

15 April 2022

Russian Commodities

Dividends – to Pay or not to Pay

	Probability	Period	Yield
O&G			
NOVATEK	High	2H21	3.8%
Gazprom	Moderate	2021E	20.0% **
Rosneft	Moderate	2H21	5.7% *
LUKOIL	Moderate	2H21	9.6% *
Gazprom Neft	Moderate	2H21	7.1% *
Tatneft	Moderate	4Q21	3.0% *
M&M			
Phosagro	Above average	4Q21	5.6%
Nornickel	Above average	4Q21	7.2% *
Polyus	Above average	2H21	2.3%
Polymetal	Average	2H21	4.6%
MMK	Low	4Q21	8.5%
ALROSA	Low	2H21	7.0% *
NLMK	Very low	4Q21	7.7%
Severstal	Very low	4Q21	10.8%
Evrast	Very low	4Q21	41.0%
Rusal	Very low	No paym	0.0% **

* Estimated based on FY21 financial report,
** ATON estimates

Source: Company data, ATON Research

- **In this report we estimate the subjective probability and the potential size of final dividends for 2021 and 2022E.**
- **We see fairly high chances that NVTK, PHOR, MNOD, and PLZL will pay. State O&G companies' dividends are not off the table.**
- **Dividend decisions are likely to be postponed: the deadline for an end-June AGM suggests a board decision around end-May.**

Most Recent Comments and Updates on Dividends

Russia's Ministry of Finance said it would consider the dividend case of each state-owned company individually. Steel producers' (Severstal, NLMK, and Evraz) management/boards recently recommended not paying interim and final dividends. The boards of Polyus, Polymetal, Phosagro, MMK, and NOVATEK recommended dividends earlier, but the decisions have yet to be approved, depending on the macro, we believe. Gazprom, Rosneft, LUKOIL, Tatneft, Gazprom Neft, Nornickel, and ALROSA have not made dividend announcements.

State Companies' Dividends Used to Replenish the State Budget

State-owned companies are more likely to pay dividends in order to replenish the budget, in our view. Dividends from Gazprom alone paid to state-owned structures for 2021 could amount to \$7bn, while other companies such as ALROSA are important for regional governments. Yakutia, for example, received around RUB50bn (\$0.6bn) as dividends in 2021, accounting for roughly 15% of the regional budget. All else equal we believe that the state-owned companies have a higher chance of paying dividends.

Sanctions on Company or Shareholder Reduce Probability

Sanctions on a company (SDN list) affect its normal business activity and challenge the technical ability to make the payments. Consequently, in this case we deem dividends unlikely. Sanctions on the key shareholder have a similar effect, and also reduce the overall incentive to distribute the company's cash to minority shareholders, bypassing the sanctioned major beneficiary. Restrictions on a company's export sales raise uncertainty about future earnings, but are unlikely to substantially impair the dividend outlook, in our view. The same applies to sanctions on a company's top management.

Earnings Outlook and Balance Sheet Strength are Considered

Leverage is generally not an issue for dividend decisions in the O&G and M&M sectors, with average LTM net debt to EBITDA ratios of 0.5x and 0.6x, respectively. Still, we believe the logistical challenges to redirect 4mn tons of steel from Europe to other markets may prompt the respective companies to take a more cautious stance to dividends. O&G producers also have to tackle the Urals \$30/bbl discount and the risks of stricter export regulations including the oil embargo. Precious metals producers such as Polyus and Polymetal, and base metals such as Nornickel and RUSAL are regarded as relatively stable in terms of the risks to sales and revenues, in our view.

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Estimated Dividend Payment Probability

Figure 1: Estimated dividend payment probability

	Probability	Probability explained	Comments on Dividends
O&G			
NOVATEK	High	Given that management and the board have recommended and approved the dividend, we see a high probability that it will be paid (if approved by shareholders).	The Board of Directors recommended the 2H21 dividend payment on 18 Mar
Gazprom	Moderate	With over 50% controlled by the government, Gazprom's dividends form a key contribution to the state budget. The export revenue stream continues and gas prices are firm.	Final dividends not yet announced
Rosneft	Moderate	With a significant share controlled by the government, Rosneft dividends are important to the state budget. No decision has been made on the dividends and we estimate the probability of their being paid as average given that 18.5% is controlled by Qatar QH Oil Investments.	Final dividends not yet announced
LUKOIL	Moderate	The company has not ruled out the payment of dividends according to the dividend policy. We see the probability as moderate, given the strong balance sheet and privately-owned structure.	Final dividends not yet announced
Gazprom Neft	Moderate	We see a reasonably high probability of parent company Gazprom paying dividends. We therefore see a similar probability for Gazprom Neft, which is 95.7% controlled by Gazprom.	Final dividends not yet announced
Tatneft	Moderate	The company has not ruled out that dividends may be paid according to the dividend policy. Given its strong balance sheet and privately-owned structure, we regard the probability of payment as moderate.	Final dividends not yet announced
M&M			
Phosagro	Above average	Given that management and the board recommended and approved the 4Q21 dividend, we see a solid chance of it being paid, unless the macro deteriorates further. The shareholder meeting has been postponed to the end of June.	The board approved the payment of 4Q21 dividends on 9 Feb. The shareholders' meeting will be held a month later than scheduled, and the dividends will be considered.
Nornickel	Above average	Strong earnings outlook with Ni spot above \$30k/t. Operational headwinds are relatively mild. This is the last dividend due to be paid under the existing EBITDA-based dividend policy.	Final dividends not yet announced
Polyus	Above average	Gold sales are complicated by sanctions on some of the Russian banks, but overall the operational headwinds are relatively mild. The board recommended paying dividends; however the board, CEO and shareholder structure changed thereafter.	The Board recommended paying 2H21 dividends on 1 Mar
Polymetal	Average	The board has recommended dividends. As a Jersey-registered company with approximately 75% free float and its primary listing in London we believe the company may maintain its dividend payments to support its investment appeal.	On 2 Mar the board recommended paying final dividends. The decision on the 2021 final dividend payment was postponed to Aug 2022 (together with the interim dividend decision for 1H22)
MMK	Low	MMK has a stronger balance sheet than its peers (net cash), but it will probably follow other steel producers and suspend interim dividends until operating activity normalises.	On 28 Feb the board recommended paying 4Q21 dividends. The company has refuted reports of the dividend payment's cancellation, with the final decision to be taken on 27 May.
ALROSA	Low	We considered the chances of dividends from ALROSA high until the company was included in the SDN list. Now we think it will opt to maintain its liquidity until it restructures its operating model.	Final dividends not yet announced
NLMK	Very low	Management recommended not paying dividends. The steel sector is sensitive to the imposed trading restrictions.	The Management recommended not to pay 4Q21 and 1Q22 dividends. The Board will consider payment in June.
Severstal	Very low	Management recommended not paying dividends. The steel sector is sensitive to the imposed trading restrictions.	The Management recommended not to pay 4Q21 and 1Q22 dividends.
Evrz	Very low	The board recommended not paying dividends. The steel sector is sensitive to the imposed trading restrictions, and the Raspadskaya demerger's cancellation complicates dividends.	The Board recommended not to pay 4Q21 and 1Q22 dividends.
RUSAL	Very low	RUSAL has not paid dividends for several years in favour of deleveraging and capex. Aluminium prices are strong, but the overall macro suggests the company is unlikely to restart payments now.	Final dividends not yet announced

Source: Company reports, ATON Research

Announced and Estimated Dividends for FY21-22E

Figure 2: Announced and estimated amount of dividends for FY21-22E and companies' dividend policy

		Final Dividend for 2021					Dividend 2022E			Dividend Policy
		Period	DPS	Total Div	DY	Record date	DPS	DY		
O&G										
NOVATEK	announced	2H21	RUB43.8	RUB132.9bn (\$1.6bn)	3.8%	5 May	RUB65	5.7%	Total payment of not less than 50% of adjusted IFRS NI; paid semi-annually	
Gazprom	estimated	2021	RUB47.0	RUB1.1trn (\$13.6bn)	20.0%	15 July*	RUB57	24.5%	Dividend payment of at least 50% of adjusted NI; paid annually	
Rosneft	estimated	2H21	RUB23.6	RUB251bn (\$3.1bn)	5.7%	15 June*	RUB58	14.0%	Target payout of at least 50% of IFRS net income; paid semi-annually	
LUKOIL	estimated	2H21	RUB500	RUB346bn (\$4.2bn)	9.6%	10 July*	RUB944	18.2%	Total dividend payment of at least 100% of adjusted free cash flow; paid semi-annually	
Gazprom Neft	estimated	2H21	RUB30.2	RUB143bn (\$1.8bn)	7.1%	25 June*	RUB60	14.2%	Target payout of not less than 50% of IFRS net income; paid semi-annually	
Tatneft	estimated	4Q21	RUB11.6	RUB27.1bn (\$0.3bn)	3.0%	9 July*	RUB58	15.2%	Target payout of at least 50% of NI based on IFRS or RAS standards (whichever is greater); paid three times a year	
M&M										
Phosagro	announced	4Q21	RUB390	RUB50.5bn (\$0.6bn)	5.6%	7 June*	RUB1,100	19.5%	If ND/EBITDA ratio is below 1.0x, at least 75% of FCF; if ND/EBITDA is 1.0-1.5x, 50-75% of FCF; if ND/EBITDA is above 1.5x, will not exceed 50% of FCF	
Nornickel	estimated	4Q21	RUB1,514	RUB233bn (\$2.8bn)	7.2%	1 June*	RUB3,929	18.7%	The old policy is to pay 60% of EBITDA if ND/EBITDA is below 1.8x. The payout declines on a sliding scale if the ratio is 1.8x or above, falling to 30% of EBITDA if the ratio tops 2.2x. The still-to-be approved new policy is likely to be FCF-based.	
Polyus	announced	2H21	\$4.03	\$548mn (RUB44.8bn)	2.3%	7 June*	\$8.4	4.8%	30% of the company's EBITDA	
Polymetal	announced	2H21	\$0.52	\$246mn (RUB20.1bn)	4.6%	postponed	\$1.26	11.2%	If ND/adj. EBITDA is below 2.5x, 50% of NI for 1H and 2H, now have the discretion to increase the final amount to 100% of FCF (if it is greater than 50% of NI)	
MMK	announced	4Q21	RUB3.55	\$534mn (RUB43.7bn)	8.5%	17 June	RUB13.1	31.2%	To pay 100% of FCF, if ND/EBITDA is lower than 1.0x; to pay 50% of FCF until it returns to 1.0	
ALROSA	estimated	2H21	RUB5.6	RUB41.2bn (\$0.5bn)	7.0%	4 July*	RUB15.2	19.1%	If ND/EBITDA is below 0.0x: no less than 100% of FCF, if the ratio is 0.0-1.0x: 70-100% of FCF, and if the ratio is 1.0-1.5x: 50-70%.	
NLMK	announced	4Q21	RUB12.18	\$0.9bn (RUB75.8bn)	7.7%	11 May*	RUB49.6	31.6%	To pay out 100% of FCF if the net debt to EBITDA ratio is less than or equal to 1.0x and 50% of FCF if the ratio is above 1.0x.	
Severstal	announced	4Q21	RUB109.8	\$1.1bn (RUB91.1bn)	10.8%	31 May	RUB240.4	23.6%	To pay 100% of FCF if ND/EBITDA is lower than 1.0x; to pay more than 100% if ND/EBITDA is lower than 0.5x; to pay 50% of FCF until it returns to 1.0x.	
Evrast	announced	4Q21	\$0.5	\$729mn (RUB59.6bn)	41.0%	11 March	\$0.7	54.2%	No dividends if ND/EBITDA is above 3.0x. Minimum \$150mn following both the interim and full-year results.	
Rusal	estimated	-	0	0	0.0%	No payment since 2018	RUB0.0	0.0%	15% of adjusted EBITDA (RUSAL's EBITDA plus Nornickel dividends received)	

* Previous year's date

Source: Company reports, ATON Research

Companies' Leverage and Applied Sanctions

Figure 3: Companies' leverage and applied sanctions

Leverage			Sanctions
Net debt	ND/EBITDA		
O&G			
NOVATEK	RUB73.95bn	0.1	1) Product: - 2) Company: non-resource trade ban in EU 3) Major shareholders: Mikhelson - sanctions in the UK, Canada and Australia. Timchenko - sanctions in the US, EU, UK, Canada, Switzerland, Australia, and Japan
Gazprom	RUB3.5trn (9M21)	1.3 (9M21)	1) Product: - 2) Company: non-resource trade ban in the EU. Sanctions in Canada 3) Major shareholders: Russian Federation
Rosneft	RUB3.1trn *	1.3 *	1) Product: - 2) Company: non-resource trade ban in EU 3) Major shareholders: Russian Federation
LUKOIL	RUB68.2bn	0.05	1) Product: - 2) Company: non-resource trade ban in EU 3) Major shareholders: sanctions in Australia
Gazprom Neft	RUB160.6bn **	0.2	1) Product: - 2) Company: non-resource trade ban in the EU. Sanctions in Canada 3) Major shareholders: Russian Federation
Tatneft	-RUB34.3bn	neg	1) Product: - 2) Company: non-resource trade ban in the EU 3) Major shareholders: Russian Federation
M&M			
Phosagro	RUB153.7bn	0.8	1) Product: US lifted sanctions against Russian mineral fertilisers 2) Company: - 3) Major shareholders: sanctions in the EU
Nornickel	\$4.9bn	0.5	1) Product: - 2) Company: - 3) Major shareholder: sanctions in Canada and Australia
Polyus	\$2.2bn	0.6	1) Product: - 2) Company: - 3) Major shareholder: Said Kerimov - sanctions in the EU & UK (has sold part of his stake)
Polymetal	\$1.65bn	1.1	1) Product: - 2) Company: - 3) Major shareholder: -
MMK	-\$0.4bn	neg	1) Product: steel products, pipes and coal import ban to the EU and UK. Semi-finished product sales to the EU are not restricted 2) Company: - 3) Major shareholder: sanctions in the UK, the EU, Switzerland, and Australia
ALROSA	RUB61.2bn	0.4	1) Product: Russian diamond import ban to the US 2) Company: sanctions in the US (SDN list), Canada, UK, New Zealand, and the Bahamas. 3) Major shareholder: Russian Federation
NLMK	\$2.9bn	0.4	1) Product: steel product import ban to the EU and the UK. Semi-finished product sales to the EU are not restricted 2) Company: - 3) Major shareholder: sanctions in Australia
Severstal	\$1.4bn	0.23	1) Product: steel product and coal import ban to the EU and the UK, pipe imports to the EU, the UK and the US restricted. Semi-finished product sales to the EU are not restricted. 2) Company: - 3) Major shareholder: sanctions in EU, UK, Switzerland, Japan, and Australia
Evraz	\$2.7bn	0.5	1) Product: steel product and coal import ban to the EU and UK. Semi-finished product sales to the EU are not restricted. 2) Company: - 3) Major shareholder: sanctions in UK, EU, Australia, Switzerland, and Canada
RUSAL	\$4.75bn	1.6	1) Product: - 2) Company: - 3) Major shareholder: sanctions in US (since 2018), EU, UK, Australia, and Canada

* Ex prepayments, ** including short-term deposits

Source: Company reports, ATON Research

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