



# Independent Stock Idea

February 1, 2010

rating: buy  
s&p 500: 1086 intraday

## Gazprom (OGZPY) European Natural Gas Sales Rebound

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	49,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	24.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/1/10	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,910	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (US\$mm)</i>	146,000	<i>PV/Ebitda</i>	8.6
<i>Debt (US\$mm)</i>	42,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	189,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	15.43
<i>Present Value (PV) (US\$mm)</i>	421,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.59
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.60
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.00
<i>McDep Ratio - EV/PV</i>	0.45	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	0.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.05
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 <a href="http://www.mcdep.com/2ogz.htm">www.mcdep.com/2ogz.htm</a>			

### Summary and Recommendation

Analyzing third quarter results released today, we reaffirm estimated Net Present Value (NPV) of \$64 a share for buy-recommended **Gazprom (OGZPY)**. On that basis unlevered appreciation potential is 120% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda) met expectations from three months ago with oil increasing its share to 39% (see table [Next Twelve Months Operating and Financial Estimates](#)). Natural gas volume and price rebounded, particularly in Europe from an unseasonably low first half of 2009 (see charts from the company on page 3). Our estimate of NPV for Gazprom implies an unlevered cash flow multiple in the range of its global peers without giving credit for longer reserve life (see table [Functional Cash Flow and Present Value](#)). As increasing volumes of natural gas become globally available in liquefied form by ocean going tanker, prices in the futures market have global implications. One-year futures prices for natural gas are in an uptrend defined by comparison of current quote to the 40-week average (see chart [Natural Gas Six-Year Futures](#)). The improving one-year trend may help turn six-year futures up from the 40-week average (see chart [Natural Gas Six-Year Futures](#)). Finally, a large political risk penalty to Russian stocks may be diminishing with the resumption of global growth and a less confrontational U.S. foreign policy. Gazprom stock reflects the trends as it trades above its 200-day average of \$22.

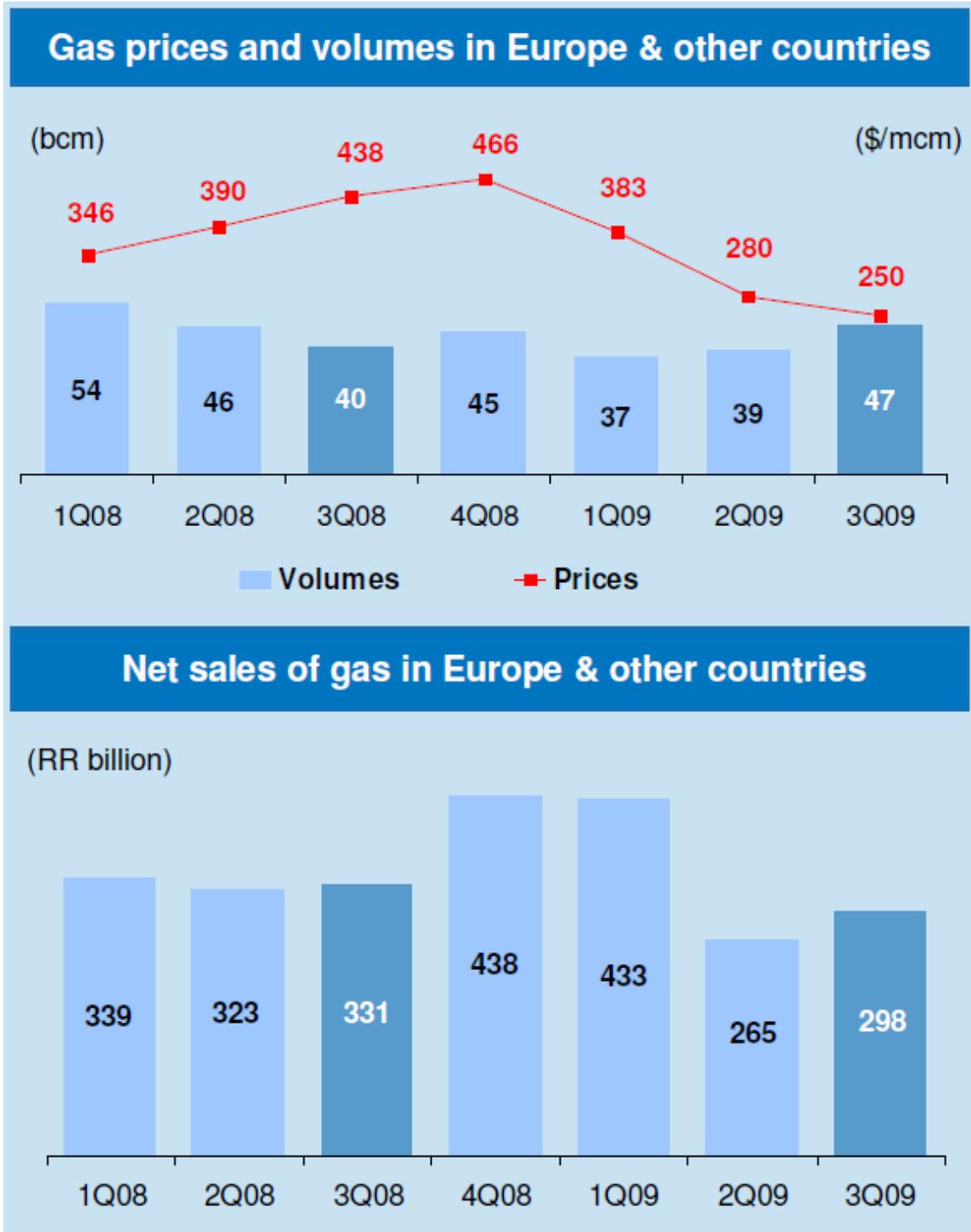
Kurt H. Wulff, CFA



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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>Q3E</i>	<i>Months</i>
	<i>9/30/08</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>9/30/10</i>	<i>12/31/10</i>
<b>Volume</b> (billion cubic meters)									
Europe	39.6	39.1	47.1	45.0	<b>168</b>	47.3	33.3	29.9	<b>155</b>
Former Soviet Union	22.4	11.4	15.2	24.6	<b>61</b>	25.8	18.2	16.4	<b>85</b>
Russia	45.5	49.6	40.9	86.8	<b>271</b>	91.1	64.1	57.7	<b>300</b>
Total (bcm)	107.5	100.1	103.2	156.4	<b>500</b>	164.2	115.6	104.0	<b>540</b>
Total (bcf)	3,795	3,534	3,643	5,521	<b>17,639</b>	5,797	4,079	3,671	<b>19,069</b>
Daily (bcfd)	41.2	38.8	39.6	60.0	<b>48.3</b>	64.4	44.8	39.9	<b>52.2</b>
Days	92	91	92	92	<b>365</b>	90	91	92	<b>365</b>
<b>Price</b> (Russian Rubles/cubic meter)									
Europe	8.37	6.78	6.32	8.00	<b>8.06</b>	9.00	9.00	9.00	<b>8.71</b>
FSU	3.81	6.67	4.26	7.00	<b>6.54</b>	8.00	8.00	8.00	<b>7.71</b>
Russia	1.67	1.81	1.91	1.91	<b>1.82</b>	2.00	2.10	2.20	<b>2.12</b>
Total (RR/cm)	4.58	4.31	4.27	4.46	<b>4.49</b>	4.96	5.01	5.07	<b>4.89</b>
Rubles/Dollar	24.29	32.18	31.30	29.50	<b>31.76</b>	30.36	30.36	30.36	<b>30.36</b>
Total (\$/mcf)	5.34	3.79	3.86	4.28	<b>4.01</b>	4.63	4.68	4.73	<b>4.57</b>
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.16	<b>3.99</b>	5.61	5.66	5.84	<b>5.85</b>
<b>Revenue</b> (RUB billion)									
Europe	331	265	298	360	<b>1,356</b>	425	299	269	<b>1,354</b>
FSU	85	76	65	172	<b>398</b>	207	145	131	<b>655</b>
Russia	76	90	78	166	<b>492</b>	182	135	127	<b>635</b>
Total Natural Gas	493	431	441	698	<b>2,245</b>	814	579	527	<b>2,644</b>
Other	337	277	277	277	<b>1,086</b>	277	277	277	<b>1,108</b>
Total	830	708	718	975	<b>3,331</b>	1,091	856	804	<b>3,752</b>
<b>Expense</b>									
	504	421	438	595	<b>2,034</b>	666	514	483	<b>2,263</b>
<b>Ebitda</b> (RUB billion)									
									-
Natural Gas	249	214	172	233	<b>925</b>	303	244	229	<b>1,062</b>
Oil	77	73	108	147	<b>372</b>	122	98	92	<b>427</b>
Total Ebitda	326	287	279	380	<b>1,298</b>	425	343	322	<b>1,489</b>
Deprec., Deplet., & A	46	52	50	54	<b>210</b>	59	57	55	<b>231</b>
Other non cash	61	(14)			<b>135</b>				-
<b>Ebit</b>									
	219	249	229	326	<b>953</b>	366	285	267	<b>1,258</b>
Interest	9	11	12	12	<b>43</b>	12	12	12	<b>47</b>
<b>Ebt</b>									
	210	238	218	314	<b>909</b>	354	274	255	<b>1,211</b>
Income Tax	78	45	43	82	<b>207</b>	92	71	66	<b>315</b>
<b>Net Income</b> (RUB billion)									
	132	193	175	232	<b>703</b>	262	202	189	<b>896</b>
<b>Shares</b> (billions)									
	23.6	23.7	23.6	23.6	<b>23.6</b>	23.6	23.6	23.6	<b>23.6</b>
Per share (RUB)	5.57	8.14	7.39	9.83	<b>29.75</b>	11.08	8.57	7.98	<b>37.93</b>
Ebitda Margin	39%	40%	39%	39%	<b>39%</b>	39%	40%	40%	<b>40%</b>
Tax Rate	37%	19%	20%	26%	<b>23%</b>	26%	26%	26%	<b>26%</b>

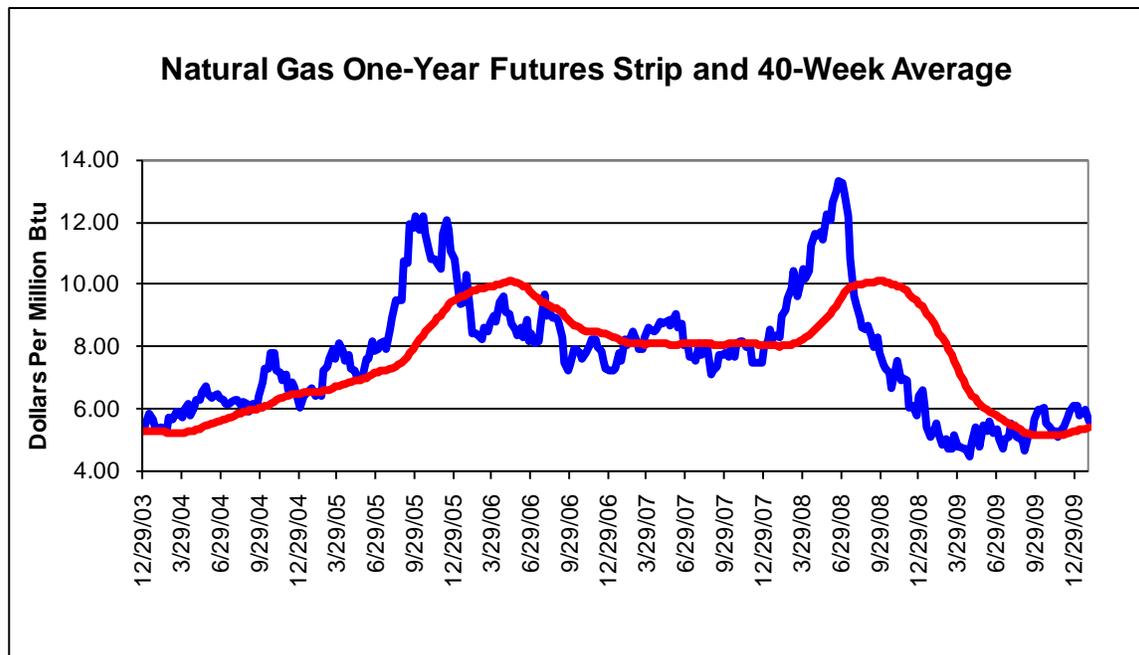




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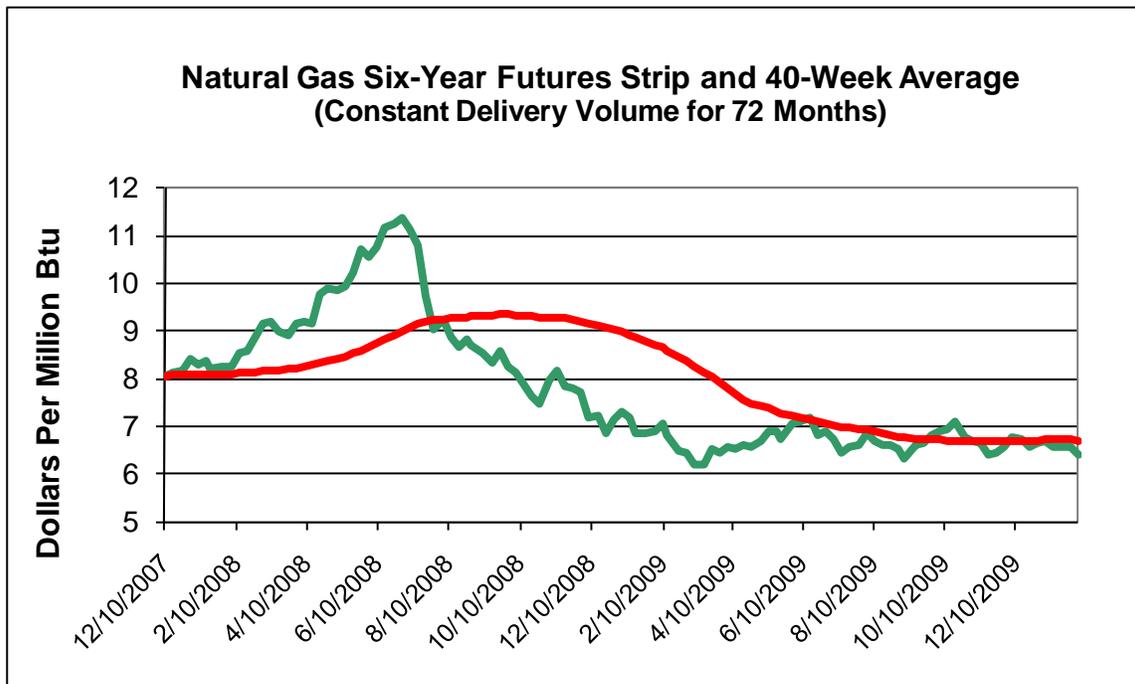
<b>Gazprom</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	34,900	24.6	9.2	320,000	76%
Oil	14,100	22.0	7.1	100,000	24%
Downstream					
	49,000	24.3	8.6	420,000	100%
Debt (US\$mm)					42,000
Net Present Value (US\$mm)					378,000
Shares (mm)					5,910
Net Present Value - Standard Estimate (US\$/sh)					64
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					97





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