

VALUATION MASTER CLASS



How much can Gazprom prosper from Europe's energy crisis?



Valuation Master Class

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This is not investment advice or a recommendation.



How much can Gazprom prosper from Europe's energy crisis?





Sector: Energy

State-owned Russian giany is the world's largest natural gas supplier accounting for 15% of global gas production

My value estimate: RUB395

(Upside 32%)

BUY



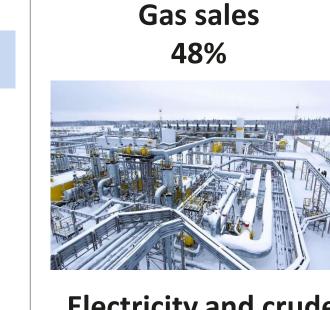
3 things to know about this company

- ★ Bright future of natural gas as a transition fuel
- ★ If Europe holds back Gazprom expansion, pivot to Asia
- ★ Domestic market still not fully penetrated yet

Key statistics		
Analyst consensus (13)	PB ratio	Dividend yield
RUB460 (Upside 53%)	0.5 x	4.2%
STRONG BUY		

Revenue breakdown 2020





Value

FVMR

Sales

Story

WCB

Risks



Electricity and crude oil 16%



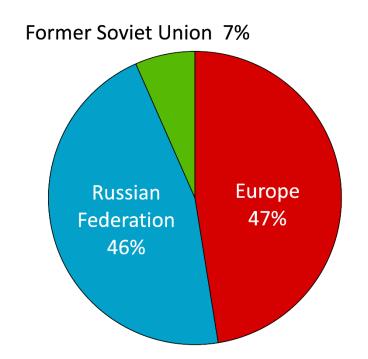
Refined products (LPG, hydrocarbons) 28%



Gas transportation services and other 8%



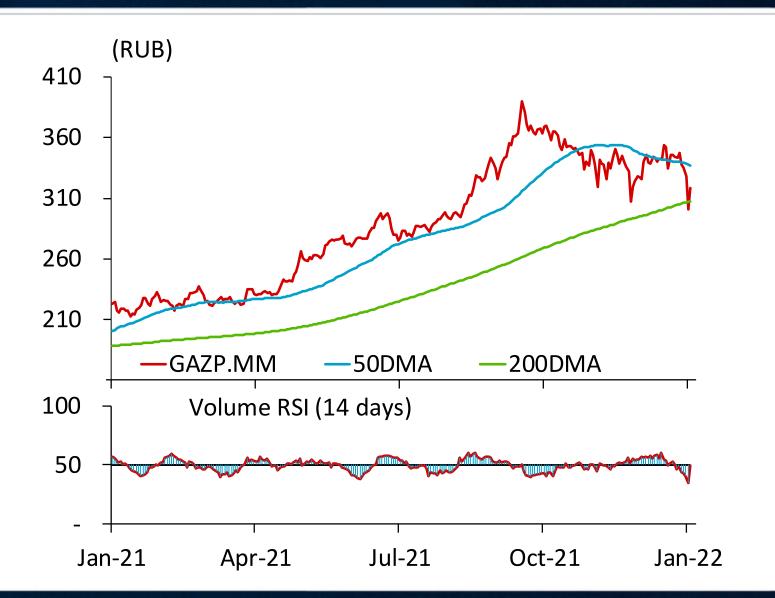
Breakdown by region 2020



VMC Student Report

This is not investment advice and it's not a recommendation.

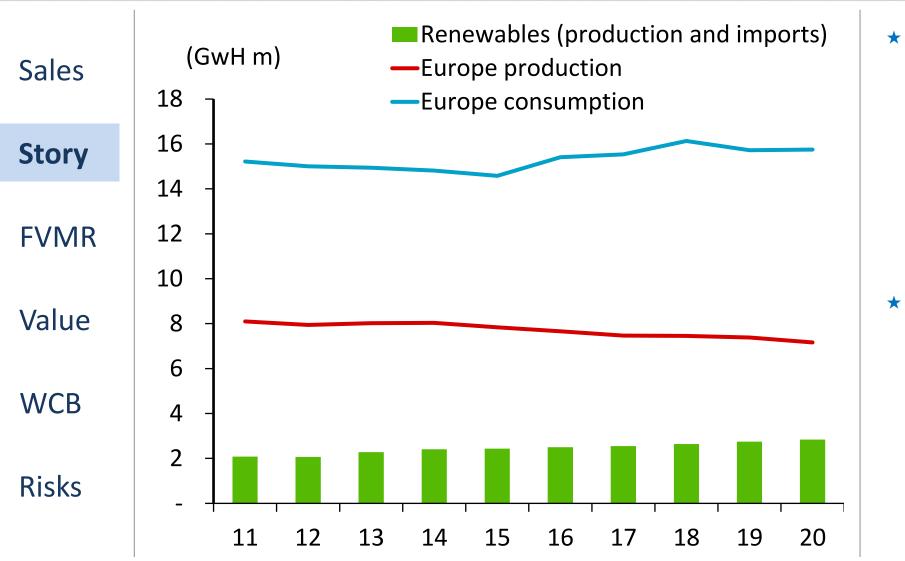
Price has seen a strong bullish rally and could continue





- Throughout the past year, the
 50DMA has stayed above the200
 DMA, which is a strong bullish
 signal
 - The share price is up 35% YTD
- Volume RSI recently returned to the 50%-line, providing no clear signal yet

) Bright future of natural gas as a transition fuel

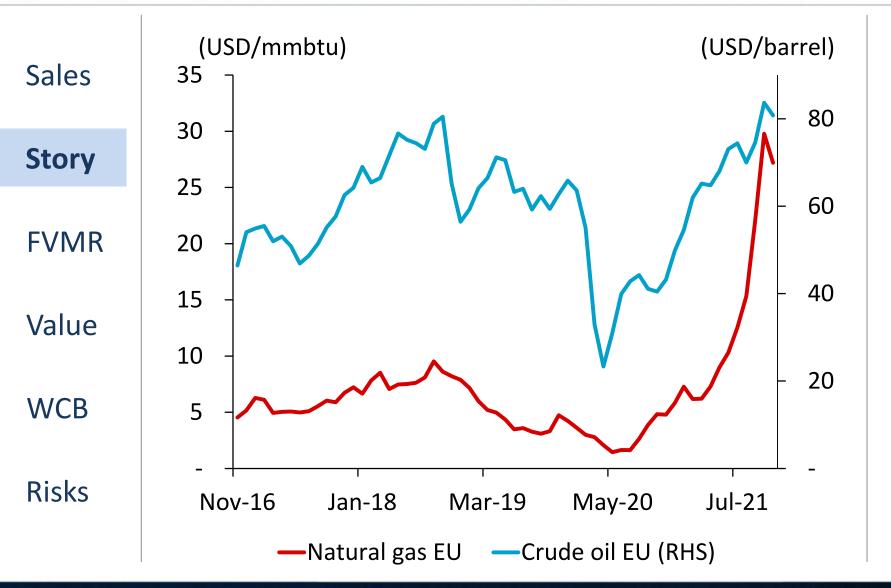


Gazprom's major export market is Europe, which committed to an ambitious transition to green energy

VALUATION MASTER CLASS

- However, renewables are still far away from providing sufficient energy for Europe's consumption
- Therefore, the European
 Union recently labeled
 natural gas as a temporary
 sustainable fuel

Beneficiary of Europe's self-inflicted energy crisis

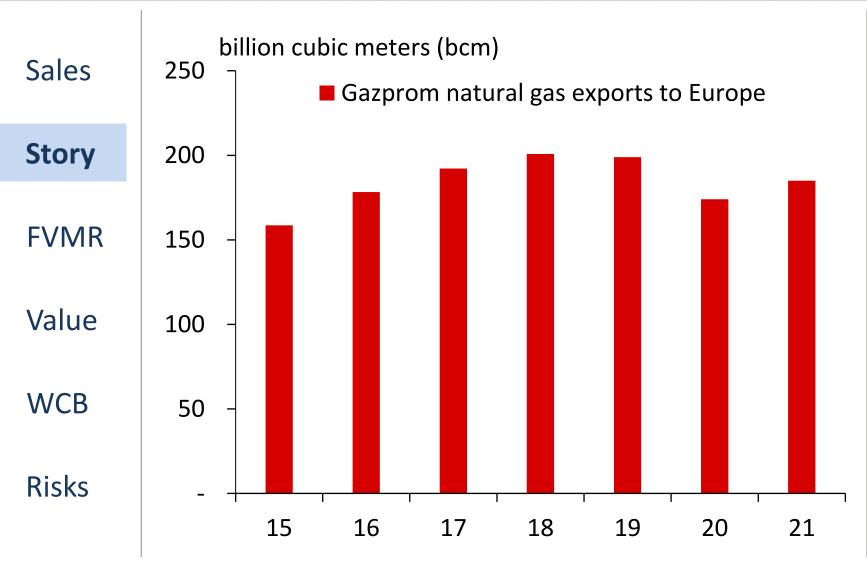




- ★ Natural gas became the dominant fuel in Europe
 - With the demand-supply imbalance, natural gas prices skyrocketed
- Given the growing demand and unwillingness of Russia to increase supply, the situation might even worsen
 - Gazprom enjoys higher export prices, leading to record revenue in 21E and 22E

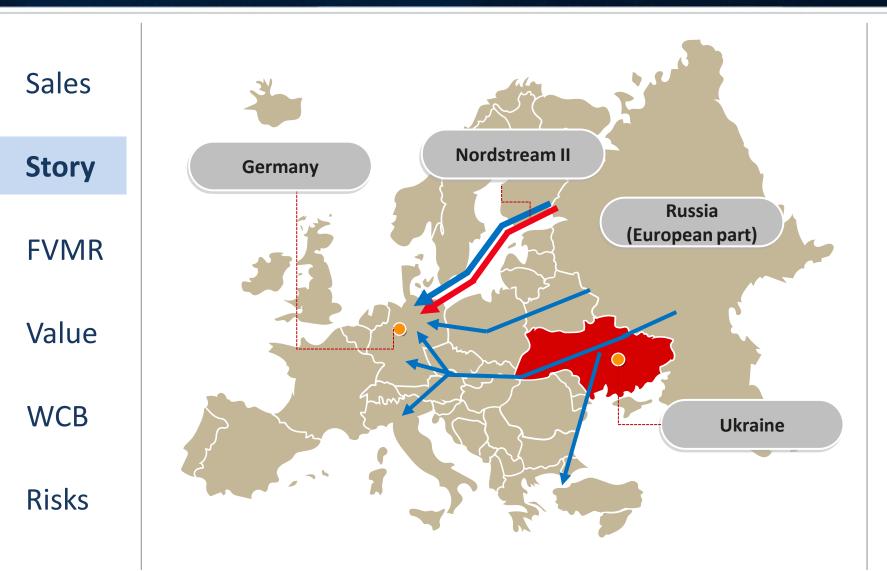
If Europe holds back Gazprom expansion, pivot to Asia





- Despite Europe's energy crisis, Gazprom does not increase its supply unless the German gov't approves its Nordstream II pipeline
 - The pipeline with a capacity of 55 bcm is ready to use and just awaits approval
- However, Nordstream II
 became a political issue in the context of Russian-Ukrainian tensions

Russia aims to supply Europe directly





- ★ Currently, around 50% of Russian gas to Europe flows through the Ukraine
 - With Nordstream II (red line), Russia aims to bypass Ukraine as a transit
 - Western countries fear that Russia starts to gain control over Ukraine again
- Germany delayed the approval as it uses the pipeline as a sanction threat in case Russia starts a war

Russia is in a much better negotiation position



Sales

Story

FVMR

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Risks

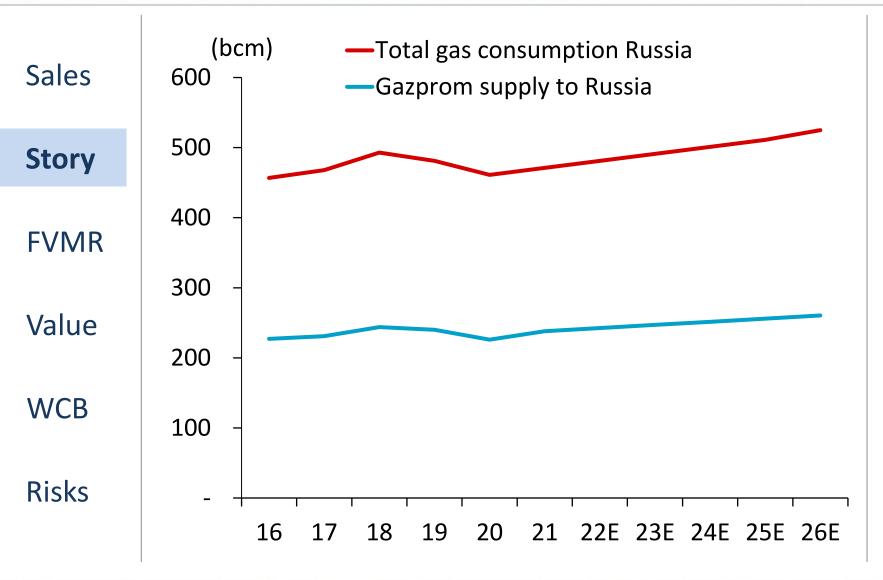
★ I believe that the approval of the pipeline is inevitable to secure Europe's smooth transition to green energy

- Right now, there are few alternatives to substitute Russian imports
- ★ In the case Europe hesitates, Gazprom eyes to build a pipeline to Asia
 - Especially China and India have a large appetite for gas
 - In either case, Gazprom gains massively



Domestic market still not fully penetrated yet

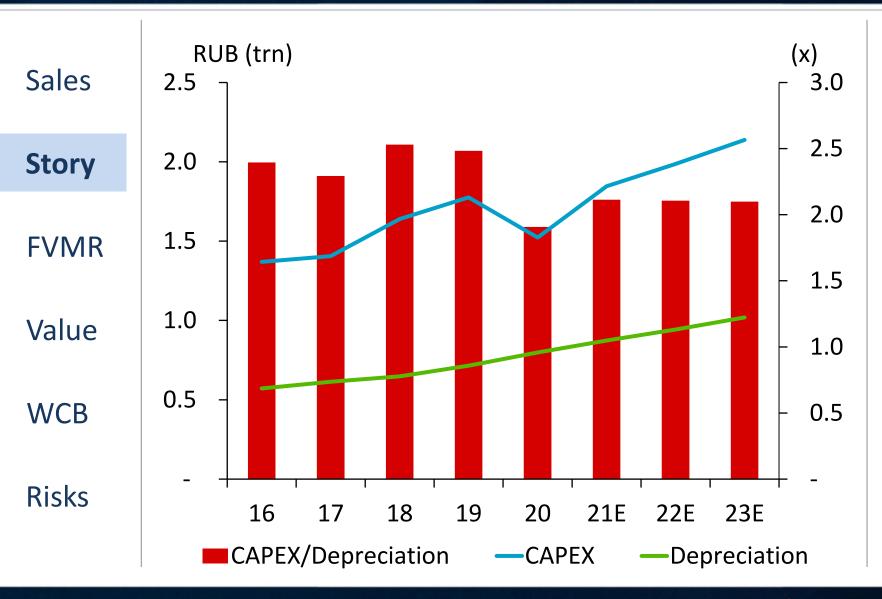
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- Overall, Gazprom supplies more than 50% of total Russian gas consumption
 - Its pipeline network covers even 70% of total gas
- Russian gas demand is likely to see a constant growth of 2-3% over the next 5 years
 - Growth could even accelerate once the pipeline infrastructure is extended
 - 30% of Russia is not connected yet

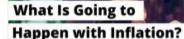
Heavy CAPEX allocated to pipeline construction





- ★ CAPEX/depreciation has been around 2x in the past
- Continued expansion and further penetration of the Russian market results in a similar ratio over the next years as well







What Is Going to Happen with Inflation?

By Valuation Master Class Student

Many forces at work impact inflation. There are current trends that cause both inflationary and deflationary measures. Whether we'll see inflation or deflation in the future depends on which of these forces dominate.

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How to Value a Startup

By Andrew Stotz

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How to Fight Back When Your Dreams Are Crushed

By Andrew Stotz

The trouble you face is not your fault, and I'm gonna show you how you can fight back. I challenge you to recommit to your dreams today!

Read More

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What Does It Mean to Be Financially World Class?



What Is Liabilities To Assets Ratio?



What Is Growth Year Over Year?

FVMR Scorecard

* Measures a stock's attractiveness relative to all other companies * Attractiveness is based on four elements Fundamentals, Valuation, Momentum, and Risk Scale from 1 (Best) to 10 (Worst)

EARNINGS

MANAGENEWY

FVMR

PRICE

Favorable momentum at a cheap valuation



es	Fundamentals	w				В	Valuation	W	,			E
	(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**	<u>(x)</u>	Dec-17	Dec-18	Dec-19	Dec-20	ΡΤΝ
	Operating profit margin	11.1	30.0	12.8	15.4	19.8	Price-to-sales	0.5	0.4	0.5	0.8	
ry	Recurring net margin	10.3	23.5	15.2	9.0	21.0	Price-to-earnings	4.7	1.7	3.5	9.5	
'	Asset turnover	37.2	42.1	35.9	28.0	36.1	Price-to-book	0.3	0.2	0.3	0.4	
	Return on assets	3.8	9.9	5.5	2.5	7.6	PE-to-EPS growth (PEG)	0.7	0.0	nm	nm	
	Recurring return on equity	5.9	15.5	8.5	4.0	12.4	EV/EBIT	6.9	2.5	6.9	8.9	
MR	Momentum	w										
	MOMENTUM	vv				В	Risk	N N	/			B
ue	Womentum	vv				В	Risk	N N	/			В
ue	(%)	Dec-17	Dec-18	Dec-19	Dec-20	B PTM**	Risk (x)	Dec-17	/ Dec-18	Dec-19	Dec-20	PTN
ue					Dec-20 (17.5)			_		Dec-19	Dec-20	
ue	<u>(%)</u>	Dec-17	25.6			PTM**	<u>(x)</u>	Dec-17	Dec-18			PTN
ue CB	(%) Revenue growth	Dec-17 7.1 6.3	25.6 187.3	(6.9) (40.7)	(17.5)	PTM** 39.6	(x) Current ratio	Dec-17 1.3	Dec-18 1.7	1.5	1.4	PTN
	(%) Revenue growth Recurring EPS growth	Dec-17 7.1 6.3	25.6 187.3 1,882	(6.9) (40.7)	(17.5) (53.8)	PTM** 39.6 206.2	<mark>(x)</mark> Current ratio Net debt-to-equity (%)	Dec-17 1.3 23.7	Dec-18 1.7 26.0	1.5 27.4	1.4 32.0	PTN

Risks

Note: Benchmarking against 90 non-financial companies in Russia.

VMC Student Report

25 January 2022 15

Recently, I created a short online course explaining my FVMR investing approach

EARNINGS

I usually sell it for \$97 but for a limited time I am offering it for FREE



ATAN49CENTENY

FVMR

PRICE

Analysts are optimistic about the Russian giant

VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

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Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	5	5	5	5
Buy	5	6	6	6
Hold	3	2	2	2
Sell	-	-	-	-
Strong sell	-	-	-	-
Average score	1.8	1.8	1.8	1.8
Price target	Oct-21	Nov-21	Dec-21	Current
Median	410	450	460	460
Mean	399	414	421	422





Upside: 53%

Analysts' consensus sees a massive upside for Gazprom

- Only 2 analysts are still on HOLD
- Consensus expects strong revenue prospects in 21E and 22E
 - Revenue might drop in 23E as natural gas prices could normalize
- Also, operating margin could reach a record over the next two years

Analyst consensus	3-year	forecast
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(%)	18	19	20	21E	22 E	23 E
Revenue growth	2.5	(6.9)	(17.5)	57.5	5.9	(10.8)
Gross margin	59.0	56.4	51.7	na	na	na
EBIT margin	25.0	17.5	9.4	26.9	26.7	23.7
Net margin	17.7	15.7	2.1	22.2	19.7	16.7

Profit & loss statement

	(YE Dec, Ruble m)	2019A	2020A	2021E	2022E
	Revenue	7,659,623	6,321,559	9,419,123	10,361,035
	Cost of goods & services	(3,336,922)	(3,050,535)	(3,767,649)	(4,455,245)
	Gross profit	4,322,701	3,271,024	5,651,474	5,905,790
	SG&A	(2,442,673)	(2,319,395)	(2,731,546)	(3,108,311)
	Other operating (exp)/inc	(539,989)	(357,685)	(250,380)	(280,425)
	EBIT	1,340,039	593,944	2,669,549	2,517,054
_	Interest expense (net)	14,500	(13,308)	(23,384)	2,194
	Other non-operating inc/(exp)	187	3,774	-	-
	Earnings before taxes (EBT)	1,354,726	584,410	2,646,164	2,519,248
	Income tax	(357,548)	28,938	(624,425)	(592,325)
	Earnings after taxes (EAT)	997,178	613,348	2,021,739	1,926,923
	Equity income/Minority interest	140,497	109,670	235,681	283,368
	Earnings from cont. operations	1,137,675	723,018	2,257,420	2,210,291
	Forex/Exceptionals before tax	65.212	(587.677)	(148.465)	(149.950)
	Net profit	1,202,887	135,341	2,108,955	2,060,342

 Strong bottom-line mainly driven by inflated gas prices in Europe

Story

Sales

FVMR

Value

WCB

Risks



Balance sheet - assets

Sales					
Story					
-	(YE Dec, Ruble m)	2019A	2020A	2021E	2022E
	Cash & short-term investments	753,628	1,171,973	1,639,015	1,496,270
	Accounts receivable	861,019	1,063,973	1,308,212	1,439,033
FVMR	Inventories	946,361	971,789	1,203,555	1,423,203
	Other current assets	1,267,145	566,554	941,912	1,139,714
	Total current assets	3,828,153	3,774,289	5,092,694	5,498,220
	Long-term investments	1,182,862	1,327,241	1,549,600	1,807,535
Value	Net fixed assets	15,070,692	16,298,408	17,270,608	18,313,588
	Intangible assets	-	-	-	-
	Goodwill	130,028	119,854	119,854	119,854
	Other long-term assets	1,670,613	1,832,393	1,850,717	1,869,224
WCB	Total assets	21,882,348	23,352,185	25,883,473	27,608,421



- Gazprom is a capital-intensive \star business, with more than 70% of total assets being net fixed assets
 - **Expansion of pipeline** structure requires high **CAPEX** in the future

Risks

Balance sheet - liabilities

Sales					
Story	(YE Dec, Ruble m)	2019A	2020A	2021E	2022E
Story	Overdrafts & short-term loans	816,222	734,986	778,830	802,194
	Accounts payable	1,122,931	1,194,981	1,622,182	1,670,717
	Other current liabilities	588,323	696,997	941,912	963,576
FVMR	Total current liabilities	2,527,476	2,626,964	3,342,924	3,436,488
	Long-term debt	3,295,195	4,425,568	4,413,367	4,545,769
	Other long-term liabilities	1,443,990	1,494,921	1,614,515	1,662,950
	Total liabilities	7,266,661	8,547,453	9,370,806	9,645,206
Value	Minority interest	510,854	566,789	609,829	651,877
value	Paid-up capital - Common shares	325,194	325,194	325,194	325,194
	Paid-up capital - Preferred shares	-	-	-	-
	Retained earnings	13,779,970	13,717,464	15,382,358	16,790,859
WCB	Revaluation/Forex/Others	(331)	195,285	195,285	195,285
VVCD	Total equity	14,104,833	14,237,943	15,902,837	17,311,338
	Total liab & shareholders' equity	21,882,348	23,352,185	25,883,473	27,608,421

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- ★ Gazprom has relatively low leverage
 - Its net-debt to equity ratio stood at 0.3 in 2020

Risks

Ratios

Sales

Story

FVMR

Value

WCB

Risks



 ★ Given its capital-intensive nature, efficiency is very low

(YE Dec)	2019A	2020A	2021E	2022E
General growth (YoY, %)				
Revenue	(6.9)	(17.5)	49.0	10.0
Assets	5.2	6.7	10.8	6.7
Gross profit	(10.8)	(24.3)	72.8	4.5
Operating profit	(34.8)	(55.7)	349.5	(5.7)
Attributable profit	(17.4)	(88.7)	nm	(2.3)
EPS	(20.1)	(89.1)	nm	(2.3)
Recurring EPS	(37.8)	(40.4)	207.1	(2.1)
Du Pont analysis (%)				
Net profit margin	15.7	2.1	22.4	19.9
Revenue per Ruble100 of assets	35.9	28.0	38.3	38.7
Assets/equity (x)	1.8	1.8	1.6	1.6
Return on equity	9.9	1.1	14.0	12.4
Others (%)				
Effective tax rate	25.2	-	25.0	25.0
Dividend payout ratio	29.6	41.2	20.0	30.0

Ratios (cont.)

Sales	(YE Dec)	2019A	2020A	2021E	2022E
	Internal liquidity (x)				
	Current ratio	1.5	1.4	1.5	1.6
Ctory	Quick, or acid test ratio	1.1	1.1	1.2	1.2
Story	Working cap. mgmt (Days)				
	Inventory conversion period	100	113	104	106
	Receivables collection period	45	55	45	48
FVMR	Days from raw mat to coll	146	168	149	154
	Payables deferral period	122	137	135	133
	Cash conversion cycle	23	31	15	21
	Profitability ratios (%)				
Value	Gross profit margin	56.4	51.7	60.0	57.0
	EBIT margin	17.5	9.4	28.3	24.3
	EBIT return on avg assets	6.3	2.6	10.8	9.4
	Return on average assets	5.6	0.6	8.6	7.7
WCB	Financial risk (x)				
	Liabilities-to-assets (%)	33.2	36.6	36.2	34.9
	Debt-to-equity	0.4	0.4	0.3	0.3
Diales	Net debt-to-equity	0.3	0.3	0.2	0.2
Risks	Times-interest-earned	26.9	19.0	39.8	38.6
	Effective interest rate (%)	1.9	1.6	1.7	1.7



- Gross margin in 21E and 22E on a record level, but it might be difficult to maintain a gross margin above 60% over time
 - The main driver constituted the inflated gas price

A. Stotz Investment Research Stock Picking Checklist

<text>

 Inspired by Peter Lynch's ten baggers (A stock that has gone up 10x)

* Based on our extensive research

 9 factors that drive long-term share price performance



Long-term share price performance potential



VALUATION MASTER CLASS

A. Stotz Investment Research	Good	/	Mode	Moderate	Moderate /	Moderate / W	Moderate / Wea
Sales Stock Picking Checklist Potential Comment	←						
Solids1. Management – Management has a proven commitment to growthGoodThe company has grown at a CAGR of 7.3% over past 10 years	er the						
Story2. Growth – Product and industry can support a decade of 10%+ annual growthModerateNatural gas constitutes the transition fuel for the future; high-single digit growth expected	he						
FVMR3. Sustainable – Competitive strategy creates sustainably high gross marginGoodWith 16% of global gas production, Gazprom his significant control over gas prices	ias a						
4. Quality – Good earnings quality, non- core items are small or non-existentWeakEarnings fluctuate quite a lot given the industry volatile nature	y's						
5. Efficiency – In the long run sales grow faster than assets Weak High CAPEX required to generate further growt efficiency likely to stay very low	th;						
Ratios 6. Tight – Relatively low cash conversion Moderate Cash conversion is moderately high and stood a days in 2020	at 31						
Value7. Cash flow – Operating cash flow is consistently positiveModerateOperating cash flow has been consistent over the bit was not always able to cover investing outfl	-						
8. Capacity – Company has access to capital to fund growthGoodBeing state-owned and the largest Russian com helps to get access to further capital	npany						
9. Inexpensive – Valuation is reasonable, avoid very expensive stocksGoodCheap on both 21E PE and PB compared to Ru Energy companies, but lower ROE	ıssian						

1

Free cash flow

(YE Dec, Ruble m)	2019A	2020A	2021E	2022E
EBIT	1,340,039	593,944	2,669,549	2,517,054
Est tax rate (%)	25	-	25	25
NOPAT	1,002,610	593,944	2,002,161	1,887,791
Add: Depre & amort	715,229	798,436	873,334	943,200
Less: CAPEX	(1,775,923)	(1,522,565)	(1,845,534)	(1,986,180)
Chg in A/R	210,584	(202,954)	(244,239)	(130,821)
Chg in inventory	(36,684)	(25,428)	(231,766)	(219,649)
Chg in oth curr assets	87,527	700,591	(375,358)	(197,802)
Chg in A/P	(19,666)	72,050	427,201	48,535
Chg in oth curr liabs	(173,714)	108,674	244,915	21,664
Less: Chg in working cap	68,047	652,933	(179,246)	(478,073)
Less: Chg in invest cap				
Free cash flow to firm	9,963	522,748	850,715	366,739



 FCFF likely to remain volatile given abrupt changes in working capital

Risks

Sales

Story

FVMR

Value

WCB

Value estimate

Sales

Story

FVMR

Value

WCB

Risks

14.2	13.8
na	57.0
25.8	24.1
19.5	19.3
	19.5



- My revenue and margin forecast is roughly in line with analyst's consensus
- ★ Russia has a massively high risk-free rate of 10%

My valuation method		
Market: Russia		
Market risk-free rate	10.0	
Market equity risk premium	9.0	
Market return	19.0	Valuation Method:
Company beta (x)	0.8	FCFF
COE	16.8	rurr
WACC	10.4	
Terminal growth rate	2.0	

VMC Student Report

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Value estimate



Sales Story FVMR WCB Ratios

Value

Risks

Bear RUB352 (Upside 17%)



Base RUB395

(Upside 32%)

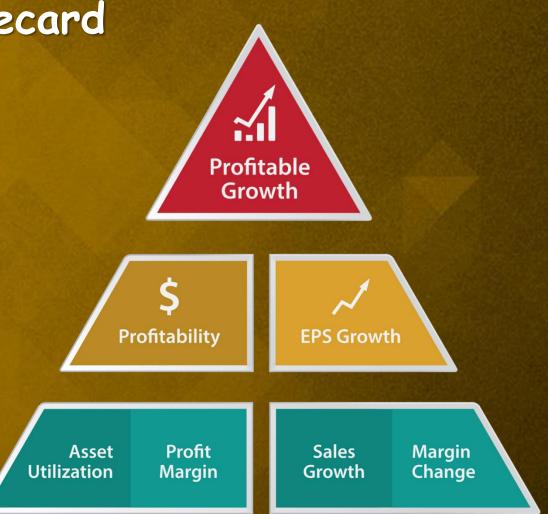


Bull RUB440 (Upside 47%)



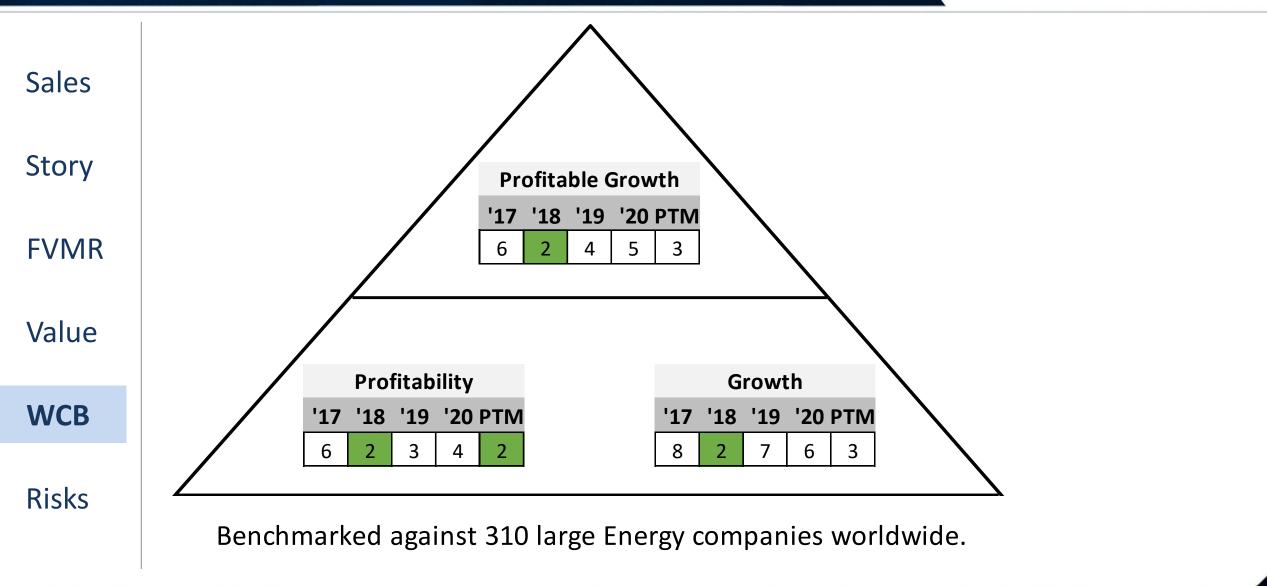
World Class Benchmarking Scorecard

- We identify a company's competitive position relative to global peers
- We use a composite rank of profitability and growth, called "Profitable Growth"
 Scale from 1 (Best) to 10 (Worst)



Strong profitability and good growth







Sales Story ★ Increasing efforts of the European Union to reduce dependency on Russian gas FVMR ★ Sanctions against Russia imposed by the US and EU (Russian-Ukrainian conflict) Value ★ Slowing economy and fluctuations in gas **WCB** prices **Risks**

CONCLUSION

- Natural gas evolves as the most important fuel in energy transition
- Nordstream II became a political instrument; but in worst case, Gazprom could diversify to Asia
- Domestic market still provides further room to go



VALUATION MASTER CLASS



How much can Gazprom prosper from Europe's energy crisis?