



# Independent Stock Idea

October 23, 2008

rating: buy  
s&p 500: 897

## Gazprom (OGZPY) Cheap Stock, Political Risk

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	52,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	15.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/22/08	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	6,160	<i>EV/Ebitda</i>	2.6
<i>Market Capitalization (US\$mm)</i>	92,000	<i>PV/Ebitda</i>	11.1
<i>Debt (US\$mm)</i>	43,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	135,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	15.37
<i>Present Value (PV) (US\$mm)</i>	585,000	<i>Present Value Proven Reserves(US\$/boe)</i>	5.02
<i>Net Present Value (US\$/share)</i>	88	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.84
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.14
<i>McDep Ratio - EV/PV</i>	0.23	<i>Price/Earnings Next Twelve Months</i>	3
<i>Dividend Yield (%/year)</i>	2.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.40
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of Gazprom since 2005 see <a href="http://www.mcdep.com/2ogz.htm">www.mcdep.com/2ogz.htm</a>			

### Summary and Recommendation

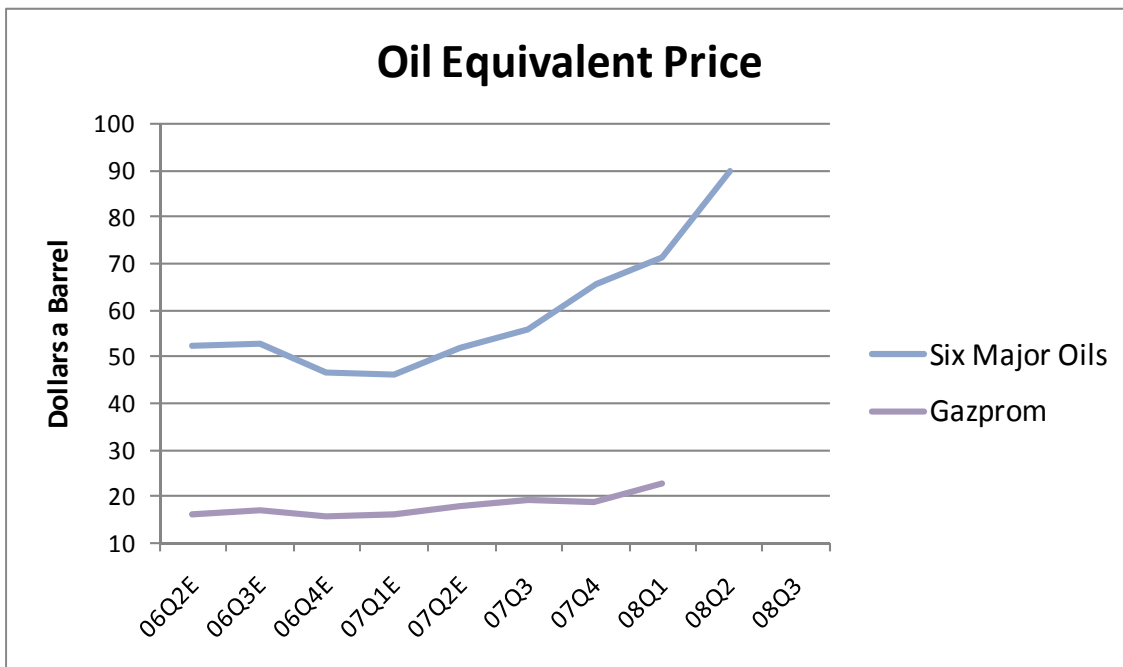
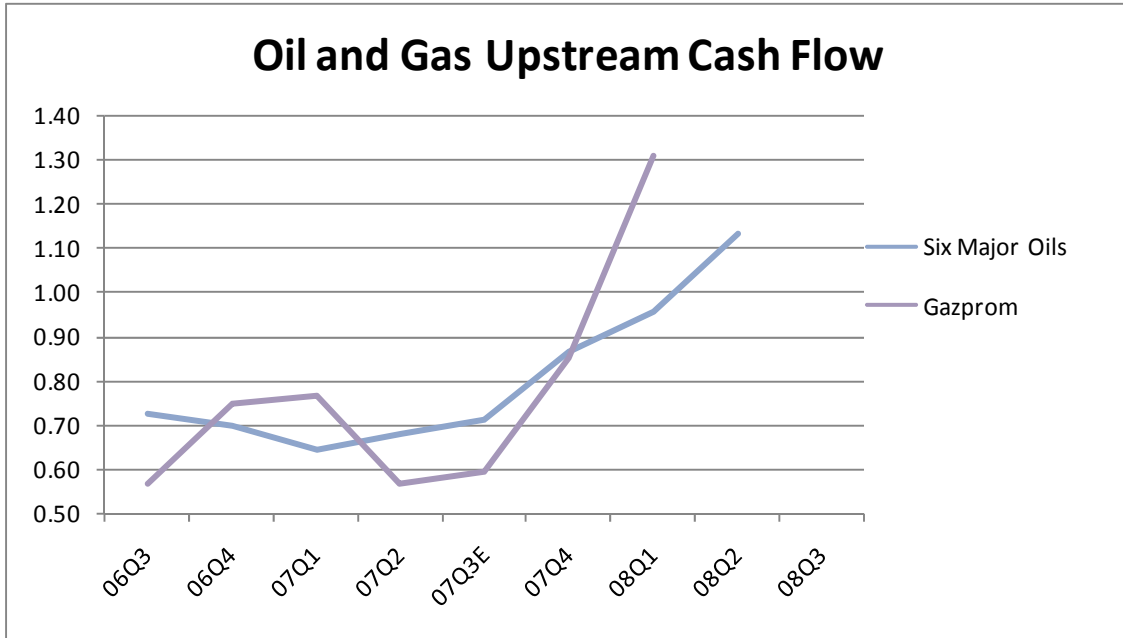
Buy-recommended **Gazprom (OGZPY)** has the most natural gas resource potential among oil and gas stocks, subject to political risk, and trades at near the lowest ratio, one third, to its 200-day average stock price of any stock in our coverage. First quarter results released on October 22 disclosed natural gas sales of 71 billion cubic feet daily, or 12 million barrels oil equivalent daily. That is more than the volume of the world's largest oil producer, Saudi Arabia. In a more seasonal pattern, Gazprom's cash flow has been advancing along with that of six major oil companies (see chart [Upstream Cash Flow](#)). Yet the price Gazprom realizes is less than a third the six major oil average (see chart [Oil Equivalent Price](#)). Europeans pay twice Gazprom's low average while Russians pay half the average (see table [Next Twelve Months Operating and Financial Estimates](#)). Political risk was demonstrated with capital fleeing Russian markets when Russian troops entered neighboring Georgia in August. At the same time, stocks in emerging market countries including China and Brazil have declined more than in developed countries. We deal with geographic risk by limiting emerging market buy recommendations including Gazprom to two of our eleven current buy recommendations. We deal with global financial risk by limiting buy recommendations to eleven of the 36 oil and gas stocks in our main coverage.

Kurt H. Wulff, CFA



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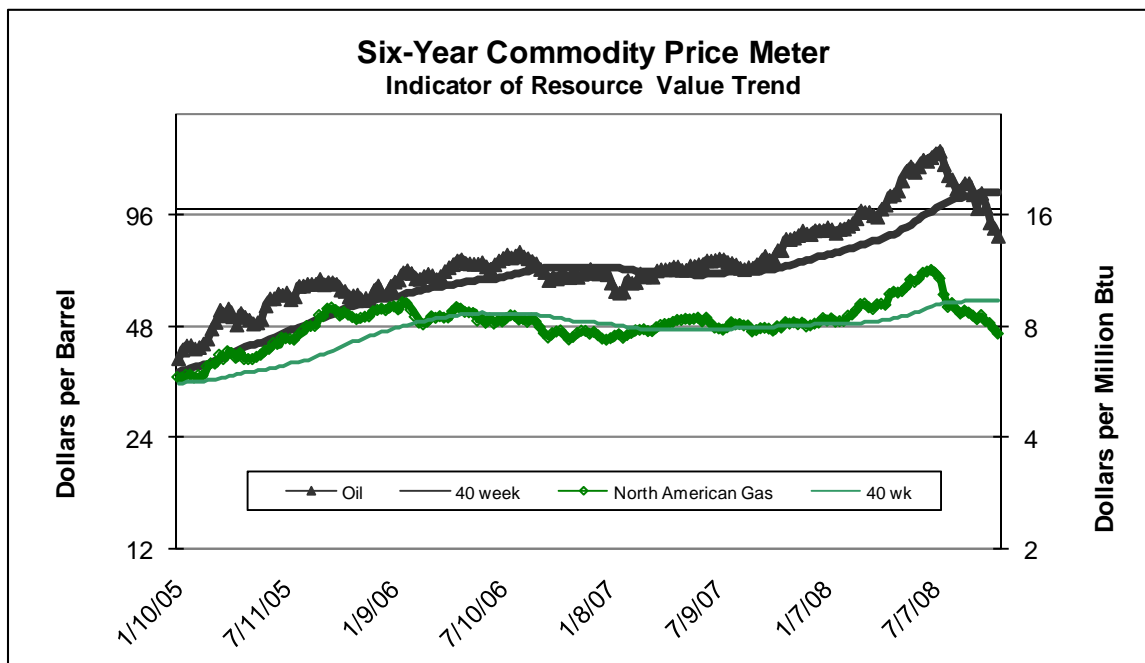
Gazprom									
Operating and Financial Results									
									<i>Next</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>3/31/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>Months</i>
									<i>9/30/09</i>
<b>Volume</b> (billion cubic meters)									
Europe	39.9	51.5	<b>169</b>	53.5	39.5	37.7	51.5	<b>182</b>	<b>182</b>
Former Soviet Union	28.1	24.5	<b>97</b>	25.0	22.3	21.6	24.5	<b>93</b>	<b>93</b>
Russia	105.6	95.5	<b>307</b>	105.0	59.5	46.4	95.5	<b>306</b>	<b>306</b>
Total (bcm)	173.6	171.5	<b>572</b>	183.5	121.3	105.7	171.5	<b>582</b>	<b>582</b>
Total (bcf)	6,128	6,054	<b>20,195</b>	6,478	4,282	3,731	6,054	<b>20,545</b>	<b>20,545</b>
Daily (bcfd)	68.1	65.8	<b>55.3</b>	71.2	47.1	40.6	65.8	<b>56.1</b>	<b>56.3</b>
Days	90	92	<b>365</b>	91	91	92	92	<b>366</b>	<b>365</b>
<b>Price</b> (Russian Rubles/cubic meters)									
Europe	5.47	5.38	<b>5.18</b>	6.34	7.00	7.00	7.00	<b>6.81</b>	<b>7.00</b>
FSU	2.64	2.63	<b>2.64</b>	3.34	3.34	3.34	3.34	<b>3.34</b>	<b>3.07</b>
Russia	1.29	1.30	<b>1.30</b>	1.65	1.65	1.65	1.65	<b>1.65</b>	<b>1.53</b>
Total (RR/cm)	2.47	2.71	<b>2.67</b>	3.25	3.70	3.90	3.50	<b>3.54</b>	<b>3.49</b>
Rubles/Dollar	26.30	24.65	<b>25.57</b>	24.24	23.62	24.29	26.93	<b>24.77</b>	<b>26.93</b>
Total (\$/mcf)	2.66	3.12	<b>2.96</b>	3.79	4.44	4.55	3.68	<b>4.04</b>	<b>3.67</b>
Henry Hub (\$/mmbtu)	6.81	6.97	<b>6.87</b>	8.02	10.93	10.25	7.09	<b>9.07</b>	<b>7.27</b>
<b>Revenue</b> (RUB billion)									
Europe	218.4	277.1	<b>873</b>	339	277	264	361	<b>1,240</b>	<b>1,275</b>
FSU	74.1	64.4	<b>255</b>	83	74	72	82	<b>312</b>	<b>287</b>
Russia	135.9	123.8	<b>400</b>	173	98	77	158	<b>506</b>	<b>469</b>
Total Natural Gas	428.4	465.3	<b>1,528</b>	596	449	413	600	<b>2,057</b>	<b>2,032</b>
Other	183.1	265.1	<b>863</b>	307	307	307	307	<b>1,228</b>	<b>1,228</b>
Total	611.5	730.4	<b>2,391</b>	903	756	720	907	<b>3,286</b>	<b>3,260</b>
<b>Expense</b>									
	327.9	434.4	<b>1,391</b>	457	439	417	526	<b>1,839</b>	<b>1,843</b>
<b>Ebitda</b> (RUB billion)									
									-
Natural Gas	238.9	209.8	<b>751</b>	348	260	233	302	<b>1,143</b>	<b>1,137</b>
Oil	44.7	86.2	<b>249</b>	98	57	69	79	<b>304</b>	<b>280</b>
Total Ebitda	283.6	296.0	<b>1,000</b>	446	318	302	381	<b>1,447</b>	<b>1,417</b>
Deprec., Deplet., & A	50.1	46.6	<b>184</b>	56	47	48	51	<b>203</b>	<b>218</b>
Other non cash	(53.2)	(60.0)	<b>(113.2)</b>	(2.0)				<b>(2)</b>	-
<b>Ebit</b>	286.7	309.4	<b>930</b>	392	270	254	330	<b>1,246</b>	<b>1,199</b>
Interest	7.2	12.3	<b>42</b>	11	11	11	11	<b>46</b>	<b>46</b>
<b>Ebt</b>	279.5	297.1	<b>887</b>	380	259	242	318	<b>1,200</b>	<b>1,153</b>
Income Tax	62.4	72.1	<b>229</b>	94	67	63	83	<b>307</b>	<b>300</b>
<b>Net Income</b> (RUB bilio	217.1	224.9	<b>658</b>	286	192	179	235	<b>892</b>	<b>853</b>
<b>Shares</b> (billions)									
	23.9	22.9	<b>23.4</b>	24.6	24.6	24.6	24.6	<b>24.6</b>	<b>24.6</b>
Per share (RUB)	9.07	9.82	<b>28.07</b>	11.61	7.78	7.28	9.56	<b>36.23</b>	<b>34.63</b>
Ebitda Margin	46%	41%	<b>42%</b>	49%	42%	42%	42%	<b>44%</b>	<b>43%</b>
Tax Rate	22%	24%	<b>26%</b>	25%	26%	26%	26%	<b>26%</b>	<b>26%</b>



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Gazprom					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	42,200	24.6	10.7	450,000	77%
Oil	10,400	20.5	13.0	135,000	23%
Downstream					
	52,600	24.2	11.1	585,000	100%
Debt (US\$mm)					43,000
Net Present Value (US\$mm)					542,000
Shares (mm)					6,160
Net Present Value - Standard Estimate (US\$/sh)					88





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