

Gazprom 3Q11 IFRS results influenced by seasonal factors and one-offs



Gazprom	USD	RUB
Current price	6.12	185.5
Target price	10.4	315.3
Upside	69.9%	
Recommendation	OVERWEIGHT	

Source: Gazprombank estimates, Bloomberg

Relative performance of Gazprom vs. MICEX index (Jan. 2011=100%)



Source: Bloomberg

Key operating statistics

Proven oil and gas reserves, PRMS, bln boe	121.9
Gas production, consolidated companies, 2011, bcm	513
Gas output growth, 2011/2010, consolidated, %	0.9%
Gas export sales, non-CIS, 2011/2010E, %	8.2%

Source: company, Gazprombank estimates

Key Gazprom valuation multiples vs. peers

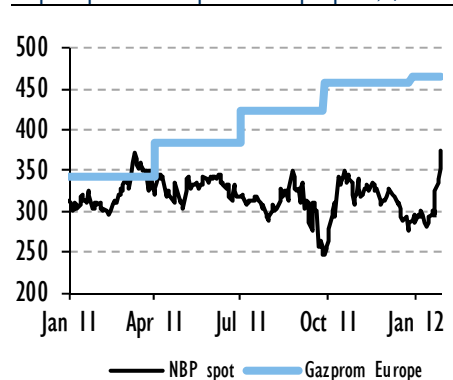
	EV/ EBITDA	P/E 2013E	EV/ Production	EV/ Reserves
Gazprom	2.7	3.1	52	1.5
NOVATEK	10.2	15.9	114	4.5
Rosneft	5.0	11.6	106	4.4
Lukoil	3.3	6.8	71	3.4
Gazprom neft	3.6	7.3	72	3.6
TNK-BP Holding	3.7	8.4	75	4.4
Tatneft	4.6	7.4	77	2.4
Russian oils average	3.7	8.2	78	3.8
EM average	4.1	15.2	220	13.4
DM average	3.5	16.1	190	16.4

Gazprom's discount to:

Russian oils	29%	63%	33%	61%
Emerging market oils	35%	80%	76%	89%
Developed market oils	25%	81%	73%	91%

Source: Bloomberg, Gazprombank estimates

Gazprom prices in Europe vs. NBP spot prices, \$/mcm



Source: Bloomberg, Gazprombank estimates

3Q11 IFRS results

Gazprom 3Q11 financial results came weaker vs. our and mixed vs. consensus. The results were affected by seasonal factors and one-offs, mainly FX loss.

- Revenues of RUB 950 (\$32.7 bln) coincided with our estimates and were close to consensus.
- EBITDA was reported at RUB 297 bln (\$10.2 bln), 10.2% below our estimates and 8.5% below consensus. We adjust EBITDA for exchange rate differences on operating items, as well as changes in inventories of finished goods and work in progress.
- Net income came at RUB 152 bln (\$5.2 bln), 5.1% below our estimates and 1.0% above consensus.
- Capex jumped by 53% QoQ and YoY to record quarterly volume of RUB 404 bln (\$13.9 bln). Free cash flow (OCF after tax less ICF) was negative at RUB 24.1 bln (\$0.83 bln).
- Average gas realization price to European countries of \$422/mcm was 3.1% below our estimates.

Gazprom IFRS results for 3Q11

	3Q11	3Q11E*	A/E*	3Q11E**	A/E**	2Q11	QoQ	3Q10	YoY
RUB, bln									
Revenues	950	950	0.0%	946	0.4%	1,030	-7.8%	786	20.7%
EBITDA***	297	331	-10.2%	325	-8.5%	388	-23.5%	254	16.7%
EBITDA margin	31.3%	34.8%	-3.6 pps	34.3%	-3.0 pps	37.7%	-6.4 pps	32.4%	-1.1 pps
Net income	152	160	-5.1%	150	1.0%	304	-50.0%	159	-4.4%
\$ bln									
Revenues	32.688	32.687	0.0%	32.559	0.4%	36.790	-11.2%	25.685	27.3%
EBITDA	10.223	11.388	-10.2%	11.172	-8.5%	13.862	-26.2%	8.309	23.0%
Net income	5.232	5.512	-5.1%	5.178	1.0%	10.844	-51.8%	5.194	0.7%

* Gazprombank estimates

Source: company, Gazprombank estimates, Interfax

** Interfax consensus

***adjusted for exchange rate differences on operating items, changes in inventories of finished goods and work in progress

2011 guidance on revenues, EBITDA, net income

In a separate press release, Gazprom also provided full-year guidance on revenues, EBITDA and net income for 2011. The company expects revenues of \$150 bln, EBITDA of more than \$60 bln, net income of almost \$40 bln. The same guidance on EBITDA and net income was previously disclosed on December 28.

The company's guidance for 2011 is 6.3% lower than our estimates on revenues, 4.0% lower on EBITDA, and 8.5% lower on net income. As compared with the Bloomberg consensus, the guidance is 1.3% lower on revenues, 3.0% lower on EBITDA, and 6.8% lower on net income.

Gazprom financial guidance for 2011 vs. Gazprombank and consensus estimates

	Gazprom guidance	Our estimates	Bloomberg consensus*	Difference with Our estimate	Difference with Consensus
Revenue	150	160.0	152.0	-6.3%	-1.3%
EBITDA	60	62.5	61.9	-4.0%	-3.0%
EBITDA margin	40.0%	39.0%	40.7%	-1 p.p.	-0.6 p.p.
Net income	40	43.7	42.9	-8.5%	-6.8%

*average for GAZP RX Equity and OGZD LI Equity

Source: company, Gazprombank estimates

Conference call

Key management comments during the conference call:

- ▶ **Capital expenditures** of the head company of Gazprom group for 2012 are planned at RUB 777 bln, almost 40% less than in 2011. Gazprom does not rule out an increase in the capex budget after the end of 1H11. The company has traditionally approved full-year budgets with quite conservative inputs to adjust them in mid-year, depending on the actual market environment.
- ▶ **Dividends.** Gazprom has revised its dividend policy since 2011, increasing the dividends. According to the deputy head of the company Andrey Kruglov, the company's policy is aimed at higher dividends. The budget for 2012 envisages dividends worth 25% of RAS net income. RAS forex translations will be taken into account during the dividend calculation.
- ▶ **Negotiations with China.** The management of Gazprom expects the Chinese market to require significant amounts of Russian gas in the medium and long term. The key issue of the negotiations is gas deliveries via the northern route, while the price parameters have not yet been agreed upon. Gazprom is waiting for revised proposals from Chinese partners.
- ▶ **Prices of exports to Europe.** Agreements with 5 major European consumers announced in January 2012, do not envisage any increase in the spot components of the contracts. The agreements have the retroactive effect for a part of 2011. European consumers are seeking transition from the 3-year price negotiation cycle to a shorter one. The decisions will be made on an individual basis.
- ▶ **Shtokman, Yamal-LNG.** The deadline for the final investment decision on Shtockman has been postponed on partners' request. A framework agreement on participation of foreign partners in the first phase of Shtockman project has been made. In Yamal-LNG, Gazprom will act as agent in marketing and export. There have been no decisions on Gazprom's participation in the project.
- ▶ **Higher liquids production** (excluding Gazprom neft) is a long-term trend explained by lower share of Cenomanian gas. The management of Gazprom expects the share of liquids to double within 10 years (which translates into the average yearly growth rate of 8%).

Our view:

Gazprom's 3Q11 results and lower guidance as compared to market expectations may exert pressure on the share price. However, we do not expect the effect to be significant, as the impact will be softened by a number of positive factors:

- ▶ Differences in calculating Gazprom's EBITDA, including the effect of changes in inventories and work in progress, lead to the differences in interpretation of Gazprom's results on EBITDA and their comparison with consensus.
- ▶ Gazprom was close to consensus on revenue and 1% higher on net income.
- ▶ The reporting comes 4 months after the end of the reporting period.
- ▶ Gazprom has disclosed the same net income and EBITDA guidance for 2011 on December 28.

Yesterday, Gazprom's shares were up 0.95% vs. 2.06% growth in MICEX index and 0.92% growth of MICEX Oil and Gas Index.

We also note that Gazprom holds Investor days on February 10 in Moscow, February 14 in London and February 16 in New York.

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