Финансовый менеджмент в нефтегазовых компаниях с международными операциями

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Аннотация

Компании, ведущие международные операции на рынке нефти и газа, имеют довольно специфический подход к сырью и полуфабрикатам. Это означает, что нефтегазовые компании склонны хеджировать свои убытки, используя фьючерсы и опционы на сырую нефть или газ. Иногда фиксация цены на определенном уровне может внезапно привести к убыткам из-за завышения цен на нефть за определенный период, но в 99% случаев такие убытки корректируются с учетом потенциальных убытков, которые могли быть понесены из-за тех или иных неблагоприятных событий. Таким образом, ПАО «Газпром Нефть» хеджировали миллионы фьючерсами в период с марта по май эпидемии COVID-19. Если бы не этот инструмент, препятствующий риску, убытки «Газпром нефти» были бы намного выше и привели бы к чрезмерному долгу, сокращению персонала, отрицательной выручке и даже (наихудший сценарий) банкротству.

Ключевые слова: нефтегазовая промышленность, Газпром нефть, ЧПС, Covid-19, соотношение опережения и отставания, сырая нефть, фьючерсы, опционы, оценка реальных опционов, WTI, Brent, оптимизация.

Financial management in oil&gas companieswith international operations

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Abstract

Companies with international operations on the oil&gas market have quite a specific management towards raw materials and semi-finished goods. This means that oil&gas companies tend to hedge their losses by using futures and options for crude oil or gas. Sometimes fixing the price at a certain level may suddenly lead to losses due to overestimation of oil prices for a certain period, but 99% of cases such losses are adjusted for potential losses that could have been made due to sone unfavorable events. Thus, Gazprom Neft PJSC had hedged millions in futures during COVID-19

March-May period. If not this risk adverse tool, losses for Gazprom Neft would have been much higher and lead to debt overweight, personnel cutting, negative revenues and even (the worst-case scenario) bankruptcy.

Keywords: oil&gas industry, Gazprom Neft, NPV, Covid-19, lead–lag relationship, Crude oil, futures, options, Real Options Valuation, WTI, Brent, Optimization.

Companies that provide their operations abroad (on international scale) usually receive a bunch of unavoidable risks such as political and economic risks. Political risks arise from decisions that foreign governments make and are highly unpredictable and severe for the dependent markets. Economic risks are usually influenced by political risks but may appear due to international money market movements. Multinational corporations tend to exploit their internal capital markets in order to gain a competitive advantage on the global scale.

This paper examines the oil&gas producer, Gazprom Neft PAO, on the subject of futures contracts as a hedging tool. The issues for the international oil&gas producers accumulate thousands of questions and add new factors each year. In order to successfully implement the aims for the financial year, company's management has to be flexible and cover all tricky issues with appropriate insurance or hedging approach. Although the financial crisis 2008-2009 brought immensely high currency volatility, oil&gas producers managed to stabilize the situation up to 2019. So far, Covid-19 brought new trends in markets volatility.

The relevance of this problem is of high importance. Companies all over the world face new challenges alongside with usual issues such as market volatility, currency fluctuations, uncertainty for forecasts, unstable political and, thus, economic situation that bring high risks, continuously increasing competition, oil prices volatility, etc. The subject is the futures involvement in hedging the spot oil prices.The novelty of this paper is the improvement of hedging methodology for oil&gas companies for the cases of unpredictable character such as Covid-19.

Futures, forward and option contracts for oil market

Futures, forward and option contracts are all considered to be derivative contracts since they derive their value from an underlying commodity. Generally, futures are used for hedging. Price change of the commodity after the futures contract agreement is entered into force, provides profits for one party to the contract and the losses for another.

Futures and forward contracts are identical in their final result. However, forward contract does not require the parties to the contract to be settled up (i.e., the difference between the contract price and the actual price paid out to the winner) until the expiration of the contract. In case with the futures contracts this difference is settled up every period. Thus, while the total settlement is the same

under the futures and forward contracts, the timing of these settlements is different and can lead to different prices on the market.

Futures valuation does not have a standardized approach, although it is logical to assume that provided the future cash flows (approximately estimated), it is quite easy to discount them using the interest rates of WACC or, for instance, the long-term government bonds yield.

It is not easy to predict the oil futures price precisely, especially, for the long-term future. The latest available contract so far is for 2031 which costs USD 50.34 with December quotes being not higher than USD 45. However, predicting market movements for more than 10 years forward is useless. Still, oil futures market for 2031 is traded as the oil futures market now.

Thus, prediction of futures contracts is sensible for the upcoming year, still, the volatility of the commodity provides with high uncertainty risk which cannot be eliminated.

Optimization for international oil&gas companies

Futures have made life of oil companies much easier. Instead of buying, storing, arranging the delivery and waiting for the appropriate price oil companies buy futures contracts and then sell the contract before it expires therefore, mitigating the logistics risks.

Unlike shares, oil futures are traded in the form of so-called oil benchmarks, since oil is not extracted out of the ground in the same form all over the world and such oil benchmarks help traders to quickly decide upon the oil quality, drilling tools and location, etc. On the other hand, there are oil spot prices. They provide traders with the costs of buying/selling oil and delivering it immediately instead of at a specified date in the future. Therefore, futures prices show how strongly the markets believe oil is and will be worth on the futures' expiration, spot prices vice versa show how much oil is worth at the moment.

Oil prices fluctuate so sharply because traders with short positions on the market prefer to cover them quickly if price increases. In order to do so, traders have to place buy orders to cover. Such buying is provided exactly at the time when speculators are establishing or adding to long positions. Then, shorts will cover quickly since the risk is simply too big. Otherwise, with sharp supply change speculators would lose far more money than invested and also underperform in terms of margin.

Generally crude oil is driven by psychological aspect and expectations. This led to creation of bias to the upside or downside. US dollar is a major pushing part in the oil prices. High US dollar creates some pressure for oil prices, and they fall, whereas low US dollar helps to strengthen oil prices. Besides that, crude oil tends to move alongside with the stock market, however, indirectly. Too high oil prices may shuffle the economy, thus, creating a psychological barrier for price being equal or higher than $100 per barrel.

When talking about Covid-19 situation, it is evident that the supply and demand of oil has fallen during the 1st half-year. The chronology of oil supply cuts is as follows:

- Vigorous compliance with OPEC+ deal on output and declines from other producers, led by the United States and Canada, has cut world oil output by nearly 14 mb/d since April;
- Worldwide oil supply due to Covid-19 decreased by 2.4 mb/d in June, to a nine-year low of 86.9 mb/d;
- If OPEC+ cuts more as preliminary agreed, worldwide supply is expected to fall by 7.1 mb/d in 2020 and recover only next year slightly.

Gazprom Neft and its corporate finance approach and futures advantage

Gazprom Neft PJSC (further: «Gazprom Neft») is a vertically integrated oil company with main activities stated as oil and gas fields' development and exploration, as well as oil refining and sale of petroleum products. Gazprom Neft is actively involved in exchange trading in oil and oil products in Russia. As at the end of 2019, Gazprom Neft owned hydrocarbons reserves accounted for 2.86 billion tonnes of oil equivalent. Production-to-refining ratio is one of the best in Russia.

The world economy and the local economies are now at the stage of recovery which is shown by various indicators. Still, the huge growth of new Covid-19 cases that has caused the repeating of lockdowns in some countries is giving doubts to the forecasts. However, during the last months benchmark crude oil futures prices have been suspiciously stable in both Brent and WTI cases. This means that futures markets are expecting switch from big surplus shown in the first half of the year to a significant deficit in the second half.

Uncertainty has significantly increased over the past half year, after the growth of the Covid-19 cases all over the world. The return of the virus to the spring condition could lead to even more intensive car usage for people to avoid public transport. This would also lead to an increased delivery service which helps to avoid crowds in the malls. This would contribute to an upward trend for fuel demand. On the other hand, the epidemic acceleration could decrease the mobility of people. This may lead to seasonality as a decisive factor to disappear for the upcoming several years.

All the commodities' spot and futures prices are highly dependent during stable periods. Although it is noticeable that futures prices decrease less sharply than oil prices. This exactly happened in March-April of 2020 and led to severe losses of those producers who didn't manage to hedge enough commodity.

Such dependency is usually called a «lead–lag relationship» and it helps investors and traders to decide which price should be taken and followed thereafter during decision-making process. The short-term relationship between crude oil spot and futures prices goes parallel with the long-term analysis.

Of course, uncertainty in oil&gas market due to continuous price fluctuations is a major area of concern. This increases cost of doing businesses due to price uncertainty, which makes the cost planning process and decision-making extremely difficult.

Gazprom Neft needs a wise management for decision-making process that would benefit all the parties to the situation. The slowdown of economic growth of the world in 2019-2020 was the most noticeable factor affecting demand, prices and expectations in the oil and other commodity markets. Management should focus on risk hedging and market research with probably machine learning, as Gazprom Neft is doing with smart-drilling and other high-tech tools for oil&gas extraction, production, delivery, etc.

To conclude, oil&gas sector is now experiencing a lot of pressure from the governments, unstable market conditions, currency volatility, projects' freeze due to political risks, economic risks, unraveling of renewable energy sources by competitors, etc. To overcome these problems, oil&gas companies with main function being oil trading should focus on risk diversification and hedging. This will help to boost the sales, improve company's profile on the market and increase company's value. Moreover, this will lead to government support and some donations.

Overall, Gazprom Neft is a highly sustainable developing oil producer being to top 3 in Russia. The financial indicators show that the company tries to maintain a stable healthy debt structure and to rely more on equity. The liquidity was presented at a satisfactory rate which indicates ability of the company to stay afloat. The Covid-19 situation has shifted the company's scope to a different angle of high-tech drilling and exploration methods. This decision was supported by stable shares price on the MOEX. Moreover, this allows for an assumption that the sales growth wouldn't slow down rapidly and that the company will exert its futures for risk mitigation.

Provided the projected P&L based on 10-year growth rate of its main parts, this research has shown that Covid-19 scenario repetition within next several years will provide company with unprecedented fall in revenues and increase in costs which will lead to fall in Net Income. The steady slight movements of the market will allow Net income to grow, although still at a slower pace compared to the forecast of usual operations of Gazprom Neft.

Thus, without futures hedging, companies fear to experience unprecedented losses and maintenance costs increase. And futures valuation brings a lot of bonuses to traders and producers in such an unfavorable situation and market environment.

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