

# First Impression

May 4, 2010

Oil & Gas/Croatia

## INA

### Last recommend.: Hold

Last target price	HRK 2,031
Close (03.05.10.)	HRK 1,804
Market Cap (EUR mn)	2,491
Free float	8%
Reuters	INA.ZA
Bloomberg	INARA CZ

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### Good upstream offsets all other parts (neutral)

- Satisfying volume development and margins in the upstream division
- Poor downstream volumes and still occurring losses from disc. operations
- Noteworthy period end reassessment losses on FX items
- Maintaining "hold" recommendation

INA reported EBIT from continuing operations, excl. one-off items, of HRK 815 mn. The only profit contributor was the upstream division while R&M and retail reported an operating loss. The bottom line was further weighed by a remarkable reassessment loss (HRK 502 mn) suffered on FX loans and trade creditors. Moreover, discontinued operations generated further net loss of HRK 207mn despite it was planned that the natural gas trading company would operate without generating losses in 2010. However, there are ongoing negotiations with some large eligible customers.

**Upstream:** 1Q EBIT (continuing, excl. one-offs) was up by 50.1% yoy and 12.2% qoq. On the one hand it was boosted by higher hydrocarbon prices (71% yoy, 2.2% qoq). On a quarterly basis this effect was magnified by the more favourable HRKUSD cross as well (5.26 vs. 4.91 in 4Q). The average daily hydrocarbon production was increased to 63,100 boe on the other hand (12.6% yoy). The 8-11% declines on its matured onshore domestic fields were more than offset. The North Adriatic gas production increased by 43.4% yoy, in accordance with the PSA and as a result of putting in operation new gas fields. International crude production rose by 85.5% yoy because of a higher production in Syria and Angola. Natural gas production outside Croatia increased by 43.7% yoy, after the start-up of the oil and gas station Jihar in Syria.

**Downstream:** R&M was unable to show any improvement yoy despite its better product slate and more favourable crack spreads as it was eaten up by the 23% drop back in sales volumes (Croatia: -30%yoy, B&H -36%, other: -1.5%) citing economic downturn as the main reason. Total retail sales volumes also showed also a 10.3% yoy drop back.

**Outlook and recommendation:** Though downstream volumes as well as the still occurring losses from discontinuing operations are clear negative surprises, one can be satisfied with production volume development and margins in the upstream division which has the absolute dominance in INA's operation. Thus we qualify 1Q figures neutral and maintain our "hold" for the time being.

### INA 1Q 2010 result

in HRK mn	1Q 10	1Q 09	+/- yoy	4Q 09	+/- qoq
Operating profit excl special items	815	480	69.8%	658	23.9%
Exploration & Production	1,175	783	50.1%	1,047	12.2%
Refining & Marketing	-118	-120	1.7%	-103	-14.6%
Retail	-42	-4	-950.0%	-39	-7.7%
Net profit from continuing operations excl special items	135	-266	-150.8%	377	-64.2%
Net profit from continuing operations	76	-266	-128.6%	-74	-202.7%
Net profit from discontinuing operations	-207	-306	-32.4%	-192	-7.8%
Net profit	-131	-572	77.1%	-266	50.8%
Operating CF	-926	215	-530.7%	935	-199.0%

Source: INA, Raiffeisen estimates

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