

Rating: Buy
S&P 500: 1554
Intraday

Gazprom **The Saudi Arabia of Natural Gas**

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	41,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	46.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/8/07	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,980	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (US\$mm)</i>	279,000	<i>PV/Ebitda</i>	9.7
<i>Debt (US\$mm)</i>	29,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	308,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	12.32
<i>Present Value (PV) (US\$mm)</i>	400,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.43
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.57
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.29
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.41

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.

For historical analysis of Gazprom since 2005 see www.mcdep.com/2ogz.htm

Summary and Recommendation

Stock price of buy-recommended **Gazprom (OGZPY)** has regained upward momentum toward estimated net present value (NPV) of \$62 a share as the company gets past the warm winter of early 2007. First quarter 2007 results reported today portrayed a modest gain in revenue as price increases offset lower weather-related volume (see table [Operating and Financial Results](#)). Gazprom sold clean fuel for an average price of \$2.66 an mcf, equivalent to crude oil at \$16 a barrel on a heating equivalent basis, a price first reached by oil thirty years ago. Gazprom has winter time capacity to sell about 72 billion cubic feet daily, equivalent to 12 million barrels daily (mmbd), or more than Saudi Arabia's oil producing capacity around 10 mmbd. We think that buying Gazprom stock today is like buying Saudi Arabia in the 1970s. Of course, Saudi Arabia stock does not trade, but Gazprom stock does. We hedge the political risk by keeping the weighting of Gazprom stock to about 9% unlevered in the illustrative McDep Energy Portfolio.

China Natural Gas Price Breakthrough Good for Gazprom

From the September 11, 2007 *Meter Reader*: "China, the world's largest coal burning polluter, apparently overcame its resistance to pay market price for clean fuel by signing long-term contracts for Australian natural gas, a move that has positive implications for nearly all the world's natural gas producers. Coincident with the Asia-Pacific Economic Cooperation (APEC) leaders meeting in Sydney hosted by Australian Prime Minister

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John Howard and attended by Chinese President Hu Jintao, China agreed to buy Australian liquefied natural gas (LNG) in two multi-year contracts..... The market implications are wide-reaching as in the words of Deputy Chief Executive Officer Alexander Medvedev of buy-recommended Gazprom (OGZPY), quoted on Bloomberg from Australia, "Demand [for natural gas] in China in the long term is so huge...."

Kurt H. Wulff, CFA

Gazprom
Operating and Financial Results

	<i>Q1</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>3/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>Twelve</i>
										<i>Months</i>
										<i>9/30/08</i>
Volume (billion cubic meters)										
Europe	45.6	162	39.9	39.3	33.9	42.7	156	39.9	39.3	156
Former Soviet Union	28.8	101	28.1	22.3	24.4	25.5	100	28.1	22.3	100
Russia	111.5	316	105.6	59.3	48.8	96.7	310	105.6	59.3	310
Total (bcm)	185.9	579	173.6	120.9	107.1	164.9	567	173.6	120.9	567
Total (bcf)	6,562	20,432	6,128	4,268	3,781	5,821	19,997	6,128	4,268	19,997
Daily (bcfd)	72.9	56.0	68.1	46.9	41.1	63.3	54.8	67.3	46.9	54.6
Days	90	365	90	91	92	92	365	91	91	366
Price (Russian Rubles/cubic meters)										
Europe	5.01	5.24	5.47	5.35	5.58	6.04	5.62	5.78	5.56	5.75
FSU	2.13	2.08	2.64	1.94	2.42	2.19	2.32	2.79	2.02	2.38
Russia	1.11	1.13	1.29	1.19	1.23	1.21	1.23	1.36	1.23	1.27
Total (RR/cm)	2.22	2.44	2.47	2.68	2.88	2.61	2.63	2.61	2.78	2.70
Rubles/Dollar	28.13	27.18	26.30	25.85	24.90	24.90	25.49	24.90	24.90	24.90
Total (\$/mcf)	2.24	2.54	2.66	2.94	3.27	2.97	2.93	2.97	3.17	3.07
Henry Hub (\$/mmbtu)	8.97	7.23	6.81	7.56	6.16	7.09	6.90	8.12	7.65	7.67
Revenue (RUB billion)										
Europe	228.3	846	218.4	210.3	189.3	258.1	876	230.7	218.3	896
FSU	61.2	210	74.1	43.4	59.0	56.0	232	78.3	45.0	238
Russia	124.1	356	135.9	70.4	59.9	116.6	383	143.5	73.1	393
Total Natural Gas	413.6	1,412	428.4	324.1	308.2	430.7	1,491	452.5	336.5	1,528
Other	172.2	740.4	167.3	167.3	167.3	167.3	669.2	167.3	167.3	669
Total	585.8	2,152.0	595.7	491.4	475.5	598.0	2,160.6	619.8	503.8	2,197
Expense										
	285.3	1,144.1	318.5	262.8	254.2	319.7	1,155.3	331.4	269.4	1,175
Ebitda (RUB billion)										
Natural Gas	246.6	783.0	233.5	166.2	161.2	218.6	779.5	242.2	169.6	792
Oil	53.9	224.9	43.7	62.4	60.0	59.6	225.8	46.2	64.8	231
Total Ebitda	300.5	1,007.9	277.2	228.7	221.3	278.2	1,005.3	288.4	234.4	1,022
Deprec., Deplet., & A:	46.5	167.0	50.1	37.4	44.4	50.7	182.7	55.1	41.1	196
Other non cash	-	-	(53.2)	-	-	-	(53.2)	-	-	-
Ebit										
	254.0	840.9	280.3	191.3	176.8	227.5	875.9	233.3	193.3	826
Interest	4.0	8.0	0.8	0.8	0.8	0.8	3.2	0.8	0.8	3
Ebt										
	250.0	832.9	279.5	190.5	176.0	226.7	872.7	232.5	192.5	823
Income Tax	64.8	219.6	62.4	42.5	39.3	50.6	194.8	51.9	43.0	184
Net Income (RUB billio)										
	185.2	613.3	217.1	147.9	136.7	176.1	677.9	180.6	149.5	639
Shares (billions)										
	22.8	22.8	23.9	23.9	23.9	23.9	23.9	23.9	23.9	23.9
Per share (RUB)	8.13	26.90	9.07	6.18	5.71	7.36	28.32	7.54	6.25	26.72
Ebitda Margin	51%	47%	47%	47%	47%	47%	47%	47%	47%	47%
Tax Rate	26%	26%	22%	22%	22%	22%	22%	22%	22%	22%

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Gazprom
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
Natural Gas	31,800	24.6	9.4	300,000	75%
Oil	9,300	20.5	10.8	100,000	25%
Downstream					
	41,100	24.2	9.7	400,000	100%
Debt (US\$mm)				29,000	
Net Present Value (US\$mm)				371,000	
Shares (mm)				5,980	
Net Present Value - Standard Estimate (US\$/sh)				62	
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)				58	

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