



## ANALYSIS OF THE PERFORMANCE OF FINANCIAL AND ECONOMIC ACTIVITIES OF NATIONAL OIL AND GAS ENTERPRISES (ON THE EXAMPLE OF UZBEKNEFTEGAZ JSC)

**J. Sh. Umurzakov**

*Tashkent Financial Institute, Tashkent, Uzbekistan*

### ABSTRACT

Currently, in the Republic of Uzbekistan, unlike the economies of a number of border countries, such as Tajikistan, the Kyrgyz Republic, the oil and gas industry, which includes enterprises engaged in the production of hydrocarbons, their processing at various levels, supply and sale to consumers, is one of the leading sectors of the country's economy. To support the oil and gas industry in organizing the extraction and production of goods with high added value, it is necessary to create long trade and production chains for advanced processing of raw materials, the formation of large production associations that make it possible to benefit from economies of scale in production. In this article, the contribution of the oil and gas complex industry to the country's economy, the areas of activity are considered on the example of the joint-stock company «Uzbekneftgaz», which is the leader in the field. The position of society in the market and the existing risks in financial and economic activity are considered on the basis of SWOT analysis. We conducted a small analysis of the current situation in the oil and gas market, assessed the activities of one of the leading national companies in the region and the indicators of its development. In our opinion, this analysis allows us to see the development and improvement of companies from a development point of view.

**Keywords:** environmental; SWOT analysis; liquidity; investments; net profit; expenses; rating agencies; hydrocarbon reserves.

© 2024 «OilGasScientificResearchProject» Institute. All rights reserved.

### Introduction

The oil and gas complex is a group of industries involved in the production, transportation and processing of oil and gas, as well as the distribution of their products, and plays an important role in the development of the economy both in the domestic and foreign markets [1].

The national economy of modern Uzbekistan is characterized by an orientation towards the development model of the digital economy, while actively using its serial potential. In this regard, the further development of business in the country, in our opinion, significantly depends on the state of development and prospects of enterprises in the fuel and energy complex, primarily oil and gas sector.

The income from the oil and gas complex makes a significant contribution to the country's gross domestic product and constitutes a significant part of the budget. The oil and gas industry of Uzbekistan accounts for about 16% of national GDP and more than 1/5 of the country's state budget revenues [2, 3].

At the moment, taking into account the foreign and joint enterprises operating in the territory of the republic, an average of 47.0 billion cubic meters of natural gas and more than 3.0 million tons of liquid hydrocarbons are produced per year, including oil, gas condensate and others.

The most important task of oil and gas enterprises in Uzbekistan is to bring the volume of hydrocarbon production to the 2019 level. This task was defined in the Presidential Decree devoted to the issues of stable provision of the national economy and population with energy resources. In this Decree, this volume was considered sufficient to satisfy the need for energy resources and ensure economic stability [4].

In this context, it is also necessary to emphasize the importance of the effectiveness of the ongoing investment policy of oil and gas enterprises in ensuring the efficiency of the financial and economic activities of the country's oil and gas industry as a whole [5].

The implementation of this important task is provided due to measures such as attracting the world's largest oil and gas companies to the production of hydrocarbon raw materials in fields that are difficult to extract based on the conditions and mechanisms of investment, which are difficult to mine, increasing the operational efficiency of the oil and gas network enterprises by attracting independent foreign experts, and optimizing their costs, also, reducing their debt load, increasing the productivity of hydrocarbon raw materials production based on modern technologies in operational oil and gas field [2].

At the same time, mining and processing enterprises within the complex are required to pay serious attention to attracting foreign oil service organizations to participate in

*E-mail:* jamoliddin.umurzokov@gmail.com

<http://dx.doi.org/10.5510/OGP20240100952>

international tenders for investment projects, acceleration of wide implementation of information and communication technologies, taking into account foreign experience, including the implementation of the «digital oil and gas field» concept, critical study of investment projects in the oil and gas network involving international consulting companies and optimization based on the real financial capabilities of local oil and gas producing enterprises.

One of the most important tasks of the joint-stock company «Uzbekneftgaz» in 2024 is the development of a geological exploration program for the search for new deposits, and this task will create a factor for increasing the volume of hydrocarbon reserves and natural gas production throughout the country.

### **Material and method**

The information base of the research consists of statistical data, analytical data on the activities of oil producing and processing enterprises. The methodological basis of the research is statistical methods of information analysis: comparative analysis, time series analysis.

Complex analysis of the financial and economic activity of oil and gas enterprises has always been an object of intensive analysis and discussion by economists.

In particular, local scientists Malikov T., Jalilov Sh., Nosirov E., Elmirzaev S., Bakieva I. in their studies analyzed the factors leading to ensuring the stability of financial activity in the fuel and energy complex, in particular, oil and gas enterprises, tax relations, corporate finance, and investment flows.

Larionova E. I., Popova A. A., Shpakovskaya E. P., analyzed the financial indicators of oil producing enterprises [1], while Gayfullina M. M., Makov V. M. evaluated the development trends of oil and gas processing enterprises [9] and the means causing it. Zhukov S. V., Zolina S. A. analyzed financial markets in the USA [10] and unconventional oil in their works.

### **Results**

Today, the number of oil and gas fields of Uzbekneftgaz JSC, where liquid hydrocarbons and natural gas extraction is being carried out, is 127, of which 85 mines are being developed, 42 mines are in conservation and exploration. The main fields producing the largest amount of hydrocarbons in the developed fields have been used for a long time, their utilization rate is high, hydrocarbon reserves have decreased, and well pressures and production potential have decreased.

According to the analysis of the society's resource base in recent years, the exploitation of the main mines (Alan, Shortan, Zevarda, Samantepa, Ortabulok, Southern Kemachi, Dengizkol, Northern Dengizkol, Eastern and Northern Berdak, Doyaxotin) has reached the final stage, the share of hydrocarbons obtained from deposits with difficult to extract reserves and the number of small and low-productivity deposits is increasing.

One of the main tasks of society in terms of production of hydrocarbon raw materials and processing of natural gas is the development of oil and gas fields, the extraction of natural gas, oil and gas condensate, and the effective organization of their deep processing.

According to recent data, by the end of 2023, about 30 billion cubic meters of natural gas is expected to be produced.

Natural gas, gas condensate and oil are produced by the following departments of the company:

- Mubarak GPD;
- Shurtan GPD;
- Gazli GPD;
- Ustyurt GPD;
- Valley GPD.

At the Mubarak gas processing plant high- and low-sulfur gases received from the Mubarak Oil and Gas Production Department, «LUKOIL Uzbekistan Operating Company» LLC, «Natural Gas Stream» LLC, «New Silk Road Oil and Gas» LLC, «Kokdumaloq Gas» LLC JV, «Sanoat Energetika Guruhi» LLC are processed.

After cleaning and drying, the produced natural gas is sold to «UzGasTrade» JSC, «Hududgaztaminot» JSC and «Uz-Kor Gas Chemical» LLC.

The liquefied gas obtained during the processing of natural gas and unstable gas condensate is sold to gas stations through stock exchanges, supplied to the enterprises of «Hududgaztaminot» JSC to provide the population and social facilities, used for the needs of vehicles of the enterprises of the Company and exported.

Oil and gas condensate is produced by processing oil products at «Bukhara Oil Refinery» LLC and sold by plant through stock exchanges. Part of the gas condensate is sold to «Uz-Kor Gas Chemical» LLC, and then processed at the Ustyurt gas-chemical complex.

Sulfur is sold and exported to the republic's enterprises through stock exchanges. At the same time, oil and gas production departments and gas processing plants within the company provide natural gas and hydrocarbon preparation, processing, transportation of natural gas and gas condensate, and liquefied gas and sulfur storage services to enterprises with foreign capital operating in the republic.

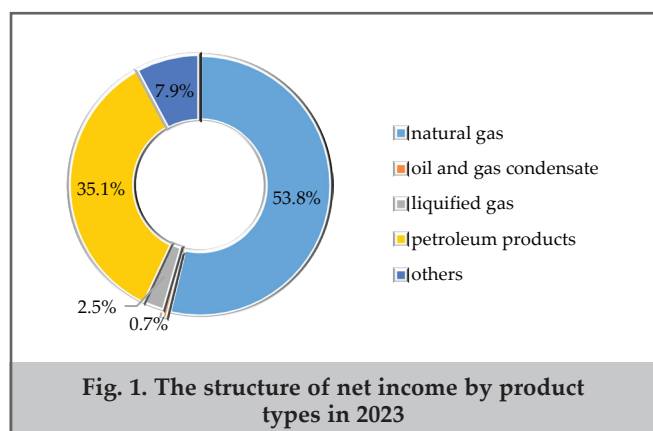
In addition, in the II quarter of 2022, the project «Production of synthetic products based on purified methane gas of Shurtan GCC» was fully completed, the GTL plant was put into operation, and product production was launched from July 2022. Due to the production of synthetic diesel fuel, synthetic kerosene, synthetic naphtha and synthetic liquefied gas from deep processing of gas, the ground has been created to increase the export potential of the Company while satisfying the demand for oil and gas products in the republic.

The main share of the produced products is directed to meet the demand of the domestic market. At the same time, enterprises of «Uzbekneftgaz» JSC export polyethylene, liquefied gas, synthetic products and other oil products.

By the end of 2023, 106,800 tons of synthetic naphtha, 70600 tons of synthetic diesel fuel («Uzbekistan GTL» LLC) and 15100 tons of pyrolysis gasoline («Bukhara Oil Refinery» LLC) are expected to be exported. These products are mainly exported to Turkey, Russia, Tajikistan, UAE, Latvia, China, USA, Kazakhstan, Europe and a number of Asian countries.

According to activity analysis based on key financial and economic indicators of the company for 2021-2023, the net profit of Uzbekneftgaz JSC is 1370.0 billion soums by the end of 2023 (table 1).

It should be noted that more than 50 percent of the net income is from the sale of natural gas, 35.1 percent from the sale of petroleum products, 2.5 percent from the sale of liquefied gas, and 8.6 percent from the sale of sulfur and other products (services) (fig. 1).



Indicators	2021 year	2022 year	2023 year
Total revenues	12 296	13 441	15 679
Total operating costs	(10 229)	10 775)	(14 273)
Profit (loss) from operating activities	2 067	2 666	1 406
Profit (loss) before tax	1 712	2 806	1 512
Profit (loss) before tax	1 321	2 486	1 370

To determine the position of the oil and gas industry and the company’s position in the market, as well as existing risks, internal and external environmental factors, that is, strengths and weaknesses, opportunities and threats, respectively, let’s consider an example of a SWOT analysis (table 2).

The SWOT analysis we conducted allowed us to conclude that one of the company’s strengths is the fact that the industry has a dominant position in the domestic market and there is a stable demand in the market for the products of the oil and gas company.

The company is one of the largest companies that not only serves the economic interests of shareholders, but also forms the income of the state budget. By the end of 2023, the amount of taxes paid to the state budget by system enterprises is 7.5 trillion soums.

The company is one of the largest employers in the country, with 13989 employees.

The society defined a new development path based on modern methods of corporate management, digital transformation and transition to international standards involving international consulting companies and financial institutions («Ernst & Young», «KPMG», etc.).

Today, active cooperation has been established with

the leaders of the oil and gas industry in the world. Lukoil, Gazprom, BP, SOCAR, Tatneft, Air Products and companies from countries such as Korea and China participate in the processes of hydrocarbon production and processing in Uzbekistan.

At the same time, factors such as high workload of large fields (80-90 percent), low growth of hydrocarbon reserves, scattered oil and gas fields throughout almost the entire territory of the country are disadvantages of the enterprise in conducting business activities.

**Discussion**

Based on SWOT analysis, which is considered as a separate stage of assessing and structuring information, as a tool for the formation and implementation of strategies within the framework of strategic planning technologies, it is possible to assess the risks of enterprise development.

During the analysis, some risks of the company were also identified. In particular, the relatively high level of utilization (80-90 percent) of large deposits belonging to the company affects the decrease in the growth rate of hydrocarbon production and the deterioration of the component composition of raw materials [7]. In addition, the high share

	Positive effects	Negative effects
<b>Internal environment</b>	<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>Has a dominant position in the domestic market;</li> <li>There is a stable demand for the company's products in the market;</li> <li>There is a relatively large amount of proven natural gas reserves;</li> <li>Diversified production;</li> <li>One of the largest taxpayers in the country;</li> <li>One of the largest employers in the country;</li> <li>Transparent management system;</li> <li>Application of modern methods of development.</li> </ol>	<p><b>Weakness</b></p> <ol style="list-style-type: none"> <li>The utilization rate of large oil and gas fields is 80-90 percent;</li> <li>Growth rates of reserves are not high enough;</li> <li>Oil and gas fields are geographically scattered;</li> <li>Processing capacities are not fully utilized;</li> <li>Determining the selling price of natural gas is under state control;</li> <li>A high percentage of receivables in the structure of the company's assets.</li> </ol>
<b>External environment</b>	<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>Initial public offering of shares (IPO);</li> <li>Favorable macroeconomic environment;</li> <li>Directing the activity to deep processing and production of high added value products;</li> <li>Access to world markets;</li> <li>Organization of the wholesale market of natural gas producers and importers.</li> </ol>	<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>According to the results of geological research activities, the rate of growth of reserves is insufficient;</li> <li>Development of alternative energy and fuel sources;</li> <li>High tax burden (up to 35 percent, 42 percent with dividends);</li> <li>Increasing competition.</li> </ol>

of receivables in the company's assets and the fact that this leads to a decrease in the circulation of working capital and the level of liquidity should be considered as a big risk.

In 2021, «Uzbekneftgaz» JSC received the corporate credit rating of «S&P Global» and «Fitch Ratings», which are the world's leading agencies. During 2022-2023, the corporate credit rating of «Uzbekneftgaz» JSC was updated by international rating companies.

In this direction, a group of international consulting and legal companies led by «Rothschild & Co.» («Ernst&Young», «White&Case» for legal issues, «Boston Consulting Group» for strategic development, «PricewaterhouseCoopers» for corporate governance and ESG implementation) was involved. The consultants made a comprehensive diagnosis (due diligence) of the society's readiness for IPO and developed recommendations (red flag report) on compliance with the requirements of the world's leading stock exchanges and introduction of international standards.

It is known that going to IPO creates an opportunity to attract long-term financial resources from outside, which can be used to cover current expenses, reduce the debt burden, modernize production, implement large projects, and other expenses while influencing the increase in equity capital liquidity [8].

Based on this, the team of consultants has now prepared a «Roadmap» that defines 3 stages of the project implementation, i.e. preliminary assessment of readiness for IPO, analysis and reorientation of the debt portfolio, and preparation for IPO in the third stage.

At the end of October 2023, «S&P Global Ratings» lowered the rating of «Uzbekneftgaz» JSC from «BB-» to «B+» in its reports [9].

The company's rating was at a relatively low risk level (BB-), and now it has fallen to a lower level (B+), where the risks are high, but there is an opportunity to fulfill financial obligations, that is, to pay the debt to creditors.

According to the agency, a significant improvement in credit ratings is uncertain due to the shift in the project implementation point at the Uzbekistan GTL plant (i.e. longer start-up), high interest costs and general concerns about the availability of gas in the country.

According to the forecasts of analysts of the rating agency, due to the somewhat limited availability of gas raw materials, the transfer of Uzbekistan GTL to the design capacity may take another two to three years.

At the same time, the rating agency specified the following as conditions for raising the company's credit rating to the previous level:

- if the cash flow from operating activities ((funds from operations — FFO) / debt) is stable until the change of working capital;
- with constant positive free cash flow from operating activities;
- in case of improvement of liquidity indicators;
- a strict and predictable financial policy with respect to capital expenditures, dividend payments of no more than 50 percent of expected net income, and the absence of major debt-financed acquisitions.

## Conclusions

Based on the analysis of the recommendations of the rating agency, as well as taking into account the assessment of the state of affairs on the market in 2024 and beyond, we consider it appropriate to implement the following measures in order to stabilize the activities of the joint-stock company Uzbekneftgaz JSC and ensure financial and economic efficiency:

- implementation of the program to optimize costs, increase the efficiency of operational activities;
- implementation of technical policy in the field of energy efficiency of departments and factories;
- business risk management;
- development of geological and technical activities aimed at forming forecast indicators of production of hydrocarbon raw materials from owned deposits and their implementation;
- to continue the process of introducing a modern automated system of managing the company's organizational, production and financial-economic processes;
- introduction of environmental, social and corporate governance (ESG - Environmental, Social and Corporate Governance) standards;
- prevention and elimination of financial offenses, management of conflicts of interest, as well as implementation of work on minimizing corruption risks, etc.

In conclusion, we would like to note that, according to our opinion, the oil and gas complex of Uzbekistan is still important in shaping the country's economy, drawing up plans for the long-term development of individual industries (as indicated at the beginning of the article, the oil and gas industry of Uzbekistan accounts for about 16% of the national GDP and more 20% of the budget revenue).

Based on this, it is appropriate to regularly analyze industry development trends, using the example of leading players in the domestic market, by studying the trends in their financial and economic activities. The results of such an economic and statistical analysis allow us to draw a conclusion about the main directions of development of the oil and gas block of the fuel and energy complex, positive and negative processes, and also determine future prospects.

### References

1. Brigham, E. F., Ehrhardt, M. C. (2016). Financial management: theory & practice. *Cengage Learning*.
2. Mirzamakhmudov, J., Rakhmatullaev, Kh., et al. (2013). Improving the management system in the oil and gas sector. Analytical report 2013/11. Center for Economic Research (CER) with the assistance of UNDP projects «Promoting modernization, accelerating reforms and transformation».
3. Havranek, T., Horvath, R., Zeynalov, A. (2016), Natural resources and economic growth: A meta-analysis. *World Development*, 88, 134-151.
4. (2019). Decision PQ-4388 of the President of the Republic of Uzbekistan dated July 9, 2019. On measures to provide the population and the economy with energy resources, financial recovery of the oil and gas network, and improvement of its management system.
5. Umurzakov, J. Sh. (2023). Improving the financing system of geological exploration works at oil and gas enterprises. *International Finance & Accounting*, 2.
6. Salahodjaev, R., Djalilov, B., Bakieva, I., Kobiljonov, I. (2024). The relationship between natural resource abundance and human development in belt and road initiative countries: the role of financial development. *International Journal of Energy Economics and Policy*, 14(1), 45-52.
7. Zhukov, S. V., Zolina, S. A. (2016). USA: financial markets and development of the non-conventional oil sector. *World Economy and International Relations*, 60(11), 14-24.
8. The rating of Uzbekneftegaz JSC was downgraded from «BB-» to «B+» due to a decrease in creditworthiness indicators and limited liquidity. October 30, 2023. <https://disclosure.spglobal.com/ratings/ru/regulatory/article>
9. (2020). BP Statistical Review of World Energy 2020. <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf>