



Independent Stock Idea

March 5, 2009

rating: buy
s&p 500: 683

Gazprom (OGZPY) Tax Risk Diversification

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	50,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	12.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/5/09	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,880	<i>EV/Ebitda</i>	1.9
<i>Market Capitalization (US\$m)</i>	72,000	<i>PV/Ebitda</i>	8.0
<i>Debt (US\$m)</i>	23,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$m)</i>	95,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	14.44
<i>Present Value (PV) (US\$m)</i>	400,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.43
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.57
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.37
<i>McDep Ratio - EV/PV</i>	0.24	<i>Price/Earnings Next Twelve Months</i>	2
<i>Dividend Yield (%/year)</i>	2.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.30
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, \$10 a million btu.			
For historical analysis of Gazprom since 2005 see www.mcdep.com/2ogz.htm			

Summary and Recommendation

Battered more than most of our stocks by the global market meltdown, buy-recommended **Gazprom (OGZPY)** retains its long-term resource appeal while tax policy in Russia may be turning more favorable for oil and gas companies. Third quarter 2008 results reported on March 3 scored strong revenues from European natural gas sales, but lower unlevered cash flow as a percent of revenue (Ebitda Margin) (see table [Operating and Financial Results](#)). Though reduced as a consequence, our estimate of Ebitda for the next twelve months remains strong at US\$50 billion. On that basis, investors can buy Gazprom stock for a ratio of Enterprise Value to unlevered cash flow (EV/Ebitda) of less than two times. Our estimate of Net Present Value (NPV) of \$64 a share implies a still modest unlevered multiple (PV/Ebitda) of 8.0 times (see table [Functional Cash Flow and Present Value](#)). The company's long reserve life (Adjusted R/P) would normally justify a higher value. The potential for price appreciation in its clean fuel product adds further appeal (see chart [Gazprom's Low Natural Gas Price](#)). Always quick to point out political risk, we see there may be a diversification benefit for Gazprom investors. Currently U.S. politicians aim to increase taxes on oil and gas producers. In contrast, the Russian government is talking about incentives and has reduced the corporate income tax rate to 24%, we understand.

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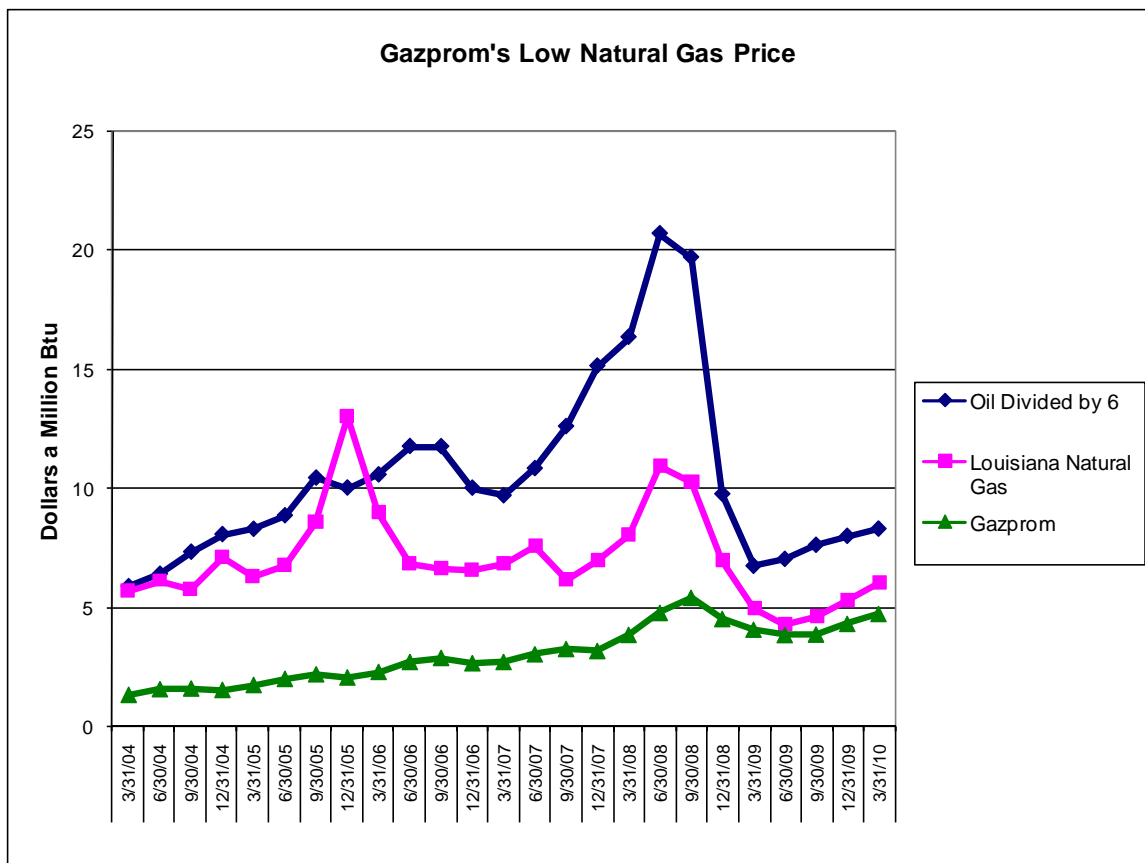
Gazprom									
Operating and Financial Results									
									<i>Next</i>
									<i>Twelve</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Year</i>	<i>Months</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>2009E</i>	<i>3/31/10</i>
Volume (billion cubic meters)									
Europe	37.7	46.2	39.6	51.5	191	53.5	46.2	191	191
Former Soviet Union	21.6	24.5	22.4	24.5	96	25.0	24.5	96	96
Russia	46.4	54.9	45.5	95.5	301	105.0	54.9	301	301
Total (bcm)	105.7	125.6	107.5	171.5	588	183.5	125.6	588	588
Total (bcf)	3,731	4,434	3,795	6,054	20,760	6,478	4,434	20,760	20,760
Daily (bcfd)	40.6	48.7	41.2	65.8	56.7	72.0	48.7	56.9	56.9
Days	92	91	92	92	366	90	91	365	365
Price (Russian Rubles/cubic meters)									
Europe	4.94	6.98	8.37	9.41	7.74	12.47	9.00	11.05	11.20
FSU	2.62	3.27	3.81	3.81	3.55	3.81	3.81	3.81	4.12
Russia	1.32	1.65	1.67	1.67	1.66	1.67	1.67	1.67	1.96
Total (RR/cm)	2.88	3.93	4.58	4.30	3.94	5.11	4.78	5.06	5.31
Rubles/Dollar	25.47	23.62	24.29	27.30	24.86	36.19	36.19	36.19	36.19
Total (\$/mcf)	3.20	4.71	5.34	4.46	4.49	4.00	3.74	3.96	4.16
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.95	9.04	4.90	4.25	4.74	5.02
Revenue (RUB billion)									
Europe	186.1	323	331	484	1,477	667	416	2,109	2,137
FSU	56.6	80	85	93	342	95	93	368	397
Russia	61.4	91	76	159	499	175	91	501	589
Total Natural Gas	304.1	494	493	737	2,319	937	601	2,978	3,123
Other	212.1	347	337	337	1,328	337	337	1,350	1,350
Total	516.2	840	830	1,074	3,647	1,275	938	4,327	4,473
Expense									
	302.5	396	504	645	2,002	765	563	2,596	2,684
Ebitda (RUB billion)									
Natural Gas	147.6	249	249	334	1,180	363	180	1,148	1,206
Oil	66.1	195	77	95	465	146	195	583	583
Total Ebitda	213.7	444	326	430	1,645	510	375	1,731	1,789
Deprec., Deplet., & A	44.0	44	46	51	197	62	48	217	223
Other non cash			61		59			-	-
Ebit									
	169.7	400	219	378	1,389	448	327	1,514	1,566
Interest	11.6	8	9	9	37	9	9	36	36
Ebt									
	158.1	392	210	369	1,351	439	318	1,478	1,530
Income Tax	45.0	92	78	96	360	114	83	384	398
Net Income (RUB billion)									
	113.1	300	132	273	991	325	235	1,094	1,132
Shares (billions)									
	23.5	23.5	23.5	23.5	23.9	23.5	23.5	23.5	23.5
Per share (RUB)	4.81	12.75	5.57	11.62	41.55	13.82	10.00	46.48	48.12
Ebitda Margin	41%	53%	39%	40%	45%	40%	40%	40%	40%
Tax Rate	28%	23%	37%	26%	27%	26%	26%	26%	26%



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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	35,900	24.6	8.9	320,000	80%
Oil	14,100	20.5	5.6	79,000	20%
Downstream					
	50,000	24.2	8.0	399,000	100%
Debt (US\$mm)					23,000
Net Present Value (US\$mm)					376,000
Shares (mm)					5,880
Net Present Value - Standard Estimate (US\$/sh)					64





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