



Independent Stock Idea

November 9, 2009

rating: buy
s&p 500: 1093

Gazprom (OGZPY) Sharp Recovery from Sharp Dip

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	51,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	25.44	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/9/09	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,930	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (US\$mm)</i>	151,000	<i>PV/Ebitda</i>	8.1
<i>Debt (US\$mm)</i>	41,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	192,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	16.33
<i>Present Value (PV) (US\$mm)</i>	421,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.59
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.60
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.31
<i>McDep Ratio - EV/PV</i>	0.46	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	0.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.05
Note: The Russian government owns about 50% of the equity.			
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, \$8 a million btu.			
For historical analysis of Gazprom since 2005 see www.mcdep.com/2ogz.htm			

Summary and Recommendation

Analyzing second quarter results released today, we reaffirm estimated Net Present Value (NPV) of \$64 a share for buy-recommended **Gazprom (OGZPY)**. On that basis unlevered appreciation potential is 120% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda) fell short of expectations as natural gas volume dropped 28% from the first quarter and price dropped 6% (see table [Next Twelve Months Operating and Financial Estimates](#)). About 80% of natural gas sold comes from Gazprom's own wells which were curtailed further after the second quarter and rebounded sharply through last month (see chart [Gazprom Monthly Gas Production Recovery](#)). The Russian company's production outside North America generally exceeds the combined output of the next six largest producers in our research coverage (see chart [Rest of World Natural Gas Producers](#)). Practically all of the six, Shell, Exxon, BP, PetroChina, Statoil and Total are partners of Gazprom in developing more natural gas in Russia. Pricing for all the large producers, except PetroChina, responds to oil price on a delayed basis among other factors in contracts that are usually confidential (see chart [Rest of World Natural Gas Price](#)). Carrying the competitive comparison further our estimate of NPV for Gazprom implies an unlevered cash flow multiple in the range of its peers without giving credit for longer reserve life (see table [Functional Cash Flow and Present Value](#)). Finally, the low natural gas price suggests that artificial U.S. political pressure may be a factor as it may have been when oil price hit artificially low levels in 1998 not seen since (see chart [Six-Year Commodity Price Meter](#)).

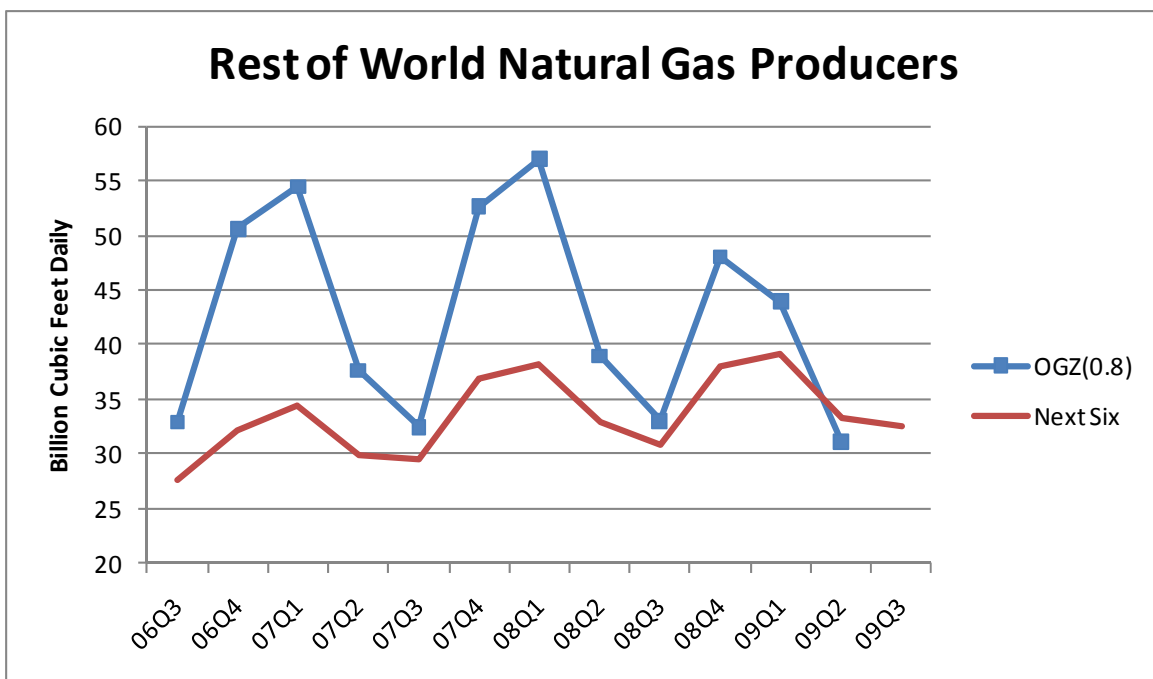
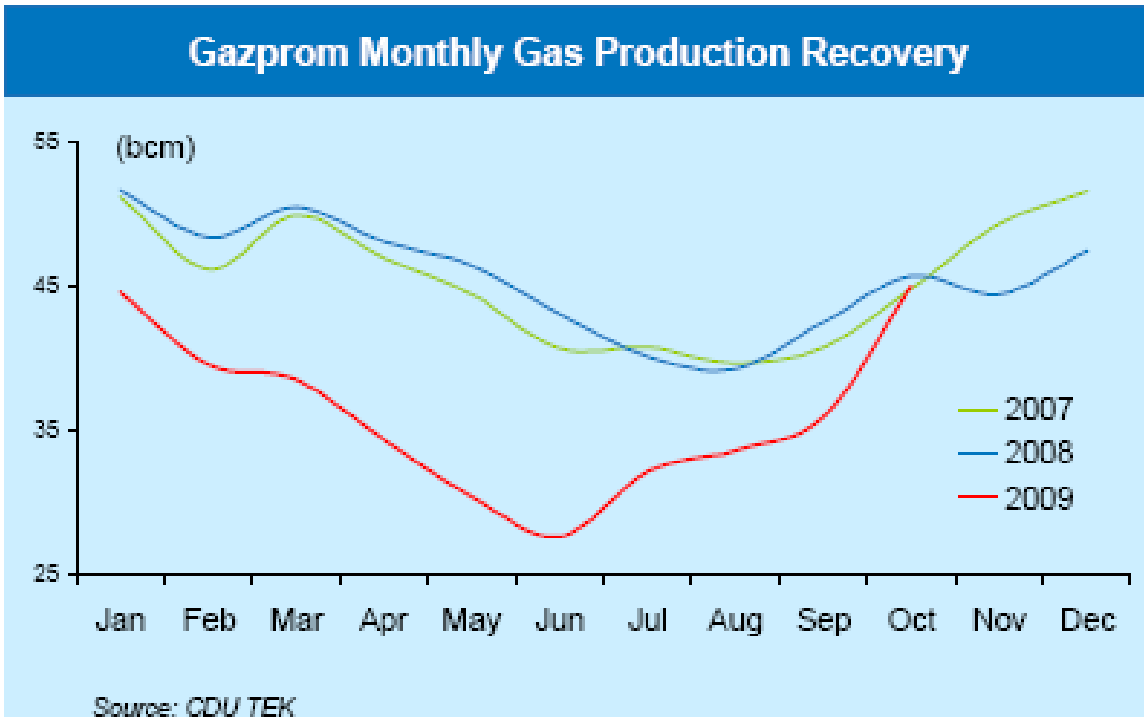
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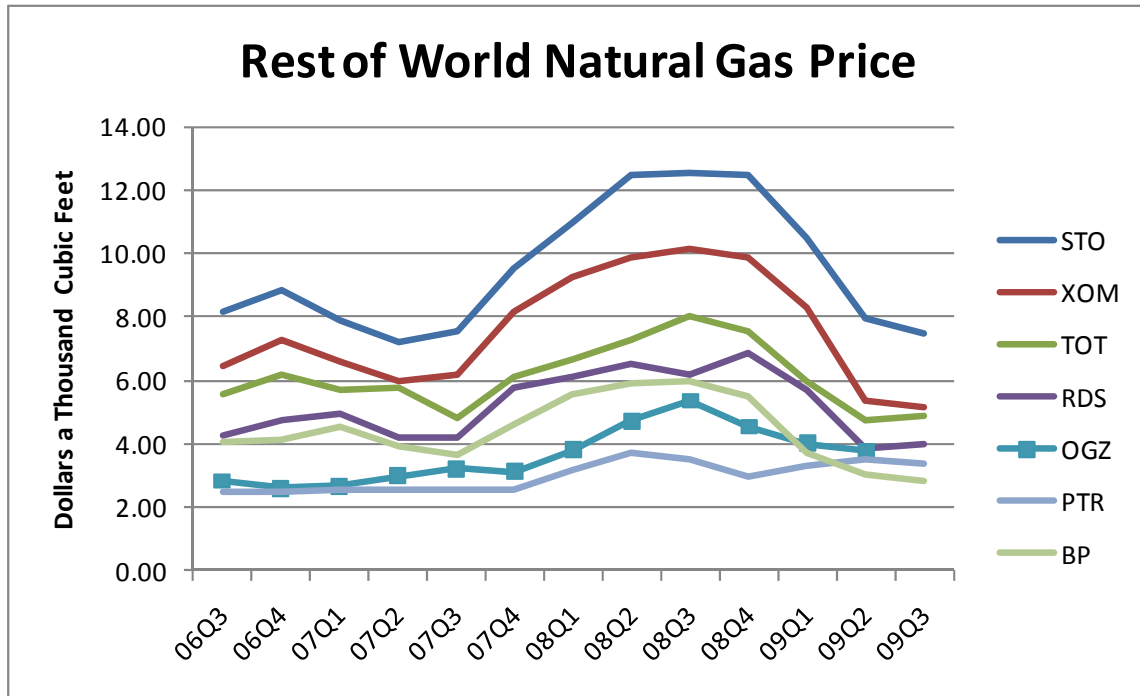
Gazprom									
Operating and Financial Results									
									<i>Next</i>
									<i>Twelve</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>
Volume (billion cubic meters)									
Europe	46.2	37.1	39.1	21.0	45.0	142	47.3	33.3	155
Former Soviet Union	24.5	9.7	11.4	22.4	24.6	68	25.8	18.2	85
Russia	54.9	93.2	49.6	45.5	86.8	275	91.1	64.1	300
Total (bcm)	125.6	140.0	100.1	88.9	156.4	485	164.2	115.6	540
Total (bcf)	4,434	4,942	3,534	3,138	5,521	17,135	5,797	4,079	19,069
Daily (bcfd)	48.7	54.9	38.8	34.1	60.0	46.9	64.4	44.8	52.2
Days	91	90	91	92	92	365	90	91	365
Price (Russian Rubles/cubic meter)									
Europe	6.98	11.67	6.78	7.00	8.00	8.47	9.00	9.00	8.71
FSU	3.27	8.76	6.67	6.67	7.00	7.09	8.00	8.00	7.71
Russia	1.65	1.70	1.81	1.90	1.90	1.82	2.00	2.10	2.03
Total (RR/cm)	3.93	4.83	4.31	4.31	4.46	4.51	4.96	5.01	4.85
Rubles/Dollar	23.62	34.07	32.18	31.30	28.75	31.58	28.75	28.75	28.75
Total (\$/mcf)	4.71	4.01	3.79	3.90	4.39	4.04	4.88	4.94	4.77
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.39	4.22	4.00	5.08	5.21	5.00
Revenue (RUB billion)									
Europe	323	433	265	147	360	1,205	425	299	1,354
FSU	80	85	76	149	172	483	207	145	655
Russia	91	158	90	86	165	499	182	135	609
Total Natural Gas	494	676	431	383	697	2,187	814	579	2,618
Other	347	255	277	277	277	1,086	277	277	1,108
Total	840	931	708	660	974	3,273	1,091	856	3,726
Expense	396	579	421	393	580	1,973	658	514	2,234
Ebitda (RUB billion)									
Natural Gas	249	307	214	199	294	1,014	338	267	1,150
Oil	195	45	73	68	100	286	96	75	342
Total Ebitda	444	352	287	267	394	1,300	434	343	1,492
Deprec., Deplet., & A	44	54	52	51	54	211	59	57	226
Other non cash		149	(14)			135			-
Ebit	400	149	249	217	341	955	374	285	1,266
Interest	8	9	11	11	11	41	11	11	43
Ebt	392	140	238	206	330	914	363	275	1,223
Income Tax	92	37	45	54	86	221	94	71	318
Net Income (RUB billion)	300	103	193	152	244	692	269	203	905
Shares (billions)									
Per share (RUB)	12.75	4.39	8.14	6.43	10.30	29.25	11.34	8.57	38.18
Ebitda Margin	53%	38%	40%	40%	40%	40%	40%	40%	40%
Tax Rate	23%	26%	19%	26%	26%	24%	26%	26%	26%





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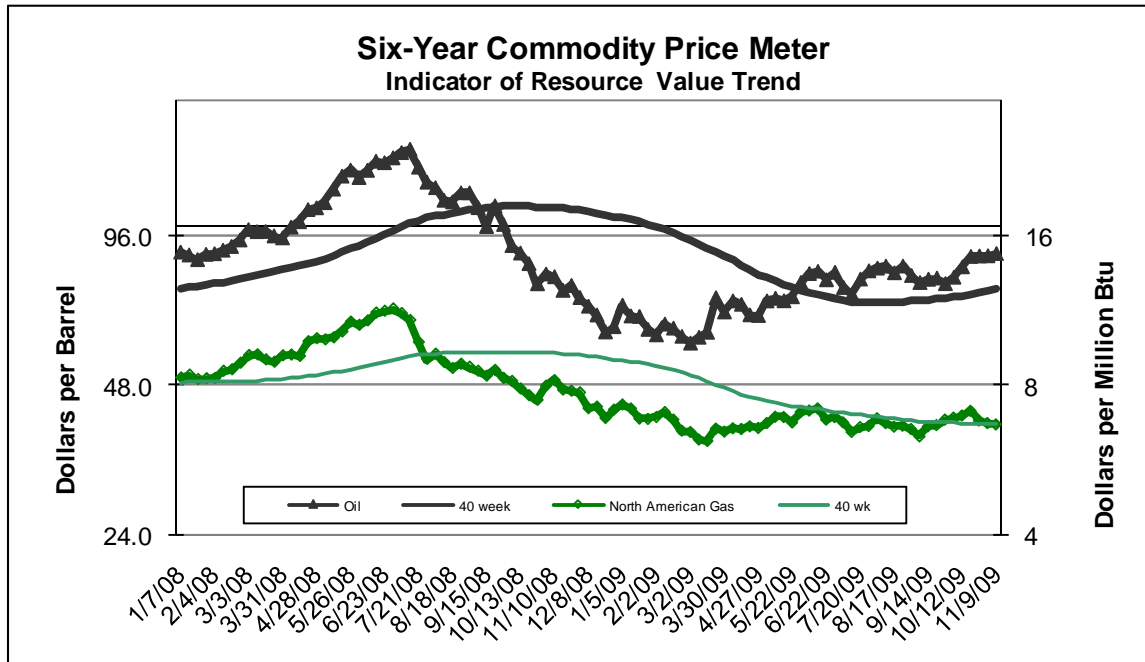


Gazprom					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	40,000	24.6	8.0	320,000	76%
Oil	11,900	22.0	8.5	101,000	24%
Downstream					
	51,900	24.3	8.1	421,000	100%
Debt (US\$mm)					41,000
Net Present Value (US\$mm)					380,000
Shares (mm)					5,930
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					105



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