



Independent Stock Idea

February 5, 2010

rating: buy
s&p 500: 1066

BG Group plc Natural Gas Growth in Australia

<i>Symbol</i>	BRGXF	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	9,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	17.57	<i>Natural Gas and Oil Production/Ebitda (%)</i>	60
<i>Pricing Date</i>	2/5/10	<i>Adjusted Reserves/Production NTM</i>	8.3
<i>Shares (mm)</i>	3397	<i>EV/Ebitda</i>	7.4
<i>Market Capitalization (US\$mm)</i>	59,700	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	9,000	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (US\$mm)</i>	68,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.30
<i>Present Value (PV) (US\$mm)</i>	83,400	<i>Present Value Proven Reserves(US\$/boe)</i>	17.22
<i>Net Present Value (US\$/share)</i>	22	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.87
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.22
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	1.1	<i>Indicated Annual Dividend (US\$/sh)</i>	0.19
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 BRGYY.PK.			
BRGXF represents BRGYY.PK divided by 5 and approximates London price converted to dollars.			

Summary and Recommendation

Buy-recommended **BG Group plc (BRGXF)** offers unlevered appreciation potential of 23% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$22 a share. Fourth quarter results released today exceeded our estimate for unlevered cash flow (Ebitda) from three months ago with downstream higher than we thought and upstream lower than we thought (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV is supported by cash flow and reserve life in an industry context after allocating 21% for offshore Brazil (see table [Functional Cash Flow and Present Value](#)). BG expects Brazilian output to grow to 25% of production in 2020 (see graphic [BG Group Net Production](#)). In a presentation today, Chief Executive Frank Chapman provided new detail on Australia as another wedge of growth. BG believes its Queensland Curtis Liquefied Natural Gas (QCLNG) project can compete with the best of existing and planned ventures that might account for a quarter of global LNG capacity ten years from now (see graphic [Australian Liquefied Natural Gas](#)). Developing coal seam gas as the feedstock, QCLNG would be among projects to open a new LNG export area in northeast Australia, while most of the exports to date have been from the northwest. Meanwhile, oil markets have turned downward with futures prices for the next six years at \$81 a barrel, below the 40-week average of \$82 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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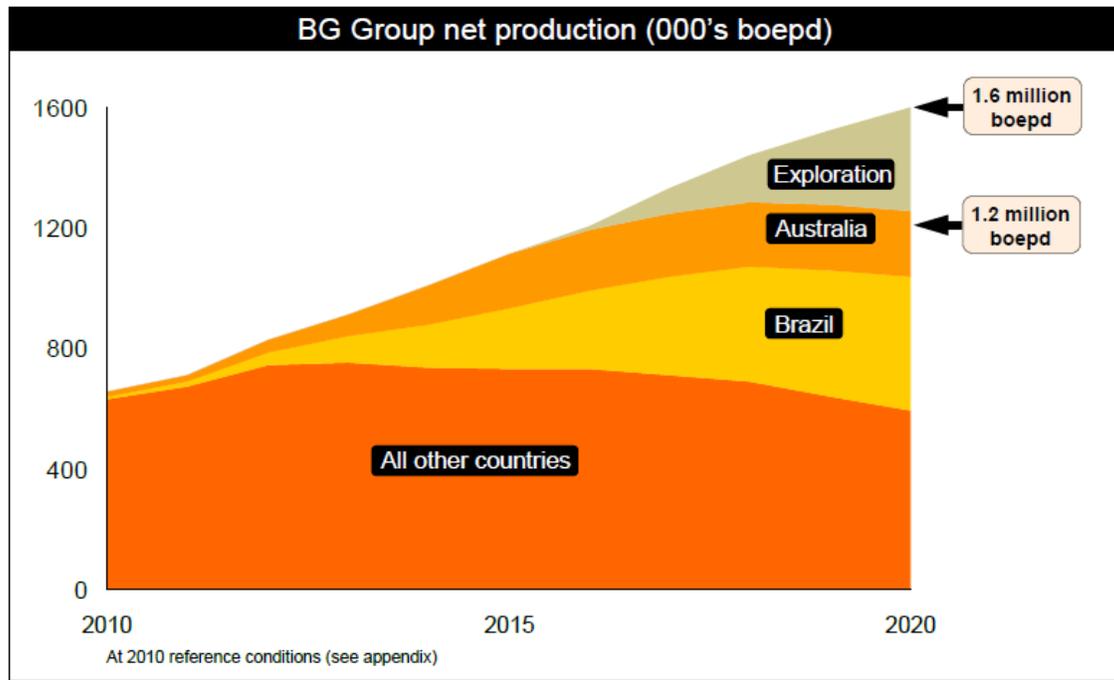
BG Group plc									
Next Twelve Months Operating and Financial Estimates									
(British Pounds)									
									Next
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Twelve
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	Months
									12/31/10
Volume									
Natural Gas (bcf)	243	252	265	1,011	259	262	265	273	1,059
Natural Gas (mmcf)	2,646	2,742	2,880	2,769	2,880	2,880	2,880	2,970	2,903
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)	17	15	18	66	17	18	18	19	72
Oil (mbd)	182	158	193	182	193	193	193	205	196
Total gas & oil (mmb)	57	57	62	235	61	61	62	64	248
Total gas & oil (mbd)	623	615	673	644	673	673	673	700	680
Price									
U.S. Dollar/U.K. Pound	1.57	1.64	1.63	1.57	1.56	1.56	1.56	1.56	1.56
Natural gas (pence/therm)	32.52	17.90	19.80	22.22	19.77	19.76	19.97	20.13	19.91
Natural gas (\$/mmbtu)	5.11	2.94	3.24	3.48	3.09	3.09	3.12	3.15	3.11
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
Company	41.91	61.99	67.07	54.61	66.90	66.79	68.20	69.32	67.83
Total gas & oil (\$/bbl)	33.93	29.01	33.08	30.41	32.42	32.37	32.92	33.66	32.85
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	6.92	9.63	8.41	4.65	7.40
Revenue (million pounds)									
Natural gas	792	452	525	2,246	513	518	529	550	2,110
Oil	447	549	729	2,316	743	750	774	836	3,104
Total production	1,239	1,001	1,253	4,562	1,256	1,268	1,304	1,386	5,213
Other	1,750	1,246	1,449	5,799	1,449	1,449	1,449	1,449	5,794
Total	2,989	2,247	2,702	10,361	2,704	2,717	2,752	2,835	11,008
Expense									
Production	255	332	439	1,546	440	447	464	506	1,857
Other	1,238	771	863	3,449	700	907	974	863	3,444
Ebitda (million pounds)									
Production	984	669	814	3,016	854	862	886	943	3,545
Other	512	475	585	2,350	749	541	475	585	2,350
Total Ebitda	1,496	1,144	1,399	5,367	1,603	1,403	1,361	1,528	5,895
Exploration	145	121	172	600	150	150	125	125	550
Deprec., Deplet., & Amort.	251	269	282	1,131	282	282	282	282	1,128
Excess tax and other	39	102	163	575					
Operating Income									
Upstream	677	435	579	2,087					
Downstream	462	421	529	2,124					
Excess tax and other	(39)	(102)	(163)	(575)					
Ebit	1,100	754	945	3,636	1,171	971	954	1,121	4,217
Interest	29	24	36	147	36	36	36	36	144
Ebt	1,071	730	909	3,489	1,135	935	918	1,085	4,073
Income Tax	375	256	318	1,221	397	327	321	380	1,426
Net Income (million pounds)	696	475	591	2,268	738	608	597	705	2,648
Shares (millions)	3,379	3,390	3,397	3,390	3,397	3,397	3,397	3,397	3,397
Per share (pence)	20.6	14.0	17.4	66.9	21.7	17.9	17.6	20.8	77.9
Ebitda Margin (E&P)	79%	67%	65%	66%	68%	68%	68%	68%	68%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	2,240	8.2	8.0	18,000	21%
Oil	3,290	8.5	6.7	22,000	26%
Downstream	3,670		7.1	26,000	31%
Offshore Brazil				18,000	21%
	9,200	8.3	9.1	84,000	100%
Debt (US\$mm)					9,000
Net Present Value (US\$mm)					75,000
Shares (mm)					3,397
Net Present Value - Standard Estimate (US\$/sh)					22
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					23

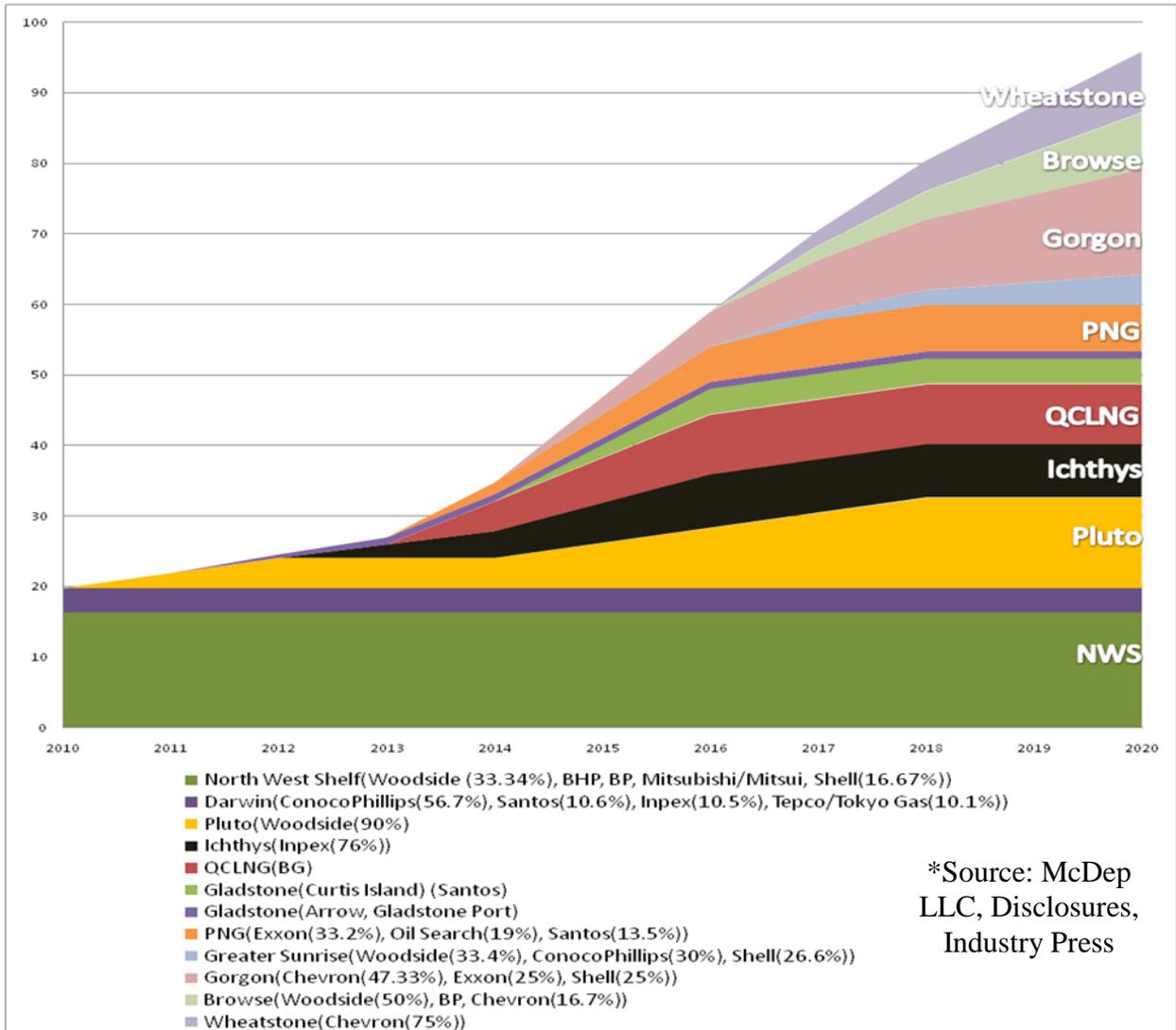




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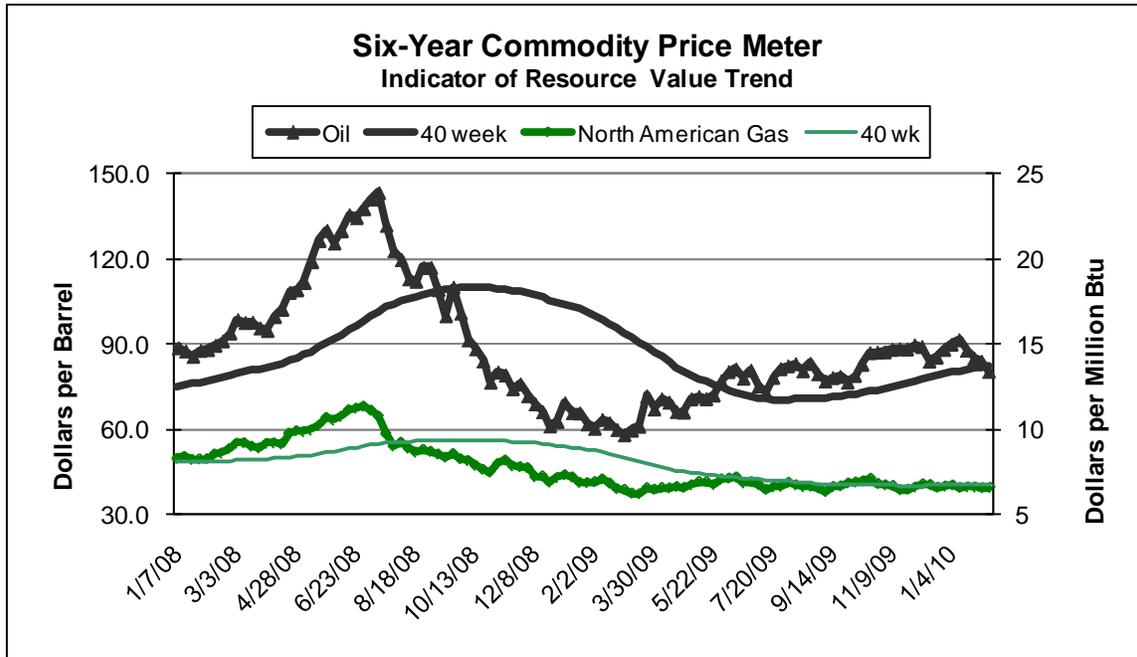
Australia Liquefied Natural Gas





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