

## **Финансовый анализ компаний Роснефть и Royal Dutch Shell во время нефтяного и валютного кризисов 2014 года**

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### **Аннотация**

Эта статья рассматривает действия компании «Роснефть» в условиях нефтяного, а также валютного кризиса 2015 года. Изучение последствий каждого из кризисов для двух компаний, одна из которых базируется в Европе, предоставило нам детальное понимание, какие именно факторы играли роль и насколько это отразилось на финансовых результатах компаний. Идея успеха компании Роснефть доказана внешними и внутренними факторами на основе финансовых индикаторов.

**Ключевые слова:** валютный кризис, нефтяной кризис, финансовый анализ.

## **Financial analysis of rosneft and royal dutch shell companies under oil and currency crises in 2014**

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### **Annotation**

This article is devoted to “Rosneft” behaviour under the global Oil crises of 2014 as well as Currency crises of 2014-2015 in Russia. Studying of consequences of each of crises for two companies, one of which is based in Europe, provided us detailed understanding what factors played a major role and how deeply it affected financial results of the companies. The idea of “Rosneft” company’s success is proved by the external and internal factors based on financial indicators.

**Keywords:** currency crises, oil crises, financial analysis.

It has historically developed that oil was one of the forming factors of development of economy of Russia: 40-50% of the budget of the country was formed by the oil and gas export

income, and the level of export among other commodities was about 70%. Events of 2015 draw special attention to current condition of oil and gas industry.

Dynamics of the performance of the main Russian oil companies could be affected by World Oil crises and Currency crises in Russia.

Tasks of this article:

- to study the main reasons for crises of 2015;
- to reveal their influence on the Russian oil companies;
- to compare the main financial indicators of Russian oil company and the foreign one

in order to identify correlation.

First of all, drop in oil prices was caused by excess of the supply over demand. It happened because of increase in oil and gas production in domestic market of the USA as a result of a shale revolution. [1] The refusal of OPEC of production reduction became the following step. Falling led to reduction of volume of export of oil and gas from Russia. In its turn, it in a combination with a situation in Ukraine and sanctions caused rouble crises. [2]

The following steps of our research is the financial analysis of “Rosneft” company as well as compare its key performance indicators with another competitive company on oil market – “Shell”. A comparison of these indicators and the identification of the correlation will give us an understanding of what effect on the oil and gas industry in Russia.

The main activity of OJSC "Oil company “Rosneft” and its subsidiaries is the development, production and sale of oil and gas, as well as transportation and sale of products in the Russian Federation and abroad. Therefore, the issues of analysis of financial stability of PJSC "NC “Rosneft” have a special relevance as the foundation of formation of the economic potential of the oil industry.

In 2015 “Rosneft” showed one of the best financial performances among the largest oil companies in the world. By increasing efficiency, it has achieved net profit growth of 2%. And this despite a significant reduction in revenue associated with the fall in oil prices.

In 2015 net profit of “Rosneft” amounted to 355 billion against 348 billion roubles in 2014. EBITDA increased by 17.8% to 1,245 trillion roubles. This despite the fact that the ruble price of oil fell 16.3%. This result seems to be considerable success if we speak about the size of falling price in oil and the general market situation.

Free cash flow of rouble amounted to 657 billion, against 596 billion a year earlier. But particularly interesting this indicator in dollars: 12.2 billion against 15.8 billion. It means, it fell only by 22.8%, despite the fact that the dollar price of oil fell by 47.3%. The growth of available liquidity of the company at the end of 2015 compared with the end of 2014 increased from 939

billion roubles to 1,545 trillion roubles. At the same time, net debt of “Rosneft” declined in dollar terms by 47%.

Analysts and representatives of “Rosneft” explain such positive indicators by a range of reasons, both objective and subjective. To the last one, in particular, can be attributed to the success of management, which could attract long-term non-bank funding in foreign currency. From some of the major buyers “Rosneft” received a long-term prepayment in the sum of 1,027 trillion roubles.

Perhaps, this is the example of success only one company and the crisis is not so strongly influenced on the overall market. For comparison, take the Shell, which is Dutch-British oil and gas company and is not correlated with currency crises in 2014 in Russia.

Considering this statement, the following key performance indicators the companies guide during its financial analysis:

- 1) liquidity,
- 2) solvency,
- 3) profitability,
- 4) business activity.

A criterion of evaluating the financial performance of the company is its liquidity and solvency. All these mentioned KPI and its main ratios serve the reference points that any industry tries to follow.

The liquidity of the company is the ability to cover company’s payment obligations at the expense of own funds and by borrowing. Liquidity of balance influences on solvency of the organization, the values of which are determined by the form and conditions of commercial transactions, the possibility of obtaining a loan, that is, the ability to timely and fully meets its payment obligations. [3]

The assessment of the company's liquidity is done mainly on the basis of past data contained in its balance sheet. Evaluating the liquidity of companies perform through a system of financial ratios, which allow comparison of the value of current assets having a different degree of liquidity, with the amount of current liabilities.

**Table 1:** The liquidity of the companies “Rosneft” (\$) and Royal Dutch Shell (\$) [2]

“Rosneft” (\$)						
Indicator	By years					
	2011	2012	2013	2014	2015	2016
Liquidity Ratio	1,97	2,15	1,05	1,05	1,32	0,83
Quick Ratio	1,66	1,85	0,90	0,93	1,20	0,73
Cash Ratio	0,40	0,69	0,20	0,11	0,31	0,28

Royal Dutch Shell (\$)						
Indicator	By years					
	2011	2012	2013	2014	2015	2016
Liquidity Ratio	1,17	1,18	1,11	1,16	1,32	1,17
Quick Ratio	0,88	0,87	0,79	0,93	1,09	0,88
Cash Ratio	0,11	0,19	0,10	0,25	0,45	0,26

The value of the liquidity ratio decreased in 2013 and in 2014 and achieved to 1.05. This is a sign of deterioration in the financial performance of “Rosneft”, the result of which is influenced by: industry affiliation of the enterprise, the structure of the inventory, accounts receivable, long production cycle and other factors. [https://www.”Rosneft”.ru/](https://www.rosneft.ru/)

During 2012-2014, quick ratio fell and amounted to 0.9. It means that forward commitments in 2013 and 2014 less affluent of liquid assets, but such value is sufficient for “Rosneft”. Also in 2013 sharply reduced the cash ratio from 0.7 to 0.2, reducing guarantee “Rosneft”'s debt repayment, however even small value of this ratio shows that the company can be solvent.

As for “Shell”, all indicators remain at the same level and volatility insignificant. The value of the liquid ratio tends to increase since 2013 and in 2015 it reached 1.32.

The internal manifestation of the financial performance of “Rosneft” on the basis of the study of the balance between assets and liabilities balance, which is more fully disclosed the financial stability of the enterprise. [4]

“The financial condition shows the possibility of the enterprise (firm) to finance its activities with its own resources and rationally dispose of them in relations with others. Therefore, the goal of any enterprise is to maintain a satisfactory financial condition. Satisfactory financial condition is represented by such indicators as financial stability and solvency. The more stable the state of the enterprise, the less it will depend on changes in the external environment and crises that occur frequently in Russia.”[5]

**Table 2:** The solvency of “Rosneft” and “Shell” [2]

“Rosneft” (\$)						
Indicator	By years					
	2011	2012	2013	2014	2015	2016
Equity Ratio	0,61	0,61	0,59	0,42	0,33	0,30
Debt-to-equity ratio	3,53	3,53	0,70	1,37	2,03	2,27
Debt Ratio	2,16	2,16	0,41	0,58	0,67	0,69

Royal Dutch Shell (\$)						
Indicator	By years					
	2011	2012	2013	2014	2015	2016
Equity Ratio	0,47	0,50	0,51	0,49	0,48	0,46
Debt-to-equity ratio	0,23	0,21	0,25	0,26	0,36	0,49
Debt Ratio	0,11	0,11	0,12	0,13	0,17	0,22

The equity ratio throws light on a company's overall financial strength. Besides, it is also treated as a test of the soundness of the capital structure. A higher equity ratio or a higher contribution of shareholders to the capital indicates a company's better long-term solvency position. A low equity ratio, on the contrary, includes higher risk to the creditors. [6]

As we can see, both companies showed a slowdown in equity ratio after 2013. However, compared to "Rosneft", "Shell" indices fluctuated slightly. As for Debt-to-equity ratio, if the ratio is increasing, the company is being financed by creditors rather than from its own financial sources which may be a dangerous trend. Optimal debt-to-equity ratio is considered to be about 1. This indicator of companies "Rosneft" and "Shell" has been increasing since, that's not good for both companies. But unlike "Rosneft", the rate of "Shell" company is in the range of value 1 and that is valid. As for debt ratio it shows how much the company relies on debt to finance assets. Very high value is shown by "Rosneft" in 2011-2012.

Short-term liquidity or solvency of the company is affected by its ability to generate profit. It deals with an aspect of the business as profitability. [7]

**Table 3:** ROA and ROE of "Rosneft" and "Shell" [2]

"Rosneft" (\$)						
Indicator	By years					
	2011	2012	2013	2014	2015	2016
ROA	0,09	0,09	0,07	0,04	0,04	0,02
ROE	0,15	0,15	0,17	0,12	0,12	0,05
Royal Dutch Shell (\$)						
Indicator	By years					
	2011	2012	2013	2014	2015	2016
ROA	0,09	0,08	0,05	0,04	0,01	0,01
ROE	0,19	0,15	0,09	0,09	0,01	0,03

The greater the profitability ratios, the better the situation of the company. As we can see from the table, the profitability ratios are gradually reduced since 2013. "Shell" went to the minimum possible result of 0.1 in terms of ROA. As for ROE, from 2014 to 2015, the indicator of "Rosneft" remains at the same level, what cannot be said about "Shell". "Shell" indicator fell sharply from 0.09 to 0.01 after 2014.

Making a complete analysis of the financial performance of “Rosneft” company, and comparing key performance indicators with "Shell" company, we can come to the conclusion that, indeed, the global crises has had a significant impact on the oil and gas sector. A sharp jump in profitability of "Shell" makes it clear that the company succumbed to the influence of the events of the OPEC and the shale revolution. However, the activity of “Rosneft” company during these years can be characterized as quite successful. Revenue in dollar volume declined disproportionately with the global percentage, and the weakening of the rouble made the revenues in rouble terms more than attractive. However, we should not forget that the oil and gas crisis was one of the factors that caused this crisis in the first place and how disastrous the effect was exerted on all other sectors of the economy.

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