



Independent Stock Idea

July 29, 2009

rating: buy
s&p 500: 975

BG Group plc Progressing in Pre-Salt Brazil

<i>Symbol</i>	BRGXF	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	9,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	17.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	62
<i>Pricing Date</i>	7/29/09	<i>Adjusted Reserves/Production NTM</i>	8.8
<i>Shares (mm)</i>	3388	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$mm)</i>	58,400	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	7,000	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (US\$mm)</i>	65,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.90
<i>Present Value (PV) (US\$mm)</i>	81,800	<i>Present Value Proven Reserves(US\$/boe)</i>	17.34
<i>Net Present Value (US\$/share)</i>	22	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.89
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.14
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20
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, \$8 a million btu.			
U.S. American Depositary Receipts represent 5 U.K. Ordinary shares and are quoted as BRGYYPK.			
BRGXF represents BRGYYPK divided by 5 and approximates London price converted to dollars.			

Summary and Recommendation

Buy-recommended **BG Group plc (BRGXF)** offers unlevered appreciation potential of 25% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$22 a share. Second quarter results released today matched our estimate for unlevered cash flow (Ebitda) from three months ago with downstream liquefied natural gas higher than we thought and natural gas price outside North America lower than we thought (see table Next Twelve Months Operating and Financial Estimates). The Pre-Salt fairway of the Santos Basin offshore south of Rio de Janeiro is an exciting part of the outlook for BG stock that enhances its long-term appeal. In the three most advanced finds, which have production equipment on order or in design, BG has 25% of 5-8 billion barrels equivalent (Bbbls) in Tupi, 25% of 3-4 Bbbls in Iara and 30% of 3-4 Bbbls in Guara (see map from BG on page 3 and from *Upstream* on page 4). An exploration well at Corcovado awaits the installation of casing to withstand higher than expected pressure. Hydrocarbons were declared in the first well at Corcovado. Abare West, on the Sugarloaf structure, is drilling and is expected to reach target depth in the third quarter. Visions of that structure being filled with tens of billions of barrels of oil have been only slightly dampened by a recent dry hole, the first in the Santos Basin Pre-Salt, drilled on the Azualo Prospect by ExxonMobil.

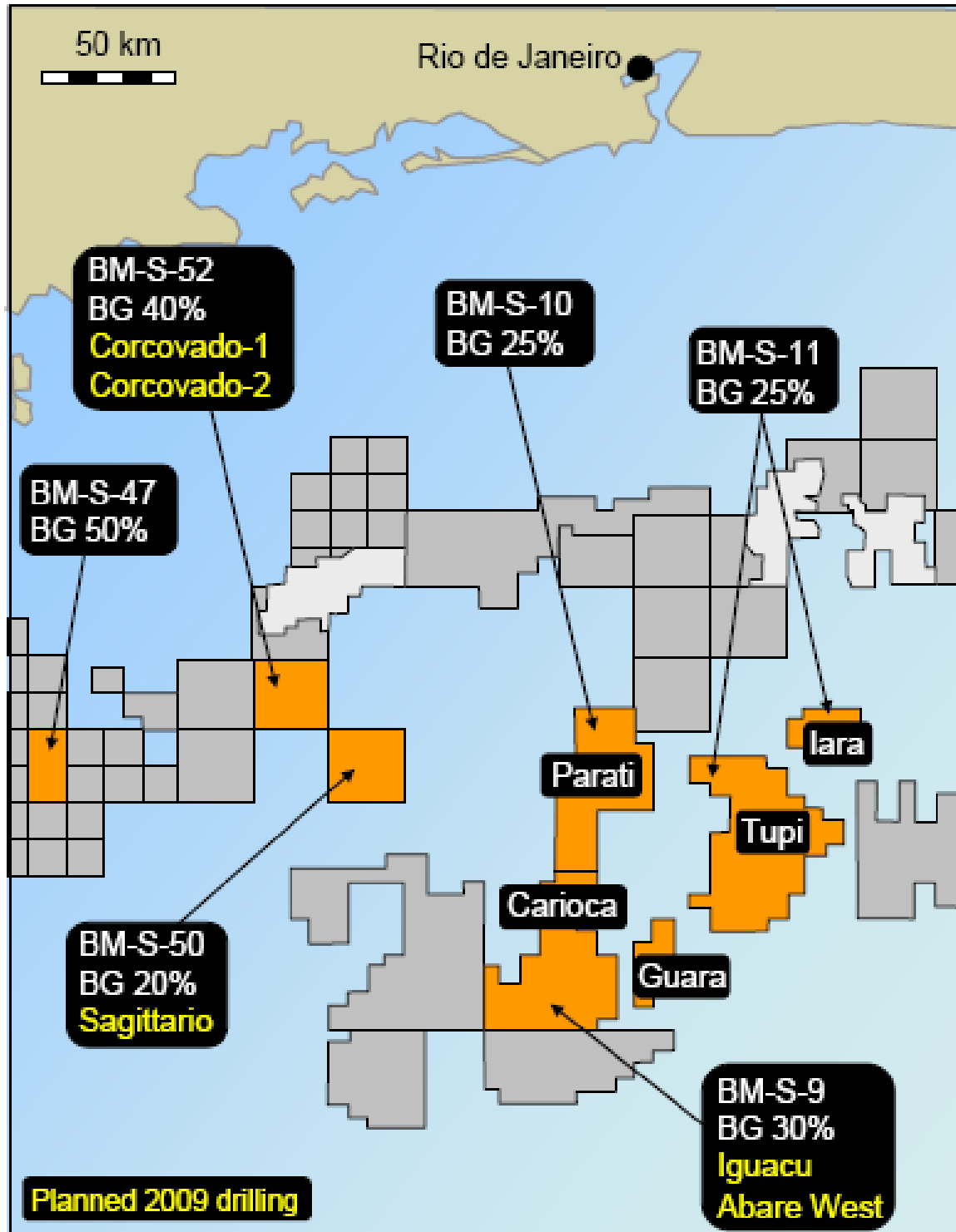
Kurt H. Wulff, CFA

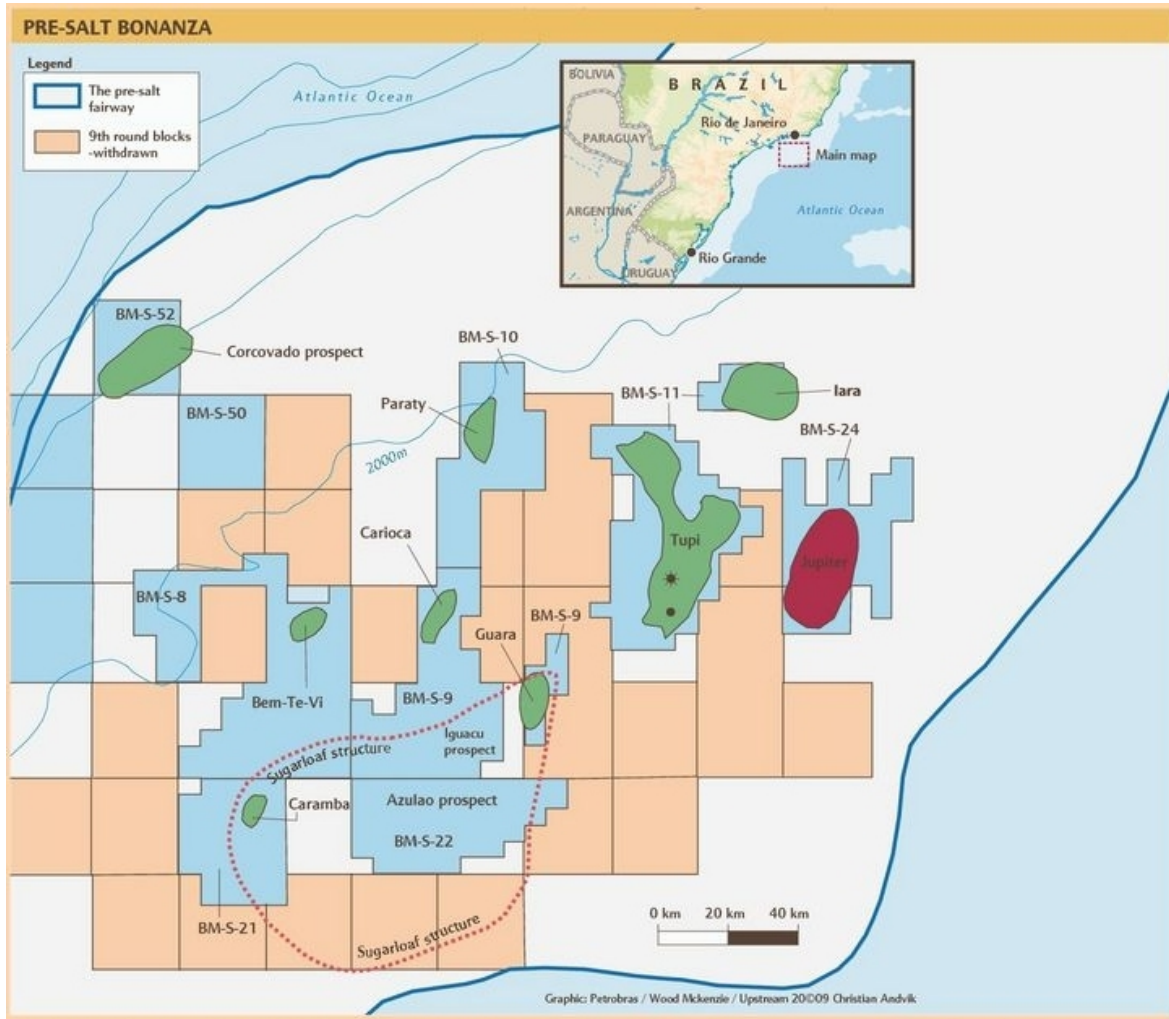


Independent Stock Idea

July 29, 2009

BG Group plc									
Next Twelve Months Operating and Financial Estimates									
(British Pounds)									
									Next Twelve Months
	Q2 6/30/08	Q1 3/31/09	Q2 6/30/09	Q3E 9/30/09	Q4E 12/31/09	Year 2009E	Q1E 3/31/10	Q2E 6/30/10	6/30/10
Volume									
Natural Gas (bcf)	230	247	247	250	250	993	247	247	993
Natural Gas (mmcf)	2,526	2,742	2,712	2,712	2,712	2,719	2,742	2,712	2,719
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	16	17	17	18	18	69	17	17	70
Oil (mbd)	180	186	191	191	191	190	191	191	191
Total gas & oil (mmb)	55	58	59	59	59	235	58	59	235
Total gas & oil (mbd)	601	643	643	643	643	643	648	643	644
Price									
U.S. Dollar/U.K. Pound	2.00	1.44	1.55	1.64	1.64	1.57	1.64	1.64	1.64
Natural gas (pence/therm)	22.94	31.41	20.03	22.46	23.17	24.26	23.58	23.86	23.26
Natural gas (\$/mmbtu)	4.58	4.51	3.11	3.68	3.79	3.80	3.86	3.90	3.81
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Company	107.89	38.07	53.10	59.82	63.63	53.42	65.89	67.42	64.17
Total gas & oil (\$/bbl)	51.55	30.26	28.89	33.27	34.90	31.83	35.75	36.50	35.10
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
Revenue (million pounds)									
Natural gas	527	775	494	560	578	2,408	582	589	2,309
Oil	886	444	595	642	683	2,364	692	716	2,733
Total production	1,413	1,219	1,089	1,203	1,261	4,771	1,274	1,305	5,043
Other	1,803	1,876	1,228	1,228	1,228	5,561	1,228	1,228	4,913
Total	3,216	3,095	2,317	2,431	2,490	10,332	2,502	2,533	9,955
Expense									
Production	345	392	382	439	468	1,682	473	489	1,870
Other	1,307	1,127	687	822	818	3,455	479	687	2,807
Ebitda (million pounds)									
Production	1,068	826	707	818	858	3,209	866	887	3,429
Other	496	749	541	406	410	2,106	749	541	2,106
Total Ebitda	1,563	1,575	1,248	1,224	1,267	5,314	1,615	1,428	5,535
Exploration	94	177	130	125	125	557	150	150	550
Deprec., Deplet., & Amort.	204	284	296	296	296	1,172	296	296	1,184
Excess tax and other	166	161	150						
Operating Income									
Upstream	976	583	490						
Downstream	455	692	482						
Excess tax and other	(166)	(161)	(150)						
Ebit	1,265	1,114	822	803	846	3,585	1,169	982	3,801
Interest	26	47	40	40	40	167	40	40	160
Ebt	1,239	1,067	782	763	806	3,418	1,129	942	3,641
Income Tax	434	374	274	267	282	1,196	395	330	1,274
Net Income (million pounds)	805	694	508	496	524	2,222	734	613	2,366
Shares (millions)	3,384	3,384	3,388	3,388	3,388	3,387	3,388	3,388	3,388
Per share (pence)	23.8	20.5	15.0	14.6	15.5	65.6	21.7	18.1	69.8
Ebitda Margin (E&P)	76%	68%	65%	68%	68%	67%	68%	68%	68%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%







Independent Stock Idea

July 29, 2009

BG Group plc					
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>	
Rest of World Natural Gas	2,580	8.8	7.4	19,000	23%
Oil	3,060	8.8	6.2	19,000	23%
Downstream	3,460		7.5	26,000	32%
Offshore Brazil				18,000	22%
	9,100	8.8	9.0	82,000	100%
Debt (US\$mm)					7,000
Net Present Value (US\$mm)					75,000
Shares (mm)					3,388
Net Present Value - Standard Estimate (US\$/sh)					22
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					24

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.