



Independent Stock Idea

April 29, 2009

rating: buy
s&p 500: 874

Gazprom (OGZPY) Expect Modest Results for 2009

<i>Symbol</i>	OGZPY	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	35,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	17.98	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/29/09	<i>Adjusted Reserves/Production NTM</i>	24.6
<i>Shares (mm)</i>	5,850	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (US\$mm)</i>	105,000	<i>PV/Ebitda</i>	11.4
<i>Debt (US\$mm)</i>	30,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	136,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	11.35
<i>Present Value (PV) (US\$mm)</i>	405,000	<i>Present Value Proven Reserves(US\$/boe)</i>	3.48
<i>Net Present Value (US\$/share)</i>	64	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.58
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.50
<i>McDep Ratio - EV/PV</i>	0.33	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	1.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.32
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

Buy-recommended **Gazprom (OGZPY)** offers unlevered appreciation potential of 200% to a McDep Ratio of 1.0 and levered appreciation potential of 250% to Net Present Value (NPV) of \$64 a share. From the recent depressed stock price, we see investor confidence rebuilding in the world's largest publicly traded company measured by energy content of production. With the release today of financial results for 2008 the time lag for disclosure has been reduced to four months from five months a year ago. Moving further toward investor friendliness, management offers guidance for the current year (see graphic [Gazprom Management Guidance, 2009](#)). As a result, we have scaled back our projected cash flow for the next twelve months by about 30% to \$35 billion. At our unchanged NPV, unlevered present value multiple (PV/Ebitda) remains reasonable considering the lower denominator (Ebitda) and in comparison to high reserve to production ratio (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Though diversified operations in oil and electricity are becoming more important, natural gas sales remain dominant as the most important source of cash flow (see table [Operating and Financial Results](#)). Gazprom is a sleeping giant slowly awakening to the powerful potential reward from applying global standards to its business and to building investor trust and confidence.

Kurt H. Wulff, CFA



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Gazprom Management Guidance 4/29/09

Conclusions & Expectations

We expect 2009 results to be rather modest

World economies
slowdown

Decline in global
energy demand

Significant drop in
oil prices

- Reduction of our production volumes
- Decrease of our domestic and export sales volumes
- Our price and revenue expectations to be more comparable with 2007

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	28,500	24.6	11.2	320,000	79%
Oil	7,000	20.5	12.0	84,000	21%
Downstream					
	35,500	24.2	11.4	404,000	100%
Debt (US\$mm)					30,000
Net Present Value (US\$mm)					374,000
Shares (mm)					5,850
Net Present Value - Standard Estimate (US\$/sh)					64



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Gazprom										
Operating and Financial Results										
										Next Twelve Months
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10
Volume (billion cubic meters)										
Europe	51.5	39.6	45.1	184	43.5	36.2	29.6	35.1	144	144
Former Soviet Union	24.5	22.4	24.6	97	25.0	24.5	22.4	24.6	97	97
Russia	95.5	45.5	86.8	292	105.0	54.9	45.5	86.8	292	292
Total (bcm)	171.5	107.5	156.5	573	173.5	115.6	97.5	146.5	533	533
Total (bcf)	6,054	3,795	5,524	20,230	6,125	4,081	3,442	5,171	18,818	18,818
Daily (bcfd)	65.8	41.2	60.0	55.3	68.1	44.8	37.4	56.2	51.6	51.6
Days	92	92	92	366	90	91	92	92	365	365
Price (Russian Rubles/cubic meters)										
Europe	5.38	8.37	9.69	7.75	6.20	6.20	6.20	6.20	6.20	6.20
FSU	2.63	3.81	4.39	3.70	4.39	4.39	4.39	4.39	4.39	4.55
Russia	1.30	1.67	1.60	1.64	1.60	1.60	1.60	1.60	1.60	1.92
Total (RR/cm)	2.71	4.58	4.37	3.95	3.16	3.63	3.64	3.17	3.35	3.56
Rubles/Dollar	24.65	24.29	27.30	24.86	33.15	33.15	33.15	33.15	33.15	33.15
Total (\$/mcf)	3.12	5.34	4.54	4.51	2.70	3.11	3.11	2.71	2.87	3.04
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	4.90	3.42	3.62	4.57	4.13	4.30
Revenue (RUB billion)										
Europe	277.1	331	437	1,430	270	225	184	218	896	896
FSU	64.4	85	108	357	110	108	98	108	424	439
Russia	123.8	76	139	479	168	88	73	139	468	562
Total Natural Gas	465.3	493	684	2,266	548	420	355	465	1,787	1,897
Other	265.1	337	262	1,253	262	262	262	262	1,048	1,048
Total	730.4	830	946	3,519	810	682	617	727	2,835	2,945
Expense										
	434.4	504	647	2,004	486	409	370	436	1,701	1,767
Ebitda (RUB billion)										
Natural Gas	209.8	249	369	1,214	260	219	198	233	909	945
Oil	86.2	77	(70)	300	64	54	49	58	225	233
Total Ebitda	296.0	326	299	1,515	324	273	247	291	1,134	1,178
Deprec., Deplet., & A	46.6	46	49	195	62	48	51	54	215	221
Other non cash	(60.0)	61	219	278					-	-
Ebit	309.4	219	31	1,042	262	224	196	237	920	957
Interest	12.3	9	10	39	10	10	10	10	40	40
Ebt	297.1	210	21	1,003	252	214	186	227	879	917
Income Tax	72.1	78	(4)	260	66	56	48	59	229	238
Net Income (RUB billion)	224.9	132	25	743	187	159	138	168	651	679
Shares (billions)										
	22.9	23.5	23.4	23.6	23.4	23.4	23.4	23.4	23.4	23.4
Per share (RUB)	9.82	5.57	1.56	31.49	7.98	6.78	5.88	7.17	27.81	29.00
Ebitda Margin	41%	39%	32%	43%	40%	40%	40%	40%	40%	40%
Tax Rate	24%	37%	-19%	26%	26%	26%	26%	26%	26%	26%



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