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SPECIFIC FEATURES OF VALUING VERTICALLY INTEGRATED OIL COMPANIES

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ABSTRACT

This article analyzes the specific features of business valuation for vertically integrated oil companies and identifies their distinctive characteristics that directly affect the final valuation result and should be taken into account when developing valuation methodologies.

To better understand the concept, a vertically integrated oil company (VIOC) is a company that controls all major stages of the oil business. In order to understand the specific features and fundamental differences in business valuation between subsidiaries within a vertically integrated oil company, it is necessary to examine the organizational structure that makes a VIOC an atypical valuation object.

An integrated company is a company that owns and combines several enterprises and plants under its control. However, it is important to distinguish between the types and forms of integration:

- **vertical integration** – combining different stages of production (extraction → processing → sales);
- **horizontal integration** – combining companies operating at the same level;
- **conglomerate integration** – combining companies from different industries.

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Each of these forms affects the specific features of business valuation.

The main characteristic of a VIOC as an integrated company is that it combines several stages of production or product sales within a single corporate structure. In simpler terms, the company independently controls the entire path of the product — from raw materials to the sale to the final consumer.

Vertical integration in oil companies may be manifested as follows:

- the company's extraction subsidiary (**upstream**: exploration of fields, drilling wells, oil and gas production) supplies all its output (raw materials) for processing to the company's refining division (**downstream**: oil refineries, production of gasoline, diesel fuel, gas, etc., and retail sales through gas stations) in the form of intra-company deliveries;
- the company's refining subsidiary (**downstream**) purchases raw materials from the extraction division, while transportation and storage are carried out through the **midstream** segment (oil transportation and storage in tanks), and only in the event of a shortage does it turn to the external market.

A VIOC provides the company with full control from the wellhead to the gas station, reduces costs, increases resilience during crises, and strengthens its competitive power in the market. In Uzbekistan, the country's main vertically integrated company is Uzbekneftegaz, while the private VIOC Sanoat Energetika Guruhi (Saneg) operates in the Fergana Valley and was founded by Bakhtiyor Fazylov.

A VIOC also has its own distinctive features in organizing production and commercial activities:

1. A VIOC represents a set of interconnected stages of the production and technological process, united into a single structure and fully controlled by one parent company.
2. The parent company in the VIOC chain holds a blocking or controlling stake in subsidiaries and affiliated companies (usually owning more than 50% of the company's shares and making key decisions).
3. A VIOC controls all stages of the production process — from product sales to financial management — and fully oversees the operational and financial activities of the enterprises within its structure.
4. The main source of income for a VIOC is its subsidiaries and affiliated enterprises, over which the company continuously exercises financial influence.
5. Compared to other industrial companies, the share of fixed assets on the VIOC parent company's balance sheet is relatively small, since production facilities are usually recorded on the balance sheets of subsidiaries within its structure.
6. A vertically integrated oil company consolidates and concentrates all profits generated from core production within the parent company.
7. A VIOC uses transfer pricing, which allows it to optimize taxes and account for goods transferred between subsidiaries at internal prices.

Thus, it is possible to summarize and identify the key characteristics of vertically integrated oil companies (VIOCs) as a specific object of business valuation:

1. **Vertical integration** – a VIOC combines oil exploration and production, refining, and distribution, which affects the company's revenue structure and risk profile.
2. **Subsidiaries and affiliated companies** – the company's main income is generated through its subsidiaries, which requires consideration of their financial condition during valuation.
3. **Small share of own fixed assets** – production facilities are more often recorded on the balance sheets of subsidiaries rather than on that of the parent VIOC itself.
4. **Transfer pricing** – enables the use of internal pricing between subsidiaries and helps optimize taxation, which affects financial performance indicators.
5. **Financial flows and capital management** – VIOCs actively manage the cash flows of subsidiaries, concentrating resources to achieve strategic goals.
6. **Dependence on global oil prices** – business value directly depends on fluctuations in crude oil prices.
7. **Intangible assets** – licenses, technologies, brand value, and patents can significantly affect the company's value.

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