

**Gazprom  
OGZPY  
Investment Notes**

<http://www.gazprom.com/>

**Please read Disclaimer at bottom of these notes!**



*“We are one of the world’s largest gas and oil companies in terms of reserves, production and market capitalization. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Western and Central Europe, Russia and other former Soviet Union countries.”* **Gazprom October 14, 2014**

*“Gazprom is a global energy company. Its major business lines are geological exploration, production, transportation, storage, processing and sales of gas, gas condensate and oil, sales of gas as a vehicle fuel as well as generation and marketing of heat and electric power.*

**Gazprom holds the world’s largest natural gas reserves.** *The Company’s share in the global and Russian gas reserves makes up 18 and 72 per cent respectively. Gazprom accounts for 14 and 74 per cent of the global and Russian gas output accordingly. At present, the Company actively implements large-scale projects aimed at exploiting gas resources of the Yamal Peninsula, Arctic Shelf, Eastern Siberia and the Far East, as well as hydrocarbons exploration and production projects abroad.*

*Gazprom is a reliable supplier of gas to Russian and foreign consumers. The Company owns the world’s largest gas transmission network – the Unified Gas Supply System of Russia with the total length of over 168 thousand kilometers. Gazprom sells more than half of overall produced gas to Russian consumers and exports gas to more than 30 countries within and beyond the former Soviet Union.*

*Gazprom is the only producer and exporter of liquefied natural gas in Russia.*

*The Company is among Russia's five largest oil producers and it is the largest owner of power generating assets in the country. These assets account for 17 per cent of the total installed capacity of the national energy system.*

*OAO Gazprom's strategic goal is to establish itself as a leader among global energy companies by diversifying sales markets, ensuring reliable supplies, increasing operating efficiency and using scientific and technical potential." <http://www.gazprom.com/about/>*

### **December 13, 2019 (\$7.86) 3Q19 results released – Thesis intact and relatively unchanged**

Lower gas prices caused Gazprom to lower its F2019 guidance. This is a commodity business, hence with certainty our investment thesis has not changed. Revenues came down, but costs did as well. F2019 earnings could be as low as \$1.50, whereas we were projecting \$1.90. Earnings of \$1.50 results in a P/E of 5.21X, which of course is still incredibly low.

We are projecting earnings to be \$1.60 for F2020, \$1.85 for F2021, \$2.05 for F2022, and \$2.15 for F2023. This is merely a road map, and I envision that any changes will be based on gas prices. Many projects are going to be live shortly, and if they perform as expected, our thesis should remain intact.

Production was down 2% year over year.

Gas distribution was materially down year over year, primarily because of lower export prices.

Gazprom announced a dividend target payment of 50% of their adjusted IRFS Net Income. This is expected to be phased in over several years.

2019 is expected to be their peak year for CapEx. They expect the peak to be completed in F2022.

### **August 15, 2019 (\$6.82) Fitch Upgrades credit rating**

Fitch upgraded the credit rating to 'BBB' Middle Rung of Lower Medium Grade, Outlook Stable (8/15/19).

### **July 23, 2019 (\$6.82) Two-Minute Drill and Thesis:**

We have ~a 9% portfolio position with an average cost of \$4.85. This is currently our largest position. We first bought the company during May 2014 at \$8.62 per share. The dividend yield of OGZPY has been consistently greater than 6% since we owned it.

Our primary thesis is a contrarian investment based on the perception of "blood in the streets," and the fear and detest of the masses investing in Russia. This is primarily based on the perception of most developed nations, of the Russian Government, and the Russian geopolitical situation. Of course, the political situation and accusations is not helping this investment. We offset that with what I consider to be an incredibly inexpensive stock, and potential resolution of the Geopolitical situation.

We project earnings to be ~\$1.90 for F2019, and hence the forward Price/Earnings ratio is 3.59X. We project Book Value for F2019 to be ~\$17 per share, and hence price/Book value is a low 0.40X. Return on Equity (ROE) is projected to be 10.0%. Return of Capital is projected to be 5.2% We project a dividend of \$0.50, which generates a dividend yield of ~7.3%. Gazprom carries a debt/equity ratio

of < 20%, which is fairly strong. Interest coverage ratio is strong. Dagon and ACRA ratings agency continue to give Gazprom AAA ratings. Moody's upgraded the credit during the year to 'Baa2.'

The balance sheet is strong, with lower than typical debt levels for energy companies. The bonds are fairly highly rated. The company has been operating on all cylinders for several years now.

A negative to ownership, is a large custodial fee that is charged for the ADR, which equates to about 0.8% of the dividend. There is also a 15% Russian withholding tax on all accounts. Hence, if this is held in an IRA, the tax withholding is not recoverable. We include these highly frictional costs in our decision to own rather than not own this company.

### **Various notes and workups:**

On July 17th they went ex-dividend, so the price of the stock goes down by the dividend amount. I think the dividend is \$0.4273. This dividend is expected to be paid on August 21, 2019. Although OGZPY closed at \$7.50 on the 16th, it opened unchanged at \$7.07, because of this dividend.

Yield is 6.30% (\$0.43). Earnings expected at \$1.90 which would give a P/E of 3.59X. Dividend payout has averaged ~20% for the last 10 years. The payout ratio was 25% in F2017, and 20% in F2018. Dividend payout ratio expected to be 22% and 23% for F2019 and F2020 respectively. ROE has averaged 11.59% for the last 9 of 10 years. ROE was 11.6% in F2017, and 6.3% in F2018. ROE is expected to be 10.0% for F2019 and 8.7% for F2020. ROTC has averaged 9.27% for the last 10 years. ROTC was 9.2% in F2017, and 5.10% in F2018. ROTC is expected to be 5.2% for F2019 and 4.9% for F2020. Average P/E for the last 10 years has been 5.19X. Projected eps for F2020 is \$1.74 which equates to a forward P/E of 3.92X.

Shares outstanding projected to be 22,100 at December 31, 2019, and 22,100 at December 31, 2020.

S&P credit rating is 'BBB-' Lowest Rung of Lower Medium Grade, Outlook Stable (2/27/18).

Moody's credit rating is 'Baa2' Middle Rung of Lower Medium Grade, Outlook Stable (2/12/19).

Fitch credit rating is 'BBB-' Lowest Rung of Lower Medium Grade, Outlook Positive (6/26/19).

Both the Power of Siberia and TurkStream pipelines are expected to start up before year end.

Nord Stream 2 is expected to start up prior to June 30, 2020.

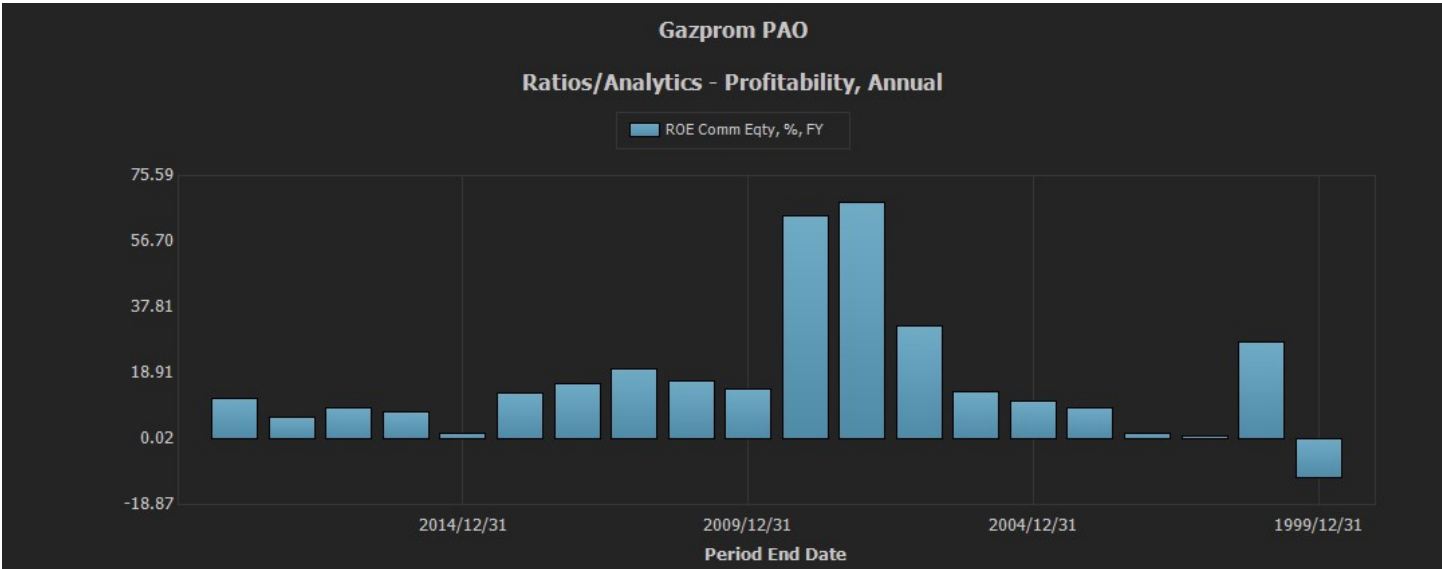
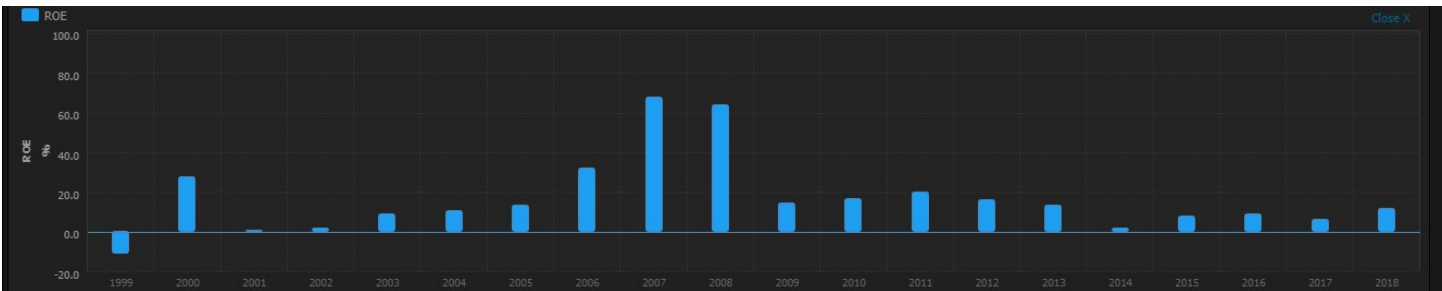
Capex is expected to be materially reduced after these projects are completed.

Company plans on a 50% dividend payout ratio by F2022.

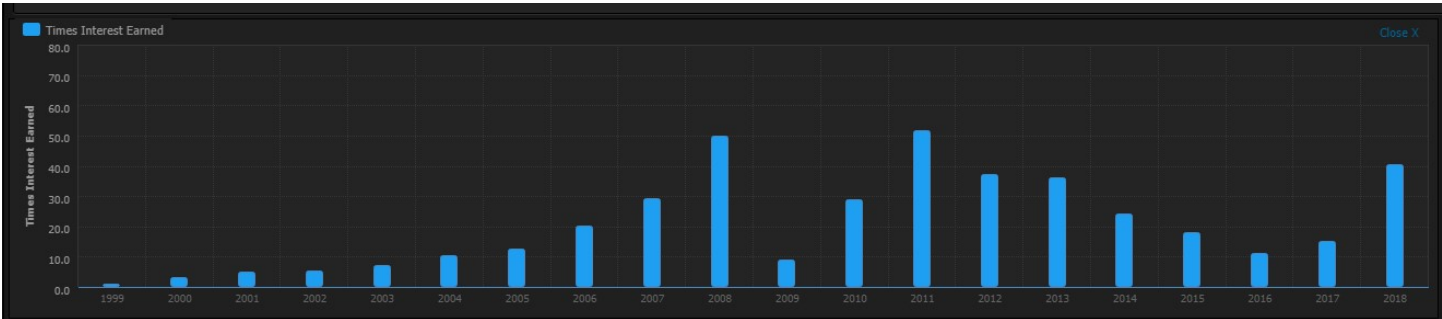
Management stated the decision to double dividends year on year so that shareholders could benefit from strong 2018 financial performance.

We noticed an estimate that a 10% change in European gas price implies a 13% on earnings on 2020.

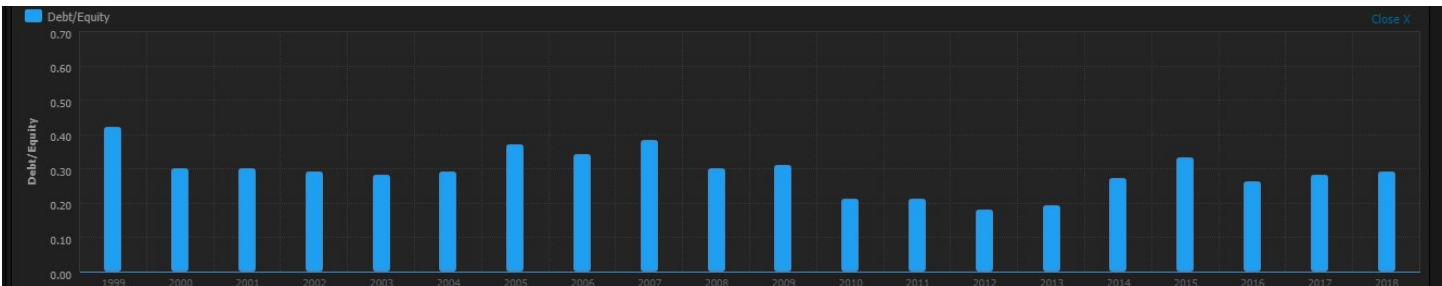
### **ROE:**



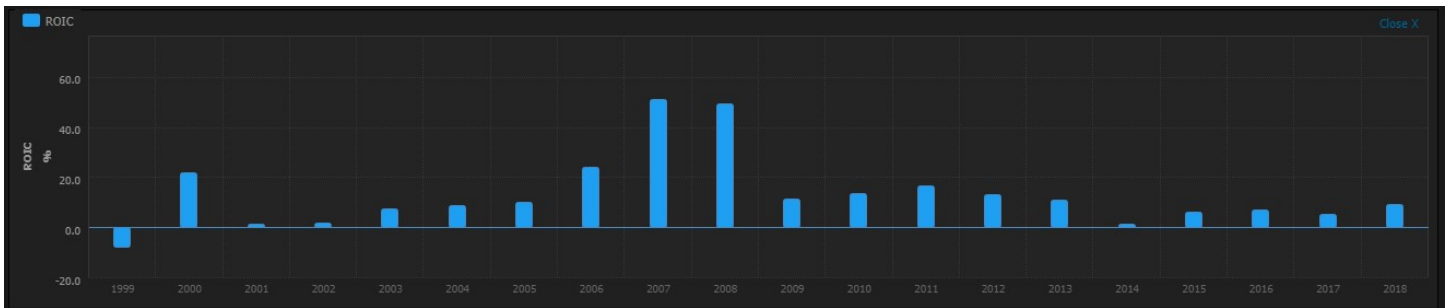
**Times Interest Earned:**



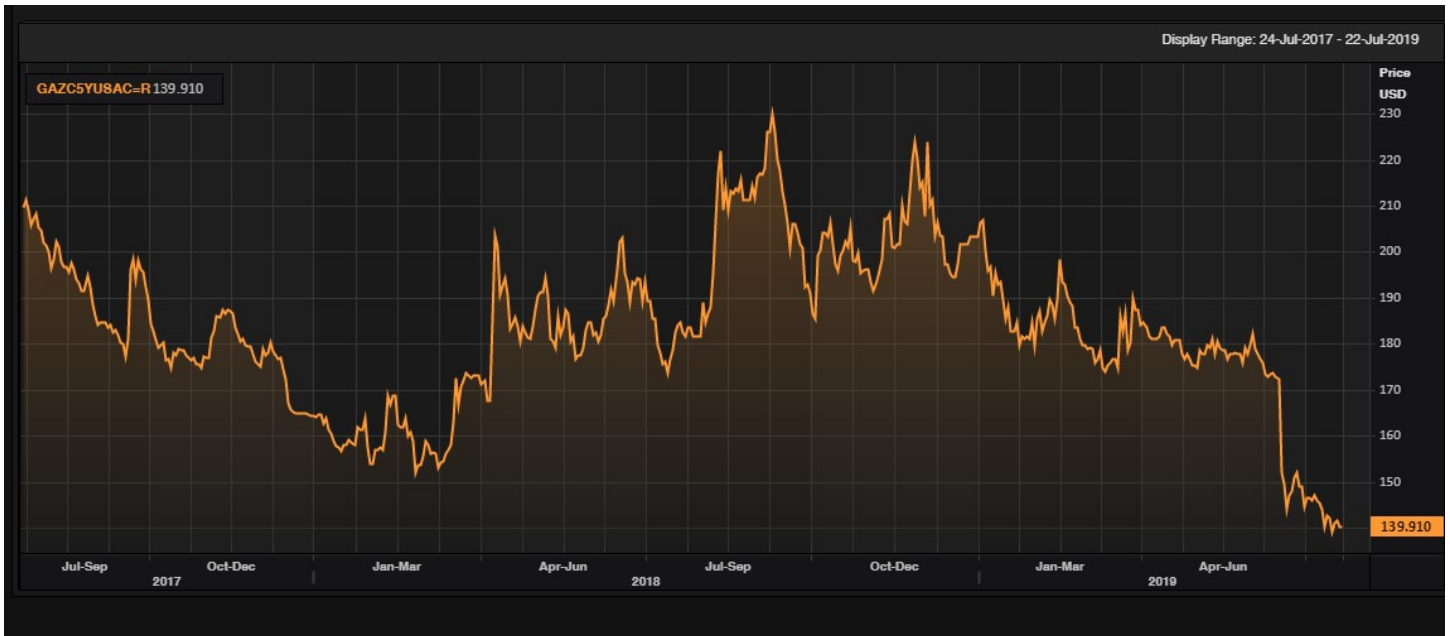
**Debt/Equity:**



**ROIC:**



**Credit Default Swaps look very healthy:**



**November 12, 2018 (\$4.44)**

Contrarian investment based on the perception of “blood in the streets,” and the fear and detest of the masses investing in Russia. This is primarily based on the perception of most developed nations of the Russian Government, and the Russian geopolitical situation. Of course the political situation and accusations is not helping this investment. We offset that with what I consider to be an incredibly inexpensive stock, and potential resolution of the Geopolitical situation.

We project earnings to be ~\$1.15 for F2018, and hence the forward Price/Earnings ratio is 3.86X. We project Book Value for F2018 to be ~\$15 per share, and hence price/Book value is a low 0.30X. Return on Equity (ROE) is projected to be 6.3%. Return of Capital is projected to be 4.1% We project a dividend of \$0.28 generates a dividend yield of ~6.3%. Gazprom carries a debt/equity ratio of < 20%, which is fairly strong. Interest coverage ratio is strong. I expect that Gazprom will exceed the projected earnings estimates for F2018. Dagon and ACRA ratings agency continue to give Gazprom AAA ratings. Moody's, S&P, and Fitch, have all upgraded Gazprom to Lower Medium Grade, and either a positive or stable outlook.

S&P credit rating is 'BBB-' Lowest Rung of Lower Medium Grade, Outlook Stable (2/27/18).

Moody's credit rating is 'Baa3' Lowest Rung of Lower Medium Grade, Outlook Positive (1/29/18).

Fitch credit rating is 'BBB-' Lowest Rung of Lower Medium Grade, Outlook Positive (9/25/18).

### **February 7, 2018 (\$4.81) Investor presentation held in NYC**

Peak near-term capex will be accompanied by peak debt repayments in 2018-2020.

Management was sanguine on dividend increases but claims dividends should not shrink from 2016 level of RUB8.04 per share.

Gazprom carries a P/E of 4.2X, earnings projected to be \$1.15 USD for F2017, \$1.46 for F2018, and \$1.14 for F2020.

ROE is reported at 6.8%, and ROA 4.5%.

Book value is ~\$16 per share.

Interesting, and concerning to see the credit default swaps so high. This hasn't been updated since 2015.



Moody's Baa3 upgraded to outlook positive on 1/29/18, as did Fitch BBB-. These are both the lower rung of lower medium grade (a step above junk.)

The major concern of investors is the lack of free cash flow, primarily if not all caused by massive capex. This build-out is expected to be completed during F2019, and Gazprom claims it will look to start increasing dividends at that time. Yet, other investors are concerned that historically Gazprom has claimed such, and that in F2020 it will just be something else to spend money on.

Analysts would like to see a capex reduction, and of course a relief of the sanctions. I would think, perhaps naively, that capex promotes future cash flow, and if it causes deficits, while at the same time, credit agencies have upgraded.

All ratios appear to be above industry average. This includes liquidity ratios, ROE, Net Margins.

ROIC is 6.8%, which is quite acceptable.

### UBS:

Highlights (US\$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Net earnings (UBS)	7,421	20,426	8,952	11,428	17,410	17,034	19,171	19,595
EPS (UBS, diluted) (US\$)	0.63	1.78	0.79	1.03	1.58	1.54	1.73	1.77
CEPS (UBS, diluted) (US\$)	4.19	3.15	2.25	1.76	2.45	2.51	2.75	2.89
DACF (UBS)	46,983	43,011	22,204	27,546	33,438	33,616	37,028	37,689
Net DPS (US\$)	0.37	0.26	0.24	0.28	0.29	0.31	0.36	0.41
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Production (000 boe/d)	8,584	8,073	7,509	8,330	7,979	8,034	8,096	8,190
ROACE (UBS) %	3.1	7.5	7.9	6.4	6.7	6.9	7.3	7.5
EV/DACF (UBS) x	2.5	1.9	3.5	3.8	3.3	3.4	3.0	2.8
Price/CEPS (UBS, diluted) x	1.7	1.5	1.9	2.8	2.0	2.0	1.8	1.7
P/E (UBS, diluted) x	11.7	2.7	5.3	4.8	3.1	3.2	2.8	2.8
Net dividend yield %	5.1	5.5	5.7	5.6	5.9	6.4	7.3	8.4

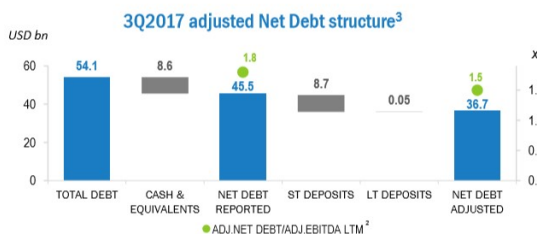
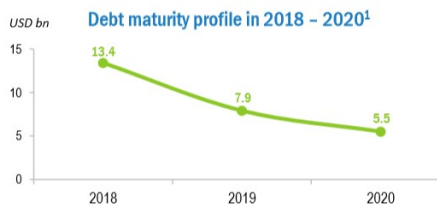
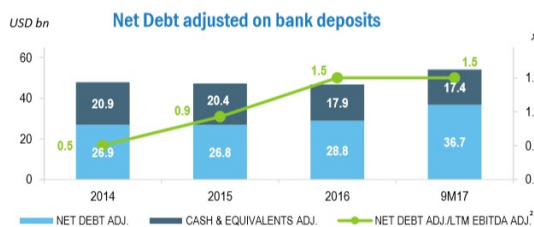
Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$4.92 on 06 Feb 2018 16:00 GMT

### Investor day notes:

Revenues are 68% Gas, 24% oil, and 8% power.

Gazprom holds 17% of global gas reserves.

COMFORTABLE LEVERAGE



	GAZPROM'S RATING	RUSSIAN SOVEREIGN RATING
MOODY'S	Baa3 /positive (investment grade)	Ba1 /positive
FITCH	BBB- /positive (investment grade)	BBB- /positive (investment grade)
S&P	BB+ / positive	BB+ /positive
DAGONG	AAA / stable	A / stable

<sup>1</sup> Existing loans, data based on 9M17 IFRS report    <sup>2</sup> Calculated using dollar values of Net debt and EBITDA    <sup>3</sup> According to 9M17 IFRS report

POTENTIAL IMPACT OF U.S. AND EU UKRAINE-RELATED SANCTIONS ON GAZPROM'S BUSINESS

SANCTIONS PACKAGES	KEY CONSTRAINTS	SANCTIONS EFFECT
<ul style="list-style-type: none"> <li>Technological Restrictive measures: Gazprom Group's oil exploration and production activities</li> </ul>	<ul style="list-style-type: none"> <li>Arctic offshore projects<sup>1</sup></li> <li>Shale projects<sup>1</sup></li> <li>Deepwater projects<sup>1</sup></li> <li>Yuzhno-Kirinskoye field development<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>Covers below 1% of Gazprom Group's production</li> </ul>
<ul style="list-style-type: none"> <li>Financial Restrictive measures: Gazprom Group's financing activities</li> </ul>	<ul style="list-style-type: none"> <li>Raising international long term debt finance by Gazprom Neft</li> <li>Raising international long debt finance by Gazprombank<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>No restrictions for Gazprom's raising finance in capital markets, with the Company being an active player in debt markets (except for Canada's market)</li> </ul>
<ul style="list-style-type: none"> <li>New restrictive measures under the US law of August 2017</li> </ul>	<ul style="list-style-type: none"> <li>No explicit prohibitions on Gazprom, but the new US law touches upon possible secondary sanctions to be imposed on a making significant investments in Russian energy export pipelines or in a special Russian crude oil project.</li> </ul>	<ul style="list-style-type: none"> <li>The guidance published by the US Department of State on October 31, 2017 "grandfathers" Russian energy export pipeline projects "initiated" prior to August 2, 2017</li> </ul>

**THE US AND EU SANCTIONS DO NOT LIMIT GAZPROM'S ACCESS TO THE GLOBAL CAPITAL MARKETS**

November 29, 2017 (\$4.55)

3<sup>rd</sup> quarter results were released and posted a third-quarter net profit of 200.5 billion rubles (\$3.4 billion), almost doubling the 102.2 billion rubles it recorded in the same period last year and exceeding analysts' expectations.

The company raised its estimated capital expenditure for this year to 1.64 trillion troubles from a previous estimate of 1.58 trillion rubles.

*“Mr. Putin, we expect the total amount of gas produced by Gazprom in 2017 to reach 470 billion cubic meters. That figure exceeds the 2016 result by more than 50 billion cubic meters, showing*



a growth of over 12 per cent. In addition, Gazprom's annual gas production capacity will surpass 550 billion cubic meters by year's end." **Alexy Miller**

*"On the whole, the investment programs for 2018 and 2019 will be the most ambitious in the Company's history. The investments for 2018 and 2019 will total RUB 1,280 billion and 1,400 billion, respectively. As you know, Mr. Putin, it is related to the peak investment needs for the implementation of our crucial strategic projects. At the same time, those projects have a deadline – the end of 2019. That includes the start of gas supplies to China via the eastern route (the Power of Siberia gas pipeline), the pre-development of the Chayandinskoye field, the construction of the Amur Gas Processing Plant, the commissioning of the TurkStream gas pipeline in late 2019 and the creation of gas transmission capacities in the northern corridor, in northwestern Russia, for delivering gas from Yamal to consumers in Russia and exporting it via Nord Stream 2."* **Alexy Miller**

### **September 12, 2017 (\$4.18)**

The price per a DB report dated 8/30/17 for GAZP.MM (Reuters) or GAZP.RX Bloomberg is 118.30, with a price target of 115. The 52-week range is 115.35-158.95. I often get confused with the conversion, but this is consistent with OGZPY range being \$3.78 - \$5.33.

Gazprom had robust 1H earnings, as released a few weeks ago. DB, still rates a 'Hold,' but did increase the price target by 9.5% (to 115 from 105, yet I have difficulty translating that, as it is GAZP.MM.) *"Gazprom will be unable to finance the relatively heavy capex in the next several years from OCF. The company will need to also borrow to finance the dividend payments."* **DB 8/30/17**

*"Management has reiterated plans to maintain future dividends in 2018-20 at least at the level of the previous year's dividend. Specifically, if sanctions intensify, Gazprom's ability to use project financing mechanisms may be reduced and the debt burden on the group may increase."* **DB 8/30/17**

DB indicates market cap is \$44.5B USD, with 22.1 shares outstanding.

Fiscal year end 31-Dec	2014	2015	2016	2017E	2018E	2019E
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Valuation Metrics						
P/E (DB) (x)	3.1	2.9	5.6	3.6	3.1	3.6
P/E (Reported) (x)	19.9	4.2	3.3	3.9	3.0	3.5
P/BV (x)	0.29	0.29	0.31	0.23	0.21	0.20
FCF Yield (%)	18.4	8.4	4.3	nm	nm	nm
Dividend Yield (%)	3.3	5.0	6.5	6.8	7.0	7.1
EV/Sales (x)	0.8	0.8	0.9	0.8	0.8	0.9
EV/EBITDA (x)	2.4	3.0	4.3	3.4	3.3	3.7
EV/EBIT (x)	3.3	4.3	7.8	5.7	5.4	6.6

Income Statement (USDm)						
Sales revenue	144,106	98,782	90,832	110,146	111,855	113,966
Gross profit	46,124	28,032	18,879	25,260	28,156	26,846
EBITDA	46,124	28,032	18,879	25,260	28,156	26,846
Depreciation	12,223	8,411	8,537	10,399	10,881	11,750
Amortisation	0	0	0	0	0	0
EBIT	33,901	19,621	10,342	14,861	17,275	15,096
Net interest income/(expense)	576	740	328	470	-432	-475
Associates/affiliates	1,192	1,740	1,238	2,041	1,784	1,798
Exceptionals/extraordinaries	-27,701	-7,144	7,272	-1,377	842	222
Other pre-tax income/(expense)	-24	149	16	1	0	0
Profit before tax	7,919	14,673	18,700	16,121	19,469	16,641
Income tax expense	3,874	1,960	4,302	3,565	3,455	3,019
Minorities	-47	296	679	1,011	1,133	1,080
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,116	12,850	14,214	11,420	14,882	12,542
DB adjustments (including dilution)	22,161	5,715	-5,818	1,101	-674	-178
DB Net profit	26,278	18,565	8,396	12,522	14,208	12,364

Fiscal year end 31-Dec                      2014              2015              2016              2017E              2018E              2019E

Cash Flow (USDm)						
Cash flow from operations	47,785	31,295	22,516	19,959	20,475	20,408
Net Capex	-32,675	-26,792	-20,449	-23,228	-23,032	-22,006
Free cash flow	15,110	4,503	2,067	-3,269	-2,556	-1,597
Equity raised/(bought back)	0	0	-1,972	0	0	0
Dividends paid	-4,633	-2,787	-2,783	-3,259	-3,258	-3,326
Net inc/(dec) in borrowings	-1,120	1,181	-1,344	345	3,244	8,681
Other investing/financing cash flows	-11,847	-2,671	2,201	403	272	74
Net cash flow	-2,489	227	-1,830	-5,781	-2,298	3,831
Change in working capital	-305	2,560	2,729	-1,104	-1,363	-370

Balance Sheet (USDm)						
Cash and other liquid assets	18,491	18,673	14,841	9,061	6,764	10,596
Tangible fixed assets	188,904	162,070	201,674	220,188	242,004	256,229
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	3,778	3,405	5,042	5,140	5,319	5,365
Other assets	58,608	49,817	57,372	59,416	65,821	69,593
Total assets	269,781	233,966	278,928	293,805	319,909	341,784
Interest bearing debt	47,794	47,230	46,650	47,895	52,857	62,036
Other liabilities	42,103	36,980	43,647	44,608	45,789	46,208
Total liabilities	89,897	84,210	90,296	92,503	98,646	108,243
Shareholders' equity	174,491	145,296	182,906	194,472	213,045	224,167
Minorities	5,394	4,460	5,726	6,829	8,218	9,374
Total shareholders' equity	179,885	149,756	188,632	201,301	221,263	233,541
Net debt	29,303	28,557	31,809	38,834	46,092	51,439

Key Company Metrics						
Sales growth (%)	-11.4	-31.5	-8.0	21.3	1.6	1.9
DB EPS growth (%)	-30.0	-29.4	-53.0	49.1	13.5	-13.0
EBITDA Margin (%)	32.0	28.4	20.8	22.9	25.2	23.6
EBIT Margin (%)	23.5	19.9	11.4	13.5	15.4	13.2
Payout ratio (%)	65.5	21.0	21.8	26.6	20.9	25.0
ROE (%)	1.8	8.0	8.7	6.1	7.3	5.7
Capex/sales (%)	22.7	27.1	22.5	21.1	20.6	19.3
Capex/depreciation (x)	2.7	3.2	2.4	2.2	2.1	1.9
Net debt/equity (%)	16.3	19.1	16.9	19.3	20.8	22.0
Net interest cover (x)	nm	nm	nm	nm	40.0	31.8

Source: Company data, Deutsche Securities estimates

**Figure 1 - Source: Deutsche Securities**

Putin discussed Gazprom during July 2017. Here are some key takeaways I had:

*"I need to keep an eye on Nord Stream II developments, especially after the German elections. It seems to me that Angela Merkel will win again and that would be good for Gazprom.*

*The Naftogaz-Gazprom dispute could substantially distort the Company's financial future. I should definitely track Miller's efforts to hedge Gazprom from an unfortunate outcome.*

*Tracking demand for natural gas worldwide and especially within the EU, alongside energy price developments, should become a weekly routine of mine.*

*And of course, I should follow-up on trade interferences, like Cheniere's "wonderful" plan to push LNG in Europe and pressure for Qatar to produce more natural gas.*

*I also need to inform my assistant, that I want all the latest financial statement releases of Statoil on my desk, as soon as they are posted.*

*I need to make sure that Miller is fixing the negative Asset Turnover, while simultaneously keeping an eye on relating Interest Charge developments.*

*The Operating Profit Margin needs to see a positive trend. On the Balance Sheet, I will particularly fixate on Other Operating Expenses. Miller didn't say much on what these expenses involve, and I should worry if they keep piling up.*

*Finally, I need to make sure that Cash reserves increase again. Gazprom is certainly not out of the woods yet." Vladimir Putin*

#### **July 15, 2017 (\$4.19)**

*"Upside risks to price target: increase in dividend payout ratio to 25% IFRS; clear downward guidance on capex; European export volumes ramp up, including Ukraine; strength in European spot pricing; de-escalation of Russia-West tensions.*

*Downside risks to price target: capex visibility remains low and trends higher, weighing on FCF; further weakness in European spot prices and falling demand; export monopoly broken and independent Russian gas producers partly take Gazprom's export market share; further weakness in oil prices; further slowdown of domestic gas tariff growth; ongoing decline in domestic market share.*

*Important note regarding economic sanctions: Gazprom is currently the subject of sectoral sanctions programs administered or enforced by the United States, the European Union and/or other countries. Users of this report are solely responsible for ensuring that their investment activities in relation to Gazprom are carried out in compliance with applicable sanctions." Morgan Stanley 7/10/17*

#### **June 14, 2017 (\$3.99)**

Although 1Q17 earnings were solid, there is concern of increased capex to rise at a greater amount than cash flow, causing a cash flow deficit. Gazprom expects to continue to invest in large pipeline projects, such as Nord Stream 2, TurkStream, and Power of Siberia.

#### **June 7, 2017 (\$4.14) – 1Q17 earnings released last week**

Co reported Q1 profit of RUB 350.4 bln vs RUB 373.4 bln last year; revs +4.4% YoY to RUB 1.815 trillion.

Total sales (net of excise tax, VAT and customs duties) increased by RUB 77,937 million, or 4 %, to RUB 1,815,301 million for the three months ended March 31, 2017 compared to the same period of the prior year. The increase in sales was mainly driven by an increase in sales of crude oil and refined products.

Net sales of crude oil and gas condensate increased by RUB 63,308 million, or 84 %, to RUB 138,837 million for the three months ended March 31, 2017 compared to the same period of the prior year.

### **May 16, 2017 (\$4.61) - Putin hints that dividend need not be 50% of reported IFRS profits**

*“Russian gas monopolist Gazprom’s profit is mostly “on paper,” president Vladimir Putin said on Monday, raising questions about the company’s ability to pay dividends. “Gazprom has large profits on IFRS. But it’s on paper. There isn’t a real cash flow,” Mr. Putin said at the Belt and Road summit in Beijing. Mr. Putin implied the company would likely be exempt from a government decree mandating that all state-owned firms pay 50 per cent dividends. The company has previously asked for exceptions on the grounds that its large investment programme would force it to borrow to pay the compulsory dividend rate. “So, when the government makes a decision about this issue, it’s going to take the real situation into account, and not the company’s paper income,” he said.”* **Financial Times May 15, 2017**

### **March 8, 2017 (\$4.44)**

**Investment projects:** Specifically, the Company continues to construct the Power of Siberia gas trunk line, which will deliver gas from the Yakutia and Irkutsk gas production centers to Russia’s Far East and China. Construction and installation are underway along the pipeline’s priority section stretching from the Chayandinskoye field (Yakutia) to the Russian-Chinese border (near Blagoveshchensk). As of the end of February, over 500 kilometers of the linear part have been built. The crossing under the Amur River within Power of Siberia’s cross-border section entered construction.

**Cost optimization:** While drafting its 2017 budget, Gazprom explored the ways of optimizing both operating and investment costs. At the same time, the Investment Program for the current year was developed via ranking projects by the level of priority within the framework of the Company’s strategy. Gazprom also takes steps to boost efficiency and optimize costs for the Company and its subsidiaries in a number of lines of business. A significant portion of those measures are aimed at energy and resource saving, including by introducing cutting-edge technologies to reduce gas consumption for process needs and by optimizing the operation of production facilities and gas transmission channels. The Gazprom Management Committee was instructed to carry on with the Group’s cost optimization (reduction) efforts in the current year.

**Dividend:** Gazprom strives to maintain the dividend amount in rubles for 2017--2019 equal to or higher than the 2016 level. At the same time, the potential significant increase in dividends paid by companies with state participation, which is currently being discussed, might harm Gazprom’s financial stability, increase its debt burden, and limit the available financial resources for major investment projects that have strategic importance for Russia’s economy. Taking into account the current environment, the Company’s investment requirements, including its obligations under international projects, and its debt burden, the Gazprom Management Committee plans to propose

that the Board of Directors maintain the dividend payments for 2016 at the level established by the Company in the amount of RUB 186.8 billion (RUB 7.89 per share) when making recommendations on the dividend payout for 2016. A decision on dividend payments for 2018 and 2019 is planned to be made on the basis of additional annual reviews of the international oil and gas markets, the amount of net profit secured by the free cash flow, and the situation in the financial markets.

### March 1, 2017 (\$4.58) - DB reiterates “sell” on February 28, 2017 after investor day

Claims management is in denial regarding the proliferation of alternative suppliers facing European customers.

Forecasts And Ratios					
Year End Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (USDm)	144,106	98,782	93,019	112,018	129,083
EBITDA (USDm)	46,124	28,032	20,829	25,321	31,443
Net Income (USDm)	4,116	12,850	15,283	14,377	17,194
EPS (USD)	1.14	0.81	0.47	0.57	0.73
DB EPS growth (%)	-30.0	-29.4	-42.4	21.3	28.4
P/E (DB EPS) (x)	3.1	2.9	5.0	4.1	3.2
EV/EBITDA (x)	2.4	3.0	4.6	4.3	3.7
DPS (USD)	0.12	0.12	0.14	0.14	0.15
Yield (%)	3.3	5.0	5.9	6.2	6.5

Source: Deutsche Bank estimates, company data

“Gazprom believes that its market share in Europe will remain stable and may even increase, from 34% in 2016 to 35% in 2025. Given the high cost-competitiveness of its gas, management expects the demand for Gazprom’s gas from European consumers to remain stable.”

DB is concerned with large investment cycle starting in 2017, and that could produce negative cash flow. Yet, doesn’t capex like this, most often turn into future cash flow and revenues?

Dividends: “A 25% payout ratio on the basis of the consolidated IFRS earnings could be a limit in the foreseeable future.”

“The negative FCF outlook, coupled with a flat – or even potentially lower – dividend, implies a deterioration for the Gazprom investment case. Our view on the stock remains negative.”

### January 23, 2017 (\$4.92) Quick news and thoughts as IFRS 9/30/16 released



“The state-controlled company aims to raise 350 billion rubles (around \$6 billion) from asset sales this year, while borrowing may climb to 288 billion rubles and more than double from that level

next year, a copy of the document obtained by Bloomberg News show. Dividend payments are forecast at the 2016 level through 2019, according to the plan, approved by the board in December.”  
**Bloomberg 1/23/17**

#### GAZPROM'S KEY BUDGET TARGETS

2017 ASSET SALES	2Q	3Q	4Q	
Proceeds, billion rubles	122.5	157.5	70	
2016-2019 MARKET OUTLOOK, BUDGETS	2016*	2017	2018	2019
Urals crude, \$/bbl	40	48	52	55
Ruble/USD exchange rate	68.9	63.3	62.1	61.3
Average gas price in EU, Turkey, \$/1,000cm	169	166-168	175	180
Investments, billion rubles	854	911	850	850
Dividend payments, billion rubles**	186.8	186.8	186.8	186.8
External borrowings, billion rubles	188	288	705	641
incl. long-term loans	87	160	396	391
incl. bonds	101	128	308	250

\* 2016 plan for parent company set in Oct.

\*\* Payments implying 7.89 rubles/share

#### Figure 2 - Bloomberg January 23, 2017

According to Gazprom, in the third quarter 2016, oil prices were 8% lower year on year as compared to the same quarter of 2015. Average gas price, as realized in their European sales, went down to USD159 per 1,000 cubic meters. Also, the ruble got weaker vis-a-vis the dollar by 3% percent, which impacted positively their export revenue.

*“Our exports of gas to Europe exceeded 179 billion cubic meters, which is 12.5% higher than the 2015 numbers, which were already high.”* **Gazprom CC 1/19/17**

Gazprom was asked about dividend. They didn't answer and claimed there is “a clear trend to maintain that well understood level of payment.” They then mentioned there is potential that the Government might instruct the company on the level of payment.

A quick thought on sanctions. If sanctions were lifted, I would think RUB would strengthen, which of course would be good for Gazprom. The sanctions are allegedly less relevant to oil companies as liquids contribute ~15% to the overall hydrocarbon production.

#### September 13, 2016 (\$4.20) Review of 2Q16

2Q16 results came in as expected. FCF is now negative, but I think that is temporary based on capex. Capex is materially down, and that is merely reflective of the economy, the supply and the price of oil and gas. There have been some tax initiatives in Russia, which will somewhat affect Gazprom, but mainly their JV's. I see no reason they will not work through this.

Putin, in a Bloomberg interview, mentioned that Gazprom is materially undervalued, and Russia will not sell Gazprom at these prices. “Gazprom is clearly undervalued. We have no plans to sell it yet.” He cited that other than the price of oil and gas, Gazprom is doing very well. They are building reserves and infrastructure. The interviewer compared Gazprom being down 80% to the military that lost 80% of their army. Putin contended that Gazprom did not lose 80% of their oil, they merely put it strategically to reserves. Putin went on to identify that Russia is the world’s leader of natural gas exports, with a 20% global market share. “On the whole, Gazprom is in great shape and is increasing exports to its traditional partner countries.”

Debt was reduced by 4% in USD, and 15% in ruble terms since December 31, 2015.

Thesis from August 11<sup>th</sup> remains intact and unchanged.

### **August 17, 2016 (\$4.25) Fitch Affirms ‘BBB- ‘; Outlook Negative**

*“The ratings reflect our expectations that Gazprom will remain a vital gas supplier to Europe. We expect competition in the European gas market to intensify in the near future, as new LNG production projects come on-line globally. However, Gazprom's low-cost position should help the company maintain its market share, provided it responds to changing market conditions. Gazprom's new projects, mainly the Power of Siberia to supply gas to China, should enhance the company's business profile in the long term but they could stretch leverage and free cash flow (FCF) in the next two to three years.*

*Gazprom has significantly reduced its presence in the international debt markets amid Russia's geopolitical tensions with the west; however, the company's one-year liquidity is strong. In 2015-16 Gazprom issued two medium-term Eurobonds, in October 2015 (EUR1bn, three years) and March 2016 (CHF500m; 2.5 years) but its ability to borrow larger amounts in the international Eurobond markets remains untested. We assume that Gazprom will be able to maintain its liquidity by borrowing from Russian banks, as well as occasionally international and Chinese debt markets.*

*Gazprom is Russia's largest state-owned energy company, engaged in natural gas production, transportation and distribution, as well as crude production and refining, heat and electricity generation. In 2015, Gazprom produced 445 billion cubic meters (bcm) of natural gas, including its share of associates, and generated RUB1,874bn (USD31bn) EBITDA. Its end-2015 funds from operations (FFO) adjusted net leverage was 1.3x, one of the lowest among global oil and gas companies.”*

*“We expect Gazprom's FCF after dividends to be negative at least in 2016 and 2017, financed by the company's vast cash reserves and possibly additional borrowings. Gazprom should be able to broadly balance its after-dividend cash inflows and outflows by 2018.”*

### **August 11, 2016 (\$4.22) Review of 1Q16 IFRS release**

Quarterly profit dipped more than 5% due to lower gas prices and higher capex. I was surprised how little the earnings and revenues fell. I was also surprised at the growth in output. Prices are lower than Gazprom set out in their budget, yet they claim still half a year left, and much is based on weather.

Deutsche Bank has a sell rating, with a price target of \$3.00 if I converted correctly, as DB current price is 137.34 (RUB) and price target of 97.50 (RUB), hence 71% of \$4.22, is \$3.00.

Morgan Stanley has an Underweight rating, and a price target of \$3.90.

Net debt went down by 14% in rubles and by 8% in US dollars compared to the end of 2015. In absolute figures, the net debt went down by \$2.2 billion.

Production of gas in Q1 2016 went down by 3% compared to the respective period in 2015. Production of gas condensate grew by 2% up to 4.2 million tons. Production of crude oil grew by 6% up to 9.3 million tons. Production of power went down by 2%. Production of heating grew by 5%.

### **Thesis Intact:**

Contrarian play based on the perception of “blood in the streets”, and the fear and detest of the masses investing in Russia. Blood in the streets scenario is based on price of oil (depressed), geopolitical situation, stalling growth, and possible contractions, continued recessions and deflation in Europe and emerging markets. We offset that with what I consider to be a cheap market, and potential resolution of the Geopolitical situation. We add to concerns, the lack of clarity on what the dividend will be. I think Wall Street is punishing Gazprom for this lack of clarity.

On the negative side, Russia taxed Gazprom greater than the past in 2016, and of course that hurt cash flow. Gazprom does not think the tax will be raised again. Nevertheless, I don't think Russia will look to hurt themselves. I think the price to earnings is low enough to absorb this with relative ease. I do not believe that Russia would want to injure the long-term viability of Gazprom in its current form.

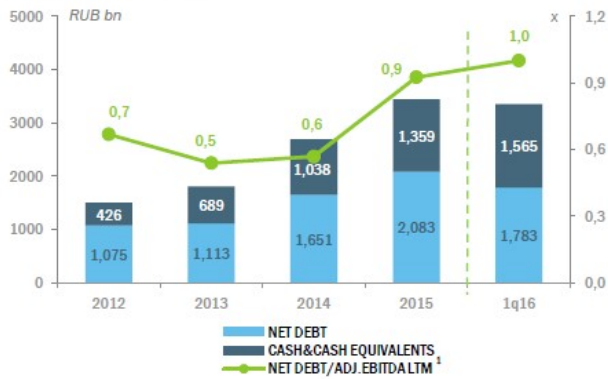
I originally projected Gazprom F2015 earnings to be ~\$0.75, whereas they were \$0.91. Gazprom could be free cash flow negative in 2016-2018.

We project earnings to be ~\$1.00 for F2016, and hence the Price/Earnings ratio is 4.22X. We project Book Value for F2015 to be ~\$12 per share, and hence price/Book value is a low 0.35X. Return on Equity (ROE) is projected to be 9%. The projected ROE is low, but I believe that is reflected in the industry depression, and the low price to book value. We project a dividend of \$0.24 generates a dividend yield of ~5.7%. Gazprom carries a debt/equity ratio of < 19.1%, which is fairly strong. Interest coverage ratio is strong. Dagon ratings agency continues to give Gazprom AAA ratings. Standard and Poor's rates the credit BB+ Stable, and Moody's rates it Ba1, outlook negative, both being considered non-investment grade.



# KEY DEBT METRICS

## Total and Net Debt



## Debt maturity profile<sup>2</sup>



## Cost of debt financing

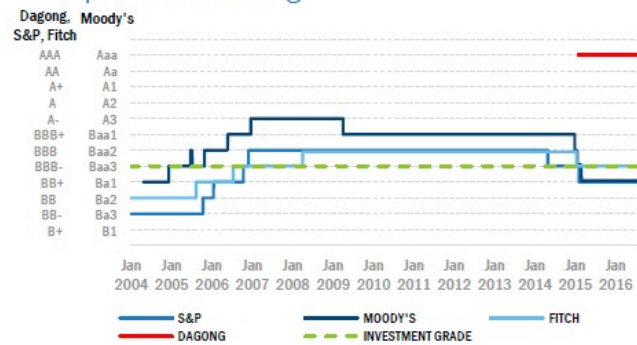


SOURCE: BLOOMBERG, COMPANY DATA

<sup>1</sup> Calculated using dollar values of Net debt and EBITDA

<sup>2</sup> Excluding promissory notes

## Gazprom credit ratings



## SUCCESSFUL PERFORMANCE IN DEBT CAPITAL MARKETS



Transaction date	Amount	Coupon	Maturity	Achievements
March 2016	CHF500mm	3.375%	2.5 years	<ul style="list-style-type: none"> <li>Public international debt offering under EMTN programme, lead managers - Deutsche Bank AG Zurich branch, Gazprombank (Switzerland) Ltd and UBS AG</li> </ul>
March 2016	€2,000mm	EURIBOR +3.5%	5 years	<ul style="list-style-type: none"> <li>Facility agreement with Bank of China</li> <li>The largest deal in terms of the amount of financing attracted directly from one financial institution and the first bilateral loan facility agreement with a Chinese bank</li> </ul>
October 2015	€1,000mm	4.625%	3 years	<ul style="list-style-type: none"> <li>Public international debt offering under EMTN programme, lead managers - Banca IMI S.p.A., J.P. Morgan, UniCredit Bank, placement without new issue premium</li> </ul>
August 2015	\$1,500mm	LIBOR +3.5%	5 years	<ul style="list-style-type: none"> <li>Syndicated loan with China Construction Bank Corporation as bank agent</li> </ul>
July 2015	€300mm	EURIBOR +3.6%	4 years	<ul style="list-style-type: none"> <li>Loan from UniCredit Bank Austria AG</li> </ul>
June 2015	€150mm	EURIBOR + 3.6%	4 years	<ul style="list-style-type: none"> <li>Loan from Intesa Sanpaolo S.p.A. bank</li> </ul>
April 2015	\$500mm	LIBOR + 3.25%	3 years	<ul style="list-style-type: none"> <li>Syndicated loan with JP Morgan as bank agent</li> <li>Asian banks participated</li> </ul>
January 2015	€350mm	EURIBOR + 2.75%	1.5 years	<ul style="list-style-type: none"> <li>The first bilateral loan agreement in the business relationship between Gazprom and Intesa Sanpaolo Group</li> <li>Is of great importance for the development of partnership with credit institutions of Italy and the entire Europe</li> </ul>

Recent transactions by PJSC Gazprom

### May 19, 2016 (\$4.42) Review of FYE 2015 earnings released on 4/28/16

#### Thesis Intact:

Contrarian play based on the perception of “blood in the streets”, and the fear and detest of the masses investing in Russia. Blood in the streets scenario is based on price of oil (depressed), geopolitical situation, stalling growth, and possible contractions, continued recessions and deflation in Europe and emerging markets. We offset that with what I consider to be a cheap market, and potential resolution of the Geopolitical situation. We add to concerns, the lack of clarity on what the dividend will be. I think Wall Street is punishing Gazprom for this lack of clarity. Yet, the way I see it, is the Russian government would like the dividend to be 50% of net income, whereas Gazprom proposed much less than that. Gazprom has often discussed this, and my impression is Gazprom is being magnanimous on the subject and is firm that this is a work in progress.

On the negative side, Russia might tax Gazprom greater than the past, and of course that would hurt cash flow. Yet, I think the price to earnings is low enough to absorb this with relative ease. I do not believe that Russia would want to injure the long-term viability of Gazprom in its current form.

I originally projected Gazprom F2015 earnings to be ~\$0.75, whereas they were \$0.91. Gazprom could be free cash flow negative in 2016-2018.

We project earnings to be ~\$1.00 for F2016, and hence the Price/Earnings ratio is 4.4X. We project Book Value for F2015 to be ~\$12 per share, and hence price/Book value is a low 0.37X. Return on Equity (ROE) is projected to be 8%. The projected ROE is low, but I believe that is reflected in the industry depression, and the low price to book value. We project a dividend of \$0.18 generates a dividend yield of ~4.1%. Gazprom carries a debt/equity ratio of 19.1%, which is fairly strong. We expect the ratio to increase to 21% in F2016. Interest coverage ratio is strong.

Gazprom, US\$mn		2016e	2017e	2018e
EBITDA	New	19,113	21,518	23,650
	Old	18,344	21,736	23,800
	% change	4%	-1%	-1%
Net Income	New	10,505	11,491	12,550
	Old	10,492	13,065	14,176
	% change	0%	-12%	-11%
EPS	New	0.92	1.00	1.09
	Old	0.91	1.14	1.24
	% change	0%	-12%	-11%
Capex	New	21,268	18,729	19,176
	Old	21,380	18,566	19,009
	% change	-1%	1%	1%

Source: Morgan Stanley Research estimates

Gazprom (GAZPq.L, OGZD LI)				
EEMEA - Russian Oil & Gas / Russia				
Stock Rating	Underweight			
Industry View	In-Line			
Price target	US\$3.10			
Shr price, close (May 9, 2016)	US\$4.74			
Fiscal Year Ending	12/15	12/16e	12/17e	12/18e
EBITDA (US\$ mn)**	28,658	19,113	21,518	23,650
<b>ModelWare EPS (US\$)</b>	<b>1.17</b>	<b>0.92</b>	<b>1.00</b>	<b>1.09</b>
Prior ModelWare EPS (US\$)	1.29	0.91	1.14	1.24
Div yld (%)	5.8	3.9	4.2	5.8
P/E	3.1	5.2	4.7	4.3
Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework				
** = Based on consensus methodology				
e = Morgan Stanley Research estimates				

**Exhibit 9:** Downside to consensus estimates still evident

Gazprom, US\$m		2016e	2017e	2018e
Revenue	MS	70,159	74,487	78,334
	Cons	80,754	94,721	101,845
	% change	-13%	-21%	-23%
EBITDA	MS	19,113	21,518	23,650
	Cons	22,359	26,788	27,665
	% change	-15%	-20%	-15%
Net Income	MS	10,505	11,491	12,550
	Cons	12,672	15,627	15,749
	% change	-17%	-26%	-20%
DPS	MS	0.18	0.20	0.27
	Cons	0.26	0.28	0.31
	% change	-28%	-29%	-12%

Source: Morgan Stanley Research estimates

**Exhibit 12:** Valuation multiples – on our 2017 earnings estimates, Gazprom's P/E no longer appears cheap compared to Rosneft and Lukoil

Company (MSe)	PE		Dividend yield (%)		FCF yield	
	16E	17E	16E	17E	16E	17E
Gazprom (Consensus)	3.9	3.4	5.4%	5.9%	NA	NA
Gazprom	5.2	4.8	3.8%	4.2%	-5.3%	2.0%
Lukoil	5.8	4.4	6.0%	6.3%	6.5%	8.7%
Novatek	9.6	9.7	3.0%	2.7%	6.3%	9.4%
Rosneft	7.9	4.4	3.2%	5.6%	3.1%	7.9%
<b>DM Majors</b>	<b>44.0</b>	<b>47.1</b>	<b>4.6%</b>	<b>4.6%</b>	<b>-0.4%</b>	<b>2.0%</b>
<b>DM Large Caps</b>	<b>12.6</b>	<b>12.1</b>	<b>3.0%</b>	<b>3.0%</b>	<b>-3.0%</b>	<b>-0.1%</b>
<b>Emerging Markets</b>	<b>90.4</b>	<b>52.9</b>	<b>1.4%</b>	<b>1.8%</b>	<b>7.5%</b>	<b>3.5%</b>

Source: Morgan Stanley Research estimates

**February 3, 2016 (\$3.45) Investor Day Mentions from February 1, 2016**

**Forecasts And Ratios**

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (USDm)	162,611	144,106	93,612	76,403	90,752
EBITDA (USDm)	60,628	46,124	31,146	20,261	25,626
Net Income (USDm)	35,754	4,116	13,008	12,361	16,519
EPS (USD)	1.65	1.39	0.96	0.51	0.67
EPS Stated (USD)	1.56	0.18	0.57	0.54	0.72
DB EPS growth (%)	-2.8	-16.2	-30.5	-47.2	31.5
P/E (DB EPS) (x)	2.6	2.6	1.8	3.5	2.7
EV/EBITDA (x)	2.2	2.4	2.1	3.4	3.0
DPS (USD)	0.19	0.12	0.10	0.10	0.12
Yield (%)	4.4	3.3	5.6	5.8	6.5

Source: Deutsche Bank estimates, company data

Fiscal year end 31-Dec

2012 2013 2014 2015E 2016E 2017E

### Financial Summary

DB EPS (USD)	1.70	1.65	1.39	0.96	0.51	0.67
Reported EPS (USD)	1.66	1.56	0.18	0.57	0.54	0.72
DPS (USD)	0.19	0.19	0.12	0.10	0.10	0.12
BVPS (USD)	11.7	12.4	7.6	6.2	6.8	7.8
Weighted average shares (m)	22,949	22,950	22,951	22,951	22,951	22,951
Average market cap (USDm)	119,808	97,109	82,049	40,882	40,882	40,882
Enterprise value (USDm)	159,116	134,644	112,968	64,360	68,077	75,906

### Valuation Metrics

P/E (DB) (x)	3.1	2.6	2.6	1.8	3.5	2.7
P/E (Reported) (x)	3.1	2.7	19.9	3.1	3.3	2.5
P/BV (x)	0.40	0.34	0.29	0.29	0.26	0.23
FCF Yield (%)	1.0	9.4	18.4	8.6	nm	nm
Dividend Yield (%)	3.6	4.4	3.3	5.6	5.8	6.5
EV/Sales (x)	1.0	0.8	0.8	0.7	0.9	0.8
EV/EBITDA (x)	2.9	2.2	2.4	2.1	3.4	3.0
EV/EBIT (x)	3.6	2.8	3.3	2.8	5.5	4.4

### Income Statement (USDm)

Sales revenue	156,778	162,611	144,106	93,612	76,403	90,752
Gross profit	55,567	60,628	46,124	31,146	20,261	25,626
EBITDA	55,567	60,628	46,124	31,146	20,261	25,626
Depreciation	10,758	13,150	12,223	8,327	7,828	8,511
Amortisation	0	0	0	0	0	0
EBIT	44,810	47,477	33,901	22,819	12,433	17,115
Net interest income(expense)	-338	-294	576	808	264	-239
Associates/affiliates	5,199	1,779	1,192	2,052	1,646	2,132
Exceptionals/extraordinary	-1,015	-2,223	-27,701	-9,105	692	1,172
Other pre-tax income/(expense)	18	-101	-24	83	0	0
Profit before tax	51,982	44,304	7,919	16,460	15,036	20,180
Income tax expense	9,703	10,055	3,874	3,357	2,487	3,423
Minorities	899	830	-47	291	188	238
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	38,072	35,754	4,116	13,008	12,361	16,519
DB adjustments (including dilution)	1,015	2,223	27,701	9,105	-692	-1,172
DB Net profit	39,086	37,977	31,818	22,112	11,668	15,347

### Cash Flow (USDm)

Cash flow from operations	44,310	52,957	47,785	28,780	18,161	16,598
Net Capex	-43,134	-43,849	-32,675	-25,243	-18,657	-20,393
Free cash flow	1,176	9,108	15,110	3,536	-496	-3,796
Equity raised/(bought back)	16	5	0	0	0	0
Dividends paid	-6,343	-4,307	-4,633	-2,783	-2,369	-2,453
Net inc/(dec) in borrowings	-848	4,062	-1,120	3,060	-112	6,198
Other investing/financing cash flows	4,346	-1,850	-11,847	-4,818	423	656
Net cash flow	-1,654	7,019	-2,489	-1,005	-2,554	606
Change in working capital	1,053	-4,769	-305	980	2,443	-2,887

## Balance Sheet (USDm)

Cash and other liquid assets	14,128	20,978	18,491	17,478	14,925	15,532
Tangible fixed assets	278,142	288,710	188,904	161,757	178,687	200,894
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	5,853	5,884	3,778	2,916	2,994	3,126
Other assets	93,584	93,202	58,608	38,546	40,223	49,651
Total assets	391,706	408,774	269,781	220,698	236,829	269,203
Interest bearing debt	49,159	54,821	47,794	39,464	40,397	48,514
Other liabilities	64,744	60,845	42,103	33,542	34,509	37,002
Total liabilities	113,903	115,666	89,897	73,006	74,906	85,516
Shareholders' equity	267,673	283,532	174,491	143,283	157,206	178,519
Minorities	10,130	9,576	5,394	4,409	4,717	5,168
Total shareholders' equity	277,803	293,108	179,885	147,692	161,923	183,687
Net debt	35,032	33,843	29,303	21,986	25,472	32,982

## Key Company Metrics

Sales growth (%)	-0.6	3.7	-11.4	-35.0	-18.4	18.8
DB EPS growth (%)	-16.2	-2.8	-16.2	-30.5	-47.2	31.5
EBITDA Margin (%)	35.4	37.3	32.0	33.3	26.5	28.2
EBIT Margin (%)	28.6	29.2	23.5	24.4	16.3	18.9
Payout ratio (%)	11.3	12.0	65.5	17.7	19.2	16.2
ROE (%)	15.2	13.0	1.8	8.2	8.2	9.8
Capex/sales (%)	27.5	27.0	22.7	27.0	24.4	22.5
Capex/depreciation (x)	4.0	3.3	2.7	3.0	2.4	2.4
Net debt/equity (%)	12.6	11.5	16.3	14.9	15.7	18.0
Net interest cover (x)	132.6	161.5	nm	nm	nm	71.5

Source: Company data, Deutsche Bank estimates

*“Our key concern remains intact: we believe that the company will be FCF-negative for the most part of the end of this decade, principally due to heavy investments into the value-destructive Eastern Gas Programme (EGP) project. The leveraging to finance the gap between the falling earnings base on the one hand and capex and dividends on the other will be untypically rapid for Gazprom. We see net debt/EBITDA climbing up from 0.70-0.80x at the end of 2015 to 1.50x at the end of the decade. While this is not critical for the company that supplies 60% of the Russian and 30% of the European market, earnings pressure would grow as debtholders get a claim on a greater portion of Gazprom’s profits. That would come on top of a greater claim that the Russian state now has via elevated taxes.”* **DB 2/1/16**

*“Assuming all other things being equal (prices and volumes), we believe that, in the current environment, a European buyer is likely to prefer US LNG over Russian gas for political reasons and on the back of the diversification drive. We may therefore comfortably assume that Gazprom’s positions will be seriously dented by the launch of US LNG towards the end of this decade and going forward as competition in the European gas market intensifies.”* **DB 2/1/16**

IFRS	2013	2014	2015F	2016F	2017F	2018F
<b>Company data</b>						
Weighted avg # shares, mn	23,674	23,674	23,674	23,674	23,674	23,674
Avg market cap, USD mn	100,158	86,447	56,060	42,184	42,184	42,184
EV, USD mn	133,397	115,560	83,949	72,537	76,591	75,724
<b>Ratios &amp; analysis</b>						
P/E, x	2.8x	21.0x	5.3x	4.9x	3.9x	3.1x
EV/EBITDA, x	2.1x	2.5x	3.0x	5.0x	3.8x	3.1x
P/B, x	0.3x	0.5x	0.3x	0.2x	0.2x	0.2x
Dividend yield (ords), %	4.6%	3.8%	5.0%	5.1%	6.5%	8.2%
Dividend yield (prefs), %						
EPS, USD	1.51	0.17	0.45	0.36	0.46	0.58
CFPS, USD	2.32	2.10	1.25	0.68	0.77	0.91
Free CFPS, USD	0.47	0.72	0.24	(0.052)	(0.12)	0.10
DPS (ords), USD	0.20	0.14	0.12	0.090	0.12	0.15
DPS (prefs)	-	-	-	-	-	-
Payout ratio (ords), %	13.0%	80.3%	26.5%	25.0%	25.0%	25.0%
Payout ratio (prefs), %	-	-	-	-	-	-
BPS, USD	12.43	7.60	8.21	8.52	8.92	9.43
Revenues growth, %	7%	-12%	-35%	-30%	14%	9%
EPS growth, %	-6%	-88%	156%	-19%	28%	26%
EBITDA margin, %	38.2%	31.9%	29.6%	22.1%	26.8%	29.6%
Net margin, %	21.7%	2.8%	11.2%	13.0%	14.6%	16.9%
ROE, %	12.6%	2.4%	5.6%	4.3%	5.3%	6.3%
ROIC, %	11.0%	12.9%	7.1%	2.8%	3.6%	4.6%
Capex/Revenues, %	27%	23%	25%	26%	28%	24%
Capex/Depreciation, x	3.3x	2.7x	2.9x	3.0x	2.6x	2.3x
Net debt/Equity, %	11%	16%	14%	15%	16%	15%
Net debt/EBITDA, x	0.5x	0.6x	1.0x	2.1x	1.7x	1.4x
Net interest cover, x	37.1x	29.3x	20.4x	7.6x	10.3x	13.6x

Figure 3 - VTB Capital

### January 18, 2016 (\$3.19) Review of 9/30/15 IFRS Financials

	9/30/15	12/31/14
Total Debt	3,147,881	2,688,824
Capital	10,789,114	10,120,021
Debt/Capital	29.18%	26.57%

*“3Q15 EBITDA beat consensus by 10%, rising 3% YoY and 41% QoQ to RUB491 bln (\$7.8 bln) on strong non-FSU export volumes. FCF was positive thanks to strong OCF, and we expect 4Q15 to also benefit from strong European demand.” URALSIB 1/18/16*

*“EBITDA beat consensus by 10% due to one-off factors like profit from derivatives and FX gains from operating activity, which contributed c20%. Meanwhile, export gas price continued to disappoint (-14% q/q).” BCS Global Markets 1/18/16*

Gazprom continues to drop in price. It is currently 51% off the 52-week high of \$6.25. Yet, business remains relatively strong in terms of demand. The price of oil, the sanctions (U.S. and EU), and the falling ruble are creating a perfect storm. Thesis below remains unchanged.

### **November 16, 2015 (\$4.03) Thesis**

Contrarian play based on the perception of “blood in the streets”, and the fear and detest of the masses investing in Russia. Blood in the streets scenario is based on price of oil (depressed), geopolitical situation, stalling growth, and possible contractions, continued recessions and deflation in Europe and emerging markets. We offset that with what I consider to be a cheap market, and potential resolution of the Geopolitical situation.

We project earnings to be ~\$0.75 for F2015, and hence the Price/Earnings ratio is less than 6X. We project Book Value for F2015 to be ~\$16 per share, and hence price/Book value is a low 0.25X. Return on Equity (ROE) is projected to be 4.69%. The projected ROE is low, but I believe that is reflected in the industry depression, and the low price to book value. Dividend of \$0.225 generates a dividend yield of ~6%. Gazprom carries a debt/capital ratio of 26.85%, which is fairly strong. Exxon carries the same ratio at 16.70%, and Chevron at 17.90%.

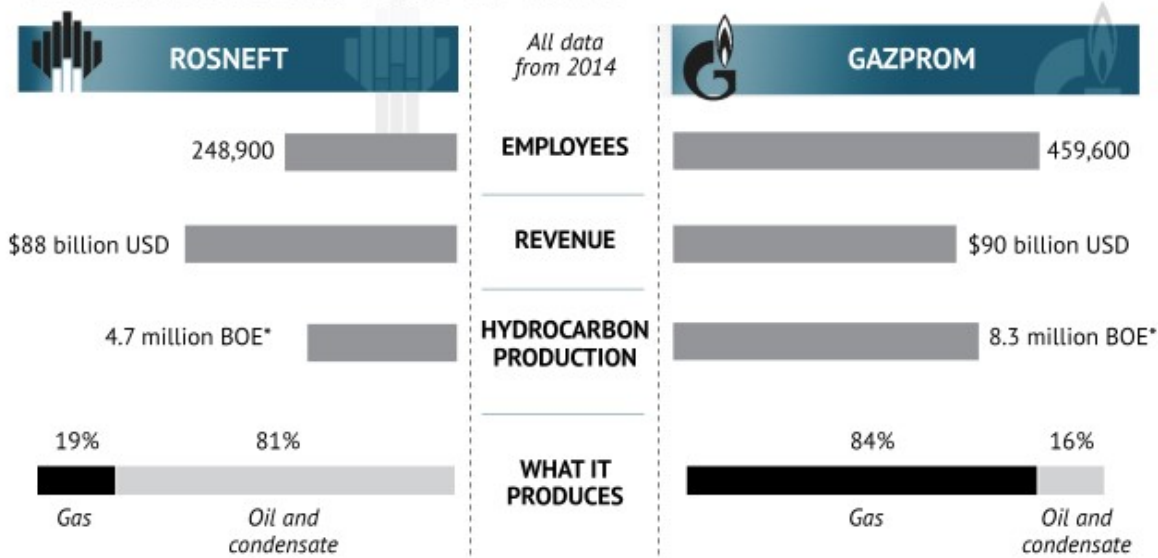
Standard and Poor's rates the credit BB+, and Moody's rates it Ba1, both being considered non-investment grade. Dagong, the largest credit rating agency in China rates the credit AAA.

Considering all the negatives in Russia and the declining price of oil, Gazprom has reported fairly decent results so far in 2015. Gazprom claims all is well, and that they can weather this storm. For the first time in 10 quarters, Gazprom was Free Cash Flow negative at June 30, 2015.

### **October 16, 2015 (\$4.65)**



## COMPARING ROSNEFT AND GAZPROM



- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>① Saudi Aramco</li> <li>② <b>GAZPROM</b></li> <li>③ Nat'l Iranian Oil Co.</li> <li>ExxonMobil</li> <li>④ <b>TIE</b><br/><b>ROSNEFT</b></li> </ul> | <ul style="list-style-type: none"> <li>⑤ PetroChina</li> <li>BP</li> <li>⑥ <b>TIE</b><br/>Royal Dutch Shell</li> <li>⑦ Petroleos Mexicanos</li> <li>⑧ Kuwait Petroleum Corp.</li> </ul> |
|--|---|

\*BOE stands for barrels of oil equivalent. BOE is a way of measuring the equivalent energy of gas and oil so it can be compared.

Source: Rosneft 2014 Annual Report, Gazprom 2014 Annual Report, Forbes / Wood Mackenzie Rankings, March 2015

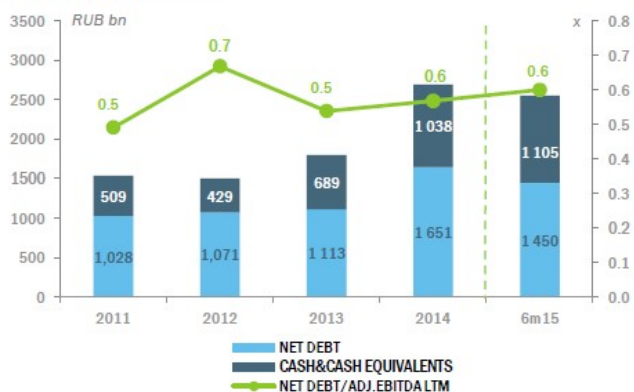
Copyright Stratfor 2015 www.stratfor.com

### September 1, 2015 (\$4.253 down 5.53%) 2Q15 Earnings Released

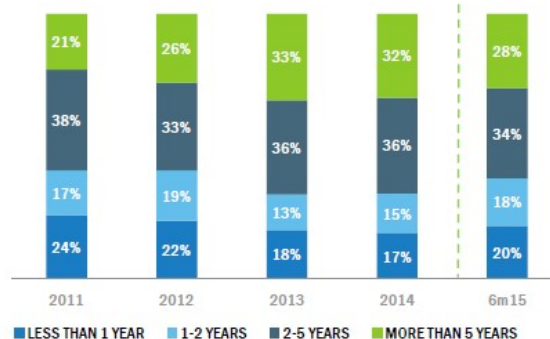
Considering all the negatives in Russia and the declining price of oil, Gazprom reported a fairly decent quarter. Gazprom claims all is well, and that they can weather this storm. For the first time in 10 quarters, Gazprom was Free Cash Flow negative.

# KEY DEBT METRICS

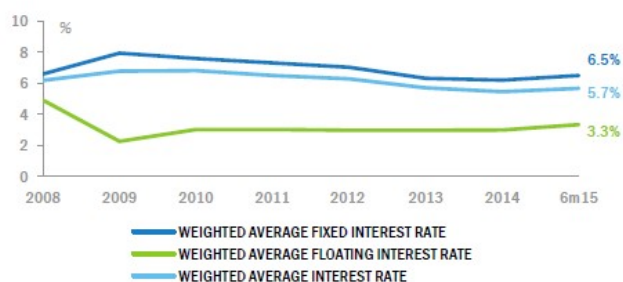
## Total and Net Debt



## Debt maturity profile<sup>1</sup>



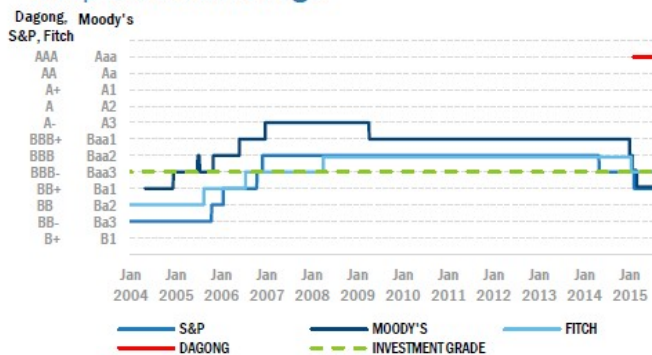
## Cost of debt financing



SOURCE: BLOOMBERG, COMPANY DATA

<sup>1</sup> Excluding promissory notes

## Gazprom credit ratings



# SUMMARY OF FINANCIAL RESULTS

## 2Q2015 vs. 2Q2014 Gazprom Group results

	2Q 2015
Total net sales	1,265 bln RR
Adj. EBITDA	350 bln RR
Net Profit <sup>1</sup>	294 bln RR
Operating cash flow	289 bln RR
Free cash flow	-52 bln RR
Net debt	1,450 bln RR
Net debt/Adj.EBITDA LTM <sup>3</sup>	0.6x

<sup>1</sup> Profit for the period attributed to owners of PJSC Gazprom

<sup>2</sup> Compared to net debt as of December 31, 2014

<sup>3</sup> Calculated using dollar values of Net debt and EBITDA

## 2Q2015 IFRS CONSOLIDATED FINANCIAL RESULTS

### Some metrics I worked with:

	Gazprom	Exxon	Chevron
--	---------	-------	---------

Total Debt	2,635,904	29,121	27,722
Total Revenue	5,567,301	394,105	211,970
Capex	1,262,140	28,059	28,285
Capital	9,816,558	174,399	155,028
Taxes Paid	212,674	25,066	10,562
Debt/Revenues	47.35%	7.39%	4.70%
Debt/Capital	26.85%	16.70%	17.90%
Taxes/Revenues	3.82%	6.36%	5.00%

### **August 11, 2015 (\$4.35) 1Q15 IFRS Earnings released**

Seemed to be in line or exceeding most analyst estimates. Shares down anyway for a few days. I suspect part of the fall in stock price is Ruble related. Ruble is at \$0.0156. It was \$0.018 5 weeks ago. Not surprisingly, it was announced by Rosstat yesterday that Russia GDP is in recession and declined 4.6% YoY.

In the conference call, Gazprom stated that Cash and cash equivalents are 75% RUB denominated.

*“China's biggest independent rating agency, Dagong, assigned the highest credit rating to Gazprom. Secondly, Gazprom and CNPC signed the agreement for pipeline gas supply from Russia to China via the western route.”* **Conference Call 8/10/15**

*“Given the financial accounts we are discussing at this conference call, we see a change in the financial position of Gazprom, and that change is for the better. We are stronger financially.”* **Conference Call 8/10/15**

### **July 7, 2015 (\$4.98) Some updates**

On or around June 26, 2015 Gazprom declared a dividend. The dividend is 7.20 RUB. RUB / USD is ~.018. I figure dividend for OGZPY is ~\$0.13 per share (7.20 \*.018). This reflects a 2.6% dividend rate.

I am projecting (and a very vague and susceptible projection) 2015 earnings of \$0.75 per share. This would indicate a forward P/E of 6.67X.

- A global leader in terms of natural gas reserves and gas production
- Rapidly growing oil business

17%	72%	12%	69%
of global gas reserves	of Russian gas reserves	of global gas production	of Russian gas production
1.86	3.0	9%	
gas reserve replacement ratio	crude oil and gas condensate reserve replacement ratio	of Russian oil and gas condensate production	

**Figure 4 - Source Gazprom 2014 Annual Report**

### **February 6, 2015 (\$4.51) Investor Day Presentation Notes or Cut and Pastes**

Gazprom has 459,500 employees.

Gazprom is very optimistic. Gazprom on the face is a self-sufficient company, yet the debt ratings by USA agencies are unanimously below investment grade.

### **February 3, 2015 (\$4.25 up 3.95%) Investor Day in Hong Kong**

Gazprom sounded very optimistic.

2015E Capex reduced to \$30B from \$38B (21%). Ruble devaluation and lack of South Stream capex may lead to savings in US dollar terms.

Looking to raise domestic gas output in 2015. The weak ruble improves Gazprom's competitiveness.

Dividend policy remains untouched at 25% of RAS net income. No exact guidance was given. No indication was given on whether the figure will be adjusted for non-cash FX losses.

<b>Income Statement (\$mn)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>
<b>Revenue</b>	<b>157 494</b>	<b>153 761</b>	<b>165 302</b>	<b>146 060</b>	<b>106 386</b>	<b>118 022</b>
Transportation	-9 539	-10 318	-11 263	-9 810	-6 751	-8 093
Taxes other than income tax	-14 244	-18 672	-22 202	-20 971	-16 905	-21 039
Other operating costs	-68 137	-72 413	-68 575	-67 114	-42 876	-46 715
<b>EBITDA</b>	<b>65 574</b>	<b>52 358</b>	<b>63 262</b>	<b>48 165</b>	<b>39 854</b>	<b>42 175</b>
Depreciation	9 365	10 767	13 174	12 574	12 402	13 206
<b>Operating income</b>	<b>56 209</b>	<b>41 591</b>	<b>50 088</b>	<b>35 591</b>	<b>27 451</b>	<b>28 969</b>
Finance expenses	-441	-348	-293	879	1 619	1 530
Other expense/income	1 203	7 572	-2 916	-23 067	4 442	1 091
<b>Pre-tax income</b>	<b>56 971</b>	<b>48 815</b>	<b>46 879</b>	<b>13 403</b>	<b>33 512</b>	<b>31 590</b>
Income taxes	-9 473	-8 933	-6 231	-2 394	-6 702	-6 318
Minority interest/other	-3 142	-1 702	-4 684	-1 540	-877	-826
<b>Net income</b>	<b>44 356</b>	<b>38 180</b>	<b>35 964</b>	<b>9 469</b>	<b>25 933</b>	<b>24 446</b>
<b>Fully diluted EPS (\$)</b>	<b>3.87</b>	<b>3.33</b>	<b>3.13</b>	<b>0.83</b>	<b>2.26</b>	<b>2.13</b>

Figure 5 - BCS Financial Group estimates 2/3/15

Financial ratios	2011	2012	2013	2014e	2015e	2016e
<b>Valuation</b>						
P/E (x)	1.1	1.3	1.3	5.1	1.9	2.0
PEG (x)	2.8	NM	NM	NM	1.1	NM
P/B (x)	0.2	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	1.3	1.7	1.4	1.8	2.2	2.1
EV/DACF (x)	1.5	1.9	1.5	1.8	2.5	2.3
Dividend yield (%)	15.0%	9.8%	11.1%	2.8%	7.0%	12.7%
FCF Yield (%)	1.8%	2.4%	19.0%	12.5%	-3.3%	-24.2%
<b>Profitability</b>						
EBITDA Margin (%)	42%	34%	38%	33%	37%	36%
EBIT Margin (%)	36%	27%	30%	24%	26%	25%
Net Margin (%)	28%	25%	22%	6%	24%	21%
<b>Leverage</b>						
Gross Debt/Equity (x)	0.2	0.2	0.2	0.2	0.2	0.2
Net Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1
Gross Debt/EBITDA (x)	0.7	0.9	0.9	1.0	1.2	1.5
Net Debt/EBITDA (x)	0.5	0.7	0.5	0.6	0.7	1.0
Net Interest Cover (x)	127.5	119.7	170.9	NM	NM	NM
<b>Returns</b>						
ROE (%)	20%	15%	13%	4%	10%	8%
ROACE (%)	19%	12%	14%	9%	7%	7%
ROA (%)	14%	10%	9%	2%	7%	6%

**Figure 6 - BCS Financial Group estimates 2/3/15**

## **February 2, 2015 (\$4.06 down 3.22%) Gazprom gets highest investment grade from China's biggest ratings agency**

<http://rt.com/business/228487-china-highest-rating-gazprom/>

*"China's Dagong rating agency has given Russia's Gazprom the highest AAA credit rating with a long-term stable outlook. It says US and EU sanctions won't have a substantial effect on the creditworthiness of the world's largest gas producer.*

*"Obtaining such a credit rating by Dagong will further expand the base of investors from the Asia-Pacific region in debt instruments of Gazprom, including pension funds, insurance companies, investment funds and banks, as well as increasing the loyalty of Asian investors in the company," Gazprom said in a statement.*

*The rating shows Gazprom's strong wealth creation capability, and "the very low degree of deviation between its available repayment sources and wealth creation capability," reported Dagong.*

*The agency says the sanctions imposed by the US and the EU against Russia will have little effect on Gazprom's creditworthiness. The credibility of Gazprom in local and foreign currency is very high, it goes on to say.*

*A high credit rating from Dagong allows Gazprom to place shares in Hong Kong, the agency's president Guan Jianzhong said on Monday.*

*"The rating reflects a very high potential for the company," he said, adding that the outlook for Gazprom's long-term credit rating will remain 'stable' over the next 1-2 years.*

*The agency kept the sovereign credit rating of Russia at A level with a stable outlook, which means a high level of credibility.*

*Dagong's decision goes against the surge of Russian rating downgrades by leading Western agencies. On January 26 Standard & Poor's downgraded Russian debt to speculative 'junk' grade. The agency said Russian monetary policy has become less flexible with a deteriorating situation in the financial sector.*

*On January 16 Moody's downgraded Russia's sovereign credit rating to Baa3 level, one notch above speculative grade. On January 20 the agency lowered the ratings for some of the largest Russian companies, such as Gazprom, Transneft, LUKOIL and Rosneft.*

*Russia and China have recently been strengthening financial and economic links in order to challenge Western dominance. It includes the setting up of a joint rating agency rival to the western 'Big Three' of Moody's, Fitch and S&P.*

*Other deals included ruble-yuan currency swaps and supplying gas to China via the so-called 'Western route.' Gazprom CEO Aleksey Miller expects the volume of gas sold to China will exceed that currently exported to Europe."*

### **January 29, 2015 (\$4.31 down 2.28%) Gazprom released 3Q14 IFRS earnings**

Gross revenues and costs increased from what analysts expected.

“During nine-month period ended September 30, 2014 the Russian Ruble significantly depreciated against major currencies, by 20% against the U.S. dollar and 11% against the Euro, in particular. Even though the Ruble depreciated against the U.S. dollar or Euro it has a positive effect on our sales. However, it also increases the trouble equivalent of our debt denominated in foreign currencies and the trouble equivalent of the cost of such debt adversely affected our results of operations. World market prices for crude oil declined significantly in late 2014. As international crude oil prices decrease, the natural gas prices we realize under our long-term contracts with European or other customers that are linked to oil product indices may decline as well, resulting in a reduction in our export revenues. Ongoing and any further decline may adversely affect our business, results of operations, cash flows, financial condition and potentially our capital program.

FX loss lower than expected. DB expected a net loss of \$3.8B, but FX loss was only USD\$7.5B, whereas they were expecting USD\$11.2B. On top of that Gazprom had net interest income of



USD\$370M, whereas DB was expecting net interest expense of USD\$32M. DB believes that these 2 non-cash items would have put Gazprom into the red as DB expected.”

Gazprom exists in a weak demand market. Gazprom is focusing on “pricing-out” the competition to protect market share. Because of this sales volumes and pricing will remain under pressure.

Gazprom will hold annual investor days on February 3 and 5. Looking for dividend guidance, operational guidance, updates on the Eastern Gas Program and Turkish Stream and updates on relationships with Ukraine and the possibility of a Western route with China.

I expect 4Q14 will report a larger FX loss due to Ruble devaluation. This will be a non-cash loss but will still bring down net income.

**The following Credit Suisse graphs were estimates prior to earnings release.**

Financial and valuation metrics				
Year	12/13A	12/14E	12/15E	12/16E
Revenue (US\$ m)	164,782.3	136,468.4	92,220.5	107,446.3
EBIDAX (US\$ m)	50,789.5	41,559.4	29,054.5	25,855.4
Pre-tax Profit Adjusted (US\$ m)	46,644.18	11,337.39	27,154.22	17,677.59
CS adj. EPS (US\$)	3.12	0.73	1.86	1.18
Prev. EPS (US\$)	—	1.82	2.35	2.00
ROGIC (%)	11.5	8.1	9.1	5.7
P/E (adj., x)	1.55	6.83	2.60	4.10
P/E rel. (%)	11.4	48.2	18.8	33.2
EV/EBIDAX (x)	1.5	1.8	1.9	2.7
Dividend (12/14E, US\$)	0.05	Dividend yield (%)		1.1
Net debt (12/14E, US\$ m)	23,293.4	GIC (12/14E, US\$)		281,559.9
BV/share (12/14E, US\$)	21.8	Current WACC		13.12
EV/GIC (x)	0.27	Number of shares (m)		11,475.26
Free float (%)	50.66			

Source: Company data, Thomson Reuters, Credit Suisse estimates.

Per share data	12/13A	12/14E	12/15E	12/16E
No. of shares (EOP)	11,450.0	11,450.0	11,450.0	11,450.0
CS adj. EPS (US\$)	3.12	0.73	1.86	1.18
Prev. EPS (US\$)	—	1.82	2.35	2.00
DPS (12/14E, US\$)	0.24	0.05	0.14	0.15
Book value per share	25.5	21.8	14.4	21.6
Operating cash flow per	4.79	3.90	2.58	2.29

Key ratios and valuation	12/13A	12/14E	12/15E	12/16E
<b>Margins (%)</b>				
EBITDAX margin	36.9	32.1	37.4	27.4
EBIT margin	28.9	22.9	28.6	15.3
Net margin	21.7	6.1	23.1	12.6
<b>Valuation metrics (%)</b>				
Div yield	4.9	1.1	2.9	3.1
FCF yield (%)	19.8	17.9	9.4	(7.4)
EV/EBIDAX (x)	1.5	1.8	1.9	2.7
P/E	1.6	6.6	2.6	4.1
P/B	0.19	0.22	0.34	0.22
<b>ROE analysis (%)</b>				
ROE	12.7	3.1	10.3	6.6
ROGIC	11.5	8.1	9.1	5.7
Asset turnover	39.1	36.8	39.2	30.1
Interest burden	1.0	0.4	1.0	1.1
Tax burden	0.22	0.20	0.20	0.20
Financial leverage	0.19	0.14	0.12	0.14
<b>Credit ratios</b>				
Net debt/equity	11.3	9.0	6.4	9.4
Interest coverage ratio	162.2	123.8	203.2	456.7
Dividend payout ratio	7.5	7.5	7.5	12.5

Source: Company data, Thomson Reuters, Credit Suisse estimates.

## Gazprom income statement, IFRS consolidated

USDbn	2Q14	3Q14	Chng		DB		Cons.	
			qoq, %	yoy, %	3Q14E	Diff, %	2Q14E	Diff, %
Net sales	37.91	31.24	-18%	-15%	30.01	4%	31.17	0%
EBITDA	8.03	13.10	63%	0%	8.89	47%	11.23	17%
EBITDA adj.*	11.29	6.25	-45%	-47%	7.18	-13%		
EBITDA margin, %	30%	20%			24%			
FX gain/(loss)	3.55	(7.52)	n/m	n/m	(11.18)	-33%		
Net income	6.51	2.91	-55%	-65%	(3.81)	n/m	1.47	98%
Net margin, %	17%	9%			-13%		5%	
Free cash flow	1.61	(0.01)	n/m	n/m				

\* Adjusted for retroactive gas price adjustments, exchange rate differences on operating items and impairments  
Source: Deutsche Bank estimates, Reuters, Gazprom

## Stock data

Market Cap (US\$m)	50,352.1
Free float (%)	38
MICEX Index	1,647.7

Source: Deutsche Bank

## Key data

FYE 12/31	2013A	2014E	2015E
Revenue (USDm)	162,611	138,147	96,578
EBITDA (USDm)	60,628	43,951	30,776
DB EPS (USD)	1.65	1.46	0.85
DPS (USD)	0.19	0.00	0.13
P/E (DB EPS) (x)	2.6	1.5	2.6
EV/EBITDA (x)	2.2	1.6	2.5

Source: Deutsche Bank

“Research and Markets ([http://www.researchandmarkets.com/research/sjndqj/gazprom\\_breakout](http://www.researchandmarkets.com/research/sjndqj/gazprom_breakout)) has announced the addition of the "Gazprom: Breakout Strategy" report to their offering.

Gazprom is under double pressure. It is becoming more and more difficult for the company to maintain a dialogue with the EU that perceives the gas giant as instrument of political pressure by Russia.

Ukraine is again on the agenda both as a capricious consumer and a shrewish transit state. Large independent gas producers continue attacking Gazprom on the domestic market; they are suffering from sanctions and count on expansion of their share on the Russian gas market as compensation.

Gazprom is looking for a way-out, including sharp intensification of its Eastern policy. The Russia-West confrontation made diversification of Russian exports to the Asia Pacific region not just urgent and desirable. This is the only possible strategy from the point of view of survival.

The question is about the scale and the pace of this process. The possibility that large-scale gas supplies to China will be carried out at the expense of exports to other directions is as high as never before.

However, Moscow still counts on restoration of partnership ties with Europe and preservation of the huge potential of mutually beneficial cooperation that has been accumulated over the past 40 years of Russian natural gas exports to Europe.

There are significant changes on the domestic natural gas market. The share of independent gas producers in the area of the Single System of Gas Supplies has already surpassed a 40% threshold, which leads to unprecedented decline in gas production by Gazprom amid stagnation on the market. Numerous systemic imbalances create risks for normal functioning of the Russian gas sector, which requires an extremely accurate approach of the state as regulator.

The sanctions have not directly affected Gazprom, but its financial standing is influenced by a number of negative factors, e.g. non-payments by consumers and decreased export prices, as well as the necessity to increase investments in new large-scale projects.

Key topics of the report:

Gazprom and Ukraine: what comes next?

- The winter package, preservation of transit risks
- The essence of reverse supplies
- Prospects of Ukraine as consumer of Russian natural gas

Gazprom in Europe

- Transformation of the European gas market, Gazprom's standing
- Gazprom's search for a new strategy in Europe
- Changes in Gazprom's exports

## The course to the East

- The first gas contract with China
- Prospects of the western route of gas exports to China
- LNG in Russia's Far East, export ambitions of Rosneft

## The domestic gas market at the crossroads

- An optimal market model amid excessive capacities
- The consumption dynamics
- Price regulations, the launch of exchange trade
- Debates about reforms in the Russian gas sector

## Gazprom's finances amid sanctions

- Gazprom's financial standing
- Investment program the state fiscal policy
- The state fiscal policy

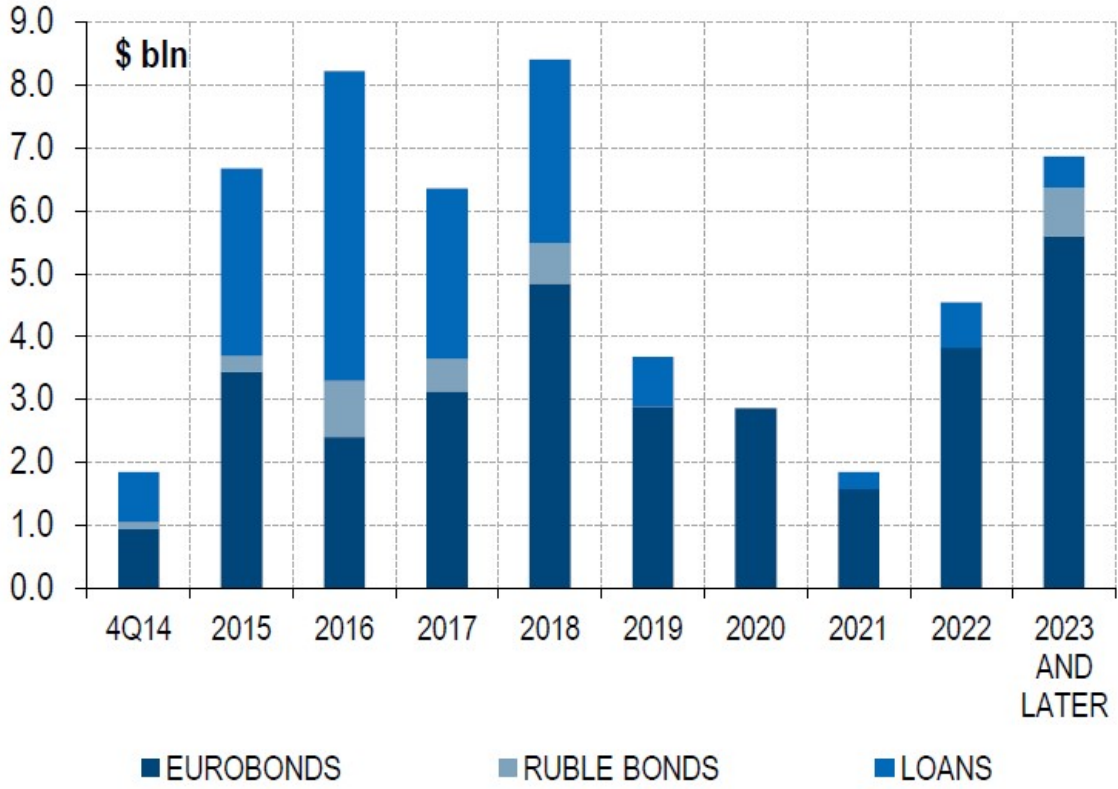
## The forecast of developments”

### UBS notes:

Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net earnings (UBS)	45,061	38,133	39,652	18,324	14,134	18,805	26,765	29,294
EPS (UBS, diluted) (US\$)	3.81	3.22	3.35	1.55	1.19	1.59	2.26	2.47
CEPS (UBS, diluted) (US\$)	4.96	3.79	5.21	3.97	2.76	2.82	3.38	3.98
DACF (UBS)	58,737	44,855	61,657	47,035	32,699	33,361	39,965	47,069
Net DPS (US\$)	0.61	0.39	0.45	0.27	0.21	0.28	0.57	0.62
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Production (000 boe/d)	9,726	9,228	9,272	8,557	8,318	8,328	8,337	8,279
ROACE (UBS) %	18.2	13.4	12.8	5.9	4.5	5.6	7.4	7.6
EV/DACF (UBS) x	3.2	3.5	2.2	1.8	2.5	2.5	2.2	1.8
Price/CEPS (UBS, diluted) x	2.7	2.8	1.6	1.1	1.6	1.6	1.3	1.1
P/E (UBS, diluted) x	3.5	3.2	2.5	2.9	3.7	2.8	2.0	1.8
Net dividend yield %	4.6	3.7	5.4	6.1	4.7	6.3	12.8	14.0

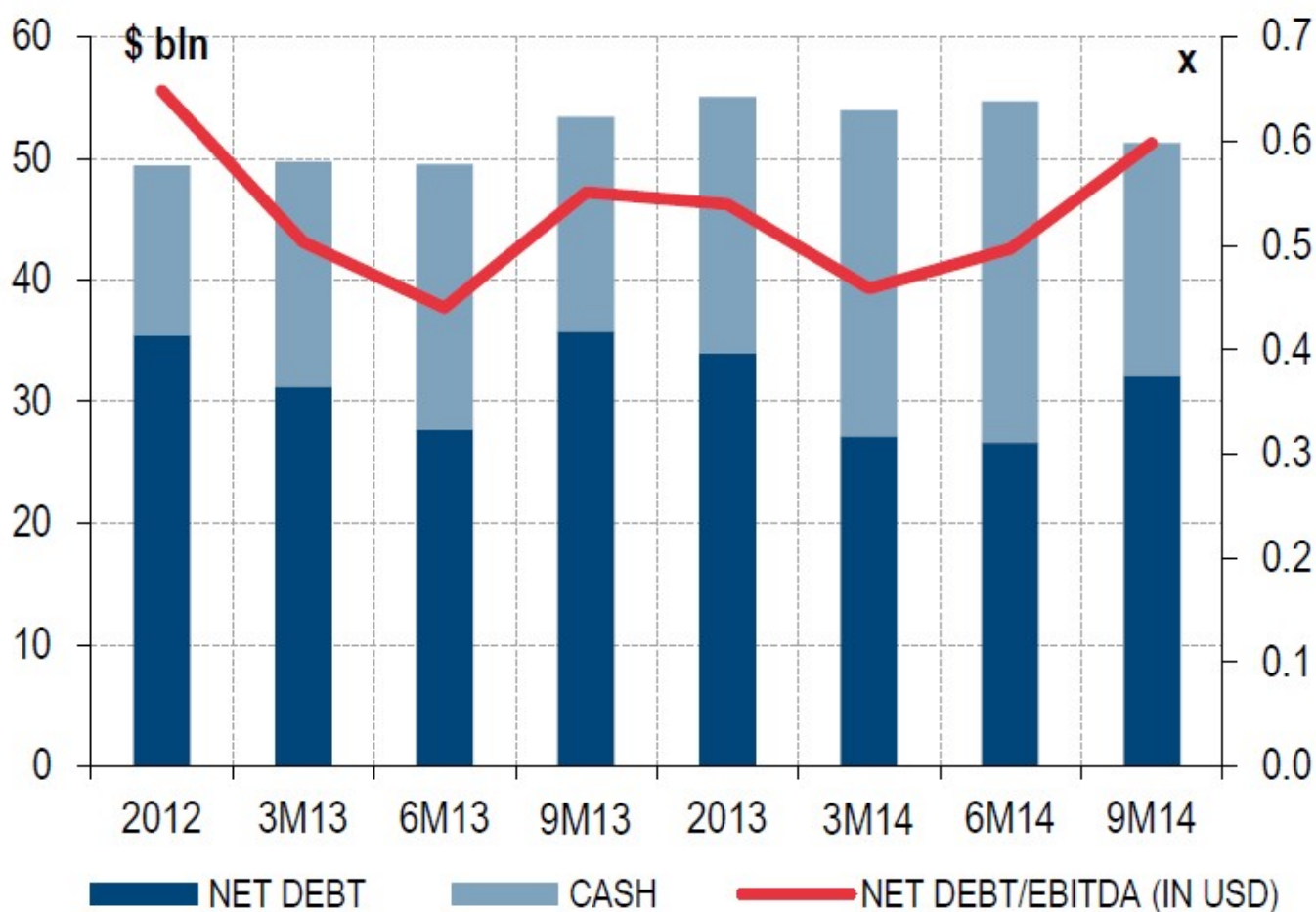
Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$4.43 on 28 Jan 2015 21:42 GMT

# Gazprom debt maturity profile



Source: Bloomberg, Gazprombank estimates

## Gazprom net debt and leverage dynamics



Source: company, Gazprombank estimates

### December 10, 2014 (4.96)

Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
<b>Financial Summary</b>						
DB EPS (USD)	2.03	1.70	1.65	1.44	0.93	0.88
Reported EPS (USD)	1.94	1.66	1.56	0.17	1.03	0.89
DPS (USD)	0.29	0.19	0.19	0.04	0.15	0.12
BVPS (USD)	10.1	11.7	12.4	8.1	9.5	10.3
Weighted average shares (m)	22,949	22,949	22,950	22,951	22,951	22,951
Average market cap (USDm)	150,121	119,808	97,109	57,769	57,769	57,769
Enterprise value (USDm)	185,197	159,116	134,644	81,235	89,437	100,451
<b>Valuation Metrics</b>						
P/E (DB) (x)	3.2	3.1	2.6	1.7	2.7	2.9
P/E (Reported) (x)	3.4	3.1	2.7	14.9	2.4	2.8
P/BV (x)	0.53	0.40	0.34	0.31	0.26	0.24
FCF Yield (%)	0.3	1.0	9.4	11.9	nm	nm
Dividend Yield (%)	4.4	3.6	4.5	1.4	5.8	4.9
EV/Sales (x)	1.2	1.0	0.8	0.6	0.8	0.8
EV/EBITDA (x)	2.8	2.9	2.2	1.8	2.6	3.0
EV/EBIT (x)	3.3	3.6	2.8	2.4	3.7	4.5

## Key Company Metrics

Sales growth (%)	33.0	-0.6	3.7	-12.0	-20.4	4.8
DB EPS growth (%)	49.3	-16.2	-2.8	-12.8	-35.3	-5.9
EBITDA Margin (%)	41.6	35.4	37.3	32.2	30.4	28.5
EBIT Margin (%)	35.7	28.6	29.2	23.8	21.0	18.6
Payout ratio (%)	14.9	11.3	12.3	20.9	14.3	14.0
ROE (%)	20.3	15.2	13.0	1.7	11.7	8.9
Capex/sales (%)	33.5	27.5	27.0	25.7	28.0	26.7
Capex/depreciation (x)	5.6	4.0	3.3	3.1	3.0	2.7
Net debt/equity (%)	13.3	12.6	11.5	10.6	12.4	15.7
Net interest cover (x)	124.5	132.6	161.5	176.2	84.9	30.2

Source: Company data, Deutsche Bank estimates

## November 17, 2014 (6.08)

No real news. Read a bunch of reports, and nothing out of the ordinary. Dividend is probably going to be reduced because of 3Q14 loss from F/X.

## October 21, 2014 (6.59)

“Moody's Investors Service, ("Moody's") has today affirmed the Baa1 ratings of the government-related issuer (GRI) OJSC Gazprom (Gazprom) and the Baa2 ratings of its subsidiary Gazprom Neft JSC, and the respective ratings of their guaranteed debt-issuing subsidiaries. The outlook on all ratings is negative.”

“These actions follow the weakening of Russia's credit profile, as reflected by Moody's downgrade of Russia's government bond rating to Baa2 from Baa1 on 17 October 2014.”

“The affirmation of Gazprom's issuer rating reflects Moody's view that the strength of the company's business, operating and financial profile, as well as its importance for the government, position its rating one notch above the sovereign rating at Baa1.

The key strengths of Gazprom's franchise include (1) having the world's largest natural gas reserves (18% of global and 70% of Russian gas reserves); (2) its unique business profile as Russia's largest producer and monopoly exporter of gas, and owner and operator of the world's largest gas transportation and storage system; (3) its market position as Europe's largest gas supplier together with Norway's Statoil ASA;

(4) strong financial metrics and free cash flow generation, underpinned by contracted foreign currency-denominated revenues and modest leverage; and (5) the economic, political and reputational importance of the company to the Russian state.

The company demonstrates strong lobbying power with the government, and enjoys a relatively favorable taxation and regulatory regime, as well as moderate demands on its liquidity in the form of dividend distributions stipulated by the government for state-owned corporates. The above characteristics, in Moody's view, somewhat reduce the probability of the government's negative intervention under current economic conditions, and to an extent insulate the company's operations from potential sovereign stress. We also note that Gazprom has a strong liquidity profile.

The affirmation of Gazprom Neft's (98% owned by Gazprom) Baa2 rating reflects the company's close operating and financial linkage with its parent's ratings, supported, inter alia, by the presence of a

cross default clause, which includes Gazprom Neft, in Gazprom's debt documentation and its strong positioning in the Baa2 rating category.

Moody's also notes that Gazprom Neft was included in the US and EU sectoral sanctions lists, a development that effectively undermines the company's access to external financing, at least in the western financial and capital markets, as well as its ability to continue cooperating with western partners on complex development projects. Gazprom is not subject to such sanctions.”

“The negative outlook on all ratings reflects Moody's view that both companies' ratings are sensitive to changes in the sovereign creditworthiness, notwithstanding the current differential between Gazprom's and the government's ratings.”

### **October 20, 2014 (6.54)**

*“Fitch Ratings-Moscow/London-20 October 2014: Fitch Ratings says that despite weaker profits and declining gas prices in Europe in 1H14, OAO Gazprom's (BBB/Negative) liquidity at end-June 2014 was a record RUB969bn, including RUB26bn in short-term investments. Gazprom also reported strong positive free cash flows over this period. We view the record cash pile as a response to the US and EU sanctions announced in March 2014, which have effectively kept Gazprom, a key Russian corporate borrower, away from the international debt capital markets since the spring. We also note that Gazprom currently has arguably the best access to available sources of funding among Russian corporates.*

*By mid-2015, Gazprom needs to repay or refinance RUB295bn and then another RUB264bn by mid-2016. Its subsidiary JSC Gazprom Neft (BBB/Negative) is prohibited by the US and the EU sanctions from raising new equity or debt in the west, in addition to obtaining any services or equipment that relate to exploration and production from the Arctic shelf or shale oil deposits. To counter the effect of financial sanctions, Gazprom Neft started borrowing from domestic banks in 2014. In 3Q14 it raised USD and RUB loans from several domestic banks, while Gazprom drew on a syndicated two-year EUR500m loan from European banks at EURIBOR + 0.9%. We note that as of 30 June 2014, 40% of Gazprom's cash was with affiliated Gazprombank (BBB-/Negative), which is prohibited from tapping international capital markets because of the sanctions.*

*We view Gazprom's 1H14 operating and financial performance as mixed. While it reported a 5% decline YoY in the US dollar-denominated gas price in Europe, its principal market by value, and a 25% drop in operating profit YoY, its funds from operations (FFO) were up 3% and it generated strong positive free cash flows (FCF) in excess of RUB250bn.” **Fitch press release 10/20/14***

*“Following the ground-breaking gas supply deal between Gazprom and China National Petroleum Corporation (CNPC, A+/Stable) signed in May 2014 for the supply of 38bcm of gas per annum via the Power of Siberia pipeline or 'eastern route' to China, Gazprom is said to be mulling over various funding options that involve Chinese off-takers and banks. One option is issuing bonds in renminbi for the equivalent of USD500m, to be led by Industrial and Commercial Bank of China (ICBC, A/Stable). We note that discussions are still ongoing between Gazprom and CNPC on the USD25bn pre-payment for future gas deliveries. We believe that this pre-payment is likely to be linked to the proposed additional 'western route' gas pipeline to China from Western Siberia's gas fields. Overall, we view Gazprom's ability to raise funds from a number of counterparties as a testament to its strong credit quality.” **Fitch press release 10/20/14***



## October 16, 2014 (6.55) Conference Call Notes

Gazprom benefits from ruble devaluation, as 57%/72% of its OpEx/CapEx is ruble denominated, while 2/3 of revenue are USD.

According to deputy CFO Alexander Ivannikov, it is too early to give guidance on 2014 dividends, as the decision will depend on future impact from FX fluctuations and reversal of Ukraine's provision, but assuming that negative trend will continue, Gazprom may cancel dividend payments for 2014 and use these proceeds for internal needs.

“Gazprom’s management said that it will be possible to adequately guide dividends for 2014 only at year end: much will depend on the ruble exchange rate, the chances for either partial or full recovery of provisions created on the impairment of receivables due from Naftogaz of Ukraine, as well as the overall economic backdrop and market environment. Should the situation substantially worsen further, the company might allocate funds for internal needs rather than for dividend payouts, but this could be done only in exceptional circumstances. The management hopes that it will not have to resort to such a measure unless the major shareholder decides otherwise.” **GazpromBank 10/16/14**

*“We ensure self-sufficiency of our CapEx plan with free operating cash flow, and we expect to review our investment CapEx on the 21st of October 2014.”* **Gazprom CC 10/15/14**

*“We are discussing with the Chinese regarding potential advance payments and what-not. As you are aware, the intergovernmental agreement was signed back in May this year to supply 38 billion cubic meters of gas via the eastern route. That agreement is fully in force. We're now negotiating potential supplies through the western route, and the discussions were held as recently as yesterday. We are going at full swing and at full scale, with very ambitious targets set. Different options are on the table, including advanced payments or potential financing in that or another form. I cannot disclose the details, as of yet, given they're a commercial secret.”* **Gazprom CC 10/15/14**

*“The question about dividends now, then the answer is that we're going to have more clarity closer to December. There are very different drives affecting that, to name a few, FX fluctuations and FX losses or gains in that regard, provisions against Naftogaz of Ukraine receivables, how much are they going to cover, if at all? So, all of these result in very material impacts on our financial performance, as well as the dividends. At the same time, should the situation develop in a negative way, for any reason, then we do not exclude a cessation on the dividends could be used for some internal purposes. However, we hope this would be an extreme scenario, unless the key shareholders (inaudible).”* **Gazprom CC 10/15/14**

## October 15, 2014 (6.54)

I have seen estimates of a dividend reduction to \$0.12. This would be a yield of 1.83% using the current price of \$6.54. During the conference call, Gazprom indicated they think a dividend reduction would be a low probability scenario.

**Current credit ratings are:**

<http://www.gazprom.com/investors/creditor-relations/ratings/>

Standard and Poor’s      BBB- Outlook Negative – April 25, 2014



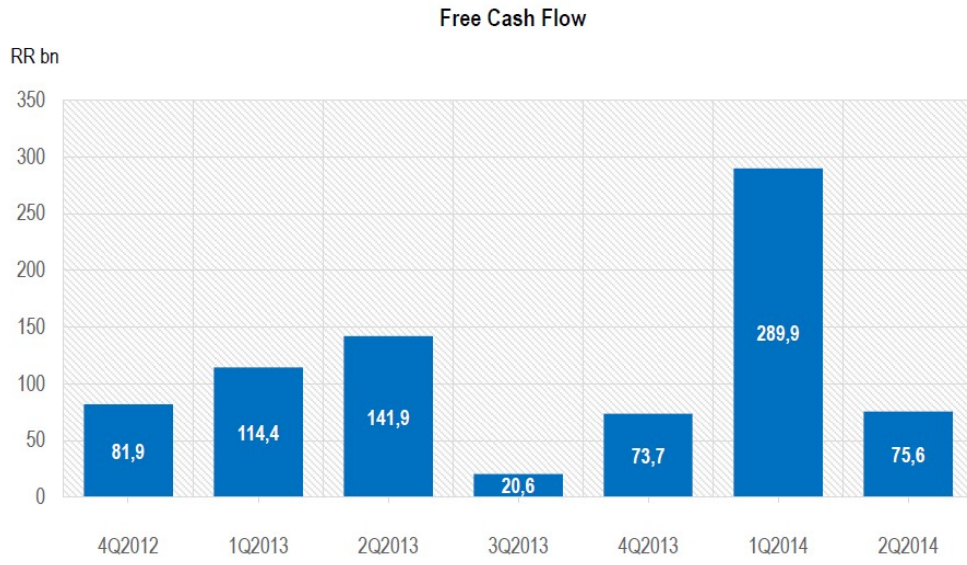
## Summary of Financial Results

### 2Q2014 vs. 2Q2013 Gazprom Group results

	2Q 2014	YoY
Total net sales	1,315 bn RR	↑ 19%
Adj. EBITDA	281 bn RR	↓ -36%
Net Profit <sup>(1)</sup>	228 bn RR	↑ 13%
Operating cash flow	298 bn RR	↓ -32%
Free cash flow	76 bn RR	↓ -47%
Net debt <sup>(2)</sup>	895 bn RR	↓ -20%
Net debt/Adj.EBITDA LTM	0.5x	

1. Profit for the period attributed to owners of OAO Gazprom

2. Compared to Net debt as of December 31, 2013

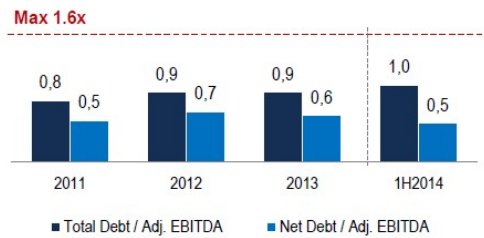


1. Free Cash Flow = Net Cash from operating activities – Capital expenditures

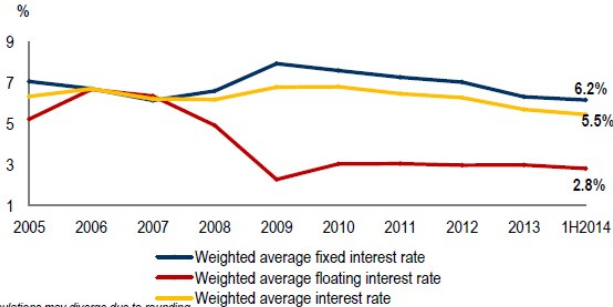
Total Debt<sup>(1)</sup>, RR bn



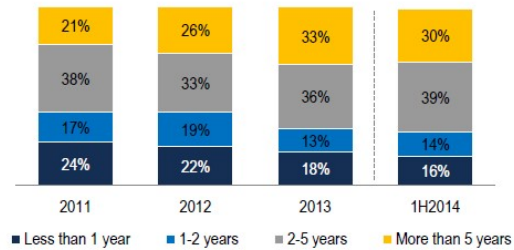
Credit metrics



Cost of debt financing<sup>(2)</sup>



Debt maturity profile<sup>(2)</sup>



Calculations may diverge due to rounding

1. Total debt: short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities  
2. Excluding promissory notes

## October 14, 2014 (6.57)

This has become our 9<sup>th</sup> largest holding via recent accumulations. Thesis remains unchanged. Contrarian play based on “blood in the streets” perception, and perhaps reality of investing in Russia. P/E is less than 2.5X. Blood in the streets scenario is based on price of oil (depressed), geopolitical situation, stalling growth, and possible contractions, recessions and deflation in Europe and emerging markets. We offset that with what I consider to be a cheap market, and potential resolution of the Geopolitical and Gazprom specific Ukraine situation. There has been some discussions and theories that the Ukraine situation is getting resolved, “Gazprom reduced the size of debt Ukraine has to repay in October before the start of gas supplies in Q4 from \$2bn to 1.45bn, for example, the price of gas delivered in Nov-Dec 2013, Vedomosti reports citing minister of energy Alexander Novak. This proposal was sent to EU commission, which was accepted, but Ukraine still has to reply. According to Mr. Novak, Kiev has notified Brussels that demand for Russian gas has been revised from 5 to 4 bcm for the winter period.” BCS Russia Equity Research

There has been a delay of signing the Russian China gas deal to sometime in 2015.

2Q14 IFRS estimates came in slightly above expectations on the revenue side (2+%). I find this to be a plus for sure. Yet, stock is still under pressure down 2% today. EBITDA was over 9% lower than consensus estimates.

This could be a long ride, and at this point my patience is not impaired at all. Gazprom did release 2Q14 IFRS earnings today, and they were slightly disappointing due to impairment charges and foreign exchange rates. Gazprom has been trading at ranges of the Russian Stock market.

*Gazprom 2Q14 IFRS results, RUB bln*

	2Q14	2Q14E	DIFF.	2Q14C	DIFF.	1Q14	QOQ	2Q13	YOY
Revenues	1,315	1,299	1.3%	1,288	2.1%	1,559	-15.6%	1,107	18.8%
EBITDA	281	307	-8.4%	312	-9.9%	588	-52.2%	438	-35.9%
EBITDA margin	21.4%	23.6%	-2.2 pps	24.2%	-2.8 pps	37.7%	-16.3 pps	39.6%	-18.2 pps
Net income	228	223	2.0%	227	0.1%	223	2.0%	202	12.6%
Capex	-222	-320	-30.6%	n/d	n/a	-399	-44.3%	-296	-24.9%
Free cash flow	58	-69	n/a	n/d	n/a	272	-78.6%	130	-55.3%

*\* Interfax consensus estimates*

*Source: company data, Gazprombank estimates*

Price at 13 Oct 2014 (RUB)	135.25
Price Target (RUB)	175.00
52-week range (RUB)	157.88 - 118.60

## Key changes

Target Price 180.00 to 175.00 ↓ -2.8%

Source: Deutsche Bank

## Stock data

Market Cap (US\$m) 76,737.5

Free float (%) 38

MICEX Index 1,383.9

Source: Deutsche Bank

## Key data

FYE 12/31	2013A	2014E	2015E
Revenue (USDm)	162,611	150,621	148,537
EBITDA (USDm)	60,628	45,084	45,212
DB EPS (USD)	1.65	1.25	1.22
DPS (USD)	0.20	0.12	0.19
P/E (DB EPS) (x)	2.6	2.7	2.7
EV/EBITDA (x)	2.2	2.5	2.8

Source: Deutsche Bank

### August 15, 2014 (7.27)

Gazprom released earnings the other day. They were well below expectations because of a provision for loss of about \$4.5B (USD).

Earnings release is not available in English.

The provision may be released when and if Ukraine starts paying its debt. It is speculated this can happen at the beginning of heating season.

**The following quotes are from Gazprom during their earnings call on August 12, 2014:**

Declared an interim dividend, “RUB463 per share which is 13% greater than interim dividends that we paid our shareholders last year.”

*“Our activities in cost optimization and management efficiency which allowed us to increase revenue by more than 16%. EBITDA [indiscernible] went up by 18.5%. And net income went up by 12.9%. Additionally, we also grew in cash flows.”*

*“As far as the happenings of this second quarter are concerned, I'd like to point out specifically that we started industrial production at Badra in Iraq. We also began exploratory drilling at Dolginskoye field in Arctic.”*

*“In particularly in the first half of the year 2014, in Russia, we have achieved the highest in industry sales in gas station of 18.7 tons per day. This is our average daily throughput per station. And besides, as compared to the first half of 2013, we have 11% increase in premium sales volumes. We keep improving in our assets in premium sales segment. As well as non-fuel related segments that has to do with aviation fuel, jet fuel in particular. Revenues were up 2% YoY. Gazprom for first 6 months of 2014 had a 4.1% of increase in production. Refining volumes grew up by 3.8% year-on-year. And premium sales went up 11.1% year-on-year.”*

*“In the last five or four quarters, crude prices remained around \$108, \$110 per barrel.”*

*“As far as aviation fuel is concerned, here we still have the market share of 23%, which is pretty large. We keep expanding the number of airports where we are present, both locally and abroad. It increased by 29% in the first half of 2014. I mean the premium sales volume growth in the first half of 2014 in aviation amounted to 29%.”*

*“As far as cash flow was concerned, cash flow increased by almost 16% year-on-year. We keep generating good cash flows and we can see that we have positive free cash flow of RUB38b.”*

*“Financial stability is pretty high for our Company. Debt to EBITDA is 0.64 which is a good result and it allows us to stay quite calm in quite difficult situation.”*

*“We do not currently feel any substantial impact of sanctions on our day-to-day activity.”*

## Stock data

Market Cap (US\$m)	81,344.8
Free float (%)	38
MICEX Index	1,374.2

Source: Deutsche Bank

## Key data

FYE 12/31	2013A	2014E	2015E
Revenue (USDm)	162,611	156,867	161,783
EBITDA (USDm)	60,628	52,905	49,988
DB EPS (USD)	1.46	1.31	1.36
DPS (USD)	0.20	0.20	0.20
P/E (DB EPS) (x)	2.9	2.7	2.6
EV/EBITDA (x)	2.2	2.3	2.7

Source: Deutsche Bank

### Gazprom income statement, RAS unconsolidated

USDm	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	Chng qoq, %	Chng yoy, %
Net sales	35,890	25,987	28,825	32,740	33,945	26,386	-22%	2%
EBIT	10,031	5,369	6,179	8,614	10,520	6,366	-39%	19%
EBIT margin (%)	28%	21%	21%	26%	31%	24%	-22%	17%
Monetary items	(1,541)	(2,629)	2,867	(2,063)	(4,182)	(4,632)	11%	76%
Pre-tax profit	8,490	2,739	9,046	6,551	6,338	1,734	-73%	-37%
After-tax profit	6,291	1,768	6,965	4,694	4,639	(211)	n/m	n/m
After-tax margin (%)	18%	7%	24%	14%	14%	-1%		

Source: Gazprom, Deutsche Bank estimates

“Gazprom dividends will depend largely on a decision about whether or not to exclude non-cash items such as debt provisions on Ukrainian debt and may differ from RUB 5 (3.8% yield) to RUB 7.9 (6% yield).” **Gazprombank 8/15/14**

“The main negative issue in the report is the contraction of YoY net income, as this could put pressure on the company’s dividends for 2014. To remind, Gazprom pays out 25% dividends on RAS net income, and the timeframe for switching to IFRS net income dividends has not yet been approved. The main factor behind the decline in net income was provisions totaling RUB 179.3 bln.



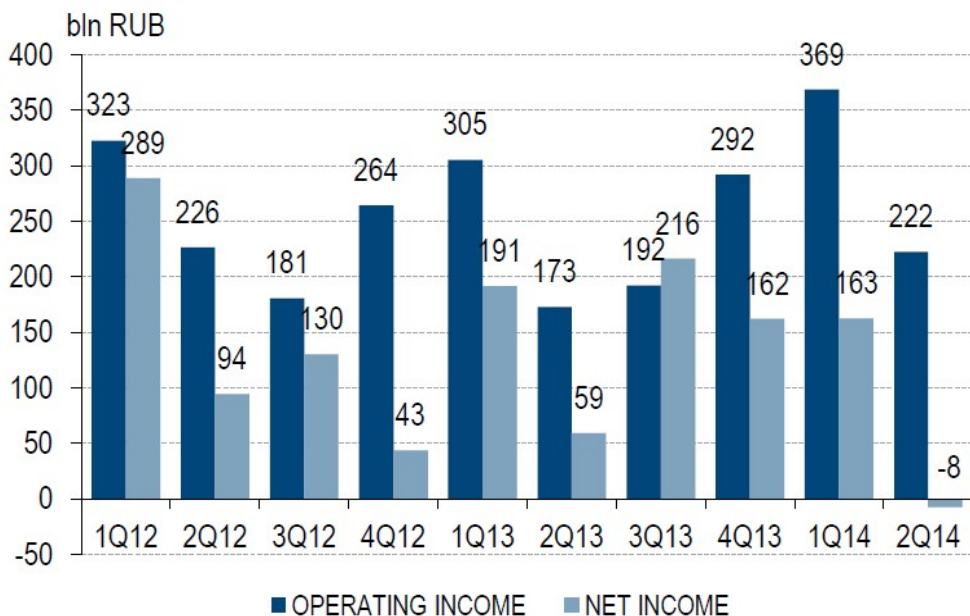
*Notably, Gazprom CEO Alexey Miller said back in March that the company might have to provision \$5.3 bln against Ukraine debts.”* **Gazprombank 8/15/14**

*“We also note that the dividends could be adjusted for non-cash write-offs during the reporting period. Thus, when dividends are calculated as 25% of RAS net income net of provisions, dividend payouts could amount to RUB 187 bln (RUB 7.9 per share), up 19% on 2013. However, if debt provisions are factored in dividends could be 16% lower than last year’s figure, totaling RUB 132 bln (RUB 5.6 per share).*

*The actual number may come somewhere in between those scenarios. We think that provisions may be excluded from dividend calculation, but 2H14 net profit may be worse than in the first half due to a decrease in export sales. Assuming unchanged dividend payout principles, that may result in dividends for 2014 of approximately RUB 7 per share, which is just slightly less than in 2013, and may result in approximately a 5.3% dividend yield.*

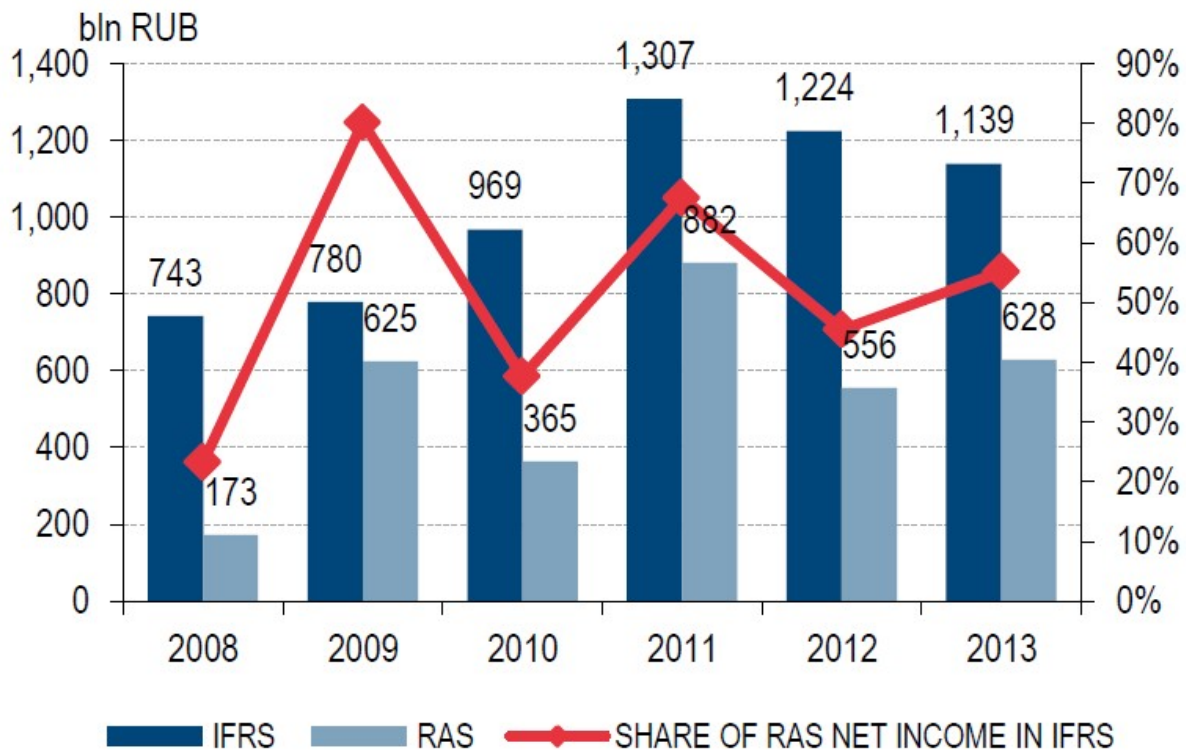
*To recap, we believe there is still a degree of uncertainty regarding Gazprom’s dividends for 2014. The key issue is whether we will see a switch to 25% IFRS payouts, which is not yet a given, in our view. Notably, Gazprom management previously guided for a switch to IFRS-based dividends from 2015 but has not clearly specified the target dividend payouts under IFRS. The Finance Ministry envisaged 25% IFRS-based dividends of state-owned companies in the Federal Budget Plan for 2015 and 35% IFRS-based payouts in 2016, and the plan was approved by the government and the Duma. Therefore, this is still an issue requiring further approval.”* **Gazprombank 8/15/14**

*Gazprom parent company RAS operating income and net income 2012-14*



Source: Company data

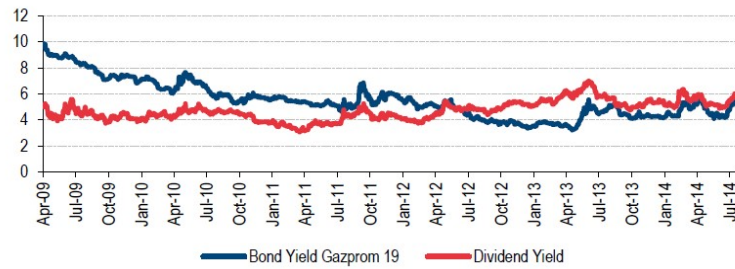
*Gazprom parent company net income vs. IFRS-based net income 2008-13*



Source: Company data

## DIVIDEND YIELDS VS. SENIOR BONDS YTM

GAZPROM



### August 1, 2014 (7.33)

This is a contrarian play on Russia, which with Putin and Ukraine being controversial lately, has affected the stock price negatively. We have been buying through this concern. Gazprom is the largest company in Russia and is the world's largest gas producer. When the price was \$8.42, the market capitalization was \$94B, P/E of 2.8X, P/B 0.4X, Dividend yield of 4.5%, and price per barrel of reserves is \$1.54. Compare this to Exxon with a P/E of 13.9X, P/B 2.5X, Dividend yield of 2.7%, and price per barrel of reserves is \$17.60. The price is now \$7.25, so those metrics are now more attractive. Of course, Putin could screw the shareholders, but I think this is a value proposition and gives us the ability to own a major developing nation. It gives us a bit of diversification internationally, with a contrarian bent.

ROE was 13% in 2013, P/E was 2.8X, ROA 9.2X, Debt to Capital 28.3%.

### May 22, 2014 (8.42) According to Grant's 5/16/14

1. Net debt is 0.7X EBITDA.
2. Operating income covers interest expense by 39. Exxon covers by 196X.
3. World's largest gas producer.
4. Largest company by capitalization on Moscow bourse.
5. "As far as shareholder return is concerned, the most efficient price for Gazprom is probably zero." Ian Hague
6. Market capitalization was \$94B, P/E of 2.8X, P/B 0.4X, Dividend yield of 4.5%, and price per barrel of reserves is \$1.54. Compare this to Exxon with a P/E of 13.9X, P/B 2.5X, Dividend yield of 2.7%, and price per barrel of reserves is \$17.60.

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