is likely to remain an active politician – he is one of the most powerful members of the United Russia party and he could also potentially be appointed as a Tatar representative to the Federal Assembly. Only after Shaimiev's full retirement would the risk increase, in our view. At the same time, we believe that the Tatar authorities would be unlikely to allow control over TAIF to leave Tatarstan, meaning that the company is likely to continue enjoying support from the government.

A trust management agreement under which OAO Sviazinvestneftekhim transferred its interest in 25.2% of NKNC's share capital to a member of the TAIF Group is due to end in November 2010. The agreement permits OOO TAIF-Invest to manage and vote with the shares, and also grants TAIF-Invest full control over the company. Although we believe it is likely that the deal will be prolonged, this is another possible source of uncertainty.

Our petrochemical market assessment could be too conservative

We argue that the addition of large polypropylene and polyethylene capacity worldwide during 2010-2011, as well as weak prices for natural gas, should put pressure on prices for NKNC's major products. However, there are several reasons why our forecast could turn out to be overly pessimistic. For instance, new capacity could be delayed, increasing PE and PP prices above our projections for 2010-2012.

Solely for illustrative purposes, we conducted an alternative valuation based on what we view as a fairly optimistic scenario; that NKNC's product prices will move in parallel with crude oil. Based on these changes we obtained a target price of USD 1.75 per share. However, this assumes that NKNC's EBITDA margin should recover to 11% by 2011, and exceed 20% by 2018, – an overly optimistic ('upper bound') development, in our view.

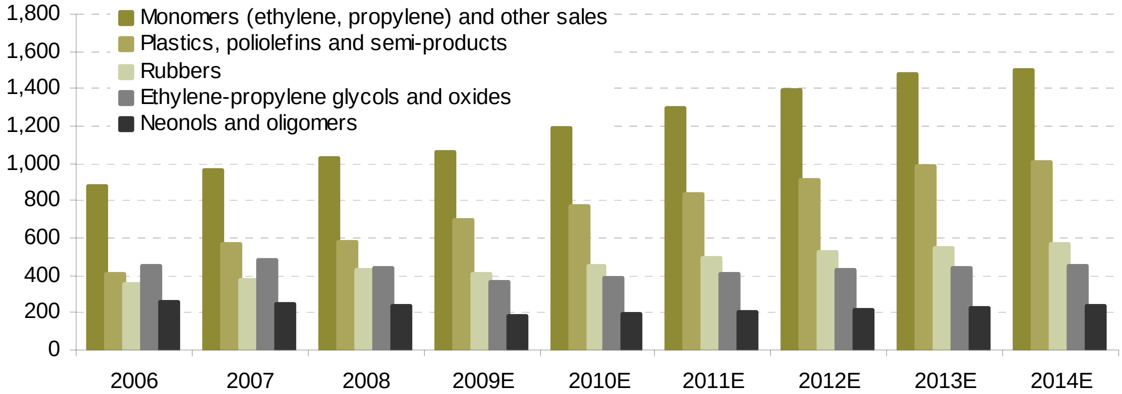
Operating profile & key value drivers

Increased production of value-added products

NKNC's current strategic development program for 2008-2012 anticipates an increase in RAS revenues from RUB 71bn in 2008 to RUB 130bn in 2012, from increasing and diversifying the output of value-added products. Among key production targets are: bringing synthetic rubber (SR) output up to 820kt (vs. 425kt in 2008), boosting ethylene production capacity to 1,600kt (vs. 545kt in 2008), and increasing plastics output to 1,600kt (vs. 316kt in 2008). NKNC estimates that it will need to make RUB 125bn (RUB 25bn pa on average) in capital expenditures to achieve these production goals. However, the company's EBITDA did not exceed RUB 9bn in either 2007 or 2008, while net debt was RUB 18bn as of 2008-end. These figures lead us to believe that NKNC's plans are somewhat over ambitious, to say the least.

As we believe the company's latest outlook is overly optimistic, our forecast for NKNC's production profile is based solely on our understanding of how NKNC should act in conditions of limited free cash flow, an unfavorable pricing environment and cost pressures (discussed below). Overall, we believe that NKNC should continue to capitalize on the relatively high margins for higher value-added products, such as plastics and synthetic rubbers (Figures 6 and 7).

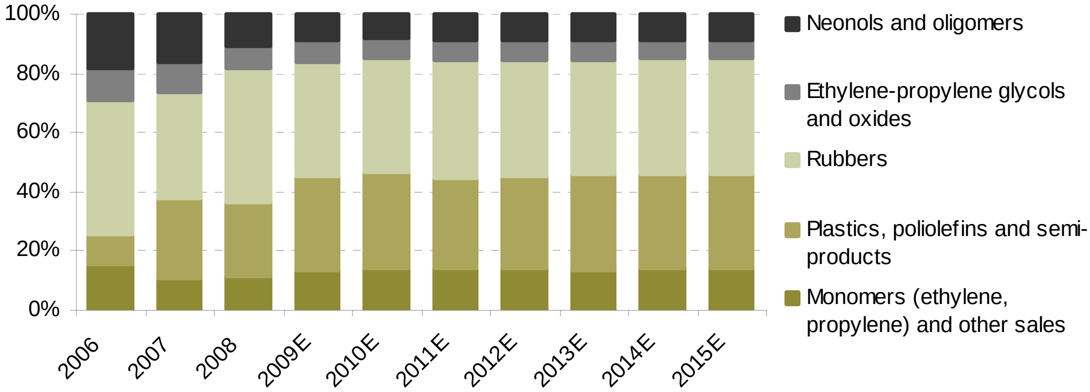
Figure 6:
Production by major product segments, '000 tons



Source: Company data, IFC Metropol estimates

Supporting the points made above, in January 2010 NKNC published its operating update for 2009, indicating a 0.6% y-o-y increase in output volume (at 2008 prices), despite a severe contraction in several types of SR output (by 30% on average) and other key products including neonol, glycols and oxides. Growth was not only due to a new 230kt pa polyethylene plant (NKNC produced 130.5kt in 2009) and increased production at polypropylene and polystyrene plants (up 9-10% y-o-y), but also due to a 14% y-o-y increase of butyl and halobutyl rubber production, where in several sub-types of these rubbers NKNC has a leading position both domestically and globally.

Figure 7:
Product revenue breakdown, %



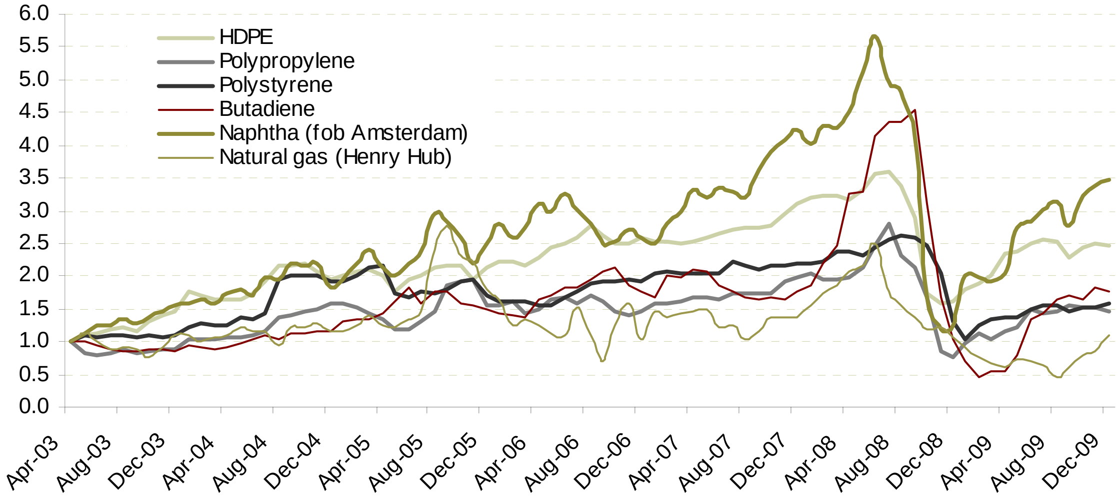
Source: Company's data, IFC Metropol estimates

All in all, we expect NKNC to produce in excess of 600kt of rubber pa only by 2016, mainly from introducing new products including butadiene-styrene rubber, a moderate recovery in isoprene rubber production, and expanding capacities in butadiene and butyl rubbers. Pursuant to the strategy of moving into deeper in-house processing of basic monomers, we expect NKNC's plastic production to approach 716kt pa by 2016 vs. 476kt in 2009. Growth in the segment should also be supported by commissioning ABS-plastics (60kt pa) and expandable polystyrene (50kt pa) capacities during 2010-2011

Nevertheless, low petrochemical margin is a major driver for valuation

NKNC's key challenge, however, is product pricing and margins rather than sales volumes, as it buys naphtha based on European netback pricing. In the meantime, product prices are driven by global production, consumption and prices for other hydrocarbons (as alternative feedstock), despite a significant correlation to the crude oil price. Looking at historical performance, we see a clear indication of how tightening petrochemical margins (for naphtha-fueled production) have influenced NKNC's operations: a divergence between major product and naphtha prices in 2007-2008 (Figure 8) drove NKNC's raw materials as a percentage of revenues up to 51% in 2008, from 47% in 2006, according to our estimates.

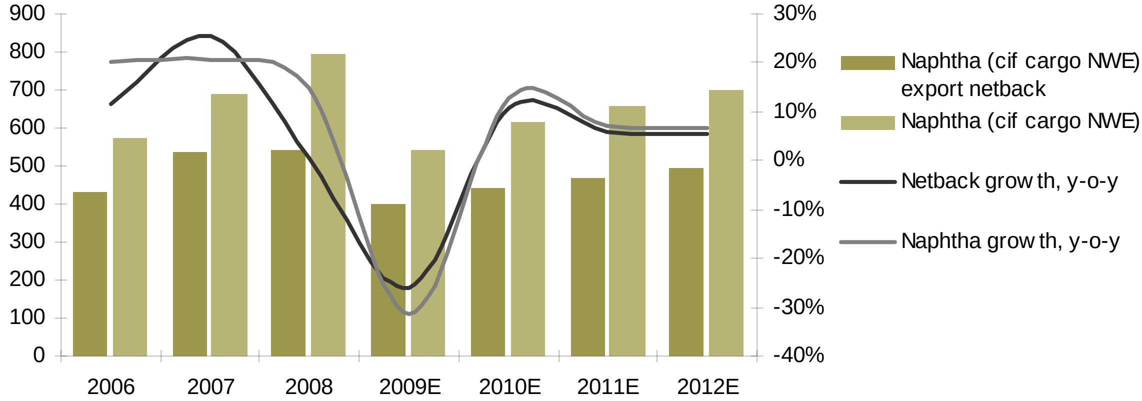
Figure 8:
Major product and feedstock price dynamics on international markets (base – Jan 2003)



Source: Bloomberg, IFC Metropol estimates

Following a rapid recovery in the crude oil price, the naphtha price has returned to October 07 levels (fob Amsterdam is above USD 700 per ton), while prices for key products are clearly underperforming (Figure 8). This, in combination with the strengthening rouble, had a ruinous effect on NKNC's profitability over 1Q 09 - 3Q 09: according to our estimates, EBITDA margin was down from 15% to 5% (based on RAS quarterly reports).

Figure 9:
Naphtha international prices and export netback dynamics, USD per ton



Source: Bloomberg, IFC Metropol estimates

Recovering crude oil prices are unfavorable for NKNC, but the export duties for naphtha generally tend to soften the volatility of prices inside Russia (Figure 9). However, 2009 saw a sharper drop in naphtha prices compared to the netback, resulting in additional pressure on company margins. Nevertheless, on the whole, a 30% discount on average for a major feedstock relative to international prices grants a significant buffer for local petrochemical margins.

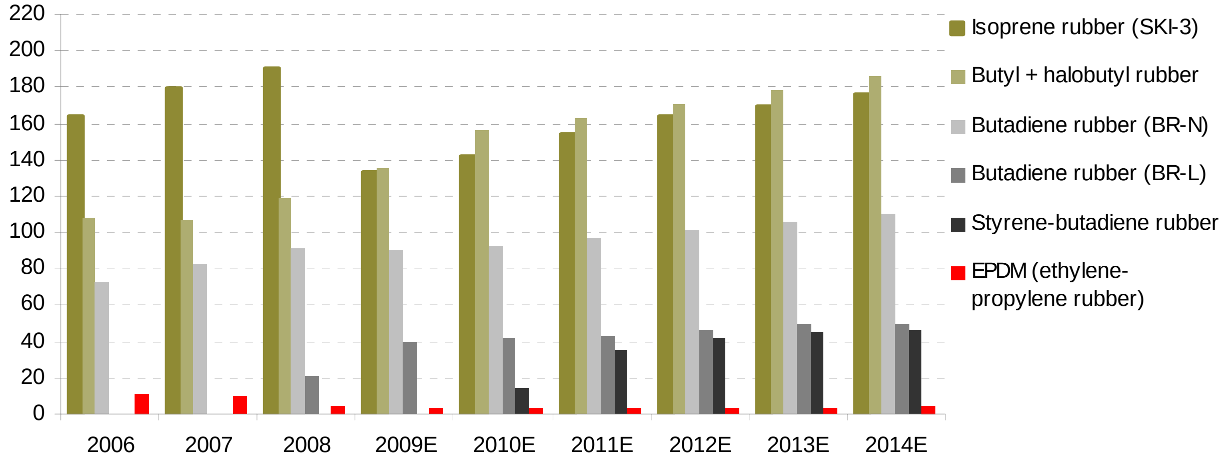
Another major factor to consider is the new Tatneft owned Nizhnekamsk refinery, which at full capacity should produce up to 400kt of naphtha pa. Thus, starting from 2011 when the unit is supposed to come on stream, it may turn out that naphtha prices in Tatarstan will be under pressure, due to the fact that NKNC is the sole consumer of naphtha in the region, and most naphtha-based petrochemical crackers in Russia are already operating at close to 100% utilization. In addition, we admit that Tatneft possibly intended to supply 400kt of naphtha to NKNC, since the volume corresponds well with NKNC's projected extra demand for naphtha in the framework of its ambitious plan for increased production. Consequently, with underdeveloped logistics Tatneft may be forced to export naphtha by rail, decreasing its naphtha netbacks, and consequently providing more negotiating power to NKNC. Nevertheless, we believe that Tatneft will not provide any material discounts for NKNC, since it enjoys a monopolistic position in naphtha supplies in the region, and it is unlikely to be forced to do so, as its controlling shareholder is not TAIF. Moreover, Tatneft needs to payback its huge investment in the refinery.

Synthetic rubbers – volumes are recovering but price growth is less favorable

As one of the largest SR producers in Russia, NKNC was significantly affected by a reduction in tire manufacturing in 2009, with the decline estimated at about 30% y-o-y. Isoprene rubber (SKI-3) was the worst performer among NKNC's bulk items, running at a 30% decrease y-o-y (133kt vs. 190kt in 2008) due to a slump in production from tire producer Nizhnekamskshina, which accounted for 38% of all isoprene rubber sales in 2008. However, butadiene and butyl rubbers were more resilient, even increasing by 16% (to 130kt, according to our estimates) and 14% (to 136kt) y-o-y respectively, primarily due to production facilities for halobutyl rubber and lithium catalyst butadiene rubber (BR-L) becoming operational. Overall, we estimate NKNC's total rubber output decreased by 5.5% y-o-y in 2009, to 401.5kt.

We estimate that 72% of NKNC's total 2008 rubber revenues were due to exports, and we believe external markets will remain the primary driver for NKNC's SR revenues going forward. The current consensus-view of leading global SR producers is that global demand for SR should grow annually by an average of 3-4% in the next few years, especially from BRIC countries. We model NKNC's external sales of styrene-butadiene (the estimated start of production at the 50kt pa plant is 2010), butadiene, isoprene and butyl rubbers (which account for the vast majority of SR consumption) as being driven by world GDP growth, which we derive from the latest IMF projections – 3.1% y-o-y in 2009, and marginally above 4% further on. This appears to be inline with producer estimates for SR consumption growth.

Figure 10:
Synthetic rubber production, '000 tons



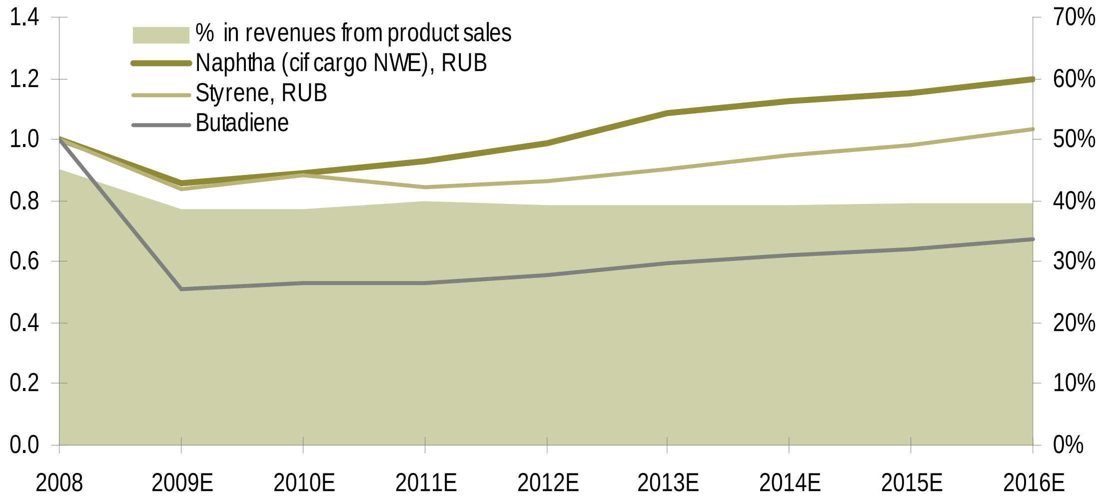
Source: Company's data, IFC Metropol estimates

We do not expect a quick rebound in the domestic SR market, where NKNC is to mainly dependent upon demand from tire producers. Although Sibur (another major SR producer in Russia) forecasts a 15% increase in 2010, our negative outlook for the tire industry means our expectations for NKNC are more conservative. Overall, due to increased production capacity for styrene-butadiene, halobutyl and BR-L rubber in 2008-2010, we expect NKNC to increase SR production by 12% and 10% y-o-y in 2010 and 2011, respectively, which should be supported by increasing exports given limited domestic upside in Russia.

In the medium term, NKNC's SR prices should follow the prices for the company's major SR semi-products – butadiene, isoprene and, to a certain degree, styrene and isobutylene. We believe other factors, such as global production capacity or alternative feedstock, will have limited impact. A significant increase in global SR production seems unlikely as no major plants are either planned or under construction. The trend of a widening differential between crude oil and petrochemical products and semi-products (as outlined in Figure 8) should continue, since the outlook for the price of natural gas – the alternative feedstock – remains weak.

In particular, following a 35-40% y-o-y decrease on average in 2009, we model an increase in USD-denominated prices for NKNC's bulk rubbers at 13.7%, 2.7% and 5.1% y-o-y in 2010, 2011 and 2012 respectively, vs. our oil price growth forecast – 13.3%, 7.4% and 6.8% for corresponding years.

Figure 11:
Relative price growth for major SR semi-products vs. share in total product revenues

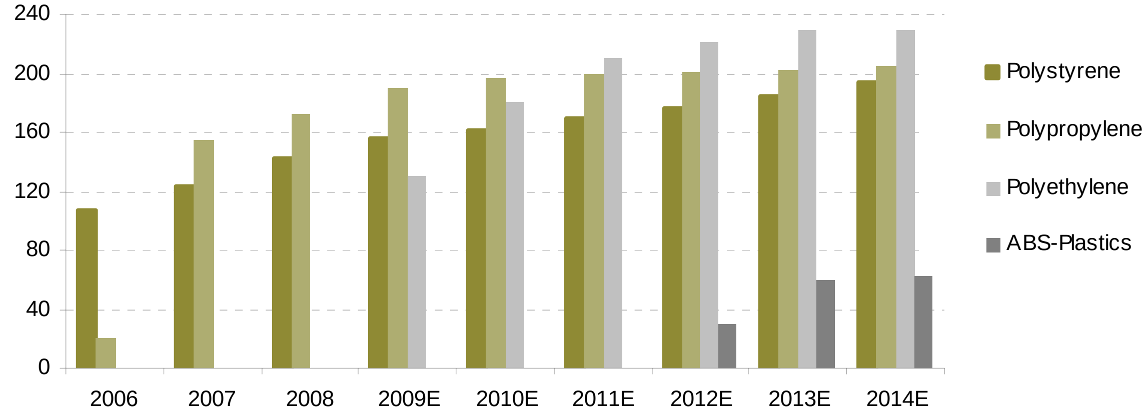


Source: Company data, Bloomberg, IFC Metropol estimates

Increasing polymer production could be negative for NKNC value, as the outlook for PE and PP prices is gloomy, in our view

The polyolefin segment should be the key driver for NKNC output in the coming 3-5 years, in our view. With the opening of a 230kt pa polyethylene plant in 2009, NKNC should be able to show double-digit growth in polymer production – 540kt in 2010 vs. 476kt in 2009 (polystyrene up 4% y-o-y, polypropylene up 3%, polyethylene up 38%) – and we anticipate growth of about 8% throughout 2011-2013 due to the commissioning of the 70kt pa ABS-plastics (acrylonitrile butadiene styrene) production facility in 2012 (Figure 12).

Figure 12:
Plastics production, '000 tons

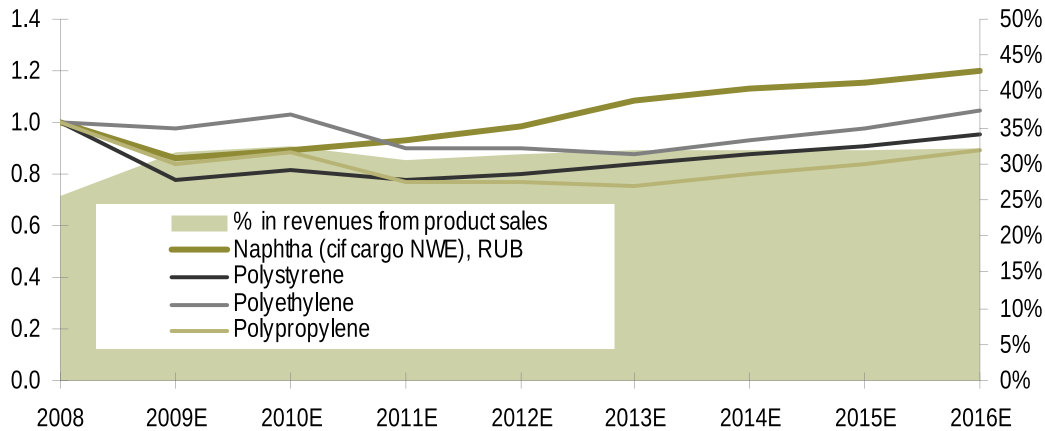


Source: Company's data, IFC Metropol estimates

NKNC should not have problems selling its products on the market as global demand for polyolefins is estimated at well above 100mnt per annum. However, we argue the years 2010-2011 should see the addition of large ethylene and polyethylene capacity worldwide, making it impossible for PE producers to pass input price increases on to PE users. Since a higher share of PE should be obtained from natural gas, NKNC's naphtha-fueled polymer production puts significant pressure on its margins.

Regarding polypropylene prices, we look for similar dynamics to polyethylene – up 15% y-o-y in 2010, then down 10% in 2011, flattish over 2012-2013, and up 5% y-o-y throughout 2014-2016 in USD terms. The underlying logic is similar: PP should also see fairly unprecedented new capacity of over 5mnt pa to come on stream during 2010-2011, or plus 11% of worldwide consumption annually. Moreover, NKNC, which currently produces about 35% of Russia's PP, could lose its leading position to Sibur by 2012-2013, when the latter plans to open a 500kt pa propylene and polypropylene plant in Tobol'sk – potentially the largest PP plant in Europe. The possibility that Sibur will flood the domestic market with PP poses a risk to NKNC's margins, which are normally higher on the domestic market.

Figure 13:
Relative price growth for polymers vs. share of total product revenue



Source: Company data, IFC Metropol estimates

For polystyrene (PS), which constituted approximately a third of NKNC's polymer production in 2009, we model a more favorable pricing outlook: after an estimated 38% drop in 2009 compared to 2008, we expect PS prices to bottom out by 14.2% y-o-y in 2010 before declining by just 1.7% in 2011 and then rising by 4% on average throughout 2012-2016. The reasons behind are the low risk of PS oversupply in the medium-term and increasing feedstock prices, since styrene – the PS monomer – is an oil-driven product.

Financial outlook

For our full income statement, balance sheet and cash flow forecasts, please refer to the Appendix.

Revenues

Aside from synthetic rubbers and polymers (discussed above), which should contribute up to 70% of revenue in 2009, we do not anticipate higher prices for NKNC's other products such as monomers (ethylene, propylene and styrene), neonols and oligomers, or glycols and oxides. For example, monomer pricing is generally driven by respective polymer prices, whereas glycols and oxides have historically been moving between oil and natural gas with extremely low volatility. For simplification, optimistically assuming oligomer and neonol prices will be moving with oil, our forecast implies a decrease in overall revenues of 15% y-o-y in 2009, then an increase of 16% y-o-y for 2010, just a 4% growth y-o-y in 2011 amid declining polymer prices and a 12% increase in 2012 with a decelerating growth rate further on (Figure 14).

Profitability

As discussed above, the decline in 2009 netback was milder vs. international naphtha price, literally collapsing NKNC's operating margin to 1% and EBITDA margin to 5%, according to our estimates. Our expectations could be implicitly confirmed by recent management guidance for RAS-based income from sales for 2009, which is anticipated to decline to RUB 2.9bn vs. RUB 7.5bn in 2008. Going forward, we expect NKNC's EBITDA margin to recover to 10% in 2011, then to decline to 6% in 2011, and increase gradually to a pre-crisis level of 11% by 2016.

Figure 14:
Income statement summary forecast

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Total revenues	77,868	65,877	76,359	79,537	88,801	99,431	106,691	112,645	119,982
Growth, y-o-y	19%	-15%	16%	4%	12%	12%	7%	6%	7%
Cost of sales	(64,555)	(58,647)	(64,684)	(69,857)	(77,218)	(86,139)	(90,739)	(94,605)	(99,278)
Growth, y-o-y	22%	-9%	10%	8%	11%	12%	5%	4%	5%
Gross profit	13,313	7,230	11,675	9,680	11,583	13,292	15,952	18,039	20,704
Gross margin, %	17%	11%	15%	12%	13%	13%	15%	16%	17%
SG&A	(7,547)	(6,551)	(7,112)	(7,498)	(8,199)	(8,828)	(9,411)	(9,852)	(10,176)
Growth, y-o-y	0%	-13%	9%	5%	9%	8%	7%	5%	3%
Total operating expenses	(72,102)	(65,198)	(71,796)	(77,355)	(85,417)	(94,967)	(100,150)	(104,457)	(109,454)
Growth, y-o-y	19%	-10%	10%	8%	10%	11%	5%	4%	5%
Operating profit	5,766	679	4,563	2,182	3,384	4,464	6,541	8,188	10,528
Growth, y-o-y	25%	-88%	572%	-52%	55%	32%	47%	25%	29%
Operating margin	7%	1%	6%	3%	4%	4%	6%	7%	9%
EBITDA	8,751	3,579	7,459	5,068	6,264	7,343	9,422	11,075	13,427
Growth, y-o-y	15%	-59%	108%	-32%	24%	17%	28%	18%	21%
EBITDA margin	11%	5%	10%	6%	7%	7%	9%	10%	11%
Profit before taxation	1,933	423	3,642	1,168	2,278	3,278	5,447	7,257	9,811
Growth, y-o-y	-58%	-78%	762%	-68%	95%	44%	66%	33%	35%
Shareholders profit	1,532	309	2,699	866	1,688	2,429	4,036	5,377	7,270
Growth, y-o-y	-52%	-80%	773%	-68%	95%	44%	66%	33%	35%
Net margin	2%	0%	4%	1%	2%	2%	4%	5%	6%

Source: Companies data, IFC Metropol estimates

Valuation

DCF valuation

We have estimated NKNC's fair value using a DCF model, which in our view is preferable to multiple-based analysis due to NKNC's unique business profile and operating environment.

WACC

To an estimated standard equity risk-premium of 10.4% we add 5% to account for specific risks associated with NKNC, namely, a potentially dilutive additional share issue and the poor corporate governance inherent, in our view, in TAIF-controlled companies. As far as the after-tax cost of debt is concerned, we estimate it at 9.6% based on NKNC's average interest rate. After weighting the costs of equity and debt, we derived a WACC of 13%, which we use in the DCF model.

Figure 15:
WACC calculations

Risk-free rate: 10-year US Treasury yield, 1M average	3.7%
Yield difference: 10-year US Treasury/Russia-30, 1M average	1.7%
Overall risk-free rate (adjusted for Russia country-specific risk premium)	5.0%
Standard equity risk premium	10.4%
Company-specific risk premium	5.0%
Total cost of equity	15.4%
After tax cost of debt	9.6%
Weight of equity	59.7%
Weight of debt	40.3%
WACC	**13.0%**

Source: IFC Metropol estimates

DCF model summary

We have summarized our DCF model in the tables below. We assume a terminal growth rate of 2% based on our long-term outlook for petrochemical market growth and overall macroeconomic expectations. In all, our fair value estimate is USD 0.59 per share. This implies a potential upside of 12%, so we place a Buy recommendation on NKNC common stock, although we emphasize the material corporate governance and shareholder risks associated with the company.

Figure 16:
NKNC DCF model, RUB mn

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	77,868	65,877	76,359	79,537	88,801	99,431	106,691	112,645	119,982	127,464	133,968	140,670
Operating costs (incl. purchases excl. DD&A)	(69,117)	(62,299)	(68,901)	(74,469)	(82,537)	(92,088)	(97,269)	(101,569)	(106,555)	(111,639)	(116,858)	(122,269)
EBITDA	8,751	3,579	7,459	5,068	6,264	7,343	9,422	11,075	13,427	15,826	17,110	18,402
EBIT	5,766	679	4,563	2,182	3,384	4,464	6,541	8,188	10,528	12,910	14,173	15,438
- Income tax	(818)	(106)	(874)	(280)	(547)	(787)	(1,307)	(1,742)	(2,355)	(2,995)	(3,375)	(3,736)
- Capex, incl. acquisitions	(7,938)	(3,175)	(2,675)	(2,718)	(2,860)	(3,003)	(3,145)	(3,287)	(3,419)	(3,555)	(3,697)	(3,845)
- Changes in working capital	1,834	(1,425)	(160)	(690)	(1,067)	(1,329)	(653)	(467)	(685)	(695)	(612)	(628)
+ DD&A	2,953	2,899	2,896	2,886	2,880	2,879	2,881	2,888	2,899	2,916	2,937	2,964
- Net interest expense	(1,069)	(1,065)	(976)	(1,040)	(1,147)	(1,239)	(1,171)	(1,028)	(842)	(586)	(281)	(57)
Free cash flows	760	(2,192)	2,775	339	644	985	3,145	4,552	6,126	7,995	9,146	10,136

Source: Company data, IFC Metropol estimates

Figure 17:
NKNC DCF summary, USD mn

NPV	680.0
Perpetual growth rate	2.0%
Terminal value	942.3
Net debt	667.0
Total fair value	955.3
Common shares outstanding, '000	1,611.3
Fair value per share, USD	0.59

Source: Company data, IFC Metropol estimates

Figure 18:
NKNC fair value sensitivity analysis

Terminal growth rate \ WACC	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%	15.0%
0.0%	0.75	0.67	0.61	0.55	0.49	0.44	0.40	0.35	0.32
0.5%	0.78	0.71	0.64	0.57	0.52	0.46	0.41	0.37	0.33
1.0%	0.82	0.74	0.67	0.60	0.54	0.48	0.43	0.39	0.34
1.5%	0.87	0.78	0.70	0.63	0.56	0.51	0.45	0.40	0.36
2.0%	0.92	0.82	0.74	0.66	0.59	0.53	0.48	0.42	0.38
2.5%	0.97	0.87	0.78	0.70	0.62	0.56	0.50	0.45	0.40
3.0%	1.03	0.92	0.82	0.74	0.66	0.59	0.53	0.47	0.42
3.5%	1.10	0.98	0.87	0.78	0.69	0.62	0.55	0.49	0.44
4.0%	1.18	1.05	0.93	0.83	0.74	0.66	0.58	0.52	0.46

Source: Company data, IFC Metropol estimates

Preferred stock valuation

We apply a 46.7% discount to common stock for NKNC's preferred share valuation. The figure was derived from a 60% discount due to lack of voting rights and a strong dilutive effect for prefs in the case of an additional share placement (no change vs. our previous report), reduced by a 3.3% differential in dividend yields and a 10% liquidity adjustment. The latter was introduced to account for a sizeable increase in the liquidity of preferred shares relative to common stock: we estimate the 6-month average daily turnover for prefs was USD 51,000, compared to USD 42,000 for common shares.

Figure 19:
Preferred stock valuation

Preferred current price per share, USD	0.20
Preferred dividend per share, USD	0.011
Preferred dividend yield	5.3%
Common current price, USD	0.53
Common dividends per share, USD	0.011
Common dividend yield	2.0%
Difference in yields	3.3%
Discount calculation	
Voting rights discount	60.0%
less liquidity premium	-10.0%
less dividend yield premium	-3.3%
Total discount	**46.7%**
Common share, fair value price, USD	0.59
Preferred Fair Value Price, USD	0.32

Source: Company data, Bloomberg, IFC Metropol estimates

With a year-end target price for common stock of 0.59 USD, we set our fair value for prefs at USD 0.32 per share and make a Buy recommendation due to the current upside of 58%.

We have conducted an alternative DDM-based valuation for prefs, assuming a dividend payout ratio at 30% of RAS-based net profit, and applying various discount rates (Figures 20-21). Our principal argument is that the current market price for prefs (USD 0.20 per share) is unsustainable, as it would require a 19% discount rate, even under very conservative fundamental assumptions in our base-case scenario for NKNC. We admit that the market is probably pricing the risk that pref holders could be disadvantaged disproportionately should an additional equity issue be conducted. In particular, our DDM implies a 63% downside (or a target price of USD 0.074 per share) to preferred shares in case of such an event. Nonetheless, we believe that a 14.5% rate, which we derive from the WACC, adding a 1.5% volatility markup implied by the market, is more appropriate. This actually delivers a target price of USD 0.31 per share, or very close to our fair value.

In addition, we highlight that prefs are also technically undervalued relative to common shares, with the market-implied discount rate currently hovering near 64% – close to the upper bound of the historical corridor, whereas the 1-year average is 61% (Figure 22).

Figure 20:
NKNC fair value sensitivity analysis

Terminal growth rate \ Discount rate	10.5%	11.5%	12.5%	13.5%	14.5%	15.5%	16.5%	17.5%	18.5%
0.0%	0.45	0.39	0.35	0.31	0.28	0.26	0.23	0.21	0.19
1.0%	0.48	0.42	0.37	0.33	0.29	0.26	0.24	0.22	0.20
2.0%	0.52	0.45	0.39	0.34	0.31	0.27	0.25	0.23	0.21
3.0%	0.56	0.48	0.41	0.36	0.32	0.29	0.26	0.23	0.21
4.0%	0.62	0.52	0.45	0.39	0.34	0.30	0.27	0.24	0.22

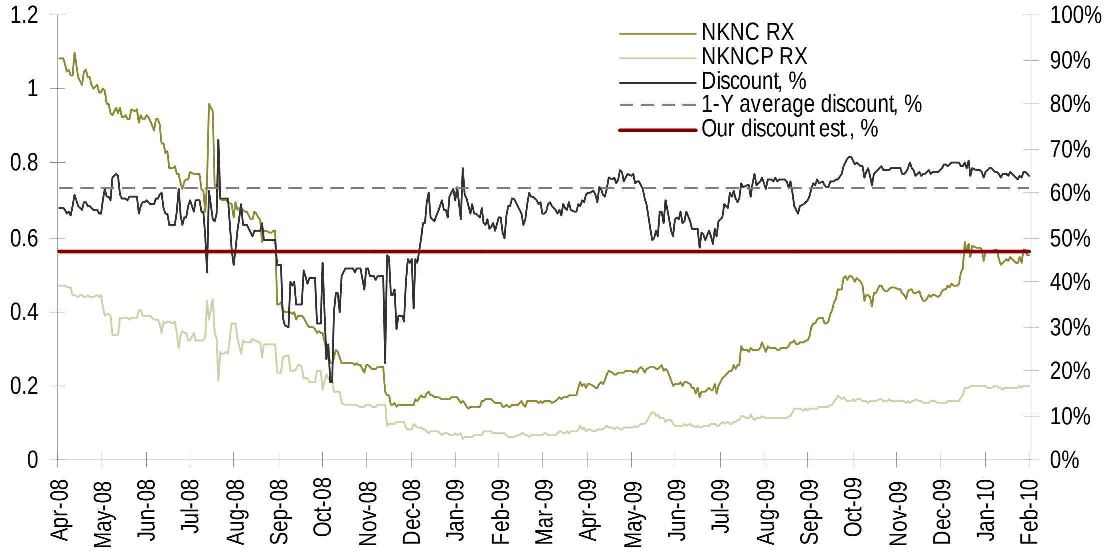
Source: Company data, IFC Metropol estimates

Figure 21:
DDM summary for preferred shares

Discount rate	14.5%
NPV of dividend flows	0.15
Terminal growth rate	2.0%
Terminal value of dividend flows	0.16
Fair value, USD per share	0.31

Source: Company data, IFC Metropol estimates

Figure 22:
Ordinary and preferred shares relative performance



Source: Bloomberg, IFC Metropol estimates

Multiples-based Comparative Valuation

We do not regard a multiple-based analysis as an appropriate way to value Nizhnekamskneftekhim, given material company-specific risks, as well as its unique product and raw material profiles. However, for the sake of completeness, we have compared NKNC with major international petrochemical companies and Kazanorgsintez, using our own estimates for Russian petrochemical producers and Bloomberg-consensus forecasts for international firms.

Primarily due to our bearish operating outlook for NKNC, the company looks very overpriced relative to peers on 2011E multiples. In particular, NKNC trades higher than any of its comparable peers on EV/EBITDA, P/E and FCF yield. This is unsurprising given our outlook for profitability for the year, while the consensus for international petrochemicals assumes median EBITDA margin to be rising from 12% in 2008 to 15% in 2011.

Even on 2008 multiples, with almost a record EBITDA margin of 11.2%, the company appears to be priced below the international peer median on EV/EBITDA and overpriced on P/E and FCF yield, ignoring NKNC's significant company-specific risks, in our view. For example, Lanxess, a very similar company in terms of product portfolio, is significantly below NKNC on all 2008 multiples, regardless the fact that the outlook for the German company is quite optimistic (as implied by the diminishing EV/EBITDA and P/E multiples and rising FCF yield over the 2009-2011 period). We believe this illustrates that NKNC common shares, being undervalued, have limited upside. .

Figure 23:
NKNC comparative multiples

As of Feb 26	EV, USD mn	Mkt Cap, USD mn	EV/EBITDA (x)				P/E (x)				FCF yield, %			
			2008	2009E	2010E	2011E	2008E	2009E	2010E	2008E	2008	2009E	2010E	2011E
Russian Peers														
Nizhnekamskneftekhim	1,521	854	4.3	13.3	5.9	8.4	13.9	86.5	9.1	27.6	3.6%	-8.2%	11.3%	1.4%
Kazanorgsintez	1,280	286	10.8	23.1	10.8	8.4	-2.4	-4.6	-5.2	-4.6	-39.6%	2.2%	2.7%	0.3%
International Peers														
Dow Chemical	40,706	23,892	7.2	7.6	5.8	5.0	10.5	44.1	13.9	7.8	11.0%	6.0%	8.5%	11.4%
Du Pont	26,247	22,361	5.3	6.2	5.5	5.1	9.0	12.2	10.3	9.1	6.1%	9.9%	8.5%	8.8%
Lanxess	2,941	2,246	3.3	5.2	3.8	3.2	7.9	41.4	10.8	7.5	6.9%	3.4%	4.0%	6.4%
BASF	51,883	37,782	4.3	5.3	4.3	3.9	8.9	15.8	10.0	8.3	9.8%	9.6%	12.8%	13.7%
Zeon Corporation	1,692	929	4.1	5.6	5.6	4.3	8.4	56.1	39.5	11.3	-7.9%	-7.9%	11.1%	18.1%
Mitsubishi Chemical	13,179	5,008	6.1	10.1	6.1	4.8	3.3	-7.5	n/a	13.7	14.1%	-13.8%	4.8%	8.9%
SABIC	69,304	51,942	4.9	10.4	6.4	5.2	7.3	24.9	11.5	8.5	10.3%	0.3%	3.4%	8.0%
Honam Petrochemical	2,425	2,421	11.6	2.9	3.3	3.3	13.9	3.5	4.9	4.6	-0.2%	26.3%	19.4%	19.5%
Average			5.8	6.7	5.1	4.3	8.6	23.8	14.4	8.8	6.3%	4.2%	9.0%	11.8%
Median			5.1	5.9	5.6	4.5	8.7	20.4	10.8	8.4	8.3%	4.7%	8.5%	10.1%

Source: Company data, Bloomberg, IFC Metropol estimates

Appendix

Income statement forecast

Figure 24:
NKNC income statement forecast, RUB mn

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues:												
Product sales	75,378	63,420	73,820	76,960	86,116	96,628	103,807	109,694	116,963	124,377	130,821	137,461
Growth, y-o-y	19%	-16%	16%	4%	12%	12%	7%	6%	7%	6%	5%	5%
Processing fees	406	365	329	296	266	240	216	194	175	157	142	127
Growth, y-o-y	-19%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%
Transportation recharges	517	447	483	517	549	580	611	641	658	675	693	710
Growth, y-o-y	-20%	-14%	8%	7%	6%	6%	5%	5%	3%	3%	3%	3%
Other income	1,567	1,645	1,728	1,764	1,869	1,983	2,057	2,115	2,186	2,255	2,313	2,372
Growth, y-o-y	156%	5%	5%	2%	6%	6%	4%	3%	3%	3%	3%	3%
Total revenues	77,868	65,877	76,359	79,537	88,801	99,431	106,691	112,645	119,982	127,464	133,968	140,670
Growth, y-o-y	19%	-15%	16%	4%	12%	12%	7%	6%	7%	6%	5%	5%
Cost of sales:												
Raw materials	(39,735)	(35,157)	(39,175)	(43,524)	(49,112)	(56,330)	(59,236)	(61,373)	(64,532)	(67,746)	(71,042)	(74,455)
Energy & fuel	(11,268)	(10,235)	(11,197)	(11,667)	(12,521)	(13,221)	(13,842)	(14,685)	(15,476)	(16,279)	(17,113)	(17,977)
Wages	(6,292)	(6,490)	(7,009)	(7,430)	(7,801)	(8,172)	(8,541)	(8,907)	(9,263)	(9,634)	(10,019)	(10,420)
Depreciation	(2,806)	(2,754)	(2,751)	(2,741)	(2,736)	(2,735)	(2,737)	(2,743)	(2,754)	(2,770)	(2,790)	(2,816)
Services and other	(2,549)	(2,214)	(2,581)	(2,472)	(2,792)	(3,243)	(3,627)	(4,029)	(4,246)	(4,466)	(4,695)	(4,932)
Repairs and maintenance	(784)	(683)	(679)	(676)	(750)	(753)	(948)	(958)	(971)	(987)	(1,006)	(1,028)
Taxes	(737)	(791)	(916)	(954)	(1,066)	(1,193)	(1,280)	(1,352)	(1,440)	(1,530)	(1,608)	(1,688)
Rental payment for land	(383)	(322)	(375)	(391)	(438)	(491)	(527)	(557)	(594)	(632)	(665)	(698)
Provision for obsolete stock	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)
Cost of sales	(64,555)	(58,647)	(64,684)	(69,857)	(77,218)	(86,139)	(90,739)	(94,605)	(99,278)	(104,045)	(108,939)	(114,016)
Growth, y-o-y	22%	-9%	10%	8%	11%	12%	5%	4%	5%	5%	5%	5%
Gross profit	13,313	7,230	11,675	9,680	11,583	13,292	15,952	18,039	20,704	23,419	25,029	26,655
Gross margin, %	17%	11%	15%	12%	13%	13%	15%	16%	17%	18%	19%	19%
SG&A	(7,547)	(6,551)	(7,112)	(7,498)	(8,199)	(8,828)	(9,411)	(9,852)	(10,176)	(10,509)	(10,856)	(11,217)
Growth, y-o-y	0%	-13%	9%	5%	9%	8%	7%	5%	3%	3%	3%	3%
Total operating expenses	(72,102)	(65,198)	(71,796)	(77,355)	(85,417)	(94,967)	(100,150)	(104,457)	(109,454)	(114,554)	(119,795)	(125,232)
Growth, y-o-y	19%	-10%	10%	8%	10%	11%	5%	4%	5%	5%	5%	5%
Operating profit	5,766	679	4,563	2,182	3,384	4,464	6,541	8,188	10,528	12,910	14,173	15,438
Growth, y-o-y	25%	-88%	572%	-52%	55%	32%	47%	25%	29%	23%	10%	9%
Operating margin	7%	1%	6%	3%	4%	4%	6%	7%	9%	10%	11%	11%
EBITDA	8,751	3,579	7,459	5,068	6,264	7,343	9,422	11,075	13,427	15,826	17,110	18,402
Growth, y-o-y	15%	-59%	108%	-32%	24%	17%	28%	18%	21%	18%	8%	8%
EBITDA margin	11%	5%	10%	6%	7%	7%	9%	10%	11%	12%	13%	13%
Exchange gain (loss), net	(2,901)	800	-	-	-	-	-	-	-	-	-	-
Interest income	114	108	103	98	93	88	84	80	76	72	68	65
Interest expense	(1,183)	(1,173)	(1,079)	(1,137)	(1,240)	(1,327)	(1,255)	(1,108)	(918)	(658)	(349)	(122)
Total financial income	(3,970)	(265)	(976)	(1,040)	(1,147)	(1,239)	(1,171)	(1,028)	(842)	(586)	(281)	(57)
Growth, y-o-y	2547%	-93%	269%	7%	10%	8%	-5%	-12%	-18%	-30%	-52%	-80%
Profit from associates, net	137	8	54	26	40	53	78	97	125	153	168	183
Profit before taxation	1,933	423	3,642	1,168	2,278	3,278	5,447	7,257	9,811	12,477	14,061	15,565
Growth, y-o-y	-58%	-78%	762%	-68%	95%	44%	66%	33%	35%	27%	13%	11%
Income tax expense	(818)	(106)	(874)	(280)	(547)	(787)	(1,307)	(1,742)	(2,355)	(2,995)	(3,375)	(3,736)
Profit for the period	1,115	317	2,768	888	1,731	2,491	4,140	5,515	7,456	9,483	10,686	11,829
Growth, y-o-y	-66%	-72%	773%	-68%	95%	44%	66%	33%	35%	27%	13%	11%
Minority interests	(417)	8	69	22	43	62	103	138	186	237	267	296
Shareholders profit	1,532	309	2,699	866	1,688	2,429	4,036	5,377	7,270	9,246	10,419	11,533
Growth, y-o-y	-52%	-80%	773%	-68%	95%	44%	66%	33%	35%	27%	13%	11%
Net margin	2%	0%	4%	1%	2%	2%	4%	5%	6%	7%	8%	8%

Source: Company data, IFC Metropol estimates

Balance sheet forecast

Figure 25:
NKNC balance sheet forecast, RUB mn

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Assets												
Current assets:												
Cash and cash equivalents	1,700	1,734	1,670	1,762	1,591	1,345	1,130	1,074	1,489	1,507	2,548	6,544
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-
Trade accounts receivable	3,282	3,095	3,588	3,737	4,172	4,672	5,013	5,293	5,637	5,989	6,295	6,610
VAT receivable	551	520	602	627	700	784	842	889	946	1,005	1,057	1,110
Inventories	5,709	7,308	8,373	9,315	10,489	11,966	12,650	13,170	13,897	14,636	15,360	16,109
Other current assets	3,696	3,063	2,098	2,212	2,438	2,705	2,866	2,999	3,162	3,329	3,484	3,645
Total current assets	14,938	15,720	16,331	17,653	19,392	21,472	22,499	23,424	25,132	26,467	28,744	34,017
Non-current assets:	-	-	-	-	-	-	-	-	-	-	-	-
Investments in associates	885	893	947	973	1,013	1,066	1,144	1,241	1,366	1,520	1,688	1,872
Other non-current assets	4,117	4,055	4,030	4,117	4,260	4,411	4,568	4,734	4,908	5,091	5,282	5,484
PPE	37,647	37,923	37,702	37,534	37,514	37,639	37,903	38,302	38,821	39,461	40,221	41,103
Total non-current assets	42,649	42,871	42,679	42,625	42,788	43,116	43,615	44,277	45,096	46,071	47,192	48,458
Total assets	57,587	58,591	59,010	60,278	62,180	64,587	66,115	67,702	70,228	72,539	75,936	82,475
Liabilities and shareh. equity												
Current liabilities:												
Short-term borrowings	7,707	6,918	8,361	11,673	9,333	10,367	9,672	8,167	6,833	4,667	2,333	667
Accounts payable	7,920	7,348	8,067	8,625	9,448	10,423	10,998	11,500	12,091	12,698	13,309	13,943
Income tax payable	2	2	2	2	2	2	2	2	2	2	2	2
Other taxes payable	399	310	155	162	181	203	218	231	246	261	275	289
Total current liabilities	16,028	14,578	16,585	20,461	18,964	20,995	20,890	19,899	19,173	17,628	15,919	14,901
Non-current liabilities:	-	-	-	-	-	-	-	-	-	-	-	-
Long-term borrowings	12,418	15,612	12,251	9,078	11,245	9,878	8,707	7,540	5,707	3,040	707	40
Deferred tax liability	301	301	301	301	301	301	301	301	301	301	301	301
Deferred income	92	92	92	92	92	92	92	92	92	92	92	92
Other non-current liabilities	211	195	146	122	122	122	122	122	122	122	122	122
Total non-current liabilities	13,022	16,200	12,790	9,593	11,760	10,393	9,221	8,055	6,221	3,555	1,221	555
Total liabilities	29,050	30,778	29,375	30,054	30,724	31,388	30,111	27,953	25,394	21,183	17,140	15,455
Equity to parent comp. shareh.	-	-	-	-	-	-	-	-	-	-	-	-
Share capital	6,332	6,332	6,332	6,332	6,332	6,332	6,332	6,332	6,332	6,332	6,332	6,332
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Currency translation reserve	36	36	36	36	36	36	36	36	36	36	36	36
Retained earnings	20,962	20,230	21,982	22,550	23,739	25,419	28,120	31,728	36,627	42,912	50,084	58,012
Total equity to parent shareh.	27,330	26,598	28,350	28,918	30,107	31,787	34,488	38,096	42,995	49,280	56,452	64,380
Minority interests	1,207	1,215	1,284	1,306	1,350	1,412	1,515	1,653	1,840	2,077	2,344	2,640
Total equity	28,537	27,813	29,634	30,224	31,456	33,199	36,003	39,749	44,834	51,357	58,796	67,020
Total liabilities and equity	57,587	58,591	59,010	60,278	62,180	64,587	66,115	67,702	70,228	72,539	75,936	82,475
Net debt	18,425	20,797	18,942	18,989	18,987	18,900	17,249	14,633	11,051	6,199	492	(5,838)
Net debt to equity	64.6%	74.8%	63.9%	62.8%	60.4%	56.9%	47.9%	36.8%	24.6%	12.1%	0.8%	-8.7%
Net debt to EBITDA	2.1	5.8	2.5	3.7	3.0	2.6	1.8	1.3	0.8	0.4	0.0	(0.3)
Short-term net debt to EBITDA	0.7	1.4	0.9	2.0	1.2	1.2	0.9	0.6	0.4	0.2	(0.0)	(0.3)
Interest coverage ratio	4.9	0.6	4.2	1.9	2.7	3.4	5.2	7.4	11.5	19.6	40.6	126.8

Source: Company data, IFC Metropol estimates

Cash flow statement forecast

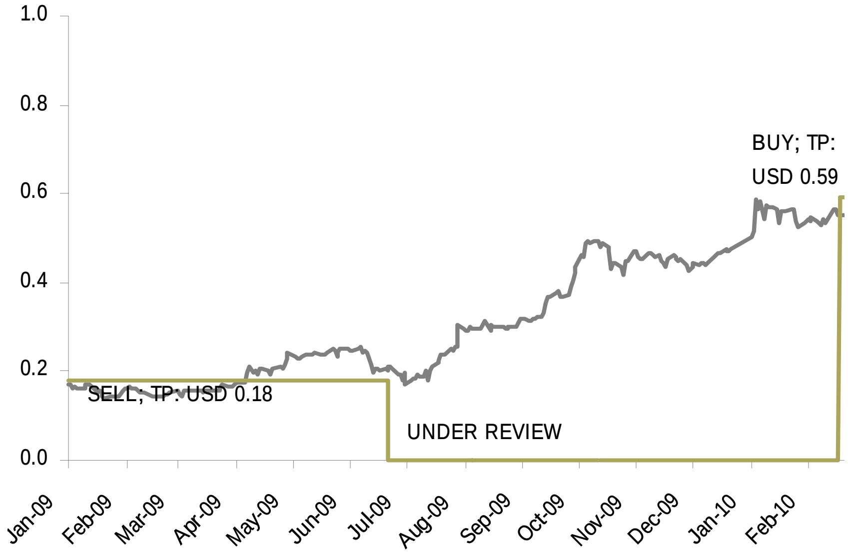
Figure 26:
NKNC cash flow statement forecast, RUB mn

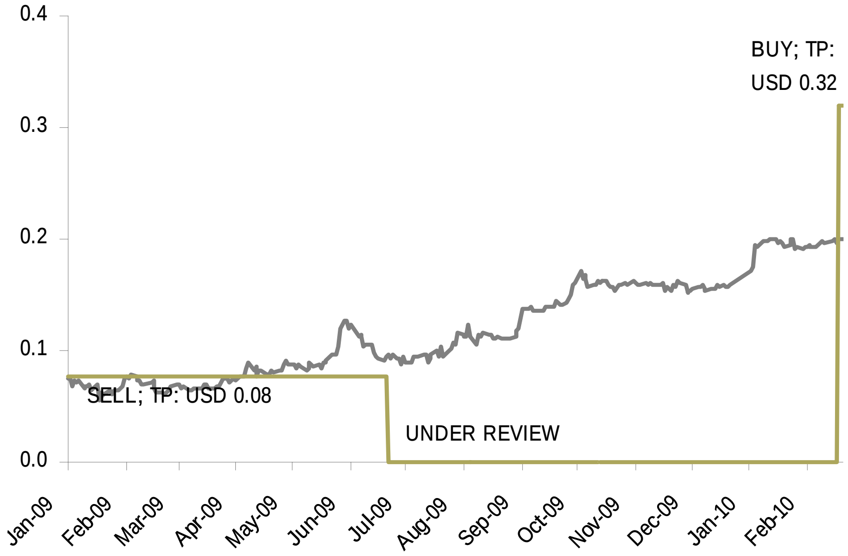
	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Operating activities:												
Operating profit	5,766	679	4,563	2,182	3,384	4,464	6,541	8,188	10,528	12,910	14,173	15,438
Depreciation & Amortization	2,953	2,899	2,896	2,886	2,880	2,879	2,881	2,888	2,899	2,916	2,937	2,964
Net interest expense	(1,069)	(1,065)	(976)	(1,040)	(1,147)	(1,239)	(1,171)	(1,028)	(842)	(586)	(281)	(57)
Income tax paid	(818)	(106)	(874)	(280)	(547)	(787)	(1,307)	(1,742)	(2,355)	(2,995)	(3,375)	(3,736)
Other	32	-	-	-	-	-	-	-	-	-	-	-
CF from OA before WC changes	6,864	2,408	5,609	3,748	4,571	5,317	6,943	8,306	10,230	12,245	13,455	14,609
Change in trade receivables	954	851	390	(289)	(735)	(850)	(560)	(460)	(566)	(577)	(512)	(528)
Change in inventories	510	(1,599)	(1,065)	(942)	(1,174)	(1,477)	(683)	(521)	(727)	(740)	(724)	(749)
Change in accounts payable	205	(677)	515	540	842	998	590	514	607	622	624	648
Change in restricted cash	165	-	-	-	-	-	-	-	-	-	-	-
CF from operating activities	8,736	983	5,450	3,057	3,504	3,988	6,290	7,839	9,545	11,550	12,843	13,981
Investing activities:	8,698	-	-	-	-	-	-	-	-	-	-	-
Purchase of PPE	(7,938)	(3,175)	(2,675)	(2,718)	(2,860)	(3,003)	(3,145)	(3,287)	(3,419)	(3,555)	(3,697)	(3,845)
Disposal of PPE	33	-	-	-	-	-	-	-	-	-	-	-
Sale of financial assets	66	-	-	-	-	-	-	-	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Loans provided	(97)	-	-	-	-	-	-	-	-	-	-	-
% and dividends received	46	-	-	-	-	-	-	-	-	-	-	-
Cash used in investing activities	(7,890)	(3,175)	(2,675)	(2,718)	(2,860)	(3,003)	(3,145)	(3,287)	(3,419)	(3,555)	(3,697)	(3,845)
Financing activities:	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of shares, net	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from borrowings	24,867	11,000	5,000	8,500	11,500	9,000	8,500	7,000	5,000	2,000	-	-
Repayments of borrowings	(22,665)	(8,595)	(6,918)	(8,361)	(11,673)	(9,333)	(10,367)	(9,672)	(8,167)	(6,833)	(4,667)	(2,333)
Dividends paid	(1,451)	(180)	(920)	(386)	(641)	(899)	(1,493)	(1,936)	(2,544)	(3,143)	(3,438)	(3,806)
CF from financing activities	751	2,225	(2,838)	(248)	(814)	(1,232)	(3,360)	(4,607)	(5,711)	(7,977)	(8,105)	(6,139)
Cash increase before FX effects	1,597	33	(64)	92	(170)	(247)	(215)	(56)	415	18	1,041	3,996
Exchange rate changes effect	(49)	-	-	-	-	-	-	-	-	-	-	-
Cash at the beginning of the year	152	1,700	1,734	1,670	1,762	1,591	1,345	1,130	1,074	1,489	1,507	2,548
Cash at the end of the year	1,700	1,734	1,670	1,762	1,591	1,345	1,130	1,074	1,489	1,507	2,548	6,544

Source: Company data, IFC Metropol estimates

Share price performance and rating history

Nizhnekamskneftekhim ordinary (NKNC RX) and preferred (NKNCP RX) shares, USD





Source: Bloomberg

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