



Independent Stock Idea

August 26, 2009

rating: buy
s&p 500: 1028 intraday

Gazprom (OGZPY) Natural Gas Giant Reemerging

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	48,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	21.22	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/26/09	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	6,260	<i>EV/Ebitda</i>	3.5
<i>Market Capitalization (US\$mm)</i>	133,000	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	37,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	170,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	15.74
<i>Present Value (PV) (US\$mm)</i>	438,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.76
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.63
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.77
<i>McDep Ratio - EV/PV</i>	0.39	<i>Price/Earnings Next Twelve Months</i>	4
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.34
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

Buy-recommended **Gazprom (OGZPY)** offers unlevered appreciation potential of 200% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$64 a share. Released today, results according to international accounting for the quarter ended March 31, 2009 exceeded our estimate from four months ago for unlevered cash flow (Ebitda) and natural gas price while volumes were less. Though it is unreported history, the second quarter was likely the low point in Ebitda mainly because of the timing of European natural gas contract price (see table Operating and Financial Results). As relayed on today's conference call, European volumes in the third quarter are back to the year ago level and price is expected to return to the year ago level in the fourth quarter. Beyond recovery in the higher-priced European market, the continuing growth potential lies in bringing the Russian market to comparable profitability with Europe (see slide from management presentation today). Though NPV looks high relative to stock price it appears readily justified by unlevered present value multiple (PV/Ebitda) compared to high reserve to production ratio (Adjusted R/P) (see table Functional Cash Flow and Present Value). Subject to the normal risks in global enterprises, we are betting that the promise of a higher stock price for its largest company and all the benefits it would bring for the country of Russia is a powerful motivation that will ultimately benefit investors as well.

Kurt H. Wulff, CFA



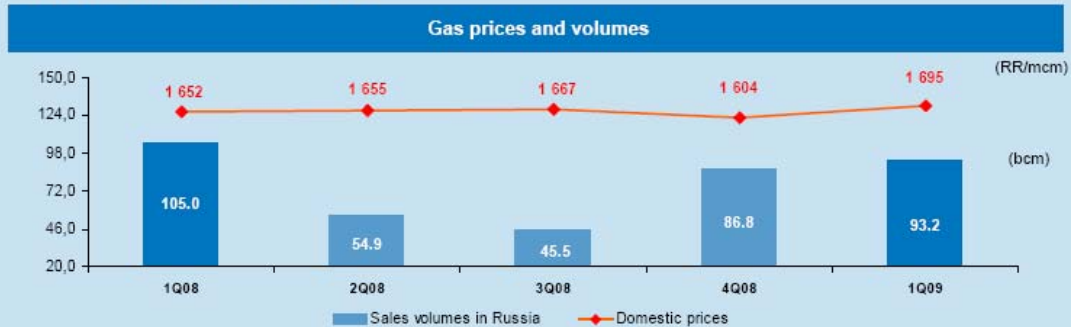
Independent Stock Idea

August 26, 2009

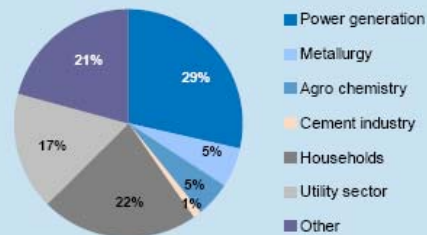
Gazprom									
Operating and Financial Results									
									<i>Next</i>
	<i>Q1</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Twelve</i>
	<i>3/31/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>Months</i>
									<i>6/30/10</i>
Volume (billion cubic meters)									
Europe	53.5	37.1	36.2	39.6	45.1	158	45.0	41.0	171
Former Soviet Union	25.0	9.7	15.0	22.4	24.6	72	9.7	15.0	72
Russia	105.0	93.2	54.9	45.5	86.8	280	93.2	54.9	280
Total (bcm)	183.5	140.0	106.1	107.5	156.5	510	147.9	110.9	523
Total (bcf)	6,478	4,942	3,745	3,795	5,524	18,007	5,221	3,915	18,455
Daily (bcfd)	71.2	54.9	41.2	41.2	60.0	49.3	58.0	43.0	50.6
Days	91	90	91	92	92	365	90	91	365
Price (Russian Rubles/cubic meter)									
Europe	6.34	11.67	8.00	7.85	9.69	9.31	9.69	9.69	9.26
FSU	3.34	8.76	8.76	8.76	8.76	8.76	8.76	8.76	8.76
Russia	1.65	1.70	1.80	1.90	2.00	1.84	2.30	2.30	2.14
Total (RR/cm)	3.25	4.83	4.90	5.52	5.28	5.13	4.97	5.91	5.37
Rubles/Dollar	24.24	34.07	32.18	31.56	31.56	32.34	31.56	31.56	31.56
Total (\$/mcf)	3.79	4.01	4.31	4.95	4.74	4.49	4.46	5.30	4.82
Henry Hub (\$/mmbtu)	8.02	4.90	3.50	3.42	4.26	4.02	5.46	5.52	4.66
Revenue (RUB billion)									
Europe	339	433	290	311	437	1,470	436	397	1,581
FSU	83	85	131	196	216	628	85	131	628
Russia	173	158	99	86	174	517	214	126	601
Total Natural Gas	596	676	520	593	826	2,615	735	655	2,810
Other	307	255	255	255	255	1,020	255	255	1,020
Total	903	931	775	848	1,081	3,635	990	910	3,830
Expense	457	572	465	509	649	2,195	598	546	2,302
Ebitda (RUB billion)									
Natural Gas	348	313	262	287	366	1,228	335	310	1,298
Oil	98	46	48	52	66	212	58	54	230
Total Ebitda	446	359	310	339	432	1,441	393	364	1,528
Deprec., Deplet., & A	56	54	48	51	54	207	59	53	217
Other non cash	(2)	149				149			-
Ebit	392	156	262	289	379	1,085	333	311	1,311
Interest	11	9	9	9	9	36	9	9	36
Ebt	380	147	253	280	370	1,049	324	302	1,275
Income Tax	94	37	66	73	96	271	84	78	332
Net Income (RUB billion)	286	110	187	207	273	777	240	223	944
Shares (billions)									
Per share (RUB)	11.61	4.39	7.46	8.26	10.91	31.03	9.57	8.91	37.66
Ebitda Margin	49%	39%	40%	40%	40%	40%	40%	40%	40%
Tax Rate	25%	25%	26%	26%	26%	26%	26%	26%	26%

Domestic Market

Key Future Value Driver



Domestic gas sales by consumer type in 1Q09 ⁽¹⁾



15

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	41,100	24.6	8.5	350,000	80%
Oil	7,300	20.5	12.1	88,000	20%
Downstream					
	48,400	24.2	9.0	438,000	100%
Debt (US\$mm)					37,000
Net Present Value (US\$mm)					401,000
Shares (mm)					6,260
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					84



Independent Stock Idea

August 26, 2009

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.