

## **Использование финансовый инструментов в финансовой поддержке на примере компании «Лукойл»**

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### **Аннотация**

В данной статье были оценены показатели, характеризующие использование финансовых инструментов при финансовой поддержке компании, и анализ их эффективности с использованием статистических методов за период 2012-2018 гг. Также в статье рассмотрена сущность финансового механизма и условия финансовой устойчивости предприятия. Различные виды классификации финансовых инструментов, роли каждого финансового инструмента и случаи использования их компаниями также были изучены. В статье проведен анализ баланса Лукойла, его финансовой устойчивости и динамики использования акций и обязательств в качестве финансовых ресурсов, также факторы, влияющие на чистую прибыль и цены акций Лукойла, с помощью корреляционного анализа.

**Ключевые слова:** финансовые инструменты, нефть, Лукойл, финансовые рынки, акции, облигации.

## **The use of financial instruments in the financial support on the example of a company “Lukoil”**

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### **Abstract**

In this article the indicators characterizing the use of financial instruments in the financial support of a company are assessed and to analyze their effectiveness using statistical methods for 2012-2018 period. The article also considers the essence of the financial mechanism and the conditions for the financial stability of a company. Different kinds of classification of financial instruments, the roles of each financial instruments and the cases of using them by companies have been studied as well. In this article we made an analysis of the balance sheet of Lukoil, of its financial stability and the dynamics of using shares and obligations as financial resources. Also factors influencing the net profit and share prices of Lukoil through the use of correlation analysis are determined.

**Keywords:** financial instruments, oil, Lukoil, financial markets, shares, bonds.

Nowadays because of difficulties with credit policies of banks (especially in Russia), big companies such as Lukoil, often use financial instruments in their financial support.

The creation of the right investment portfolio, which consists of different types of financial instruments, is very difficult strategic decision for companies, because the market can be unpredictable, the risks of using either primary or derivative financial instruments cannot be fully determined.

In Russia the primary financial market is developed better and the main instruments of the financial market, which are used in the formation of financial resources of Lukoil, are primary ones – shares and bonds.

Today, the financial sector of the economy is a catalyst for scientific and technological progress and a key factor in ensuring investment and reproduction processes, contributing to the growth of productivity and efficiency.

In recent decades, significant changes have taken place in the structure of the world financial market. The variety of its instruments has immeasurably increased, the volume of operations conducted with financial instruments has sharply, the institutional structure has become more complicated. The financial market is undoubtedly an effective mechanism for ensuring investment activity, which in turn supports economic growth [4]. The objective basis of development of the world financial market and economic growth correspondingly is the pattern of the circuit of the functioning capital. The essence of this circuit is the fact that some subjects have a

temporary surplus of money capital while others require the involvement of this capital so the financial market allows us to match the interests of the various parties at the level of the world economy.

Financial stability is the main component of the overall sustainability of the company, as it is formed in the process of all production and economic activities. Success is influenced by the rational use of borrowed funds and own funds [10].

The fourth element of financial mechanism management – use of financial instruments – nowadays has a great influence on development of both global financial market and companies of any sphere in their turns. [8, p. 33].

The advantage of the financial market is that it allows to establish a direct connection between the investor and the investment object, which is maintained by a high level of self-organization and self-regulation. On the one hand, this minimizes transaction costs for all participants in the financial market, and on the other hand, imposes on them all the risk of investment decisions. Moreover, the financial market is oversaturated with risks due to the development of financial engineering, the diversity of financial instruments and the degree of globalization of the market itself.

Big companies have become to use many types of financial instruments for reaching different goals. In general, the overall goal of using financial instruments can be called as financial support. However, it is always difficult for companies to make the right decision in establishing the financial strategy of participating in the global financial market. One of the most important decisions made by an investor (a company) is the decision to allocate funds among a huge number of financial instruments [5]. This decision requires an understanding of the characteristics of all classes of financial market instruments.

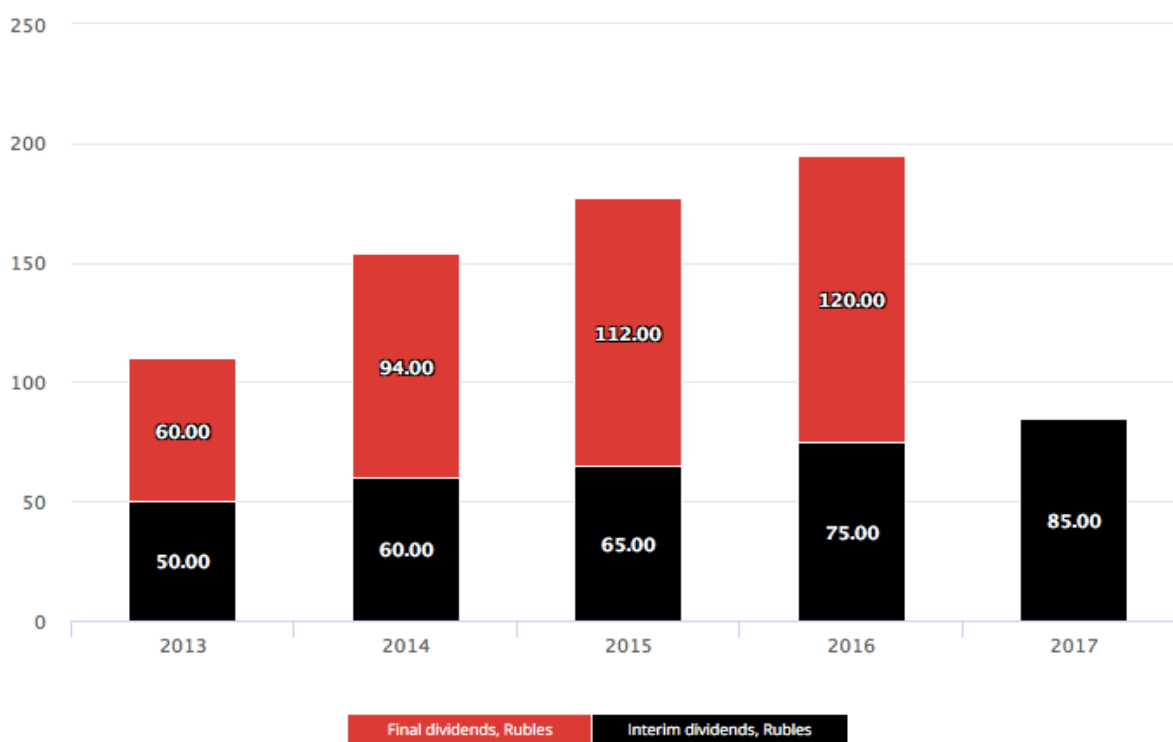
For the analysis of the effectiveness of using financial instruments, authors' choice was related to Lukoil company and its usage of two main types of primary financial instruments – shares and bonds. The oil industry in our country has become entrenched as an economic basis, and due to the recent crisis, global changes took place in all economic spheres of Russia, including the fact that the crisis and sanctions against Russia affected the oil companies and, accordingly, the formation of their financial resources, maintaining financial stability, which is carried out in Lukoil primarily through the use of shares and bonds.

"Lukoil" is one of the largest vertically integrated oil and gas companies in today's world. It accounts for more than 2% of world oil production and about 1% of proven hydrocarbon reserves. The company also produces 16.4% of all-Russian oil production and 15.7% of all-Russian oil refining. Lukoil is the largest Russian non-state company with revenues of more than 5.227 trillion roubles by the end of 2016 and net profit of about 206.794 billion roubles.

The key activities of the company are exploration and extraction of minerals (oil, gas, hydrocarbons); processing, trade and marketing (processing, transportation and sale of oil, natural gas and products of their processing); petrochemistry; power engineering. According to one of the most important indicators - market capitalization – nowadays "Lukoil" remains one of the leaders among Russian companies (2,908,926,332,100 roubles.). The maximum level of capitalization of the company for the last year was fixed on January 2017, when the value of the indicator was 3.575 trillion. rub. The reason for this maximum value in January 2017 was the growth in demand for the issuer's shares, due to the fact that they had more profitability than the rest of the oil and gas companies.

The payment of competitive dividends to the Company's shareholders has historically been the priority of "Lukoil". In 1994, "Lukoil" became one of the first companies in Russia to adopt the practice of annual dividend payment, and for the past 20 years the company has been continuously increasing the dividend per share. Starting from 2012, Lukoil began to pay dividends twice a year - interim and on the basis of the financial year results.

To ensure maximum transparency and predictability of dividends in October 2016, the Board of Directors of the company approved a new regulation on their dividend policy.

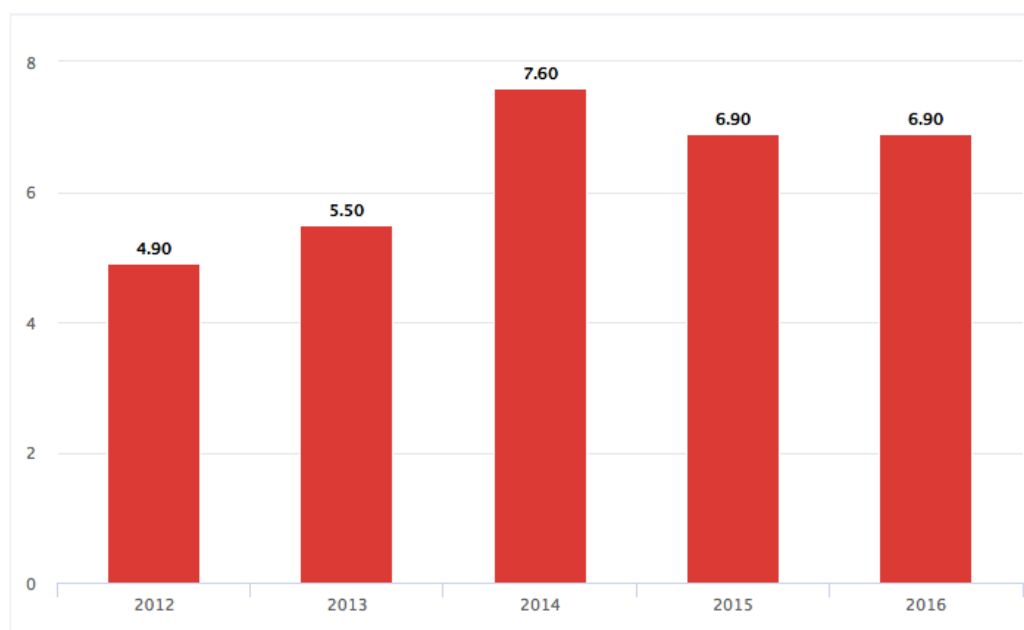


**Fig. 1. Dividend per ordinary share, rubles [7]**

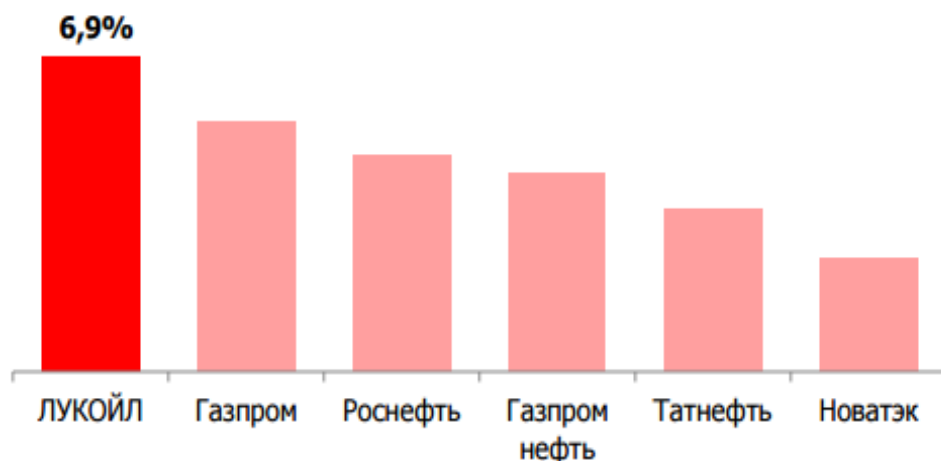


**Fig. 2. Dividend per ordinary share, rubles [13]**

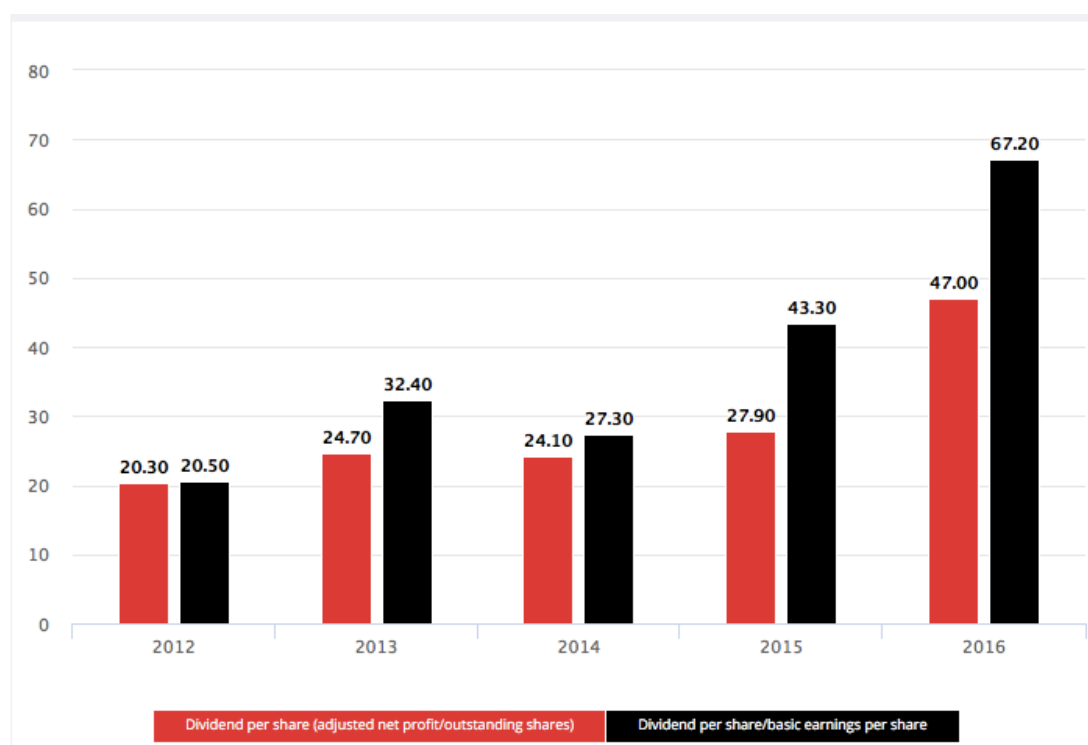
The indicators in Charts 1 and 2 above demonstrate the competitiveness of the dividend policy of Lukoil. Despite the deterioration of the external economic environment in 2014-2015, the company increased the dividend per share by 2015 by 14.9%. In terms of 2016-2017, the increase of this figure will amount approximately 10.26% ( $215/195 \cdot 100\%$ ). In 2018 the total dividend per ordinary Lukoil share exceeded the mark of 200 roubles.



**Fig. 3. Dividend Yield, % [7]**

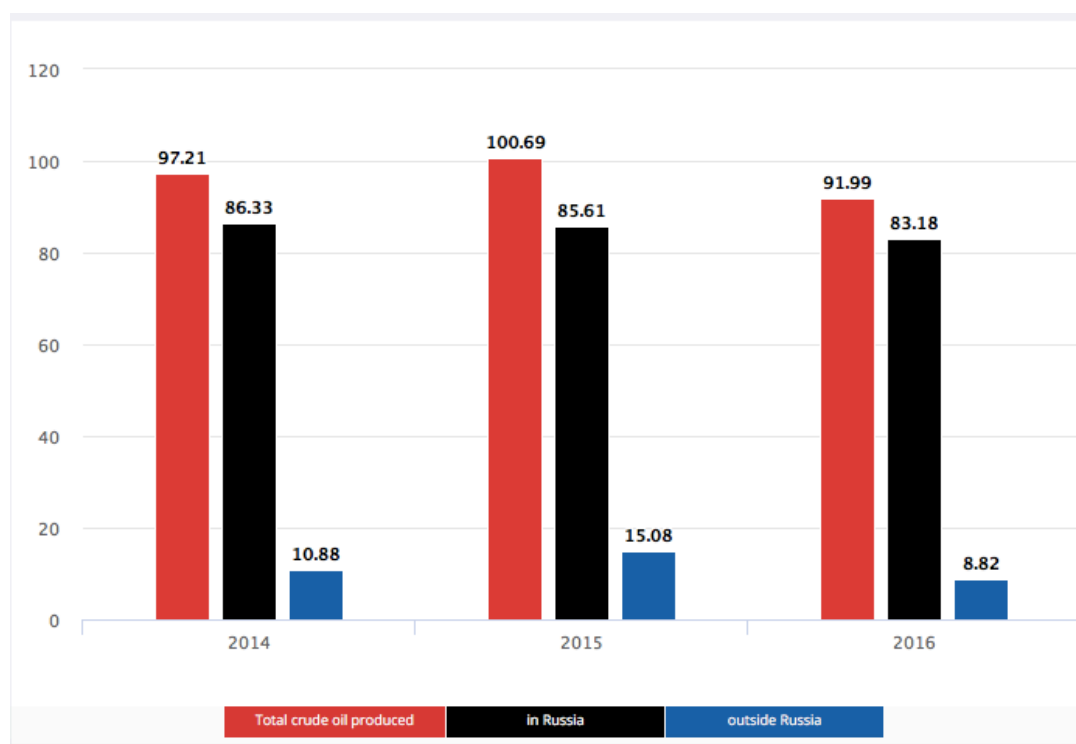


**Fig. 2. Dividend Yield in oil companies of Russia, % [7]**



**Fig. 3. Dividend payout ratio, % [7]**

According to Chart 3 above, dividend yield in 2016 became 6.9%: moreover, based on the data of Chart 4, the dividend policy of PJSC "Lukoil" can be called the most effective among the competing companies. The share of dividends in net profit reached to 47% of the adjusted net profit and 67.2% of total net profit, as presented in Chart 5.



**Fig. 4. Oil produced, mln tones [7]**

According to Chart 6, total oil production decreased by 8.7 mln tons, however, the amount of produced oil in Russia diminished insignificantly, only by 2.8% (2,43 mln tons), while the production of oil in foreign countries fall sharply by 41,5% (6,26 mln tons). This fact is possibly related to the problems in foreign policy on the basis of sanctions against Russia.

**Table 1.** Capital Structure, roubles [8]

Total equity	3,446,596	68,50%
Total liabilities	1,585,157	31,50%
Total assets	5,031,753	100%

Thus, according to the information about the capital structure in Table 1, Lukoil adheres to the strategy of self-financing, maintaining a low level of financial leverage. Now let us consider the structure of borrowed funds in terms of short-term and long-term liabilities (table 2).

According to the data from Table 2, long-term liabilities predominate in the structure of borrowed funds. Most of the short-term liabilities are accounts payable. Debt on loans and borrowings is mostly long-term. In addition, the company uses tax credits, which form an essential part of long-term liabilities. Thus, it is possible to conclude that Lukoil has a minimum share of short-term debt and, accordingly, high financial stability. Financial stability coefficient is calculated by the formula:

$$KFS = \frac{\text{Equity} + \text{Long-term liabilities}}{\text{Total liabilities and equity}} = \frac{3,446,596 + 815,500}{5,031,753} \approx 0,847$$

**Table 2.** Lukoil balance sheet, liabilities section [8]

<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable	15	474,012	550,247
Short-term borrowings and current portion of long-term debt	16	116,142	58,429
Taxes payable	18	108,108	94,955
Provisions	20	46,645	26,015
Other current liabilities	19	24,750	97,110
Liabilities related to assets held for sale	14	-	3,930
<b>Total current liabilities</b>		<b>769,657</b>	<b>830,686</b>
Long-term debt	17	521,928	640,161
Deferred income tax liabilities		241,309	239,811
Provisions	20	48,158	69,944
Other non-current liabilities		4,105	6,407
<b>Total non-current liabilities</b>		<b>815,500</b>	<b>956,323</b>
<b>Total liabilities</b>		<b>1,585,157</b>	<b>1,787,009</b>

The recommended value is not less than 0.75. If the value is below the recommended one, then this causes concern for the stability of the company. Our coefficient of financial stability of Lukoil is between 0.8 and 0.9 and there is a tendency of company growth, consequently, the financial position of Lukoil is stable, which means that the company is independent in terms of financing, it is able to make payments for a long period of time and the share of sustainable sources of financing in the balance sheet structure amounts 84.7%.

Lukoil pursues flexible policy of managing its debt portfolio. We borrow on Russian and international capital markets. LUKOIL is rated by three leading international rating agencies — Fitch, Moody's and Standard & Poors.

Regarding the formation of external resources of the company, Lukoil actively uses such a tool as borrowing in foreign markets through Eurobonds. Eurobonds are bonds issued by an issuer of a given country through the intermediation of an international syndicate of underwriters (distributors) and placed simultaneously in several countries of the world without prior state registration in them. The Eurobonds in circulation are presented in table 3 below.

In general, "LUKOIL", being one of the largest vertically integrated oil and gas companies in the world, has sufficient financial stability and, despite the fall in oil production, remains attractive to investors, especially due to the successful dividend policy.



The authorized capital of "LUKOIL" consists of the par value of the shares acquired (issued) by the shareholders and amounts to 21,264,081.375 rubles. The authorized capital is divided into 850 563 255 pieces of ordinary registered shares with a nominal value of 0,025 rub. each. The share of ordinary shares in the authorized capital is 100%. The company also has the right to place, in addition to the placed shares, 85,000,000 ordinary shares with a par value of 0.025 rubles. each for a total face value of 2,125,000 rubles.

**Table 3.** Outstanding Bonds of Lukoil [7]

Issue date/ Maturity date	Maturity, years	Coupon rate, % annual	Coupon frequency	Amount, \$	ISIN: REGS/ 144A
02.11.2016/ 02.11.2026	10	4,750	semiannual	1,000, 000,000	XS1514045886/ US549876AL44
24.04.2013/ 24.04.2023	10	4,563	semiannual	1,500, 000,000	XS0919504562/ US549876AH32
24.04.2013/ 24.04.2018	5	3,416	semiannual	1,500, 000,000	XS0919502434/ US549876AG58
09.11.2010/ 09.11.2020	10	6,125	semiannual	1,000, 000,000	XS0554659671/ US549876AE01
05.11.2009/ 05.11.2019	10	7,250	semiannual	600,000, 000	XS0461926569/ US549876AD28
07.06.2007/ 07.06.2022	15	6,656	semiannual	500,000, 000	XS0304274599/ US549876AA88

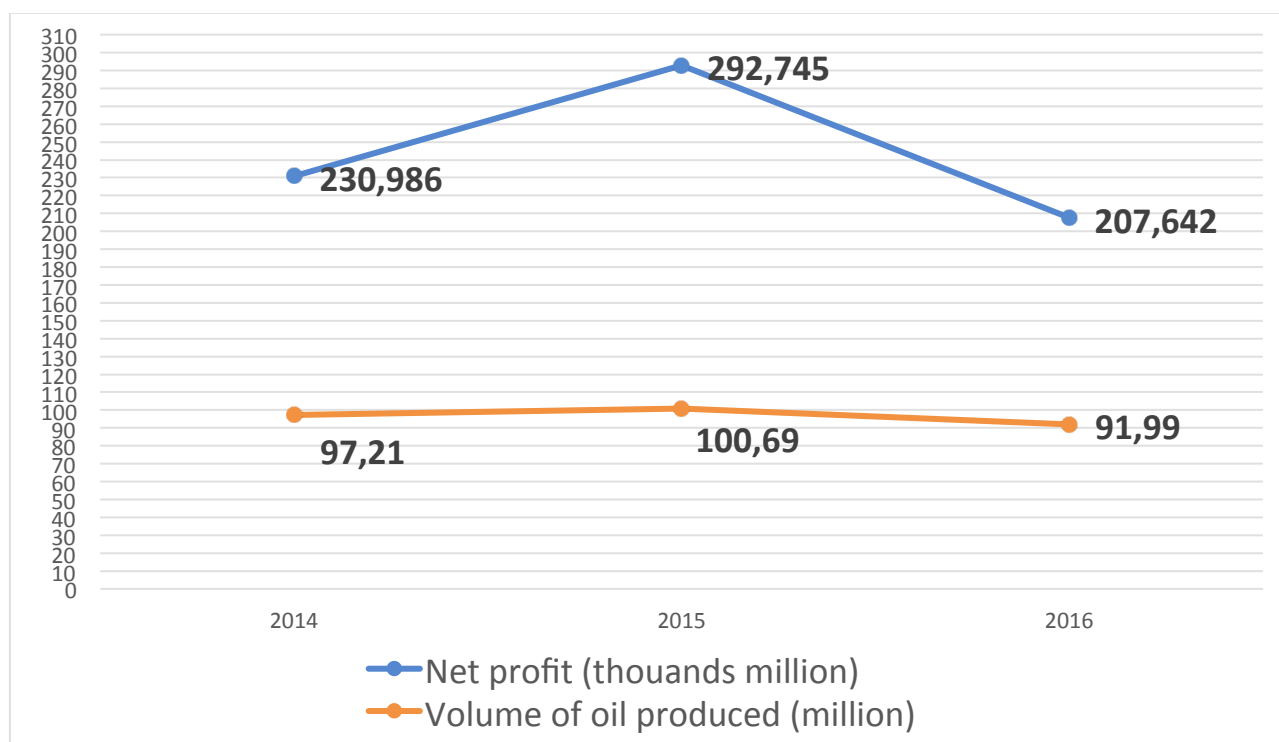
**Table 4.** Share price, EPS and P/E in different oil companies [14,16]

Company	Share price	EPS	P/E
<b>Lukoil</b>	<b>3420</b>	<b>351,80</b>	9,72
Gazprom	134,25	108,83	1,23
Rosneft	296,50	33,50	8,85
Surgutneftegaz	28,81	20,37	1,41
Mean value for oil industry	-	-	5,30

Share price of Lukoil in December, 2017 amounts 3420 rub. For the estimation of this figure, it is necessary to calculate fair share price of this company in order to make a comparison with the real share price. Calculations will be made by the comparative method using the multiplier (P / E), where P / E = Market price of the stock / EPS, and EPS = Net profit of the company /

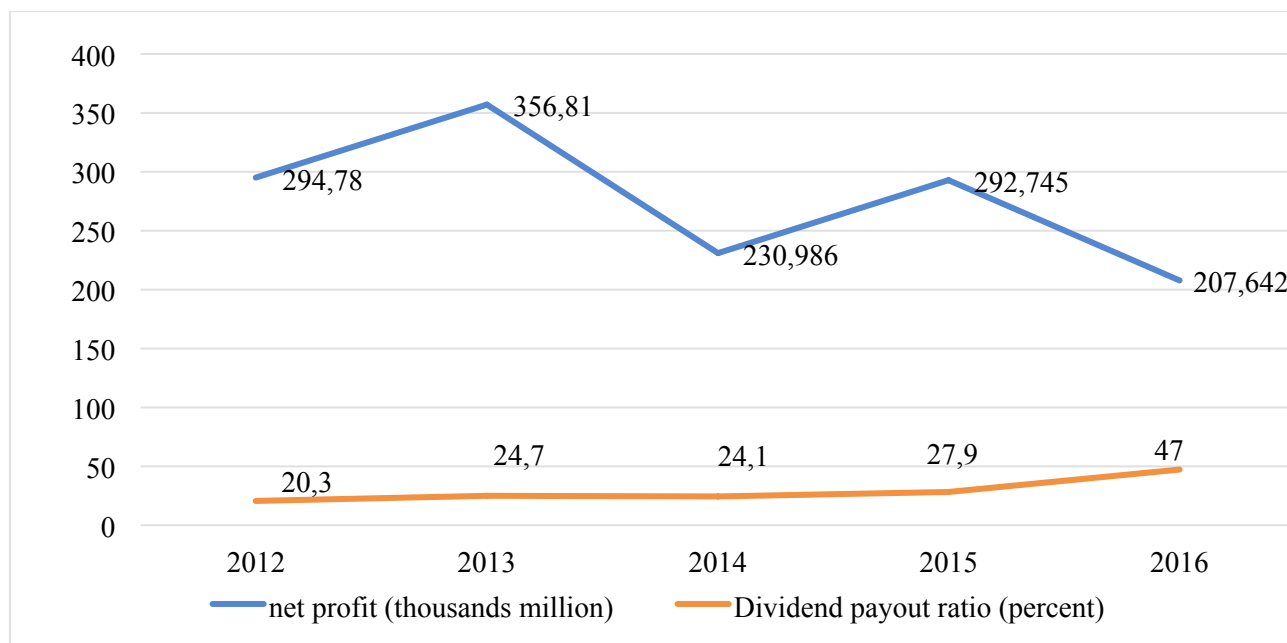
number of ordinary shares in circulation.  $EPS = 299\,263\,000\,000 / 850\,563\,255 = 351,8$ . The P / E ratio shows how many years the company's profits will cover the costs of buying its shares.

Thus, P / E for the industry is equal to 5,30, while P / E of Lukoil is 9.72, which is significantly higher than the average for the market. Now it remains to determine the fair price for the shares of our company. In order to calculate this figure, it is necessary to multiply the average P / E for the industry (5.30) by EPS (351.80) and to get 1 864,54, i.e. the fair price for this share is 1 864,54 roubles, which is significantly lower than its current market price. This leads to the conclusion that the shares of "LUKOIL" are overvalued by the market.

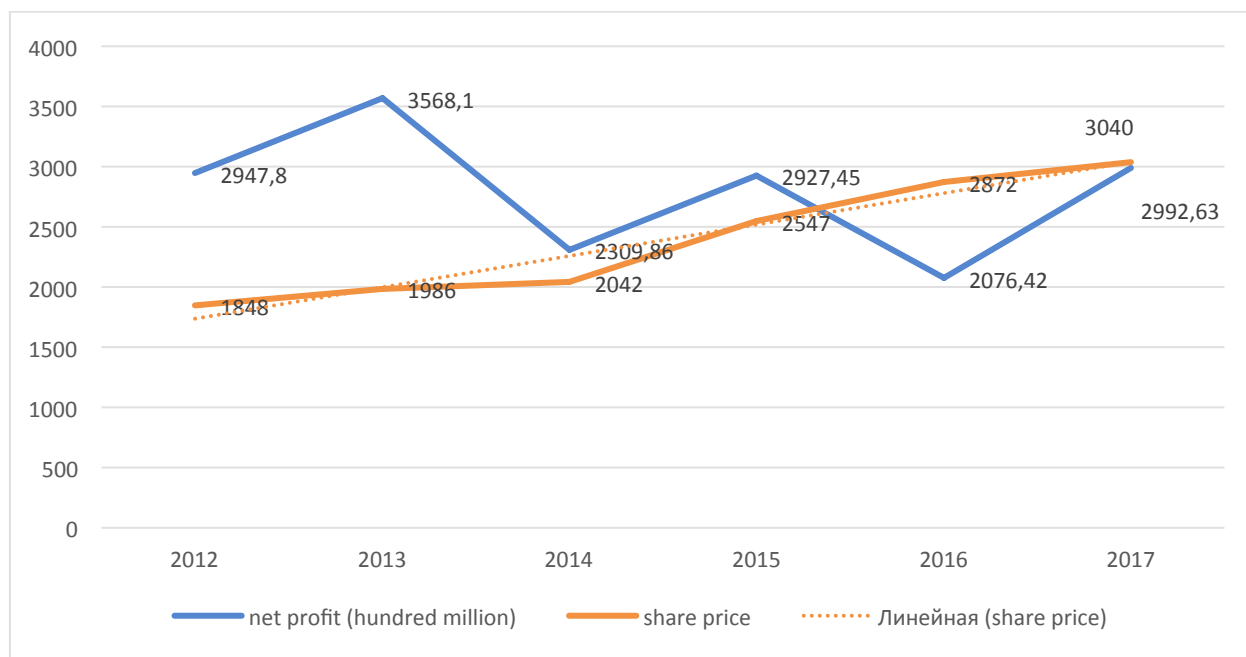


**Fig. 7. Correlation between net profit of Lukoil and its volume of produced oil [7]**

In the Chart 7, the correlation between net profit of Lukoil and its volume of produced oil is presented: the correlation coefficient is approximately equal to 0,9323. According to this data, it is possible to make a conclusion that the amount of annual net profit of the company is strictly depended on the annual volume of produced oil.



**Fig. 5. Correlation between Net profit and dividend payout ratio of Lukoil [7]**



**Fig. 9. Correlation between net profit and share price of Lukoil [7,16]**

According to Chart 8, dividend payout ratio has been always increasing regardless of the high changes in the amount of net profit. The proof to this fact is that the correlation coefficient between net profit and dividend payout ratio is equal to -0,62.

The same tendency is related to the share price, obviously. According to Chart 9, net profit of Lukoil does not strictly influence the price of one share. The correlation coefficient between these factors is equal to -0,31.

It should be highlighted that it is quite difficult to find out the direct factors, which influence the effectiveness of the usage of financial instruments of any company, especially in terms of Lukoil as a transnational company of oil & gas sphere of economy.

As the main distinguishing feature of the formation and use of financial resources of Lukoil, it should be noted that, having sufficient financial stability, the corporation is forced to attract additional financial resources in the form of bonds and loans for various investment projects.

The main peculiarity of the usage of financial instruments by Lukoil is connected to the conclusion that the share price has always been permanently increasing regardless of the changes in the amount of net profit or produced oil. This fact is caused by the successful dividend policy and the investment attractiveness of Lukoil, which is being obtained for the development of new projects and through issuing another type of primary financial instruments – bonds.

The practice of transnational and largest national oil and gas companies has shown that the proceeds from the sale of petrochemical products occupy a significant share in the company's total revenue and that, during the fall in oil and petroleum products prices, petrochemical production allowed Lukoil to keep the main financial indicators at an acceptable level.

With the development of market relations in the oil and gas sector, acquisition of assets for acquiring and merging takes more and more importance. This method of structural growth is seen in the company as an alternative to investing in new construction and modernization of existing production or the simple issuance of shares. Due to the fact that the process of privatization of the oil and gas complex is still ongoing, Lukoil, as a strategic task, decided to participate in the tender for the sale of shares of state-owned oil companies (Rosneft, Slavneft, etc.).

It is possible to establish several recommendations in terms of different problems in the national economy and difficulties of investment development for Lukoil.

Firstly, expand the markets of presence. The greatest prospects at the moment are emerging markets. This strategy can be attributed to the expansion of its activities in the countries, members of the "BRICS".

Secondly, to ensure the development of exports of a variety of petrochemical products, namely, to choose as a priority direction the production of high-tech products. To achieve this goal, "Lukoil" needs to improve the efficiency of Research & Development. The greatest export potential in the sphere of high-technology production is possessed by those enterprises that in recent years started implementing a program of radical re-equipment.

At the moment, the development strategy for most oil and gas TNCs (Lukoil also) is widening due to the absorption of small and medium-sized companies instead of development intensively—due to the implementation of unique and breakthrough technologies aimed at a real change in the situation with the dynamics of oil recovery.

The inattention to new technologies and developments that can ensure development in the future, can become a threat for the activities and maintaining the competitiveness in oil & gas sphere.

It is reasonable to make a conclusion that nowadays in terms of difficulties with credit policies of banks (especially in Russia), big companies, such as Lukoil, often use financial instruments in their financial support.

The creation of the right portfolio, which consists of different types of financial instruments, is very difficult strategic decision for companies, because the market can be unpredictable, the risks of using either primary or derivative financial instruments cannot be fully determined.

In Russia the primary financial market is developed better and during the analysis of the effectiveness of using financial instruments by Lukoil in the financial support, it is possible to conclude that the main instruments of the financial market, which are used in the formation of financial resources of Lukoil, are primary ones – shares and bonds.

During the process of researching the structure of Lukoil financial support, the following things were considered: balance sheet of the company - its equity and liabilities proportions, the dividend policy, the share capital, the assessment of the market price of Lukoil's share, the correlation analysis of shares.

The core peculiarity of the usage of financial instruments by Lukoil in the financial support is the tendency of share price growth due to increasing the investment attractiveness and the active use of bonds in the process of creating financial resources, and a normal timely redemption of them. In conclusion, by authors were made the practical recommendations for improving the financial state of Lukoil, which include mainly the ways of increasing the investment attractiveness more by expanding market share and a technical development of petrochemistry that composes a high percentage of net profit of Lukoil.

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<https://www.dohod.ru>