



Independent Stock Idea

May 5, 2009

rating: buy
s&p 500: 907

BG Group plc New Buy on Global LNG and Brazil Oil

<i>Symbol</i>	BRGXF	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	8,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	16.85	<i>Natural Gas and Oil Production/Ebitda (%)</i>	65
<i>Pricing Date</i>	5/4/09	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	3384	<i>EV/Ebitda</i>	7.6
<i>Market Capitalization (US\$m)</i>	57,000	<i>PV/Ebitda</i>	9.7
<i>Debt (US\$m)</i>	7,000	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (US\$m)</i>	63,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.00
<i>Present Value (PV) (US\$m)</i>	81,100	<i>Present Value Proven Reserves(US\$/boe)</i>	17.97
<i>Net Present Value (US\$/share)</i>	22	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.00
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.07
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.17
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.			
U.S. American Depository Receipts represent 5 U.K. Ordinary shares and are quoted as BRGY.Y.PK.			
BRGXF represents BRGY.Y.PK divided by 5 and approximates London price converted to dollars.			

Summary and Recommendation

We initiate a buy recommendation on the common shares of **BG Group plc (BRGXF)** for long-term participation in oil and gas production, liquefied natural gas (LNG) and new discoveries offshore Brazil. The stock offers unlevered appreciation potential of 27% to a McDep Ratio of 1.0 and levered appreciation potential of 31% to Net Present Value (NPV) of \$22 a share. Oil and gas reserves and production have expanded widely from the company's original UK base when it was part of the British government natural gas utility (see table Production and Reserves, 2008). Global expansion extends to Brazil where BG has 25% of the Tupi oil discovery by **Petrobras (PBR)**, which has 65%. Our assessment of the prospective value of Tupi and subsequent discoveries is proportional to our estimated value for Petrobras. The unproven discoveries are one among four main components of NPV (see table Functional Cash Flow and Present Value). The other three segments contribute current cash flow with profits unusually strong in Downstream consisting mostly of LNG shipping and trading (see table Next Twelve Months Operating and Financial Estimates). Finally, pointing to expected oil price recovery, futures prices for the next six years averaged near US\$71 a barrel recently (see chart Six-Year Commodity Price Meter).

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BG Group plc								
Production and Reserves, 2008								
							NTM	
							Weighted	Adjusted
							Life Index	R/P
		2008 Production		12/31/2008 Proven Reserves		Weighted		
		(daily)	(annual)	Developed (bcf or mmb)	Undeveloped (bcf or mmb)	(bcf or mmb)	(years)	(years)
Rest of World Natural Gas								
UK		499	182	813	207	917	5.0	
Atlantic Basin		1,332	486	1,915	2,220	3,025	6.2	
Asia and Middle East		575	210	3,040	1,127	3,604	17.2	
Rest of World		238	87	1,001	300	1,151	13.2	
	Total	2,644	965	6,769	3,854	8,696	9.0	9.2
Oil								
UK		84	31	126	33	143	4.7	
Atlantic Basin		6	2	8	5	11	4.6	
Asia and Middle East		85	31	374	78	413	13.4	
Rest of World		6	2	25	39	45	20.2	
	Total	181	66	533	155	611	9.3	9.0
Total Oil Equivalent		621	227	1,661	797	2,060	9.1	9.1

BG Group plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Rest of World Natural Gas	3,040	9.2	7.2	22,000	27%
Oil	2,220	9.0	8.6	19,000	23%
Downstream	2,940		7.5	22,000	27%
Offshore Brazil				18,000	22%
	8,200	9.1	9.9	81,000	100%
Debt (US\$mm)					7,000
Net Present Value (US\$mm)					74,000
Shares (mm)					3,384
Net Present Value - Standard Estimate (US\$/sh)					22



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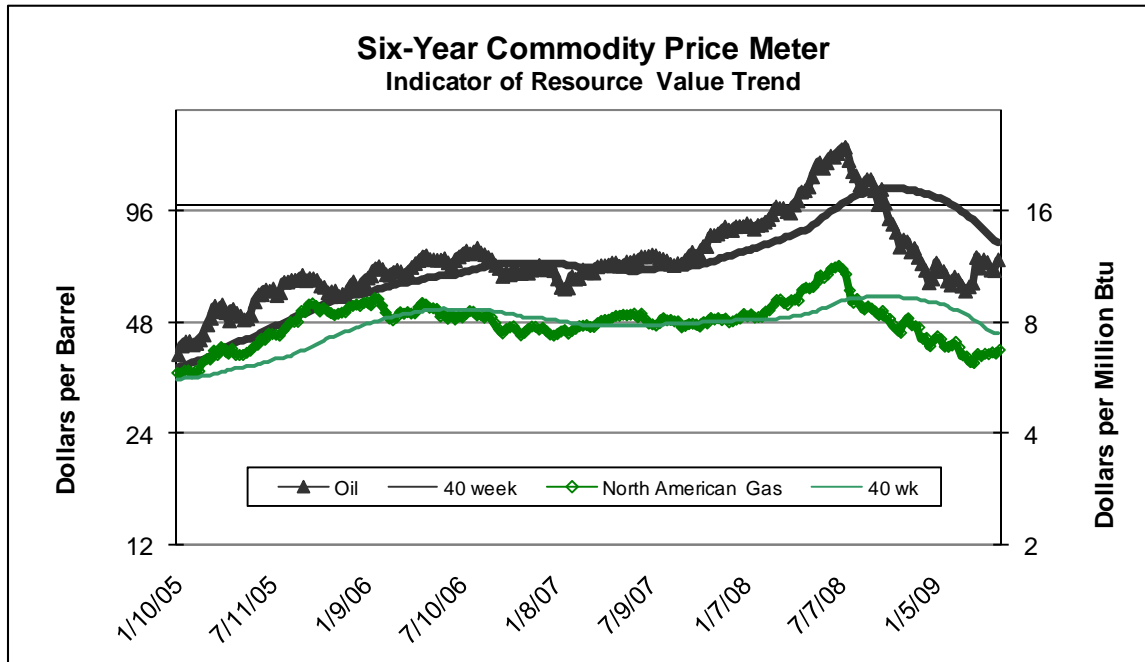
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BG Group plc									
Next Twelve Months Operating and Financial Estimates									
(British Pounds)									
									Next
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	Months
									3/31/10
Volume									
Natural Gas (bcf)	261	243	964	247	230	230	243	950	950
Natural Gas (mmcf)	2,868	2,646	2,635	2,742	2,526	2,502	2,646	2,603	2,603
Days	91	92	366	90	91	92	92	365	365
Oil (mmb)	17	17	66	17	17	17	17	68	68
Oil (mbd)	189	182	180	186	186	186	186	186	186
Total gas & oil (mmb)	61	57	227	58	55	55	58	226	226
Total gas & oil (mbd)	667	623	619	643	607	603	627	620	620
Price									
U.S. Dollar/U.K. Pound	1.98	1.57	1.87	1.44	1.49	1.49	1.49	1.48	1.49
Natural gas (pence/therm)	23.87	32.52	26.25	31.41	31.41	31.41	31.41	31.41	31.41
Natural gas (\$/mmbtu)	4.73	5.11	4.90	4.51	4.69	4.69	4.69	4.64	4.69
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	99.59	42.96	49.97	52.66	55.70	50.32	54.12
Company	89.24	41.91	83.35	38.07	44.28	46.67	49.37	44.58	47.96
Total gas & oil (\$/bbl)	45.63	33.93	45.12	30.26	33.07	33.84	34.42	32.87	34.07
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	9.86	9.18	8.11	6.98	3.00	6.82	5.74
Revenue (million pounds)									
Natural gas	623	792	2,532	775	722	723	765	2,985	2,985
Oil	774	447	2,942	444	502	535	566	2,048	2,182
Total production	1,397	1,239	5,474	1,219	1,224	1,258	1,331	5,032	5,167
Other	1,709	1,750	7,136	1,876	1,876	1,876	1,876	7,505	7,505
Total	3,106	2,989	12,610	3,095	3,101	3,135	3,207	12,537	12,672
Expense									
Production	363	255	1,382	392	395	412	448	1,648	1,713
Other	1,205	1,238	5,117	1,127	1,480	1,470	1,467	5,544	5,544
Ebitda (million pounds)									
Production	1,034	984	4,092	826	833	856	905	3,420	3,514
Other	504	512	2,019	749	397	406	410	1,961	1,961
Total Ebitda	1,538	1,496	6,111	1,575	1,229	1,262	1,315	5,381	5,475
Exploration	97	145	451	177	177	125	125	604	552
Deprec., Deplet., & Amort.	218	251	880	284	284	284	284	1,136	1,136
Excess tax and other	179	39	575	161					
Operating Income									
Upstream	942	677	3,512	583					
Downstream	460	462	1,843	692					
Excess tax and other	(179)	(39)	(575)	(161)					
Ebit	1,223	1,100	4,780	1,114	768	853	906	3,641	3,787
Interest	11	29	66	47	47	47	47	188	188
Ebt	1,212	1,071	4,713	1,067	721	806	859	3,453	3,599
Income Tax	424	375	1,650	374	252	282	301	1,208	1,260
Net Income (million pounds)	788	696	3,064	694	469	524	558	2,244	2,339
Shares (millions)	3,381	3,379	3,382	3,384	3,384	3,384	3,384	3,384	3,384
Per share (pence)	23.3	20.6	90.6	20.5	13.9	15.5	16.5	66.3	69.1
Ebitda Margin (E&P)	74%	79%	75%	68%	68%	68%	68%	68%	68%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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