

Analysis Gazprom PJSC update July 1st, 2022

GAZPROM PJSC ISIN RU0007661625

The ADR US3682872078 Repr 2 Shs GAZPROM PJSC will become discontinued as August 3rd 2022 due to sanctions.

The following article is is not a recommendation or proposal to do anything. The data written in this article is not guaranteed. It is my private personal opinion. I`m not independent as I own a position of Gazprom shares.

Gazprom is the biggest integrated natural gas producer of the world accounting for 16% of global, 70% of Russia's gas reserves and about 11% of the global gas production.

Conclusion

GAZPROM has any value between 0 and 10\$ during the war Russia vs. Ukraine. The dividend is already grabbed by the government in a special operation. There is the risk of expropriation. GAZPROM already lost its customers in Netherlands, Poland, Finland, Bulgaria, Danmark, the Baltic countries by sanctions. It reduced its shipments via Nordstream I. It remains the revenues from Turkstream (Turkey, Balkans), Power of Siberia I (China). After this war Russia and GAZPROM have to make strong efforts to regain the European markets. It might need several years if at all to regain its position in Europe.

Beside of the war GAZPROM is blessed with some of the most valuable assets in the world. It could generate cash like hell. Gazprom is not a western Enterprise like Exxon or P&G, with the objective to maximize profits. Its main purpose is as well not to make foreign shareholders happy. It was and is an instrument of the Russian government/Putin. It is used for political targets as well as social welfare in Russia. Before the war Gazprom had to sell about half of the produced gas for domestic use, has to provide district heating and electricity for regulated (low) prices which is not really transparent to foreigners. Gazprom delivers gas on a discount to countries that back Russian politics as Belarus or Hungary. The Russian politics usually follows the long term power interests of the country. Thus it seems likely that the Russian Government will not weaken Gazprom. It seems possible that the foreign shareholder – the governmental budget (1/2 of the shares are owned by the government) - will get kept at mood by comfortable dividends. If someone is willing to invest in such a risky situation Gazprom offers a good chance.

Risks & Chances

Gazprom decided not to pay out the dividend of 53 Rubles (1\$) per share (2). The government adjusted the mineral extraction tax for Gazprom to take 1.248 trln rubles from the company (roughly equal to the sum of expected dividends) in a special operation to ensure the sustainability of the Russian budget!

Gazprom will most probably take over the stakes of RDS 27.5%, Mitsubishi 10% and Mitsui 12,5% of the Sakhalin-2 gas project. Most probably for an attractive price (3).

In the short run gas prices went up to records. On the other hand the European countries reduced their consumption of Russian gas or stopped it at all. The exploration and production will decrease a couple of %/year due to the sanctions and the lack of western equipment and spare parts.

Gazprom runs a strong pipeline network within the former Soviet Union and to Western Europe. Most of the profit was generated before the war by the sale of 220 bcm of gas annually to Western Europe. European domestic production is in decline, Groningen the biggest domestic gas field in Western Europe will become given up in 2030. Even if Europe enjoy a very crazy, destructive politics (ESG) it seems very likely that gas consumption remains at least stable for many years. Western Europe – Germany - is till now the cash cow of Gazprom.

Revenues from abroad even in wartime comes from gas sales to China. The "Power of Siberia" pipeline is built. A contract about a delivery of 38 bcm/yr. is signed. Gas shipments started. The Gazprom pipeline network in Siberia is by far less developed as it is in West Siberia/Europe. There is no connection yet from the "Power of Siberia" pipeline to the rich gas fields of Western Siberia nor to Sachalin.

Putin is pushing forward together with Chinese leader Xi Jinping the Power of Siberia II pipeline. This pipeline is expected to connect the same Western Siberian gas fields that supply Europe with the industrial heart of China by crossing Mongolia. Its construction start was scheduled before the war for 2024. Most probably it will become accelerated and extended by further pipelines. That means Gazprom will sell a rising share of its gas production to China. The dependence on Western Europe is more and more reduced the dependence on China is growing.

All in all the next decades Gazprom will most probably spend plenty 10`s of bn\$ of capex to develop the political friendly growing profitable Asian business.

Another growth opportunity for Gazprom is LNG Export. LNG terminals and pipelines are capex intensive as well. Thus the pipelines are perhaps the better choice for Gazprom.

All in all Gazprom as a company sitting on the world biggest gas reserves has bright opportunities but high capex requirements. The target is not to maximize profits. The positive is that as long as Gazprom needs western financing it might treat foreign shareholders well.

See as well my analysis Nordstream II
https://holgernarrog.hpage.com/get_file.php?id=34528258&vnr=164719

Observations

Some Data

		2020	Q1/21	Q2/21	Q3/21	2021
Ex. Rate app	RUB/\$	76	73.7	73.5	74.4	74
Gas Sales	bcm	454.5	168	104	118	515
Gas Sales Abroad	bcm	219	64.1	56	55	
Gas Reserves	tcm	33.6				34.1
Coverage	years	74				66
Revenues	Bn \$	83	31	26.1	31.9	138
Net Debt	Bn \$	51		46.2	43.6	38.77
Capex	Bn \$	19.7	5.6	5.67	6.1	26.1
Free Cash Flow	Bn \$	5.2				
Net Income att.	Bn \$	1.78	6.32	7.21	8.56	30.4
Number of Shares	M	23645	23645	23645	23645	23645
EPS/Share	c(USD)	37	26	30	33	119
Dividend	Rub	12.55				
Dividend	c(USD)	17				
The numbers are put in USD at the dates of editing						

The Gazprom numbers of 2021 are not complete. This probably caused by the ongoing war. But anyhow it remains extremely profitable.

The Gazprom Share

PJSC Gazprom's share capital is divided into 23,673,512,900 ordinary registered shares. The Company has no preferred shares.

PJSC Gazprom Owner Structure as of December 31, 2020:

Shareholders	Stake, %
The Russian Federation represented by the Federal Agency for State Property Management	38.37
ROSNEFTEGAZ*	10.97
Rosgazifikatsiya*	0.89
ADR holders **	16.71
Other legal entities and individuals	33.06

*Controlled by the Russian Government

**Mostly Foreigners

Some News

References:

(1) 2021/07/27

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(2) 2022/06/30

https://seekingalpha.com/news/3853302-gazprom-cancels-dividend-for-first-time-since-1998?source=content_type%3Aall%7Cfirst_level_url%3Aportfolio%7Csection%3Aportfolio_content_unit%7Csection_asset%3Alatest%7Cline%3A2

(3) 2022/07/01

https://seekingalpha.com/news/3853596-russia-moves-to-take-control-of-sakhalin-2-gas-project-shell-weighing-options?source=content_type%3Aall%7Cfirst_level_url%3Aportfolio%7Csection%3Aportfolio_content_unit%7Csection_asset%3Alatest%7Cline%3A1