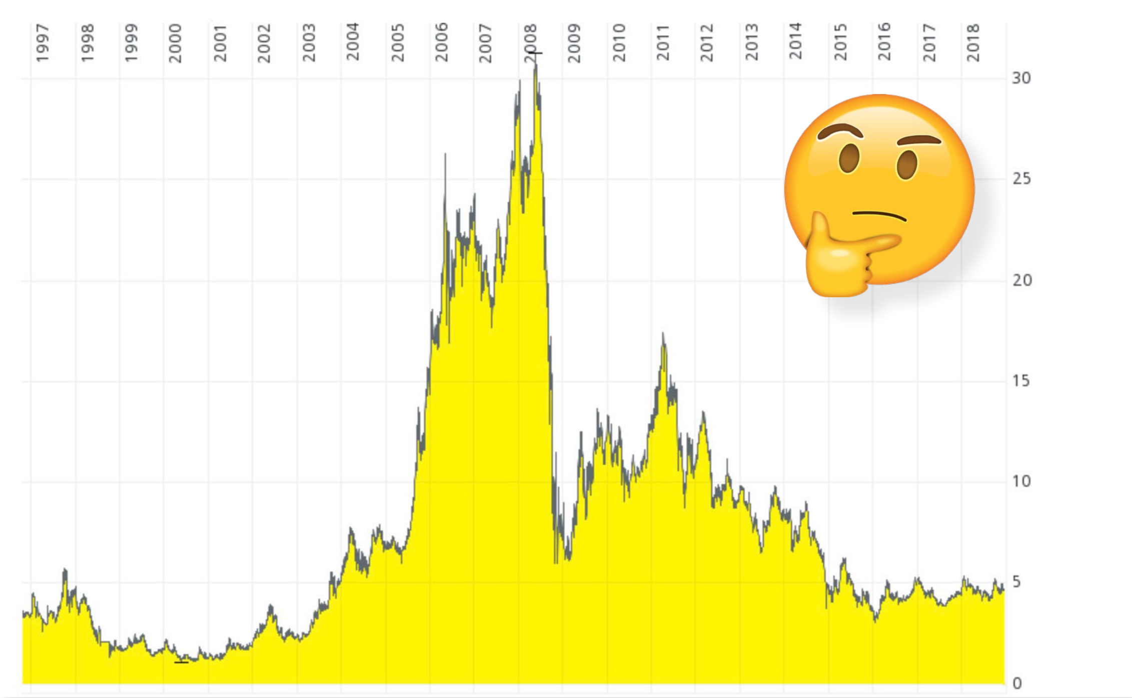
SPECIAL REPORT
28 December 2018

GAZPROM



Gazprom is the world's cheapest major energy company (p/e 4).

From 2019 onwards, Gazprom will produce increasing amounts of cash and initiate a long-term change to its dividend policy.

Prediction: President Putin's self-interest is tipping from utilizing Gazprom as a political tool to turning the government's 51% stake into a valuable asset. He will work to re-establish Gazprom on equity markets, aiming to create an additional >$1Tr in Gazprom shareholder value.

Long-term investment that can increase in value by 5-20 times over 3-10 years (and >6% annual dividend yield).

UNDERVALUED SHARES

Contents

Finding the next Big Thing

Dear Reader,

If you allow your thinking to be stuck in conventions and the present, chances are you will never catch one of the world's great investment successes.

- If someone had told you in 2004 that 2 billion people were going to connect through a free online platform that was going to become the fifth most valuable company of the US, would you have given the idea any credence? The first investor who did and bought a 10% stake in Facebook for just $500,000 made billions off it.
- In 2005, all 15 A-list venture capital firms turned down the idea that people would pay to sleep in strangers' bedrooms. You could have bought 10% in AirBnB for $150,000; now also worth billions.
- In 2006, reports about the upcoming launch of a new kind of phone hit the Apple community. It was public knowledge that Steve Jobs aimed for no less than a (smart)phone revolution. Few people bought into Apple shares, up over 20 times since then.

Look towards the future, not the present

Today, it seems obvious why these companies became such a success. Back then, however, it required a good sense of the future (and a bit of luck) to recognize the opportunity. You would have also needed the guts to go against conventional wisdom. Had you told your friends that sleeping in a stranger's house was going to be a new normal in the hospitality industry, they would have laughed in your face.

Some of them would have told you to instead invest, for example, into General Electric ("GE"). During that era, GE was the world's most valuable public company; the proverbial safe bet, backed up by research from the most reputable brokers to make you feel safe!

The problem is, GE was going to lose 90% of its value over the coming decade.

Markets have a funny way of punishing those who run with the herd. Instead, they reward forward-thinkers and contrarians.

Today's research report deals with a company that most anyone would currently advise you to stay away from. For a bit of added fun, I even wrote up the “10 reasons NOT to invest in Russia” (page 18), which are mostly concerns taken from the mainstream media.

A boring company, but an exciting share

Gazprom isn’t going to invent anything earth-shatteringly innovative. It pumps gas out of the ground and delivers it to consumers using long pipelines. What is fun to know, however, is that back in 2007 and early 2008, pundits predicted it was to become the world’s first trillion dollar company. Its value on the stock market was $367bn in May 2008.

Today, it’s valued at a mere $50bn (and the same pundits who got it wrong in 2008, now predict that Gazprom shares will never recover). Instead, Apple stole the crown to become that first trillion dollar company on the US stock exchange in August 2018.

Over the next ten years, which one of the two prospects is more likely to become true?

- Apple going up in value another 20 times, to become a company worth more than the Gross Domestic Product of the entire European Union.

- Gazprom achieving a decade of significant change, and its share price rising by a factor of 20 to merely catch up with the valuation of comparable Western firms.

There are no guarantees for anything in life, but some things are more likely than others. In my mind, it’s pretty clear which of these two options has a higher likelihood to happen.

Obviously, hardly anyone will currently agree with me. You could probably ask 15 A-list bank analysts, and they’d warn you not to invest into Gazprom!

My job isn’t to ensure that my writing is in line with the establishment consensus. My goal is to help you find investments that can have a significant positive impact on your financial future and to do so without you needing to take undue risks (such as investing into start-ups, the majority of which never survive the initial years).

Undervalued-Shares’ new line of research reports

Russia seems an unlikely candidate for a long-term investment right now, which is one of the reasons why I started to research it. I look for value where others don’t!

During my research about Russia, I realized that you don’t need to look further than the country’s no. 1 public company. Anyone can buy this share on several of the world's biggest stock exchanges, including London, New York, and Frankfurt. The share is highly liquid, i.e. there is virtually no risk of you not being able to buy or sell it whenever you please.

It's the kind of company you will get to read about in the members' section of Undervalued-Shares.com. Over the coming years, I'll introduce my readers to companies that they can use to build a portfolio of solid, common sense investments.

Not all of my "Big Bets" will work out and pay off, but I am working hard to ensure that the vast majority of them will and that I minimize losses from the ones who won't.

Besides that, I hope you'll find my reports useful for looking at the world from a different perspective, and possibly even a bit entertaining!

Best regards

S. Lorenz

Swen Lorenz
Undervalued-Shares.com

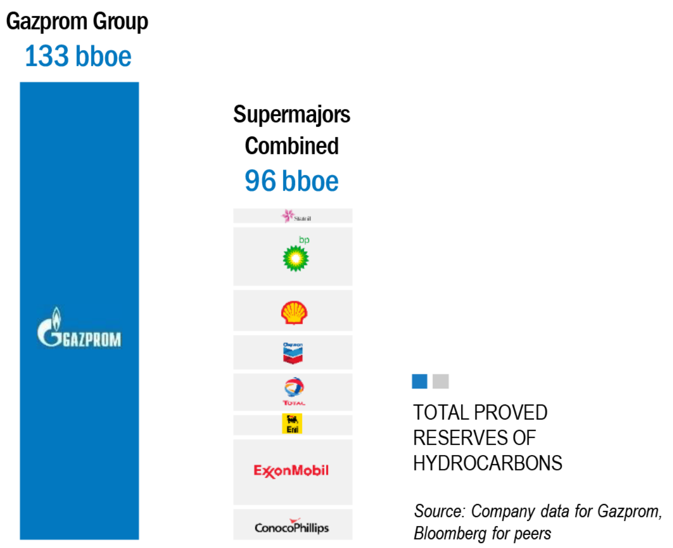
Executive Summary

Gazprom is a company of superlatives:

- Its proven gas reserves are close in size to those found on the Northern and Southern American continents combined. The company's overall energy reserves, which also include some oil, are bigger than the combined equivalent energy reserves of BP (UK), Royal Dutch Shell (UK/Netherlands), Equinor (formerly "Statoil", Norway), Chevron (USA), Total (France), ENI (Italy), ConocoPhillips (US) and ExxonMobil (US).

Gazprom's reserves compared to those of other energy majors

Gazprom vs global majors: proved reserves, 31.12.2016



- The company operates the world's longest gas transportation system to get its product from 151 gas fields to the customer. Laid end-to-end, the Gazprom-owned 172,000 km (107,000 miles) of pipelines would circumnavigate the globe four times.

- Gazprom can offer gas to foreign customers at a lower price than almost anyone else on the world market. Its competitive pricing is outdone only by Qatar and Nigeria, and this will likely remain the case for the next 20+ years.

Few companies are as polarizing as Gazprom, and as its recent 10-year share price rout indicates, the market is currently taking a predominantly critical view. Very occasionally does the company get some good PR in recognition of its management's recent achievements. E.g., in late 2017, Gazprom made the no. 1 spot in the S&P Global ranking of the top 250 energy companies, temporarily pushing ExxonMobil off its place after a 12-year reign at the top and doing so not just on the basis of size but also performance (e.g., return on equity). However, much more often, Gazprom is primarily spoken about on the basis of facts and stats that used to be true in the fairly distant past, but which are now outdated or about to become outdated. E.g., whereas the company is often referred to as Russia's gas monopolist, it actually only has a 68% market share in Russian gas and now faces competition with 230 other Russian gas companies. It's not widely known that Russia started liberalizing its gas market over a decade ago, and there are now several other large players in the Russian gas market. Gazprom's remaining monopoly position only relates to gas exports by pipeline. This report primarily focuses on the numerous changes that have occurred within the Gazprom empire, many (if not most) of which remain little-known.

Gazprom owns several hundred subsidiaries, many of them outside the gas sector. E.g., the company controls Russia's third largest oil producer (Gazprom Neft, literally "Gazprom Oil"); it owns 100% of an energy production operation that is responsible for one sixth of Russia's electricity production (Gazprom Energoholding); and it controls a broad assortment of other subsidiaries including Russia's third largest bank (Gazprom Bank) and a premier league football club (Zenit St. Petersburg).

Few German *Hausfrauen* realize how far their cooking gas has travelled

Once celebrated by Western media as likely to become the world's first trillion dollar company, Gazprom has seen its market value plunge from $367bn in 2008 to $50bn in 2018. Its share has gone from hyped play on what then appeared to be a Russian Renaissance in the making to virtually disappearing off investors' radar screen. This report will explain in detail why this fall happened - and where things are likely to progress from here!

During these past ten years, Gazprom has lived through an extraordinary period of managing its largest ever investment projects to prepare itself for a new era of the global gas market; challenging gas market shifts that were often amplified by political issues; Western technology sanctions; difficult credit markets, and the ongoing need for internal changes.

There are often-told stories about Gazprom and lesser-told stories. For example:

- It is widely known that Gazprom was "abused" in 2005 to carry out the politically motivated purchase of the oil company, Sibneft. Of the $17bn purchase price, $13bn filled the pockets of Putin-aligned Russian oligarch, Roman Abramovich. It is lesser-known that based on its separate stock market listing, Gazprom's stake in Sibneft, today named Gazprom Neft, is now worth close to $25bn, and that's after already repaying much of its entire original purchase price through dividends and despite its share only trading at a p/e of 5.

- In Western media and investor circles, Gazprom is portrayed as a by-word for corruption and theft of shareholder funds. One bank analyst went as far as saying that Gazprom's large pipeline construction projects are all loss-making duds, solely built for the benefit of cronies who siphon off funds through inflated construction contracts. These critics still owe an answer to the question why, if this was true, Western energy majors queued up to become an investor in the pipeline project, Nord Stream 2, which has seen EUR 3.3bn co-financing from Shell (UK), Wintershall (Germany), Uniper (Germany), ÖMV (Austria), and ENGIE (France). Gazprom regularly achieves a return on equity that is actually on par with much of the US energy industry which belies claims that the company is being robbed blind. A closer inspection of the evidence makes it highly questionable that graft today is as big a problem as it's often portrayed to be based on past times.

Gazprom Neft shares are up 200% in two years

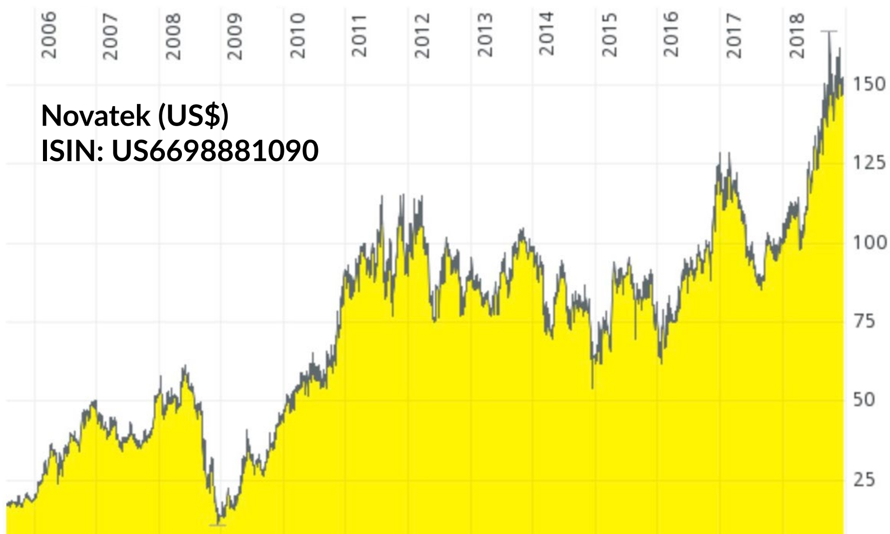
- Russian gas is often viewed as a dying industry for one reason or another. This is in contrast to the share price of Gazprom's most significant competitor, Novatek, which has risen by a factor of ten over the past ten years because investors see strong growth prospects. Gazprom's 96% oil subsidiary, Gazprom Neft, has also had a sustained, strong run on the stock market, gaining 200% since 2016 (in US$). Observers in Europe and America, in particular, often get a biased or outdated perspective on Gazprom through the lens of mainstream media and superficial research of the company's extraordinarily complex affairs.

This report believes that the recent movements of Gazprom's share price are the first sign of a coming revival of the Gazprom equity story, one that will become more apparent from 2019 onwards but which some investors are now already positioning themselves for, based on recent share price movements and increasing trade volumes.

It is now clear that 2019 is going to be a watershed year for Gazprom.

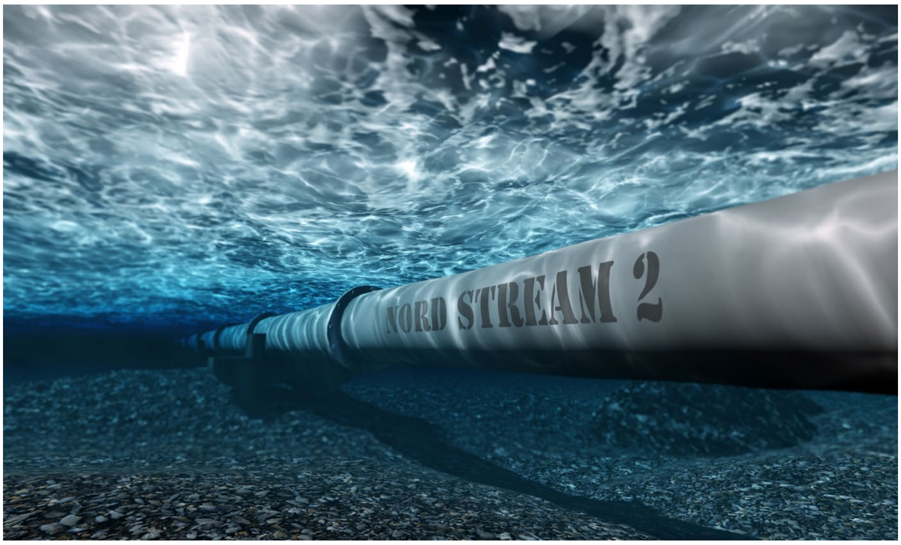
Share price of oil subsidiary Gazprom Neft

Gazprom's no. 1 Russian gas competitor, Novatek, has risen tenfold in value over ten years



Its two largest ever investment projects, the Nord Stream 2 sub-sea pipeline to Germany and the Power of Siberia pipeline through difficult terrain to China, will reach their conclusion after more than a decade of challenging financial, operational and political circumstances. The Power of Siberia pipeline is scheduled to start operation on 20 December 2019, and the Nord Stream 2 pipeline on 1 January 2020. The TurkStream pipeline was already finished recently and in 2019/20 will see extensions (dubbed "TurkStream2") to markets further to the West (e.g., Greece). These and other mega-investments, such as the $100bn+ investment in Yamal, the giant Arctic gas field bigger than the entire gas production of Norway, caused a lot of short-term pain for Gazprom but have effectively put the company one investment cycle ahead of the other major gas operators of this world. It's now starting to become apparent that what was portrayed by some as misguided, ego-driven, corruption-fueled projects were actually more often than not the right strategic steps for preparing Gazprom for an overall changed situation on global gas markets. What these projects have also led to is that Gazprom has locked in its ultra-cheap production costs for at least the next 20 years. At prices where American Liquid Natural Gas ("LNG") is barely profitable, Gazprom is earning huge profit margins.

Nord Stream 2: It's happening!



This report concludes that the conversation about Gazprom is likely going to change in two, possibly three significant ways:

1. End to the "LNG for Europe" hype

An entire decade of media-hype about the alleged replacement of Russian gas exports to Europe by American LNG deliveries is drawing to a close. It has now become apparent that for Europe, the initial advantage of American LNG availability was primarily one of being able to negotiate more competitive prices for its existing long-term gas delivery contracts.

Gazprom's market share in Europe is more solid than ever

E.g., Gazprom had to renegotiate ALL of its European supply agreements and on the whole, has decreased prices by about 25%. So far, American LNG has made only tiny inroads into the European market, primarily because it is 50-70% more expensive than Russian pipeline gas. Going forward, the primary advantage of American LNG availability is one of Europe having a fall-back option should one be required. E.g., Lithuania built a dock for LNG deliveries, received one American LNG shipment with great media fanfare, and then basically went back to primarily consuming cheap Russian gas while having its LNG dock as a safety option should it be needed – showing how much of the political posturing is mere lip-service while consumers' desire to get cheap energy remains the dominant factor. Europe is a geographically large and diverse market, e.g., some countries aren't connected to Russian pipelines (Spain), and some have particularly strong political views about Russia (Poland). But on the whole, low prices are simply the no. 1 factor for European gas consumers, which is one of the reasons why Gazprom has managed to increase its market share in Europe from 23% in 2011 to 34% in 2018.

One of the world's cheapest producers

As one of the world's cheapest producers, Gazprom is now on course to keep its market share in Europe constant at approximately one third (i.e., the politically acceptable level following the conclusion of the EU's anti-trust case against Gazprom); with prices being a mixture of long-term price agreements and short-term flexibility (providing stability and an ability to fend off new competitors); and the European market overall continuing to grow because the indigenous European gas production is in long-term decline (gas imports to Europe are projected to nearly double by 2025 to make up for falling local production; declining production in Norway being one major factor).

Following this period of everyone adjusting to changed market circumstances, Europe's gas market is entering a new period of relative stability, also aided by Gazprom having locked in two-thirds of its European supply volume with long-term contracts that run until 2030. The old chestnut about "Russia switching off the gas and Europe freezing" is going to lose its relevance for Europe, leading over to a new phase where the big story will be about the cost efficiency of gas producers offering the lowest prices. In a sense, the global gas market will now be more like the oil market, i.e. focused on prices rather than origin (if anyone really cared about the latter, that'd make >80% of the world's oil supply be off limits!).

The gas market has now also become more global, which makes it more difficult for politicians to utilize it as a political weapon, be that for the US (who try to push their LNG in Europe) or the Russians.

2. Cash flowing back after a period of record investments

Gazprom has always thrown off a lot of cash, but it will do so even more over an upcoming new, long cycle.

Conclusion of major investment programme

In the years since 2008, Gazprom has pulled off its biggest investment program since the company was created as the Ministry of Gas Industry in the 1960s. The company had to find the cash to fund an investment program twice the size than that of the world's other major energy company, which to some extent led to Gazprom almost reinventing its old gas business. During this period, the company invested 3-4 times its current market value.

Between 2019 and 2021, this cycle is gradually winding down. With virtual certainty, Gazprom's overall financial situation will now shift from requiring more cash to spitting out more of the same. What used to be a constant burden will soon give way to a period of reaping the rewards of additional gas being sold to growing markets.

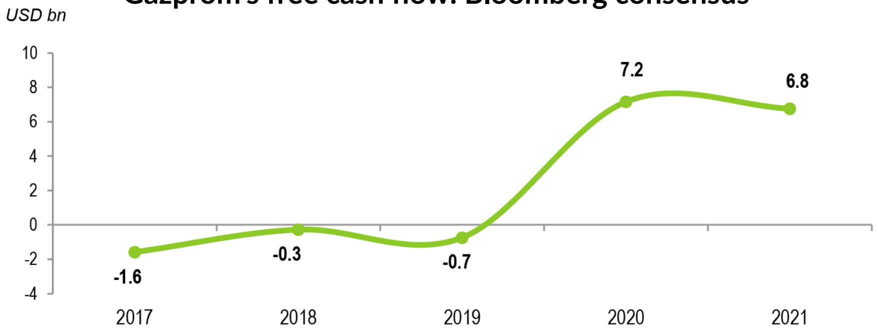
China, the no. 1 driver for rising gas demand in the world, will emerge as a significant new growth story for Gazprom, now that the company is about to operate the first-ever Russian gas pipeline to China. A second such pipeline is already being talked about because China also struggles to up its indigenous gas production ("shale fail"). Most recent reports by Reuters, albeit not officially confirmed by Gazprom, claim that Gazprom had already increased the capacity of the Power of Siberia pipeline from its originally planned 38bn cubic meters ("cbm") per year to 48bn cbm; ahead of the 2025 deadline for which this increase in capacity had been planned originally.

No one has the visibility that deep into the future, but it's entirely conceivable that the 2020s will see Gazprom experience a mega-cycle of record cash flow and profits. In any case, the payoff from the last ten years of investment will make the coming years an excellent prospect for Gazprom shareholders.

Nothing indicates this more strongly than Gazprom management's recent (but little-noticed) statement that after years of a constrained dividend policy, 2019 will see a suggestion to shareholders to significantly increase the payout.

Projections for Gazprom's free cash flow: beginning of a new cycle

Gazprom's free cash flow: Bloomberg consensus



3. Putin's changing priorities

A third potential change will seem highly contrarian and speculative at this time. This report believes that the Russian government has set the wheels in motion for re-establishing Gazprom on the international equity markets.

This is already evident on the level of Gazprom Neft, the 96% oil subsidiary that has its own listing on the Moscow stock market. Gazprom Neft has seen far-reaching improvements in its operations, governance, and investor communications. As a result, Gazprom Neft shares are up 200% since 2015. Russia sceptics would assume that with just 4% of Gazprom Neft shares in free-float, Gazprom would simply rob the subsidiary blind. To the contrary, Gazprom has made efforts to establish Gazprom Neft's stock as an attractive, transparent investment.

This is likely part of a strategy aimed at re-establishing Gazprom Neft among institutional investors, which could be done through a placement of shares in New York, London or Hong Kong. This, in turn, would provide Gazprom with the opportunity to either raise more money for Gazprom Neft, or sell off some of its stake at a substantial profit.

There is actually a historical precedent for the Putin government breaking a Soviet-era monopoly into smaller pieces and listing them separately on the market. Unified Energy System (UES), the former electricity monopolist, was broken down into 20 separate listed companies in 2008 as part of a strategy to raise an additional initial $100bn in investment funds; a step that subsequently even led to some foreign takeovers of the newly established smaller entities by Western European energy companies.

Gazprom's changing strategic value for Putin

Gazprom once used to be a convenient political tool for Putin & Co., but going forward its true strategic value will change. In the new Russian and global context, and taking into consideration Putin's apparent, recently confirmed strategy for the Russian economy, Gazprom's primary value will lie in maximizing the market value of the Russian State's 51% stake (including through dividends) and setting free the company's ability to bring significant foreign investment to the country. Seeing the company close its valuation gap to other major, publicly listed energy companies will be the single most powerful financial project Putin's Russia could pull off – bringing the Russian Treasury additional funds to the tunes of hundreds of billions of dollars (!) and building on Putin's well-established strategy of creating massive financial reserves for Russia which can then be used for stabilizing the domestic political situation.

If he plays his cards well, Putin could turn the State's 51% Gazprom stake into a >$500bn asset (75% of which the Russian state will hold directly, 25% through majority-controlled oil company Rosneft); a mere fraction of which would be sufficient to solve Putin's recent woes with the government's pension budget.

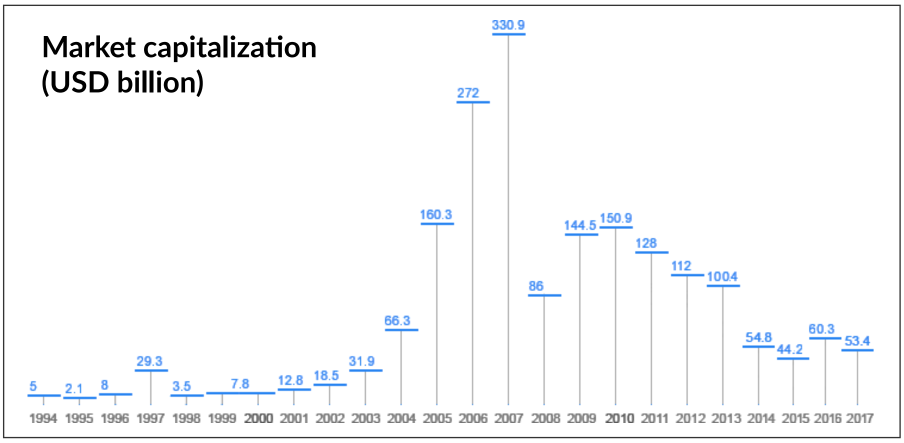
This author's view: "Putin would have to be stupid not to do it, and not acting on his own self-interest is not something Putin is known for."

Cash needed to keep this important voter group happy

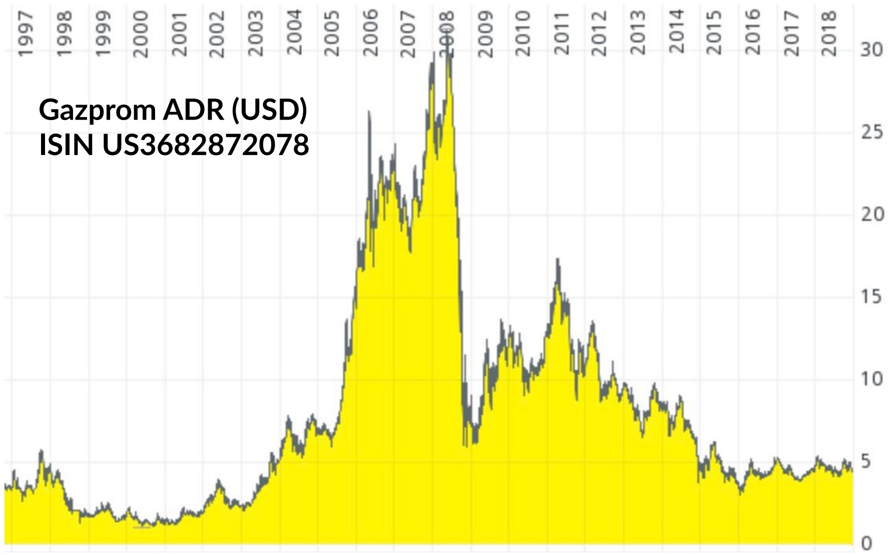
P/e of 4

At this stage, investing in Gazprom is primarily a way to buy into the company's comparatively safe and growing cash flow at an extraordinarily low price. Based on expected 2018 and 2019 earnings, the share is currently trading at a price/earnings ratio of 4 and 3.5, respectively. Gazprom most recently paid out just over a quarter of its profits as dividend, which for US/European investors leads to a dividend yield of over 5% (see page 87 for details about taxation). Russian law requires the company to pay out at least half of its profits as dividend, a rule that was only temporarily suspended to allow Gazprom to invest in its mega projects. With these projects reaching a conclusion and profits likely to grow, the company is virtually guaranteed (by law) to significantly increase its dividend payout over the coming 3-5 years. On the level of its subsidiary, Gazprom Neft, dividends have already started to rise and will likely amount to 35% of net profits in 2019. A late-November 2018 statement by Gazprom's management is the strongest indicator yet that from 2019 onwards, Gazprom is to change its payout policy. Current indications are that Gazprom shares yield well over 6%, based on the current share price and a dividend payment in 2019 of at least 10 RUB per share (= 20 RUB per ADR). There is also the possibility that the management institutes a share buy-back policy, which would be a clever use of the current under-valuation.

Gazprom's market cap throughout its life as public company



Gazprom ADR's long-term share price (in USD)



Renewable energy investments declining in 2017

Earnings projections beyond 2019 are extremely complex, primarily because of the vast scope of Gazprom's operations. However, powerful factors working to the longer-term benefit of Gazprom's bottom line are already apparent. These include the world's increasing "Energy Realism", i.e. there is a spreading realization that much-hyped renewable energies are nothing more than "supplementary energies" and will never reach the global market penetration that naïve and often financially motivated policies projected them to (tellingly, global investment in renewable energy declined by 7% in 2017). The highly respected World Energy Outlook, in its 2018 edition, has revised its 2040 estimates for global gas demand upwards, projecting annual growth between now and 2040 of 1.6% p.a. (up from 1.5% p.a.) that is largely driven by China's overall demand for energy and its desire to use gas to reduce its air pollution problem. The market share of gas in the world's energy mix is very likely going to increase further and the cheapest producers – such as Gazprom – will be first in line to benefit from this. The undoubtedly missing factor in all this is Gazprom further improving its cost efficiency, which the company can soon finally put more focus on now that the investment cycle is drawing to a close.

Gazprom is a unique animal of a company. During the early 2000s, investors have considered this an advantage, enthusiastically driving up the company's share price. During the 2010s, its unique character has been viewed as a disadvantage, and Gazprom's share price forever lingered at the bottom while the rest of the world's equity markets went from record to record. It is worth looking at it from a 33,000 feet perspective, to see what's appearing over the horizon. The next ten-year period is likely going to see a gradual turn back to the other direction, driven by rising earnings and dividends, and continued internal improvements; and backed up further by Russia's interesting set of macroeconomic data (e.g., extremely low government debt at a time when unsustainable debt is becoming a real issue in Western Europe and the US). As a result of these misconceptions about the company losing its grip, Gazprom will re-appear on the international investor community's radar screen.

"Perpetual call option"

In finance jargon, Gazprom shares are currently akin to a perpetual call option with a 6%+ dividend yield. Investors can buy into quality assets at rock-bottom prices and receive an attractive and growing dividend while waiting for the perception of the company to change. There will likely be a coiled spring reaction of the share price once the tipping point for the perception change or an announcement of some far-reaching structural changes (such as a New York / London / Hong Kong placement of Gazprom Neft or a spin-off of other Gazprom subsidiaries) are carried out.

All of Gazprom's problems can be solved, and relative to the level of remaining challenges, the assets are an absolute steal. Think of it like this: If a house that would cost $1m to construct is offered to you for $100,000, you'd first carry out a survey of any potential major issues:

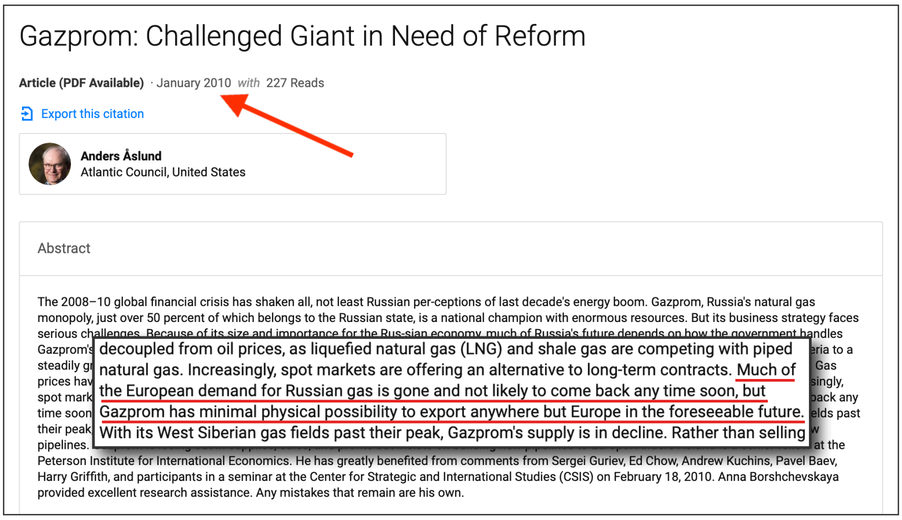
Key data on Gazprom shares / ADRs

Gazprom Share - key data	
Share Price (US$)	$4.24 (25/12/2018)
Share Price (RUB)	RUB 147 (25/12/2018)
Outstanding shares	23,673,512,900
Shares per ADR	2
Market Cap (USD)	$50bn
2017 dividend per share (RUB)	RUB 8.40
2018 dividend per share (RUB); estimate	> 10 RUB
Dividend yield based on 2018 dividend estimate	6.8%
Listings	Moscow, New York, London, Germany (Berlin, Frankfurt, Munich, Tradegate, Xetra, and others), Vienna
ISIN (ADR)	US3682872078
ADR Symbol	OGZPY
Moscow ticker symbol	OGZD
Major shareholders	Russian State (38.37%); Rosneftegaz (10.97%; controlled by Russian State); Rosgazifikatsiya (0.89%; controlled by Russian State); foreign owners (25%; via ADRs)
Website	www.gazprom.com

Publicly listed subsidiaries	
Gazprom Neft	ISIN RU0009062467 ISIN US36829G1076 (ADR)
Mosenergo (via Energoholding)	ISIN RU0008958863 ISIN US0373763087 (ADR)
TGC-1 (via Energoholding)	ISIN RU000A0JNUD0 ISIN US88145T1079 (GDR
OGK-1 (via Energoholding)	ISIN RU000A0JNG55 ISIN US6708481006 (GDR)
Novatek (10% stake)	ISIN RU000A0DKVS5 ISIN US6698881090 (GDR)

Asbestos, damp, static, electrical problems, roof issues, insulation. You wouldn't spend much time asking whether a kitchen sink or a lightbulb needed replacing. If the headline issues are fine, you know you are standing in front of a bargain.

When "top-notch" think tanks get it wrong. Since this study came out, Gazprom's market share in Europe has risen from 23% to a record high of now 34%.



Gazprom: Challenged Giant in Need of Reform

Article (PDF Available) · January 2010 *with* 227 Reads

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Abstract

The 2008–10 global financial crisis has shaken all, not least Russian per-ceptions of last decade's energy boom. Gazprom, Russia's natural gas monopoly, just over 50 percent of which belongs to the Russian state, is a national champion with enormous resources. But its business strategy faces serious challenges. Because of its size and importance for the Rus-sian economy, much of Russia's future depends on how the government handles

decoupled from oil prices, as liquefied natural gas (LNG) and shale gas are competing with piped natural gas. Increasingly, spot markets are offering an alternative to long-term contracts. Much of the European demand for Russian gas is gone and not likely to come back any time soon, but Gazprom has minimal physical possibility to export anywhere but Europe in the foreseeable future. With its West Siberian gas fields past their peak, Gazprom's supply is in decline. Rather than selling

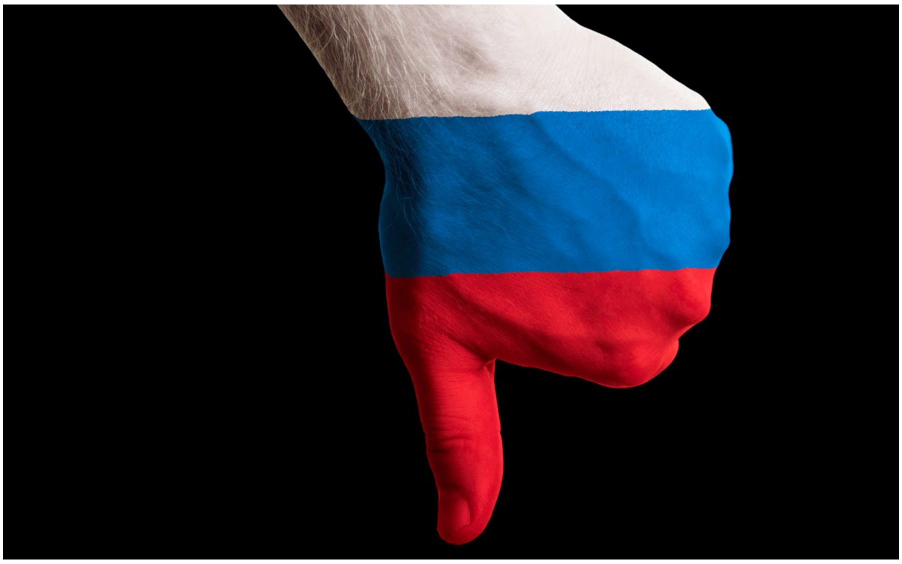
Peterson Institute for International Economics. He has greatly benefited from comments from Sergei Guriev, Ed Chow, Andrew Kuchins, Pavel Baev, Harry Griffith, and participants in a seminar at the Center for Strategic and International Studies (CSIS) on February 18, 2010. Anna Borshchevskaya provided excellent research assistance. Any mistakes that remain are his own.

Current public opinion is aggressively against Russia (probably the worst since the Cold War), which also influences the share price of companies like Gazprom. In the first phase, it'll be sufficient for perceptions to change from truly awful to merely bad. That alone should at some point lead to a quick doubling of the depressed share price. The current extraordinarily bad sentiment towards investing in Russia – bordering on hysteria – makes this all the more interesting for investors who can stomach taking ultra-contrarian positions. Precise timing is difficult, and in volatile markets, investors could consider a cost-averaging strategy (i.e., buying in several chunks once certain price thresholds are hit).

In any case, it's likely that one day, investors will look back at the current share price and wonder why Gazprom shares could ever be had so cheaply.

10 reasons NOT to invest in Russia

And why they don't matter



Russia, bad!

You can spare yourself entirely from reading this chapter. Simply refer to an in-depth research report published about Gazprom by someone else in May 2018; reading the conclusions of this particular report will be sufficient. You will be put off investing in Gazprom, and can put this entire matter aside.

A US-born analyst from giant Russian bank Sberbank CIB (whose LinkedIn profile lists an education at predominantly liberal institutions) succinctly summarized Gazprom as an entity that wasn't run for the benefit of its shareholders. Instead, he alleged, but didn't deliver evidence for, that it was primarily run for the benefit of contractors, e.g. the companies building the multi-billion pipeline projects that Gazprom is currently pulling off in different parts of its sprawling empire. These contractors, the report claimed, were charging vastly inflated prices, which benefited their owners, namely cronies of Vladimir Putin. It was claimed that the contractors' owners were sucking Gazprom dry, all with Putin's approval. This, the report concluded, left Gazprom in a situation where these new pipelines weren't ever going to make any money for its shareholders.

To some extent, and depending on which period you are looking at, the assumption that contractors screwed Gazprom will have been correct. I have no doubt that all sorts of graft has been going on at Gazprom, including inflated charging by certain contractors. There will also have been some collusion between Gazprom's management and the beneficiaries of such deals.

The question is, how big is the problem today, and will it matter going forward?

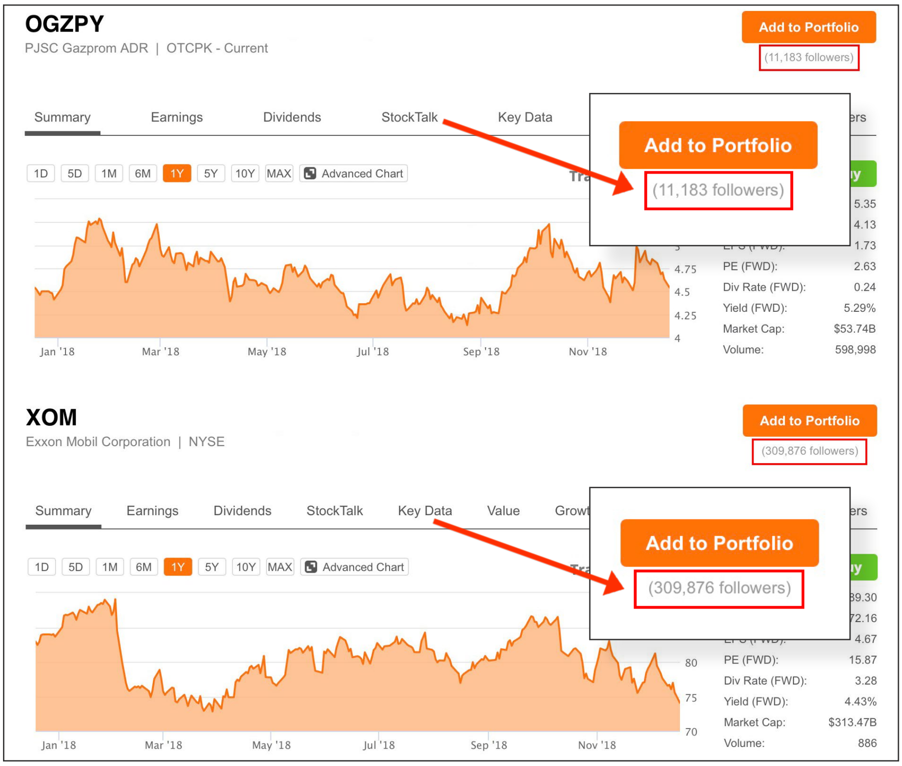
Few people will even bother reading this report

Knowledge about past corruption problems at Gazprom is so widespread, and concerns about investments in Russia disappearing down a black hole so deeply ingrained, that I don't expect my report about Gazprom to receive a lot of attention at this time. I primarily wrote this report so that once the Gazprom scenario has played out as I expect it to play out, I'll be able to point back to my publication and say: "Told ya!"

What I am not expecting is to get many people interested in reading it right now.

E.g., at Seeking Alpha, the enormously successful and helpful equity research portal, over 300,000 investors are following ExxonMobil, but only 11,000 investors Gazprom.

People will just say: "Russia? Oh, they steal all your assets. You will lose your entire investment."



Russian equities are not en vogue

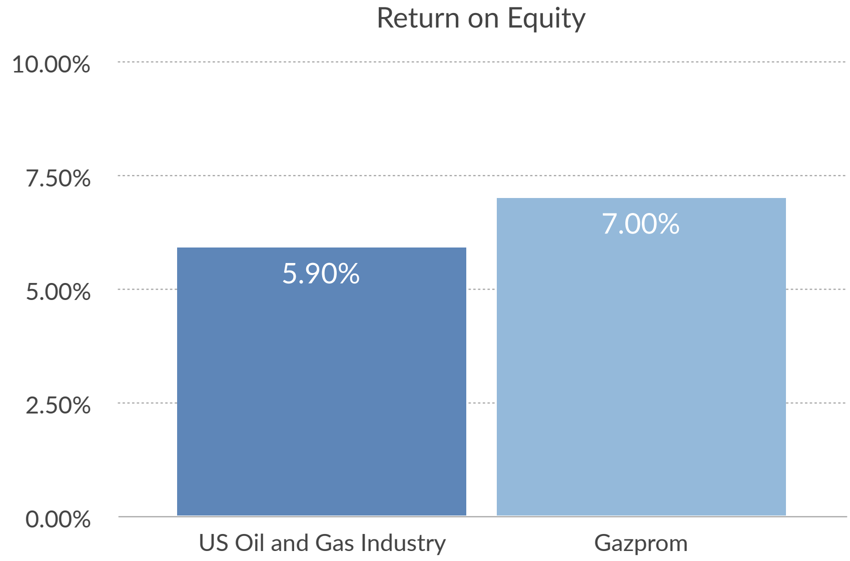
That'll be the end of the conversation.

It doesn't matter that even just a cursory look reveals that the hysteria about Russian companies has gone a bit too far.

E.g., as one participant on Seeking Alpha recently pointed out, if corruption was indeed as significant a problem at Gazprom as everyone makes out, why does Gazprom earn a return on its shareholders' equity that is fundamentally the same as that of the US energy industry?

Surely, if Gazprom was a free-for-all, the mobsters wouldn't leave so much money on the table that the company beats the profitability of many other large energy firms. Which bank robber ever broke into a safe and then left half the cash behind?

Gazprom already perfoming satisfactorily



Sources: New York University / Gazprom

But....

Facts and figures aren't going to help.

Because: "It's Russia!"

The mere mentioning of the country's name is currently sufficient to put off about 99% of investors.

Which works for us.

Here is why.

Looking beyond the obvious

Mention the mere idea of putting money into Russia, and most anyone will think you are barking mad, based on what they've learned about the country. It's very difficult today to have a serious conversation about investing in Russia.

World's most depressed equity market?

In their uninformed and often liberal media-fueled hysteria about all things Russia, many people forget that you should strive to invest in companies that are so cheap that you are effectively getting some of their assets for free.

The same people also forget that you should focus your investment decisions on how the world will look like in three or five years; in other words, anticipate trends instead of merely looking at the situation of today. Investing in the status quo isn't where you are going to consistently earn superior returns.

That's why I am going to give you some alternative points of view today.

To begin with, on the following pages you'll read about some aspects that are best described as the commonly accepted truths about Russia and the most widely held concerns about investing into the country. Some of them may be plain wrong or outdated, but they are what is currently on most peoples' minds when it comes to Russia and investing in Russian equities.

At a later stage, I'll provide information that might lead to you changing your opinion about investing in Russia. But right now, let's look at the reasons that Joe Public, bank analysts or corporate media pundits would tell you why it's better not to invest in Russia.

More reasons not to invest than we can count

1. "They will take it all away from you."

Do you remember Mikhail Khodorkovsky, the oligarch?

He was Russia's richest man thanks to owning energy company Yukos. Back in 2003, the Russian government confiscated all of his assets and threw him into jail.

This entire affair left a lasting impression, and many investors fear that if they owned any assets in Russia, the same could happen to them.

2. "There are major sanctions against the country."

The US, still the world's biggest economy by far, has put in place serious economic sanctions against Russia.

Russia was hurting economically even before these sanctions were put into place and it's not exactly gotten any easier for them since.

For example, some critical technologies are no longer available in the country, leaving companies with missing spare parts and similar problems.

As a fun anecdote, Russia was also banned from importing European cheese. Ever since there has been a bit of a cheese crisis among expats living in Moscow and St. Petersburg.

3. "The risk of military conflict."

There is the ongoing conflict with Ukraine, which taught the world that there is such a thing as the Sea of Azov. Also, Russia still occupies parts of Georgia. Some even say that Russia might invade the Baltics.

Next on Putin's shopping list?

Never mind the possibility of the US and Russia wiping each other out in some form of nuclear war, triggered by an emotional Donald Trump or an evil Vladimir Putin.

Hardly anyone really understands any of these military and political conflicts. But on the outside, Russia doesn't appear like a stable country that you should entrust your savings with because some kind of war could break out any minute.

4. "A society in secular decline."

You must have already heard about this one. Russia has one of the highest rates of alcoholism (especially among men), and the lowest life expectancy among major Western countries. As a result, the country faces enormous demographic challenges.

The combination of too many old people and not enough young people never makes for a thriving economy.

5. "Structural issues of its economy."

Russia, they say, really only lives off commodities. Oil, gas, copper, gold, and similar extractive industries.

Its economy is heavily tilted towards that sector, which means that if commodities aren't doing too well on world markets, the Russian economy is screwed.

6. "Russia barely even matters anymore."

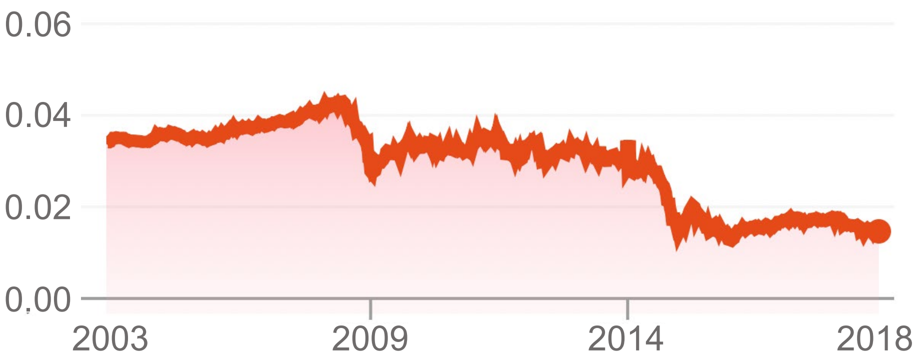
It's often cited in the media that Russia's economy is now smaller than that of South Korea. Which is meant to say that Russia is gradually shrinking to a level where the country hardly matters anymore.

7. "Investing in Russia has currency risks."

Suffice to say, over the last ten years, the Russian ruble has lost 60% of its value compared to the USD. It has fared equally bad compared with other currencies.

If you had invested into a Russian company whose share price had gone down during that period, you would have suffered a double loss, i.e. the share price going down, and the remaining value of that share being less if you converted your investment back into US dollars or pretty much any other currency.

Exchange rate RUB vs. USD



8. "It's a complicated country."

Winston Churchill once said: "Russia is a riddle wrapped in a mystery inside an enigma."

This is not a straightforward country to analyze or to make predictions about.

As someone who has just spent a few months researching and then writing an 94-page report about the country's largest company, I have a lot of sympathy for this particular concern.

9. "How do I even invest in Russia?"

You may wonder, what am I talking about, since you haven't come across any ways yet for putting money into Russia.

Investing in foreign markets is often perceived to be more difficult than investing at home, or it's thought to be something only very rich people can do.

10. "Vladimir Putin"

Not everyone is a fan of Putin

Ta-ta-ta-taaaaa!

I definitely saved the best till last.

What can I even say about him? Most anyone believes he is terrifying. He certainly is, in some ways.

On the other hand, the idea that one day, he might not be there anymore, is also seen as terrifying, because some say he is the only one keeping the chaotic country together. At least based on current laws, he will definitely have to leave office in 2024.

In any case, Putin isn't someone who inspires confidence in most investors.

Excellent points, but...

Take all these issues together, and you have what can be seen as an OVERWHELMING case against putting a single penny into Russia.

I looked at all of these concerns. Let me tell you: Much of this isn't relevant going forward.

There are some points where even just a simple look at facts and figures together with the application of logic leads you to see why the doom-and-gloom view of Russia has gone a wee bit too far.

E.g., a bit further down you'll see how the much-cited demographics of Russia have recently seen a change that elsewhere has so far gone mostly unnoticed.

But these are ultimately just details. The crucial point is, markets are all about the future, and you shouldn't get distracted by the present.

To give you an example, in Spring 2018 I visited South Korea. At the time, much of the mainstream media and the broad public didn't expect anything good to come out of the political situation in Korea, despite ample evidence that the situation in Korea was likely going to take a significant turn. Instead, most observers expended their oxygen on spreading fear about everyone about to be annihilated by a nuclear war between Trump and Kim.

One particular South Korean share that is all about the future prospects of North Korea's economy has risen a staggering 300%. You can read more about this on my website Undervalued-Shares.com.

Today's news is old hat

Today's news is already priced into markets. For investing purposes, analyzing the present is mostly irrelevant. What you need to look at is the future. You need to anticipate what's going to happen next, to get in on an investment before everyone else does.

Once everyone else does, you should cash out and take the money you've earned off the table.

A few surprising facts about Russia

I wonder if you've heard of any of the following:

- Since 1994, life expectancy in Russia has increased, from 64 years to 72.5 years. It's now higher than it has ever been during Soviet times.

- The country's birth rate has been creeping upwards since its low in 1999. Come to think, the country now has a higher birth rate than the European Union!

- Russian government debt is now at just 13% of GDP, which makes it one of the lowest indebted countries in the world (Italy: 131%; France: 97%; UK: 85%).

- Despite the economic sanctions, the Russian economy has been growing. The growth rate of 2% p.a. isn't very high in absolute numbers, but the quality of the growth is – at least in some aspects – comparatively high because unlike pretty much everywhere else, it's not fueled and distorted by debt.

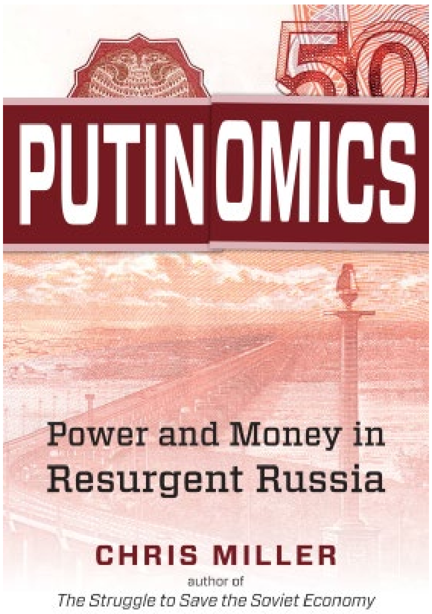
- Russia's unemployment is 4.9%, the lowest it has been since 1992 (France: 8.9%; Spain: 15.2%; Italy: 9.7%; Greece: 19%).

If you pick up the regular International Monetary Fund (IMF) reports about the world's major economies, you'll see that they grade Russia as having done almost everything right on the macroeconomic front.

This includes Putin's ability to discipline government spending during good times so that the government has a cushion to work with during bad times. Just how remarkably well Putin has done in this department cannot be over-emphasized.

E.g., between 2000-2007, the Russian government, flush with money from booming commodity prices, built up foreign currency reserves amounting to a staggering $700bn. When the oil price went into decline as a result of the 2008 crisis, Putin's government had the resources to respond and stabilize the domestic situation. Which other major economy in the world has a two-decade track record of saving money when times are good and spending it when times are bad? Understanding the ins and outs of "Putinomics" is only one aspect of understanding Putin's political longevity, but an important one.

Recommended reading: The best available book on Putinomics



There are, as always, counter-arguments. E.g., Russia has a low level of debt nationally, but it has most recently been suffering under some of its virtually insolvent regional governments. Also, whereas there is low unemployment, it's also true that due to the ruble devaluation of 2015/2016, large parts of the population have seen their real incomes drop significantly.

The main point remains valid, though. Reporting about Russia is overwhelmingly one-sided. The facts and figures cited above are not what the Western corporate media would want you to know about. Russia has transformed itself into a country where the government doesn't run up debt to enslave future generations. The country has also taken a strong stance when it comes to that widespread notion of countries being pressured to hand over national sovereignty to supra-national institutions like the EU or the UN – the simple Russian response to that is "Njet." Instead, it has a leader who, for all his despicable flaws, has made patriotism fashionable and aims to protect the sovereignty of his country. All of this runs counter the interests of supra-national organizations like the UN, and it runs counter the personal political beliefs of most Western journalists. That's why your average journalist who works for the likes of *Le Monde*, *Der Spiegel*, or *The Guardian* would rather you not be aware of how well the country is doing in some regards. Most Western journalists will despise many of Russia's conservative values and not report how this also leads to good outcomes.

The figures cited above are exemplary for much of the West missing out on significant changes that have been taking place in Russia.

There is also an under-reported side to the sanctions that were levied against the country.

E.g., as a consequence of the EU/US prohibiting food exports to Russia, the country has invested into its agricultural sector, utilizing Russia's enormous land mass (fun fact: largest landmass of any nation on earth!). Its grain exports overtook the US in 2016 and have recently even pushed the EU off its perch as the world's wheat king. These sanctions hurt Russian consumers at the time, and the availability (or lack) of Italian cheese does remain a frustrating problem in Moscow's and St. Petersburg's expat circles. But in some aspects, these sanctions have set the country onto a path of a financially healthy form of self-sufficiency. And in any case, despite the sanctions, the Russian economy does move forward.

Turning crisis into opportunity

Russian agriculture thrives as sanctions close off imports | Financial Times

Henry Foy SEPTEMBER 3, 2017

If western sanctions aimed to cripple Russian business, nobody told the country's fish farmers.

In the cold waters of the Barents Sea, Russian Aquaculture, the country's largest salmon producer has increased production more than six-fold so far this year, as part of a boom in the country's food and agriculture industry caused by restrictions on western imports.

Around Russia, farms, fields, greenhouses and fertiliser factories are thriving as consumers turn to domestically-produced food, helped by the worst relations between Moscow and the west for a generation.

After the EU and US imposed sanctions on some Russian businesses following the country's invasion of Ukraine and annexation of Crimea in 2014, Moscow hit back with sweeping bans on western food imports.

Overnight, about 60 per cent of the country's total meat and fish imports were banned, and 50 per cent of dairy, vegetable and fruit imports — creating a huge opportunity for domestic producers. Total food imports from the EU fell 40 per cent between 2013 and 2016.

"Russian agriculture is booming," said Andrei Guryev, chief executive of major Russian fertiliser company PhosAgro. "[And] we certainly see a lot of interest from foreign investors."

The next time you read about sanctions against Russia and some of the ill-effects the country has been suffering, I urge you to spend a bit of time on your search engine of choice to research the other side of the coin. The real situation is much more nuanced. You'll come to the conclusion that in the absence of extreme measures getting implemented against an already weak and ideally small country, sanctions are virtually impossible to make work in the way they are often portrayed to work. The West will also have to learn that its ideas about sanctions against Russia are to some extent naïve, and in any case, much less effective than many Western politicians make out. I'll come back to this subject in a section that will show Gazprom having worked to source 100% of the technology needed for its pipelines from Russian firms, leaving any import sanctions aimed at stalling the company's pipeline projects entirely ineffective.

In any case, I hazard a guess that 70-80% of the doom-mongering about Russia is either exaggerated or based on outdated knowledge.

Why you need to know about "perception gaps"

I believe that these are changes which will continue to unfold. Eventually, they will lead to Russia being reshaped in ways that few people are expecting right now.

I call such situations "perception gaps." That's when the reality on the ground has already changed significantly, but the vast majority of people just haven't caught up with the changes yet.

It is interesting that quite often, when you visit a country or research its key facts and figures, anticipating changes isn't actually all that difficult. However, because human nature is geared towards holding on to established belief patterns, there aren't many who can change their views quickly enough to capitalize on them, e.g., by making the right moves on the stock market.

Needless to say, as a member of Undervalued-Shares.com, I want you to be ahead in this game, and make money off all those who only realize later (too late!) how the world has changed around them.

There will come the point when the very positive macro situation in Russia becomes glaringly obvious. Timing this is nearly impossible, just as no one has ever managed to consistently predict markets. But it'll happen eventually, and once it does, the effect should be quite remarkable, as you'll learn in the next chapter.

How Gazprom emerged from the collapse of the Soviet Union

And why its unique relationship with the state isn't quite the disadvantage it's perceived to be

Gazprom has a long history of being tightly interwoven – for better or worse – with Russian politics.

It starts with the fact that the company's roots date back to Russia's struggle against Nazi Germany. In 1943, the Russian government made it a national priority to locate and produce natural gas. The company's website and Wikipedia profile won't tell you much about this early period of the operation, probably because no one likes being tied to World War II and Stalin, not even indirectly.

Igor Golovniov / Shutterstock.com

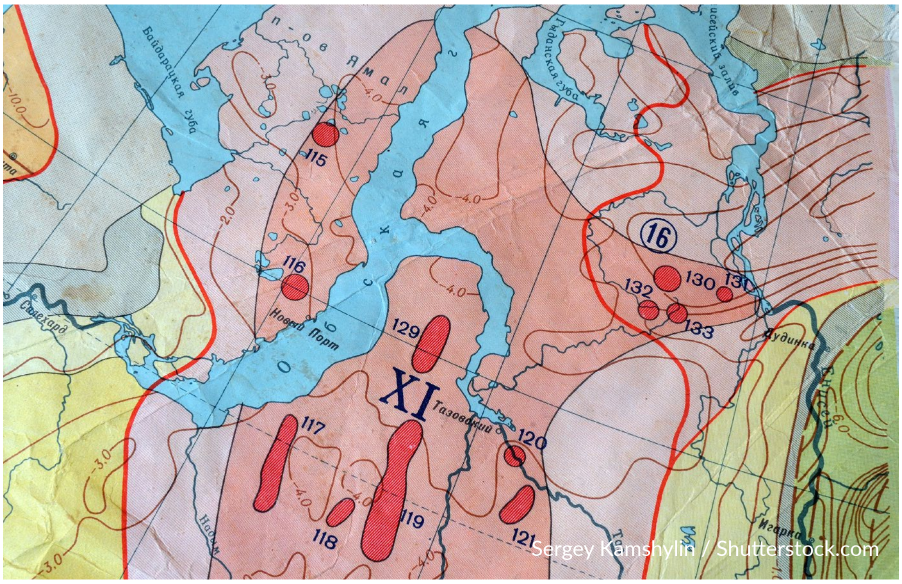
The Russian flame of oil and gas burning back in Soviet days

Another little-known milestone is the 1965 decision to centralize all gas exploration across the Soviet Union. It was this decision that led to Gazprom's legal predecessor discovering some of the world's largest gas fields during the 1970s and 1980s, mostly in Siberia, the Ural region and the Volga region. At the time, Gazprom was operated in the form of a ministry, the "Ministry of Gas Industry." Ever since it has had the character of a national giant.

The company's official history, as retold in the commonly available material today, started in 1989. The Ministry was renamed State Gas Concern Gazprom, and its legal status changed to that of a state-run enterprise.

The incorporation as state-run enterprise laid the foundation for the eventual privatization of Gazprom.

Russian gas field maps back in the olden days



In 1993, then-President Boris Yeltsin turned the Gazprom entity into a joint-stock company, i.e., he enabled the issuance of shares to the public. First in line to become shareholders were Russian citizens. Each Russian citizen received vouchers to purchase shares in Gazprom (and other privatized companies) at preferential prices. Many decided to sell their coupons for immediate cash, but others took up the offer to become shareholders.

Gazprom is Russia's "people's share"

By 1994, Gazprom had over a million shareholders who owned around 50% of the company. The government retained a 39.4% stake in Gazprom, which effectively gave it control. The state's stake was increased to just over 50% in 2004, when the government, in a series of complex transactions, bought 10.74% of Gazprom at a price of $7.14bn or $5.62 per share (i.e., a higher price than today's share price).

Global IPO (of sorts) in 1996

Foreigners weren't officially allowed to buy Gazprom shares when they first became available in Russia. However, the strong interest from foreign investors led to the company eventually pursuing a listing on international markets.

In 1996, Gazprom offered 1% of its equity to foreign investors, using a so-called American Depositary Receipt program. "ADRs" are certificates that have the relevant share as an underlying asset – mostly a technical matter to make it easier for investors to trade stocks through global banks and brokers.

Outside of the ADR program, foreign investors did actively trade Gazprom shares on the Russian market. They circumvented the rules prohibiting foreigners from buying shares by using a variety of grey-area solutions, e.g., using Russian citizens as fiduciaries, often through offshore companies incorporated in Cyprus.

Later, and no doubt as a result of the existing rules being so ineffective, the regulation was changed and 49% of Gazprom (i.e., all shares not held by the Russian government) were opened up for legal purchasing by foreigners, either through purchases of shares on the Moscow Stock Exchange or through the purchase of ADRs on international markets.

Interesting bond issues

Gazprom shares are not the only financial instruments through which investors can get exposure to the company. One year after the introduction of the ADRs, Gazprom made a $2.5bn bond offering to international investors. Since then, Gazprom tapping the global financing markets through bond issues has become a fairly regular occurrence. Buying a Gazprom bond is another way of participating in the company, albeit one that is mostly taken advantage of by institutional rather than private investors.

A lost decade (of sorts)

It's interesting how Wikipedia, the widely-read content platform which often serves as a useful indicator what the mainstream thinks, carries quite an amount of information about Gazprom's history between 1989 and 2007, but then comparatively little for the period from 2008 onwards.

In other media, too, interest in Gazprom has been relatively modest during the past ten years.

I remember the media flurry that ensued just over a decade ago when Gazprom was valued at up to $367bn. International media representatives fell over each other in their quest to report about Gazprom's plan to become the world's first publicly listed trillion dollar company. Just as there is a negative media hysteria about Russia right now, back then there was a positive hype about Russia having just finished eight years of (remarkable) 7% annual economic growth. Gazprom as the country's biggest company was riding that wave of global interest like no other Russian company.

By not reporting much about Gazprom in recent years, a few interesting twists in the company's history have gone under-reported. Such as Gazprom's coup – with the help of the Russian government – to purchase an oligarch's oil company at what turned out to be way too low a price.

"Sibneft" alone is worth almost 50% of Gazprom's current market cap

For years, Gazprom has received a lot of flak for its involvement in political games played by the Kremlin.

Much of which was justified. E.g., Gazprom provided inflated spon-

Those were the days!

Gazprom Aims for $1 Trillion Market Cap

Published 11:40 AM ET Tue, 10 June 2008 | Updated 12:56 PM ET Thu, 5 Aug 2010

AFX

DEAUVILLE (Thomson Financial) - Russian gas utility Gazprom aims to become the world's biggest company with market capitalisation of $1 trillion within 7 to 10 years, chief executive Alexei Miller told a press conference in Deauville, northern France.

Speaking at a rare strategy presentation, Miller said he is "sure" the utility can become the world's biggest company and has reasons to believe it can be achieved.

He said the company's strategy is based on building up production volumes that meet demand, extraction in new regions such as eastern Siberia, the far eastern regions of the Russian shelf of Arctic seas.

sorship support to the disastrous Russian Olympics in Sochi, solely because there was a funding need that had to be covered to avoid national embarrassment. A government shouldn't be involved in the running of a company, even if it owns 51% of the shares. No need to even argue about that.

However, it'd be wrong to assume this was only ever to the disadvantage of shareholders.

Gazprom's take-over of Sibneft

E.g., as a result of political meddling, in 2005 Gazprom ended up buying 73% of oil producer Sibneft. Sibneft was the principal company in the portfolio of a well-known Russian oligarch, Roman Abramovich of Chelsea soccer club fame. At the time, Sibneft accounted for one-third of Russia's oil output.

It was never clear whether Abramovich was "muscled" into selling his stake in the company, or whether he needed a friendly party to sell the stake and cash out without too many questions being asked how he got to own the company in the first place. At the time, Western media was mostly outraged over what seemed like an effort to re-nationalize a private company.

Favouritism or great bargain?

The other side of the coin was that Abramovich and his financiers had received these assets using questionable methods during questionable privatization auctions in the 1990s. He had paid about $100m for the Sibneft assets and ended up selling his stake for $13.1bn (130-times return) about ten years later. Gazprom was the conduit through which Abramovich was rewarded by giving him a $13.1bn cheque. Some said that this was another case of Putin's cronies benefiting from Gazprom's vast cash flow, i.e., company funds being diverted for the benefit of individuals.

When the transaction took place in 2005, it was the largest corporate transaction Russia had seen up to this point. At the same time, because Gazprom is so vast, it only added about 5% to the asset base of the company.

The stake in Sibneft was later increased to 96% by purchasing another 20% for the price of $4.1bn from Italian oil company ENI. This took the total price Gazprom paid for its 96% stake to $17.1bn. The company was subsequently renamed Gazprom Neft (literally: "Gazprom Oil"). Whereas Gazprom used to be 100% about gas, it then reported separately about its gas business and its oil business. Gazprom Neft, to this day, has remained a company with its own listing on the Russian stock market (and in the US through an ADR), albeit with a relatively small free float of just 4%.

There is little doubt that this was, in part, a political decision. Then again, it seems to have benefited Gazprom financially. When the deal happened, Bill Browder, founder of Hermitage Asset Management and back then not yet embroiled in the legal fight against the Russian government that he is now primarily known for, told *The Guardian*:

"Anyone in Gazprom's position would do this deal in a heartbeat ... If control of Sibneft were ever available on the open market, I'm sure Western energy companies would pay significantly more."

Sibneft paid off nicely

Because of the resurgent oil price combined with an ongoing improvement of the company's management and performance, Sibneft shares have performed very well in recent times (see chart on page 9). Gazprom's stake in the company is now worth about $25bn. Not only is that 1.5 times what it paid 13 years ago. Gazprom has since also received almost its original purchase price in dividends!

None of that counted much to Gazprom's favor recently. During the past ten years, the market focused on the negatives.

Gazprom's share price suffering a ten-year hangover

During the 2008 financial crisis, in a matter of just a few months, the oil price had declined from $147 to $32, dragging other energy price categories with it. The price for gas is naturally linked to oil, because to some extent, gas can be replaced with oil (and vice versa). Back in those days, Gazprom's delivery contracts were still mostly based on a pricing formula that was primarily based around the oil price.

Gazprom shares dropped like a stone from US$ 31.25 on 19 May 2008 to just US$ 6.80 on 26 January 2009; a decline of 78% within only eight months.

The share temporarily recovered to US$ 17.40 by Spring 2011, but subsequently fell back to a level that was even lower. In January 2016, its stock was changing hands for a paltry US$ 3.40.

Gazprom is trading lower than in 2008

At their current price of US$ 4.24 per share, Gazprom shares are still trading even lower than during the darkest days of the 2008 crash period.

Gazprom had its fair share of public failures

During these past ten years, Gazprom has gone through a period of structural, long-term changes. Not all of them were a success, and even those that by now are seen as success had to go through prolonged periods of doubt, uncertainty, and setbacks.

This period brought with it a fair number of failures which cost Gazprom a lot of money and which fully justified the company getting chastised. Chief among them was the initiated but subsequently abandoned effort to develop the Shtokman field, one of the world's largest natural gas fields in the Northwestern part of the remote South Barents Basin.

Discovered in 1988, this gas field has developed a reputation for being a stop-and-go project that involved an entire line-up of international partners, all of which were disappointed eventually.

In 2007, France's TOTAL was chosen as a new partner for developing the field. Later that year, Norway's Equinor (better known under its previous name, Statoil) joined the consortium. However, the financial crisis and the rise of the American LNG production led the three partners to postpone the project in 2010. The plans weren't officially abandoned, but the original shareholders' agreement for the investment expired in 2012 which effectively put an end to the project. This was a high-profile failure of a project that Gazprom had huge expectations for, and the disappointment it caused was real.

Other developments that cast a bad light on Gazprom during this period included:

- A long-running anti-trust case fought by the European Commission (i.e., EU) against Gazprom. The anti-trust case attacked Gazprom's long-standing policy of preventing individual EU countries from re-selling Gazprom gas to other EU countries. In essence, the EU accused Gazprom of abusing its market power. At a time when the likes of Google and Apple received multi-billion fines, it was feared Gazprom was going to suffer a similar expensive fate.

- Starting in 2005 and continuing for many years, Gazprom has been in legal disputes with Ukraine, a country that relies on Russian gas deliveries and then also served as the pass-through country for 80% of the gas delivered from Gazprom to European markets. The legal and commercial dispute grew into a fully-fledged transnational conflict that involved the heads of states of several countries. Obviously, the onset of the Crimean War did further damage.

Some of the other advances weren't necessarily negative financially but attracted negative PR for different reasons. No other project did as much to this end, as the politicized Nord Stream 2 pipeline aimed at creating a sub-sea pipeline through the Baltic Sea to Germany. This project became the focal discussion point about Europe's dependency on cheap Russian gas and the hoped-for market entrance of American LNG to Europe. Because of the project's politicization, it wasn't overall recognized as a positive step for the company; and even those who understood its potential value had to remain worried about the project actually going forward until Autumn 2018 when it finally managed to clear the remaining roadblocks and entered its implementation period.

Nord Stream 2 cutting across the Baltic Sea

All of the above also led observers to wonder just how much of a for-profit company Gazprom is, and to what degree it is a political tool of the Kremlin?

Gazprom's past importance for Russia's politics

It's vital to understand just what a significant factor Gazprom has been within the Russian economy and, as an extension of that, for the Russian government. A few headline figures to keep in mind are:

Gazprom's extraordinary importance for the Russian economy

- Even today, Gazprom single-handedly accounts for nearly 8% of Russia's GDP. In the early 2000s, Gazprom's share of the Russian GDP was well above 10%.

- In some years, Gazprom provided more than 25% of Russia's entire tax revenues.

- Over 90% of Russian citizens depend on Gazprom for heating.

- The 51% stake the Russian state holds in Gazprom is the single largest private company investment that the government owns.

Any politician who controls 51% of a company that has both broad reach and deep pockets like Gazprom will regularly be tempted to use the company for the wrong purposes.

However, amidst the repetitive reporting on these issues, another important recent aspect has been largely overlooked.

The Russian state investing in Gazprom's future

In recent times, the bigger story is how the Russian government, for years, has pulled together to invest in the future of Gazprom.

- Companies where the Russian government is a majority owner are required by law to pay out at least 50% of their annual profit as dividend. Remarkably, Gazprom got special permission to pay out a lower dividend so that the company would have more funds to invest in its mega-projects.

- A government-owned pension fund invested some of its funds into Gazprom bonds, again designed to help Gazprom finish its large investment projects at a time when the company was challenged to find financing elsewhere due to difficult credit markets and sanctions.

- Gazprom was given flexibility when it came to paying Russian mineral tax, another measure designed to prioritize the company's large investment projects at a time when access to international financing markets wasn't always easy.

These were backdoor investments

This is not the behavior of a government that wants to suck a company dry.

It's the opposite, and it makes a hell of a lot of sense financially.

The Russian government's changing priorities

The Western establishment media tend to lag a few years behind when it comes to realizing new trends in general, and nowhere is this truer than for the subject of Russia.

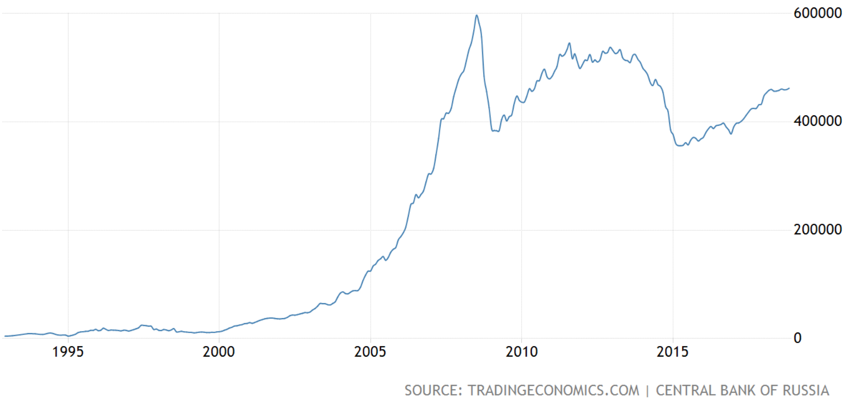
The issue of the Kremlin favoring certain oligarchs over others and all that comes with it is not going to be such a major topic anymore going forward. Funny dealings involving Gazprom assets had their time and place. They were done when this was a necessity for Russian politics and its leaders.

Putin and his allies will be pursuing bigger priorities going forward. The Kremlin has a new priority, i.e., expanding the country's international presence and clout.

E.g., Putin has already succeeded in building a foreign currency reserve of $460bn. This puts Russia into the top ten list of countries with the highest foreign currency reserve, ahead of Taiwan, Hong Kong, and South Korea.

Greenbacks as a tool for controlling domestic politics: Putin is eager to keep maximum foreign currency reserves

Russia's Foreign Exchange Reserves (USD Million)



Making Russia a financially solid, strong country is one of Putin's clear priorities. To never again be at the whip hand of foreign financiers, the government even resisted the temptation of running up government debt. With a debt ratio of just 13% of GDP, Russia is one of the least indebted major countries on earth.

Putin's Russia is focused on deleveraging and becoming master of its own financial fate. Outside of military strength and nuclear bombs, nothing gives you quite the same level of international influence as having more money than almost anyone else and not having to depend on any external funding sources.

With this in mind, which one of the following two options would you expect Putin to pursue in this new era of maximizing Russia's financial might?

- Steal a billion here and a billion there.
- Create one or two trillion(s) of additional wealth by increasing Gazprom's value in line with what a normalized Gazprom company would be valued at on international markets.

Gazprom is likely to be used as a significant building block within this strategy. Turning Gazprom back into a successful equity story and then selling off chunks of the state's 51% holding could propel Russia into the world's top three countries as far as holding financial reserves are concerned – from which a whole raft of economic and political advantages will follow on.

If you refer back to Putin's (successful) efforts to rebuild the Russian economy as something more robust and thriving, doing something transformative with Gazprom becomes just another logical extension of that strategy.

Gazprom actually alludes to this on one of its own websites. On its website, it mentions the company's strategic goal of "establishing itself as a leader among global energy companies."

Putin's homework is clear

You can't be much of a "leader" if you are the one company that is judged as so untrustworthy by financial markets that you are valued at a fraction of your assets' actual value.

Why this is comparable to recent developments at Saudi Aramco

The Saudis are, in some ways, in a similar situation as the Russians.

Their oil monopoly, Saudi Aramco, had long been a free-for-all cash cow for the kingdom's powerful. Saudi Aramco was ruled in the same kind of autocratic, kleptocratic style as the rest of the country – probably until very recently about as bad as Gazprom was during the 1990s.

However, the country's elite recently realized that it could make much more money, and advance its interests in a stronger way, if it cleaned up Aramco's governance problems and instead IPO'ed the company on a global stock exchange.

Instead of just squeezing a cash dividend and other lavish payments from the company every year, it would then hold an asset valued at $2tr. By selling only 5%, it could coffer a neat $100bn. The other $1.9tr would make for a very impressive bank statement – that's a lot of zeros needed to sum up the value of that stock portfolio!

There is also an important symbolic aspect to it. By turning itself into the country that is home to one of the world's largest public companies (possibly even the largest one), Saudi Arabia would also set itself up for all sorts of soft benefits, such as increased trust in its economy, higher valuations for other public companies in Saudi Arabia, and increased foreign investment. The latter being what Saudi Arabia so desperately wants and needs.

Just like the reforms at Gazprom, turning Saudi Aramco into a presentable company for an IPO hasn't been easy, and it has taken its time due to a variety of setbacks. But it's advancing in that direction. With the sums involved, you can bet this is one of the key national priorities in Saudi Arabia.

2019 will be the year of this becoming more apparent

Ironically, just as Gazprom shareholders were facing a seemingly never-ending malaise, the company itself has actually been making very impressive and measurable progress. During the past couple of years, it's already been quite evident that Gazprom was on the right track strategically, provided it could find enough cash to finish all its major investment projects.

As part of that, it has also become apparent that after being used for some short-term political gains, Gazprom will ultimately only remain a powerful tool for Russia's government if it turns itself into a commercially successful company.

Clearing the decks for governance reform

The clean-up and restructuring of the company's governance can already be witnessed at Gazprom Neft (see page 73). It's now also started to become more visible at the holding company. E.g., Gazprom made a conscious effort to finish up some long-standing legal cases that could have been fought to the end, but where it seemed better to aim for closure. The anti-trust lawsuit brought by the European Commission was finished in 2018 (notably, without a fine; unlike Google!), and the result makes it highly unlikely that any other anti-trust case will ever be brought up in Europe.

I expect that throughout 2019, when Gazprom will be celebrating its 30th anniversary as a company, all of this will become obvious to a broader audience.

The issues involving the Ukrainian market are also likely to come to an end in 2019, in a combination of Gazprom paying a fine and subsequently routing its gas through the Nord Stream 2 and TurkStream pipelines instead of letting it pass through Ukraine. Whatever goes down in Ukraine, it is not going to affect Gazprom's exports to Europe.

Based on what my radar screen picks up concerning early signals, Gazprom's large projects now coming to a successful conclusion will provide the foundation on which the Russian government will build its efforts to resurrect Gazprom's reputation as a globally leading and highly valued company.

Long-term play

Once the company and its equity story gain momentum, it'll probably just keep going in that direction for quite some time. That's why I see Gazprom as an investment that is suitable for a 5-10-year "Buy and Hold strategy".

TurkStream: Not passing through Ukraine

The two Nord Stream pipelines will make the pipeline through Ukraine redundant

Buddies!

Obviously, the views you find in this report are not what you'd typically see in legacy media or brokerage reports. At least, not yet. It does appear, though, that some other market participants have started to smell the coffee.

If I am right, the recent uplift in the company's share price and the relatively strong trading volumes are the first indications of what's to come. Much as I am not into market timing per se, I do believe there is quite a chance that 2019 will turn into a year that Gazprom shareholders will look back at fondly.

Put another way, you might not have to wait five or ten years for a pay-off.

In the next chapter, I'll explain in more detail why this might be the case.

How Gazprom's business works

A simple, established business model

On the surface of it, Gazprom's business model is as simple as they come:

- The company has the rights to gas that's in the ground.
- It gets the gas out of the ground.
- It sells the gas to a variety of customers.

So far, so easy.

The actual process involved and the intricacies of the business are an entirely different story, though.

E.g., there are many different prices for gas

There isn't a single "world market price" for gas, as one would assume. Prices charged by Gazprom vary a lot depending on client groups. For example:

- Russian citizens get a heavily discounted price and pay about half the rate European consumers have to pay.
- Many countries (including Russia) regulate gas prices to have different pricing for private consumers and industrial users.
- There are different prices for different geographies, e.g., as a rule of thumb, prices are higher for Asian markets than for Europe.
- Gas prices also depend on the form of delivery, e.g., liquified natural gas – "LNG" – is more expensive than regular gas delivered through a pipeline.

Add the fact that gas is often delivered on the basis of long-term contracts that include a mixture of fixed and flexible clauses. E.g., a new pipeline to China was agreed on the back of what then was said to be a $400bn, 30-year contract. However, few details were published at the time, and it is likely that the original deal has already been partially renegotiated or will see further, regular renegotiation of individual aspects. With this in mind, you'll start to understand that analyzing a company like Gazprom, which operates in 34 countries on four continents, is a highly complex affair.

In need of reading material? This bond prospectus from Gazprom has 464 pages!

Open Joint Stock Company Gazprom
U.S.$30,000,000,000
Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,
Gaz Capital S.A. for the sole purpose of financing loans to

Open Joint Stock Company Gazprom

Under the Programme for the Issuance of Loan Participation Notes described in this Base Prospectus (the "Programme"), Gaz Capital S.A. (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the "Notes") on the terms set out herein, as completed by a final terms document (each, "Final Terms") or a series prospectus (each, "Series Prospectus") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.$30,000,000,000 (or the equivalent in other currencies). This Base Prospectus supersedes any previous base prospectus, offering circular or supplement thereto relating to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes issued prior to the date hereof.

Notes will be issued in Series (as defined in "Overview of the Programme") and the sole purpose of issuing each Series will be to finance loans (each a "Loan") to Open Joint Stock Company Gazprom (the "Borrower," "Gazprom" or the "Company") as borrower, on the terms of an amended and restated facility agreement between the Issuer and the Borrower dated December 7, 2005 (the "Facility Agreement"), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each Issue Date (each a "Loan Supplement" and, together with the Facility Agreement, each a "Loan Agreement") between the Issuer and the Borrower. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge by way of first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed (a) its right to principal, interest and other amounts as lender under the relevant Loan Agreement and (b) amounts received pursuant to the relevant Loan in an account of the Issuer (as described herein), in each case other than the Reserved Rights (as defined in the Trust Deed) and certain amounts relating to the Reserved Rights to the Trustee for the benefit of itself and the Noteholders (as defined herein) and will assign its administrative rights under the relevant Loan Agreement to the Trustee (the "Assigned Rights").

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to holders of the Notes ("Noteholders"), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the corresponding Loan Agreement. The Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the covenant to pay under the relevant Loan Agreement and the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.**

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 21.

The Notes and the corresponding Loans (together, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). Depending on the terms of the particular Series of Notes, the Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("Rule 144A")) that are also qualified purchasers (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940. as amended (the "Investment Company Act")) in reliance on the exemption from registration provided by Rule 144A (the "Rule 144A Notes"); and (ii) to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (the "Regulation S Notes"). The Issuer has not been nor will be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "Subscription and Sale" and "Transfer Restrictions."

The Base Prospectus has been approved by the Central Bank of Ireland (the "Central Bank"), as competent authority under Directive 2003/71/EC (the "Prospectus Directive"). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of Irish Stock Exchange (the "Irish Stock Exchange") or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List (the "Official List") and trading on its regulated market (the "Main Securities Market"). Reference in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. The language of this Base Prospectus is English. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange). The Central Bank has only approved this document in relation to Notes which are to be listed on the Irish Stock Exchange or another Main Securities Market in the European Economic Area, and the Central Bank has neither reviewed nor approved this document in relation to any unlisted Notes.

Regulation S Notes will initially be represented by interests in a global unrestricted Note in registered form (each a "Regulation S Global Note"), without interest coupons, which will be deposited with a common depository for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), and registered in the name of a nominee, on its issue date as set out in the relevant Final Terms (the "Issue Date"). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes will initially be represented by a global restricted Note in registered form (each a "Rule 144A Global Note" and together with any Regulation S Global Notes, the "Global Notes"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Clearing and Settlement." Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

A Series of Notes may be rated or unrated. If a Series of Notes is rated, it will be specified in the relevant Final Terms or Series Prospectus, as the case may be. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The minimum denomination of any Notes issued under the Programme shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Arrangers and Permanent Dealers

Deutsche Bank **UBS Investment Bank**

Permanent Dealers

Commerzbank
IFC METROPOL
BofA Merrill Lynch
National Reserve Bank
JSCB Rosbank
UniCredit Bank

Credit Suisse
J.P. Morgan
Morgan Stanley
Renaissance Capital
The Royal Bank of Scotland

The date of this Base Prospectus is November 24, 2010

Operating the pipeline network is a separate business altogether

You could (jokingly) say that Gazprom primarily is a pipeline operation that also happens to produce gas.

You can't possibly talk about Gazprom without analyzing its pipeline operation. To get its gas from its mostly extremely remote gas fields in what is the world's largest country by landmass to its customers, it had to build the world's largest pipeline network.

The company currently has 172,000 km (107,000 miles) of pipelines, equivalent to four times the earth's circumference. Some of these pipelines had to be laid below the sea; the company has 250 strategically placed compressor stations to keep up the necessary pressure that makes the gas move through the pipes, and inevitably there are occasional issues with pipelines going through politically distressed regions (most recently: one of Gazprom's key pipelines to Europe going through Ukraine).

Not a cheap terrain for building a pipeline across

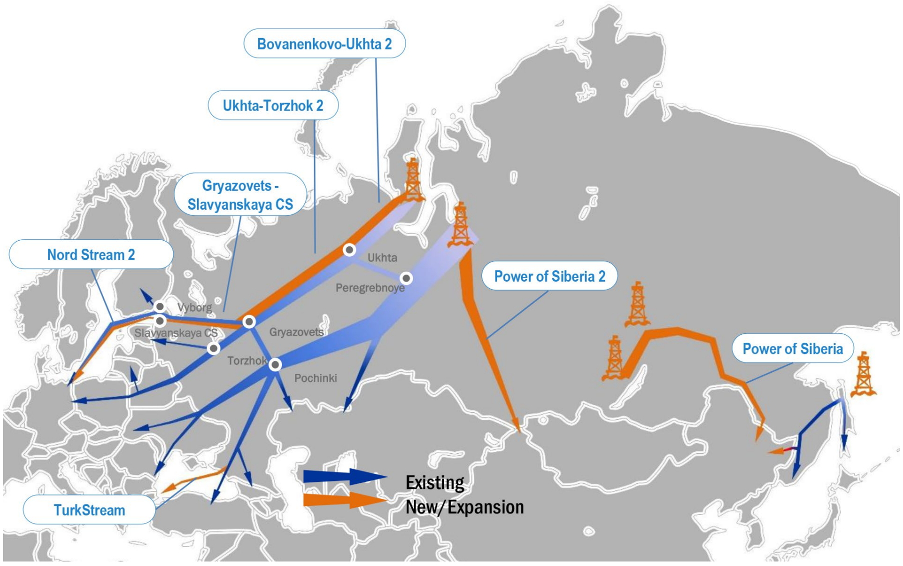
In case you ever wondered, this is how a gas pipeline compressor looks like

Add to it the fact that the lifespan of pipelines is subject to much discussion. Some pipelines may need replacing after 30 years, others may still be functioning just fine despite having been in operation for well over 50 years. Gazprom does have to deal with over half of its pipelines now being older than 30 years; though this could prove to be less of a problem than it sounds, provided these assets were reasonably well-maintained, which does seem to be the case overall.

Rules of thumb such as saying that each kilometer of pipeline tends to be worth $1m may give an order of magnitude, but are failing to capture the finer details.

In between all these competing factors and the sheer size and variety of the network, putting a value on these massive assets is therefore quite difficult.

Gazprom's pipeline network (existing and under construction)



High level of complexity in virtually all key aspects

There isn't anything about Gazprom that isn't massive. To operate, it has 469,000 employees on its staff list. To put this into perspective, the Russian Army has 1m employees; the US Postal Service 626,000, and Apple 123,000. Gazprom ranks among the world's 30 largest employers.

Large, global companies inevitably have a lot of variables. As one of the world's biggest companies and one that operates across a whole range of entirely different business sectors, it's easy to spend several months reading up on the company (as I did!).

The size and complexity limit the ability to issue projections for the company's earnings and other key indicators. I doubt that any external analyst could do much more than check the plausibility of the company's future projections. With key supplier contracts such as the one with the Chinese being under wraps, there is no chance an external analyst can do more than a superficial analysis of the company's different strands.

Which then leads to (amusing) situations where one bank analyst claims that Gazprom is actually losing money on the Chinese contract, while another analyst claims it is earning money. As the saying from Churchill goes (see page 23): "Russia is a riddle wrapped in a mystery inside an enigma."

Problems are fully priced in

When it comes to Gazprom in its current incarnation, you have to accept a degree of uncertainty and lack of transparency that doesn't always allow you to calculate everything down to the last penny. From my point of view, given the extraordinary under-valuation of Gazprom right now and the main trends going in the right direction, passing a plausibility check is actually all that's required at this stage.

The following figures should easily explain why.

Gazprom is valued at a fraction of its replacement value

I like investments where you get something for free. Nothing beats getting something for free. If you get something for free, then you mostly only have upside. Provided, of course, there will be a catalyst that one day leads to the valuation gap being closed. I am discussing that later and, for now, focus on the current size and value of the assets relative to what the company is trading for on the stock market.

Gazprom holds a 96% stake in publicly listed Gazprom Neft. That stake is currently worth almost $25bn based on its current share price.

Gazprom also holds a 10% stake in (competing) Russian gas company Novatek. That stake is worth another $5bn at current market prices.

Gazprom Neft and Novatek cover 60% of Gazprom's market cap

These two publicly listed assets are worth $30bn, compared to Gazprom's current market cap of $50bn.

These comparisons don't immediately lead to you getting something for free, e.g., Gazprom also has a significant amount of debt that needs to be taken into account. At last count, the company's debt was $37bn.

However, the company also owns:

- 150,000 km of pipeline which, if valued on the old rule of thumb of $1m per km, would be worth $150bn.

- Gas reserves worth anywhere between $200bn to $600bn (see page 80).

- Gazprom Bank, which isn't independently listed but could probably be spun off into a publicly listed entity. It's Russia's third largest bank, and no doubt also worth the odd billion.

- 15% of the country's energy-generating assets, in the form of a 100% stake in Gazprom Energoholding. This is another multi-billion dollar asset that hardly ever gets mentioned because it gets overlooked within the company's vast assets. The company owns stakes in three publicly listed energy generation companies. A rough calculation of the market value of these stakes currently yields about $1bn in total value, based on Gazprom's percentage stakes and applying the current share price (which in turn appears to be – on the surface at least – relatively cheap). Though in the grander scheme of things, this division is a rounding error. Gazprom's gas business is so big that subsidiaries that would typically count as large businesses in their own right get lost in amidst the several hundred subsidiaries.

And on it goes...

Putin can double the size of his war chest

The bottom line is, if you set out to recreate Gazprom from scratch, you'd end up paying in the hundreds of billions of dollars to buy (or build) all the assets the company currently owns.

You'd certainly have to pay a multiple of what Gazprom is currently valued at.

"The world's largest gas reserves – for free!"

Based on the above, you could also make a hand-waving guess that currently, you are essentially getting much, if not all, of the largest gas reserves in the world for free.

It has previously been discussed whether Gazprom was overstating its reserves. Most of its reserve figures have been audited by US petroleum consulting firm DeGolye and McNaughton, which was set up in 1936 and today is among the leading firms in the assessment of energy reserves. Given their involvement, it doesn't appear likely that Gazprom had massively overstated its reserves.

A comparison with some of the other large energy companies that are publicly listed around the world will help you understand why I view Gazprom as an investment that could make sense not just for the next 3-5 years, but for a much longer period. It's potentially a retirement fund investment and one for which I refer you back to the 10-20-year performance of investors who were early in spotting the potential of companies like Amazon or Apple.

At current production levels, Gazprom's energy reserves would be sufficient to keep producing at the same rate for about 40 years. Most other energy majors only have enough proven reserves to produce for another eight to 15 years.

All of these large energy companies also still invest into exploration and regularly discover new reserves, i.e., they are not at risk of actually having to shut down at the end of these periods. Gazprom, however, is way ahead of other large energy companies when it comes to having its long-term future secured through a vast base of proven reserves. At last count, Gazprom tended to find 1.8 times as much new gas each year as it pumped from the ground; i.e., its replacement rate was well above its depletion rate which then leads to overall reserves growing further.

Some observers claim that there is so much unexplored gas left across the vast regions of Russia that Gazprom could easily end up with enough gas to keep producing for another 50, 60 or even 80 years.

The following gives you more of a concrete idea just how vast Gazprom's energy reserves are.

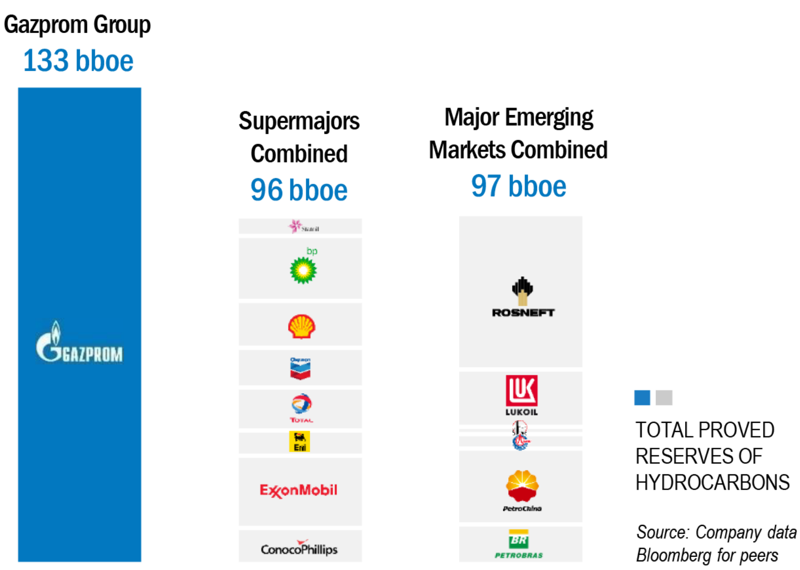
A standard measure to compare energy companies is to convert their energy reserves into billion barrels oil equivalent ("BBOE"). This makes it possible to compare, for example, gas companies with oil companies.

Gazprom's energy reserves are bigger than the combined reserves of BP (UK), Royal Dutch Shell (UK/Netherlands), Equinor (formerly "Statoil," Norway), Chevron (USA), Total (France), ENI (Italy), ConocoPhillips (US) and ExxonMobil (US).

They are also bigger than the combined energy reserves of Rosneft (Russia), Lukoil (Russia), PetroChina (China), and Petrobras (Brazil).

Gazprom's energy reserves compared to those of other major energy companies

Gazprom vs global majors: proved reserves, 31.12.2016



Source: Company data for Gazprom, Bloomberg for peers

Peer group comparisons are never perfect, but they can be useful to get a grip for the order of magnitude of a company's under-valuation.

ExxonMobil produced a net profit of $19.7bn in 2017 while Gazprom had a net profit of $11.4bn. ExxonMobil's profit is 1.8 times higher than that of Gazprom, but it is valued on the stock market at $336bn, i.e., nearly six times more than Gazprom. You get to a similar conclusion if you compare these different companies based on a variety of other valuation methods.

Analysts would – rightly – argue that gas that will only be extracted from the ground in 25, 30 or 40 years is worth relatively little when you discount the income over such a long period. That needs to be taken into the equation. However, when I get something for free, and then I got even more of the same stuff for free, who am I to argue? Also, what Gazprom's mega-reserves lead to, if communicated properly, is that this share can easily be marketed as ideally suited for long-term investors, such as pension funds and life insurers.

It's unlikely to get much cheaper than this

Huge chunks of Gazprom's assets valued at zero by the market isn't a situation that is going to last forever, especially once shareholder start to get a larger percentage of the earnings paid out as dividends. All the more so if a growing payout ratio of profits will be combined with overall earnings growth. Seeing both earnings and dividends increase – and the latter probably faster than the former because Gazprom has to catch up on its legally required payout ratio of 50% of that year's profits rather than the recent payout ratio 26% - will make for a compelling investment case.

When (not if) that happens, Gazprom will have to thank the Chinese, the Germans, the British, the Turks, the Greeks and a host of other key countries.

These are the countries that from 2019/2020 will be the recipients of gas funnelled through the biggest pipeline projects Gazprom has ever carried out, and which are now coming to a (successful) conclusion.

Ten years of struggle – now nearing an end

Independent from politics, Gazprom has reached an interesting new phase in its life. Its "official" 30th birthday in August 2019 will undoubtedly be used by the company to communicate a number of milestones and get across that a new chapter has begun for Gazprom.

Gazprom's life as a corporation has so far seen three periods of approximately ten years each:

- Establishing its operation in a chaotic post-Soviet world (1989-1999);

- Reaping the rewards of rising energy prices and a stabilizing situation in Russia (1999-2008);

- Dealing with the triple challenge of lower energy prices, difficult financing markets, and broad political changes (2008-2018).

Between 1999 and 2008, Gazprom achieved a gradual, successful turnaround of sorts. Its share price rose from $1.30 to $31.25; a 24-fold rise. The company was far from perfect back then, which the market accepted because it seemed well on the way to becoming a fairly normal company and gradually leaving its Soviet legacy behind. That's why it was valued at up to $367bn, and people believed that it was on its way to being worth $1tr one day.

However, the 2008 financial crash and the decrease in energy prices that went along with it forced Gazprom back into a corner. The company lost three-quarters of its stock market value in the space of less than a year, and it subsequently required massive management interventions to deal with, first and foremost, financing difficulties. Large investment projects that had been easy to finance previously suddenly faced the risk of running out of money.

This period was also characterized by ongoing difficulties in Russia's domestic politics and international relations. This included the crisis with Ukraine that erupted in 2014 and had direct consequences for Gazprom because one of its major pipelines was running through the country.

Everything seemed to have conspired against Gazprom, and the company found itself in a seemingly never-ending struggle. It also gradually disappeared off most investors' radar screen. By early 2016, it had lost 85% of its value compared to the 2007/08 record high.

These were the challenges in the years 2008-2018

During these ten years, Gazprom has had to manage a number of massive challenges:

- Carrying out and financing not one, but three large-scale new pipeline projects: Nord Stream 2 (Germany), Power of Siberia (China), and TurkStream (Turkey); the latter including an extension into Europe dubbed TurkStream2.

- Fighting off an anti-trust case brought by the European Commission, while simultaneously dealing with the entrance of American LNG producers into the European market (i.e., pressure on margins in the important European market).

- Dealing with political situations, e.g., replacing the Ukrainian market after stopping its gas deliveries altogether.

- Carrying on incremental improvements to deal with the remaining backlog of necessary changes from the company's past, especially in areas such as governance.

The following overview will make it more apparent just how enormous the company's challenges were.

The world's biggest investment program among energy majors

Leaving aside any questions of quality for a moment and looking at the sheer size of investments carried out by Gazprom, the company is – once again – second to none.

Smug, smugger, Gazprom CEO

Russia's Gazprom Is Investing More In Oil & Gas Worldwide Than Rival Exxon

Kenneth Rapoza Senior Contributor
Markets
I write about business and investing in emerging markets.

TWEET THIS

- Gazprom leads a ranking of oil and gas big spenders with an estimated capex of $160 billion
- Exxon ranks fourth with around $77 billion in capex between now and 2025.

Gazprom CEO Alexei Miller. Spending like crazy. (Photo by Donat SorokinTASS via Getty Images)

On a ten-year basis, Gazprom is scheduled to invest a staggering $160bn.

In comparison, here are the ten-year investment figures of the other large energy majors with ambitious investment programs:

Sinopec (China): $87bn

Royal Dutch Shell (UK/Netherlands): $86bn

ExxonMobil (USA): $77bn

This comparison, compiled on the back of data gathered by market intelligence firm GlobalData, has its weaknesses because to some extent, it compares apples and pears. The key point is inarguable, though: Gazprom invests more substantial amounts in energy projects than any of its competitors. By far.

Gazprom believes in its own future

There are two ways of looking at these figures:

- If you follow sceptics, Gazprom spends all of this money on ill-fated projects, some of it due to bad planning or changing markets, and some to benefit a few of Putin's cronies (see page 18).

- Gazprom's management sees so many lucrative new business opportunities that it outspends every other of the world's major energy company, by far. The company wouldn't do so if its management wasn't optimistic about its future prospects and didn't have a strategic plan on how to unlock this potential.

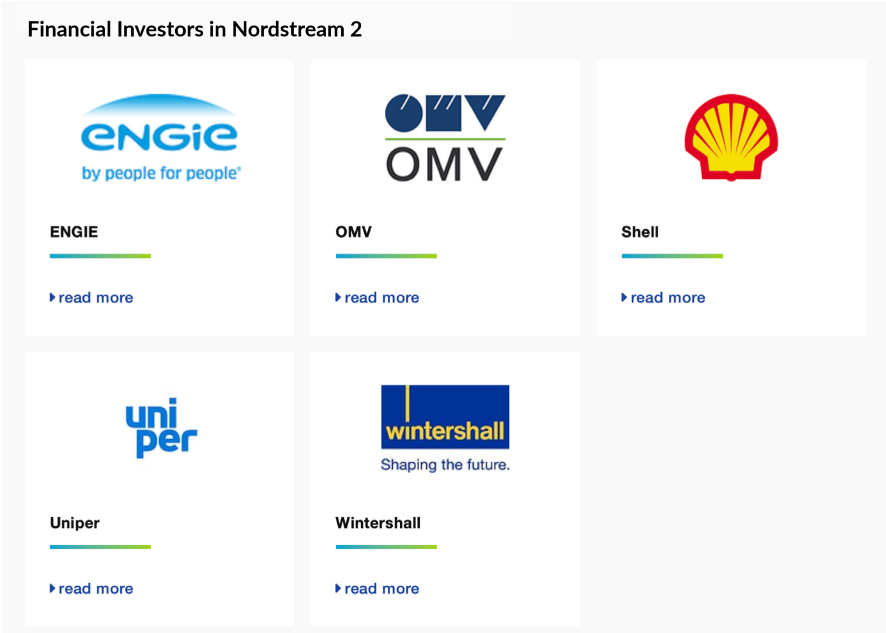
The truth is likely to be 20-30% of the first point and 70-80% of the second point; with the balance continuing to shift towards the second point.

I don't buy claims by the Sberbank CBI report that Gazprom was undertaking all of these projects purely to benefit a few Putin cronies. Here are just some of the reasons why:

1. There are a number of international partners that have bought into these projects. E.g., for Nord Stream 2, Gazprom has received co-investment from Shell (UK), Wintershall (Germany), Uniper (Germany), ÖMV (Austria), and ENGIE (France). These international energy giants wouldn't invest into a project if it wasn't a financially viable and lucrative undertaking.

2. The Russian government has made significant financial efforts to help Gazprom fund these projects (see page 36). Would Putin temporarily cut his government spending budget (!) to create a project that benefits Chinese consumers by sending them under-priced,

Did they say: “Please, Sir, can you rip us off?”

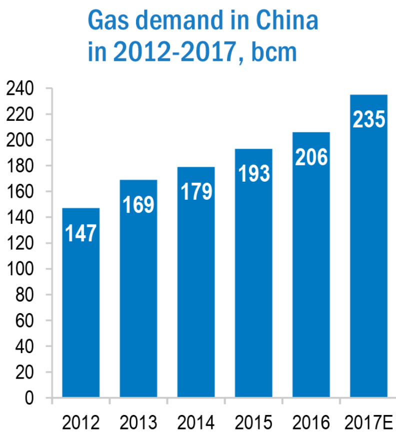


loss-making gas? You be the judge.

3. If the Russian government was intent on plundering Gazprom, why does it allow Gazprom to achieve a return on its equity that is still on par with the US energy industry? Why would it pay out a generous dividend to all shareholders when it could just steal the money that is used to pay a dividend on those 49% of the shares that it doesn’t own? When did you last see a bank robber leaving half of the money on the bank counter?

What seems to get mixed up in the current Russia hysteria in much of the Western world is the fact that due to the enormously long period required to plan and implement such mega-projects, some factors inevitably change along the way.

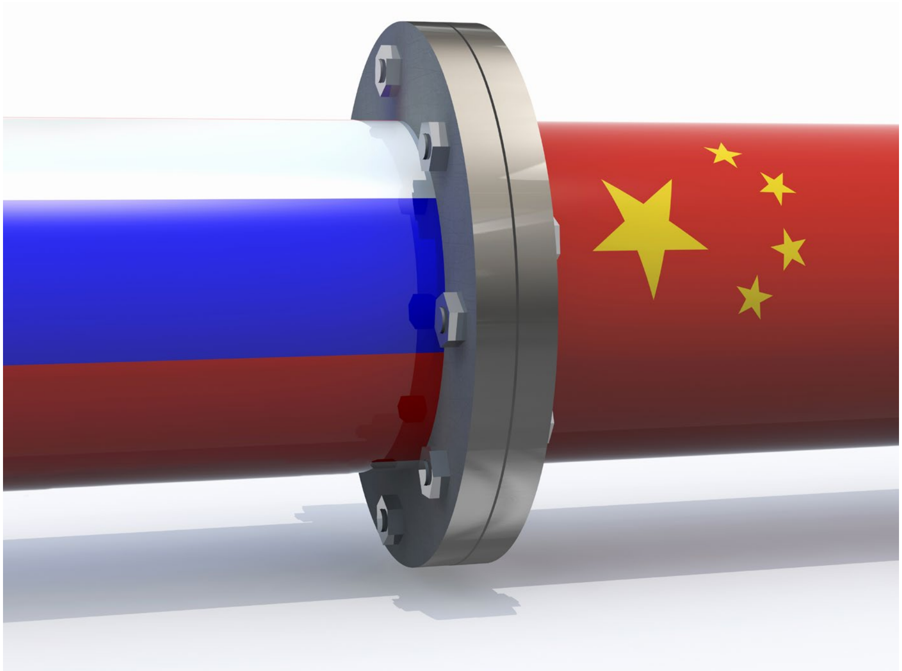
China’s rapidly growing market for gas



E.g., the pipeline to China was already planned over ten years ago, when energy markets were in a different situation. It was negotiated and planned when energy prices were different. If it was designed today, would the pipeline be done with a differently priced contract? Possibly. However, this argument misses the point. No company has perfect foresight into the future of markets and technology.

Despite all its imperfections, the overall result of the investment program is set to be the following:

It's happening



- The pipeline to China is now over 90% complete, and scheduled to be fully operational in 2019. In late 2019, Gazprom is to send its first ever gas delivery to China, opening up a vast and growing market. When this happens, it will be all over the news around the world, especially in the financial media.

- The Nord Stream 2 pipeline to Germany is now under construction and will be finished in late 2019. Gazprom will be able to send more gas to Europe, at lower operating costs than in the case of older pipelines, and without having to route the gas through politically unstable regions. During January 2020, the opening of the new Nord Stream 2 pipeline will make for news that is likely to find its way into most global media outlets.

- The first part of the Turkish pipeline is already completed, and it's now in the phase of merely extending it further. This yet again opens up further markets to Gazprom.

As a result of these projects having advanced so far, the following has already been achieved:

- Gazprom has been de-risked in the sense that it's now crystal clear that all of these projects will have sufficient funding and get finished. That's a lot more clarity than was the case even as recently as recently as early 2018 when there was still a risk of Nord Stream 2 getting stopped by the interventions of Western politics. Trump had threatened as much, no doubt to aid the American LNG industry's sales to Europe, which have been weak so far.

- From 2019/20 onwards, it's now certain that Gazprom's capital investments are set to decrease. Less money spent on investment projects, more money available to pay shareholders. Gazprom's management made a statement in late November 2018 about wanting to propose a higher dividend in 2019. The writing is on the wall.

- Finishing these large projects will also set management free to focus on other priorities. Once pipelines are in place, more focus can be given on improving a pipeline's economics. There are even ways and means to renegotiate long-term contracts to some extent; a matter where Gazprom's position within Russian politics could come in handy for the odd occasion. This is what any rational business does, including the political aspect, which is utilized by pretty much any major company in Europe and the US, too. It's called "lobbying."

Finally, internal improvements can be a focus

Gazprom's focus and that of investors will gravitate back to the question of growing market share, revenue, margins, and cash flow. This will be an entirely different conversation to have.

Nord Stream 2, TurkStream and the Power of Siberia are bets on growing demand for (cheap!) gas in the countries that these pipelines are opening up to Gazprom.

Gazprom's management pulled off some huge feats

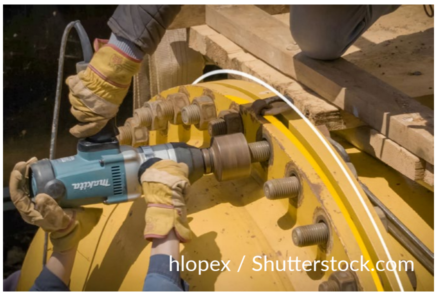
It can't be overstated how important – and impressive – it was that Gazprom managed to take all of these projects to the finishing line. The capital and degree of management involvement this required was massive:

- Gazprom had to convince the Russian government to allow it to pay less than 50% of its annual profit as dividend, as would generally be legally required by companies with large Russian state-ownership (see page 36). Only because a higher percentage of earnings has been retained over the past decade, at the expense of the Russian Treasury where Gazprom dividends are a significant income item, was the company able to finance all the investments.

- The company had to negotiate and conclude a long line-up of financing deals. In Spring 2018, Gazprom placed a $750m Eurobond in London. It was three times over-subscribed despite coming out just after the British Prime Minister, Theresa May, had announced measures against Russia for its alleged involvement of poisoning a former agent in Salisbury. One of the asset managers who subscribed to it was quoted in the *Financial Times*: "Russia is one of the best stories from the macro and economic policy perspectives." The Gazprom bond's success with institutional investors is also one of the early indicators of how well the Gazprom story works when put in front of the right kind of investors, instead of looking at it through the lens of Western heritage media. This was further confirmed by an additional EUR 3.5bn in financing that the company was able to source outside of Russia during the second half of 2018, despite the sanctions.

- Because of international sanctions against the country, some technology required for the construction and operation of such pipelines was not available to Gazprom. The company initiated an import substitution program to replace missing technology with alternative solutions developed in Russia. As of mid-2018, Gazprom was able to source >99% of all its technology needs within Russia. For the specific task of constructing pipelines, it was already able to source 100% of its technology within Russia.

Men's work: Construction of gas pipelines in Russia



Gazprom does have its work cut out for future years, i.e., the backlog of improvements that the company requires is far from being dealt with. However, both content and tone of the reporting about the ongoing work should change from 2019 onwards.

Robbing a publicly listed company isn't that easy anymore

If you believe some observers and reporters, none of what I laid out above will matter because Gazprom shareholders are simply getting robbed blind; implying the company is virtually worthless.

I've already mentioned the now infamous research report published in May 2018 by Sberbank CIB, whose author claims that the company was "run for the benefit of its contractors, not for commercial profit" (though didn't provide any evidence for it).

No doubt, this sort of stuff has happened, all the more with regard to projects that were planned long ago.

However, once again a point gets blown out of proportion on the back of an outdated view of the world. Going forward, I expect this issue to shrink down to about the same level of corruption that any Western company has to deal with, for the following reason.

Corruption at major, public companies is getting ever harder

Following years of banking secrecy being watered down and additional state surveillance of financial transactions getting implemented around the world, pulling off major corruption <u>and</u> keeping the proceeds are now set to become very difficult indeed.

Nothing embodies this better than the as of yet little-known but powerful "Specially Designated Persons and Blocked Individuals List" produced by the US Treasury as well as the "Unexplained Wealth regulation" now introduced and recently applied for the first time in Britain.

The so-called "OFAC list," which is published by the Office of Foreign Assets Control division of the US Treasury, includes individuals involved in a wide range of financial crime.

Why is this relevant for Gazprom in Russia? Because it is part of a growing global trend to pursue illicit funds independent from their jurisdiction and to even pursue individuals and entities that are not the accused but only affiliated with the accused!

According to Treasury officials, when the government freezes assets anyone who does business with a sanctioned person and sanctioned companies could be subject to sanctions themselves.

The legislation and application thereof are still emerging, and other countries are in the process of catching up.

However, it's already pretty clear where this is leading to:

- Pressure on publicly listed companies around the world to enact stringent corporate governance will increase further.

- Companies that do not adhere to these standards can find themselves locked out of important markets, such as the ability to issue bonds and shares in key financial markets.

- Shareholders will apply even more pressure on companies to up their controls. Else, they could themselves be forced to sell their investments entirely, as they'd otherwise get caught up as part of the "affiliated persons" legislation.

The world witnessed another example of this new development when the CFO of the Chinese telecoms company, Huawei, was arrested in Canada because of the re-sale of American parts to the regime in Iran.

Think of these cases what you want (and there is obviously a political angle to all this) but the general direction of travel is clear. Large public companies that allow themselves to be used for illicit purposes will face draconian sanctions, unlike anything the world of finance has ever seen before.

Not surprisingly, Gazprom has already started to invest into improving its corporate governance.

Governance roadshow

In 2017, Gazprom even went onto a roadshow across Europe to present its improvements and plans for corporate governance to investors. No doubt, given the current interest in the company (or lack thereof), few investors will have turned up!

Progress with its corporate governance is now also a regular feature in Gazprom's reporting to shareholders. Some of it is "cute," e.g., Gazprom is now tying pay for its non-executive directors to their record in showing up to meetings (bless their cotton socks!). Other measures are very serious indeed, to the point of being radical.

E.g., Gazprom is now going to open up direct communication between its shareholders and its independent directors. Creating such direct communication links between shareholders and independent company representatives inevitably leads to Gazprom being asked some tough questions. The company doesn't seem to be afraid of that.

There is just no other way forward any more for a company that operates globally and has a presence on the global financial market.

Looked at it the other way, getting this right can mean a difference to the tune of hundreds of billions of dollars in additional market value.

President Putin has worked diligently to turn the Russian economy into one of the most robust macro situations in the world (see page 55). Will he now choose to have his cronies rob one or the other billion from Gazprom? Or will he opt to create hundreds of billions of additional financial wealth that his government can spend or stash into its reserve fund?

Anyone who has ever read up on Putinomics and considers the entire changing context can quickly figure out which way the pendulum will eventually swing.

Shall I stretch your tolerance for politically incorrect predictions just a bit further?

Then read the following paragraphs, but don't say you weren't warned.

A gentle push – or a joint presidential plan – from the US?

I am a big advocate of listening to what US-President Trump actually says, i.e., listening to his actual statements instead of reading about them in the mainstream media. In the vast majority of cases, this delivers valuable clues about his long-term strategy and his future actions.

Will Trump get involved?

Since 2016 (actually, since coming down that escalator in 2015), it has proven again and again that he is very transparent in his plans and focused on delivering what he has promised. On the other hand, listening to how the liberal corporate media and other special interest groups would like you to interpret his speeches and actions, has led to people being wrong more often than right.

Leaving all the media noise and short-term distractions aside, Trump's ultimate strategy seems very clearly geared towards the following:

- Truly ending what's left of the Cold War, which also has to include normalizing the relationship with Russia.
- Making Russia an ally of the West because the country is a much needed, culturally comparable ally to counter the threats emanating from radical Islam and totalitarian Communist China. When in doubt, it's much better having Russia on the side to deal with these unprecedented threats.

As a result, Trump will ultimately want to see Russia, like all other allied countries, prosper economically. This is the single best insurance against these countries falling to the wrong ideologies, and it also happens to be good for American business interests. Sanctions and other tough negotiating tactics are only a short-term strategy to level the playing field for getting everyone to a better place.

The first summit with President Putin already pointed to that direction, and I expect a second summit with Putin to yield very concrete steps. Short-term predictions for US politics are currently nearly impossible because the political agenda is overflowing with items. But I hazard a guess that during the first half of 2019, Putin and Trump will have a one-to-one meeting to start turning the icy US-Russian relations around.

As part of this, I expect Trump to also push initiatives that will help – but also demand – Russian businesses, like Gazprom, to improve their standing in the world.

How could this look like?

Participation of US investment banks?

E.g., Gazprom could decide, following discussions between Trump and Putin, to pursue a proper spin-off and international share placement of its Gazprom Neft subsidiary with a properly pursued listing on the New York Stock Exchange (where the share is already traded as ADR, dating back to Sibneft days) and with active involvement from the American business and investor community. American investment banks handling the transaction, American energy companies entering joint ventures with Gazprom, and American investment funds participating in the financing of Gazprom.

Such a move would generate headlines around the world and create the momentum and credibility that is necessary for other, similar steps to be undertaken by other businesses.

You think that's nuts?

Then focus on the current fundamentals, which are already enough to make this share a screaming buy.

Or just think about Gazprom pulling off such a move utilizing the Hong Kong Stock Exchange. Asian investors are much more rational in approaching the Russia subject; Hong Kong is the world's seventh largest stock market, and Singapore is the world's fourth largest asset management center. It's not like Russia desperately needs the US or Europe to pull off any of this… And it's such competition and fear of missing out that usually leads to resolving a situation.

Just in: As this report was about to be published, it was reported in the Russian media that Gazprom Neft has transferred ownership of the new Gazprom HQ in St. Petersburg to Gazprom. The subsidiary had been involved in the construction (and ownership) because this made the $1.8bn building easier to finance. The transfer of the property from the subsidiary to the mothership is likely another step towards cleaning up Gazprom Neft ahead of a potential broadening of its shareholder base.

The fundamental Gazprom story to focus on

At the heart of every investment is the question, how much cash will you get back out of the investment over a certain period?

In the case of Gazprom, this question primarily hinges on the amount of gas (and, to a lesser extent, oil) the company is selling. The essential facts to look at in this regard are as follows:

1. The European markets

Since 2010, Gazprom has increased its share in the European gas market from 23% to a record level of 34% in 2017.

The finishing of the Nord Stream 2 project, and to a lesser extent the extensions of the TurkStream pipeline into Europe (so that half the pipeline's capacity will be used to deliver gas beyond Turkey and primarily into European countries), will further increase Gazprom's ability to provide not just massive amounts of gas to Europe, but also to deliver it at highly competitive prices.

Much has been written about the alleged threat posed by the delivery of LNG from the US, and about Europe's need to wean itself off its addiction to cheap natural gas from Russia.

If you look at the actual statistics, the picture that emerges is somewhat different from what one might expect after ten years of regular reporting about the alleged competitive threat posed by American LNG.

Deliveries of American LNG to Europe have so far captured a market share of 0.5%. If the European gas market were a cup of tea, America would have added a few drops to it. The market share is likely to grow, e.g., just recently Germany made a (political) commitment to invest into a new LNG facility that is mainly geared towards welcoming American

Much hot air in politics, but realism in purchase decisions

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Europe to boost Russian gas imports by 25% says Gazprom

Nastassia Astrasheuskaya DECEMBER 3, 2018

Europe will look to import 25 per cent more Russian pipeline gas as of 2020, Gazprom has said as it gears up for a record year.

The country's pipeline gas export monopoly said requests from both existing and new buyers indicated European demand would jump by a quarter. Gazprom is expected to export record gas volumes this year and next, a senior company official said on Monday, reiterating predictions made in June.

Rising demand comes despite persisting criticism in the EU over the region's dependence on Russian gas, and calls for a search for alternative gas sources.

"We are already receiving requests for additional export volumes starting 2020. The additional demand by our traditional as well as new buyers stands

LNG. However, the low market share of American LNG after nearly ten years of trying to break into the market shows just how difficult it is to enter the European market gas market if you can't offer better pricing. This new $550m facility in Germany will not start operating before 2022 at the earliest.

As touched upon on page 10, some European countries have used the delivery of SOME American LNG as a way to pressure Gazprom into giving it a lower price. For most European countries, this is probably as far as it will ever get.

Europe will remain a major market

When was the last time your German, British or Italian friends told you: "Oh, I am so worried the Russians will turn off the gas and I'll freeze in winter"? There just isn't the political will or concern among the population to work towards replacing Russian gas.

Europe and Russia are ultimately tied together in a co-dependency. The Europeans need gas, the Russians need money. It's one of those marriages that are difficult at times but which are virtually impossible to dissolve.

The Russian government, Gazprom and other Russian energy providers would have to commit self-harm to actually "switch off Europe's gas." This would only result in:

- The affected countries using their emergency reserves, e.g., Germany has vast underground gas storage to prevent such incidents from affecting the country in the first place.

- Europe starting to invest to replace Russian gas.

- Sanctions.

LNG is just too expensive, and Gazprom is in a unique position to be able to deliver gas at extraordinarily low prices. Taken together with consumers' liking for low prices, economic realities make it highly likely that Gazprom will remain in a strong position in the European market.

It's a market that on the surface is quite mature, but one that actually offers Gazprom plenty of room to grow:

- The indigenous European gas production is in terminal decline, caused primarily by Norwegian and Italian gas fields nearing their exhaustion. The World Energy Outlook 2018 estimates that by 2025, Europe will have to grow its import of gas by 86% (!) to make up for the shortfall in local production.

- Gas is a relatively clean source of energy (some say: the cleanest of all fossil fuels), which works well for Europe's climate-related goals and its population's desire to avoid anything that appears to be dirty or environmentally unconscious.

- There are still some European markets that are not well connected to the Russian pipeline network. At last count, it was rumored that Denmark and Finland were eying a potential connection to the Nord Stream 2 pipeline.

The European gas market is set to grow at an annual rate of 1.5% between 2018 and 2035. There even seems to be room for these long-term growth rates getting surpassed occasionally. E.g., on 28 November 2018, Gazprom's CEO highlighted that exports to the EU in 2018 were up by 6.2% for the year.

Some of the West's rhetoric is dangerous

It's also a market that should re-think the approach that some of its politicians have taken towards Gazprom, if only by way of rhetoric. In the course of writing this report, I was left wondering what those who argue for a sledgehammer approach to Russia (sanctions, replacing their gas, etc.) are trying to achieve. Strategies aimed at devastating entire vital sectors of the Russian economy would leave the country – and its nukes – in an even more precarious position. It makes much more sense to apply careful surgery of problems.

With the new level of surveillance and transparency that has come to bear in the world of finance (see page 56), Putin-linked interests that are deemed a threat to the West can nowadays be dealt with separately, as has already been evidenced with some individual cases. Big public companies, on the other hand, can not only relatively easily be reformed and independently led, but their success is also vital to prevent Russia from going a much worse direction in a post-Putin world. Gazprom is the livelihood, the heating provider, and the savings box of millions of Russians. Imagine destroying it simply to go after the politics of one man. On the contrary, the increasing openness of companies like Gazprom is one of the best ways for the West to start to engage Russia in a way that is beneficial for everyone. There'd be a lot to be said in favor of the IPO of certain Gazprom subsidiaries on European and American exchanges. As the saying goes: "Keep your friends close, but keep your enemies closer."

And in the meantime, Europe will be buying Gazprom's gas anyway. There is no other viable choice, outside of some smaller deals with American LNG producers.

Even if Gazprom keeps its market share in Europe at the current level rather than growing it any further, this market of 400m+ people will continue to generate lots of cash for Gazprom shareholders.

2. China is the new Europe (for Gazprom, at least)

All remaining growth prospects in Europe aside, there is also no denying that in Europe, Gazprom has already reached a market share that will make it impossible to grow its sales in the region at the same speed as it has done in the past.

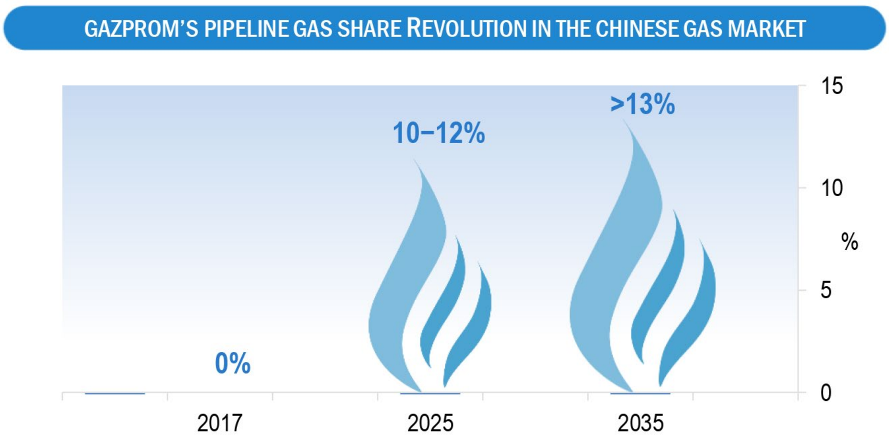
E.g., from 2010 to 2011, Gazprom has been able to grow its market share in Europe from 23.0% to 27.2%, a jump by over four percentage points in a single year. Since 2014, its annual growth in market share in Europe has grown on average by about 1% per year (on top of the market's overall size increasing because of the growing demand for gas). Most recently, the company even said it'd be happy to just keep its market share constant at around one third. That way, anti-trust issues can't become a topic again.

The high level of market share it has reached in Europe is just one of the reasons why Gazprom has been putting so much effort and money into expanding into China. The Chinese market offers the opportunity to make substantial gains that are comparable to what Gazprom achieved in Europe during an earlier phase of its expansion.

Case in point, the Power of Siberia pipeline, which is going live at the

Connecting Russian gas fields to Chinese consumers

Gazprom's plan for capturing market share in China's gas market



end of 2019. Once it'll be fully up and running, Gazprom will go from supplying no gas at all to China to providing 10-12% of the entire Chinese gas demand by 2025.

The pipeline is being finished at a time when China is investing in growing its own gas production capacity. This has left some observers worried about Gazprom finding itself stuck with a pipeline that won't be used to the degree planned. However, whether China's shale gas strategy works out across its different regions still has a lot of question marks next to it. And even if it does, the growth in demand by Chinese consumers is still projected to outstrip the indigenous production. Here, too, is Gazprom at a competitive advantage to American LNG, because it can deliver at a lower price. When Chinese gas demand grows, Gazprom is first in line to benefit.

There are still doubts about the exact details of the delivery contract, which was signed at a time when the oil price was at $100, compared to now $44. The market has also taken a cautious view of the project because the Chinese partners allegedly were to make an advance payment of $20bn to contribute to the funding of the pipeline, but bailed out of the payment which added further to the company's financing challenges. Though as it turned out, these doubts were probably the result of lazy research.

China is simply a large and growing gas market

According to Russian newspaper *Vedomosti*, China didn't provide the advance payment because a new deal was struck by way of renegotiating. China was let off the hook regarding the advance payment, and instead committed to paying a higher price for the gas once the pipeline is operating. If the report was accurate, it would help to explain the Russian government's willingness to help Gazprom with funding the pipeline out of its tax cash flow (see page 55). The Russian government figured that instead of accepting expensive Chinese funding terms, it could use its own cash and then make more money off its Gazprom stake further down the road.

The most likely scenario, based on all the available facts, is that the Power of Siberia pipeline works for both parties:

- China gets cheap, reliable gas from Russia.

- Russia gets access to the vast and growing Chinese market.

Why should it be any more complicated than that?

Gazprom executives and their Chinese counterparts celebrated the agreement for the Power of Siberia pipeline with Chinese Vodka. This was the largest gas deal in the history of the USSR and Russia.

Will it be the last?

A second pipeline to China is already in the early stages of planning. So far, outside of saying that the gas would be supplied from Russia's Far East, not many details have been provided. Gazprom's gas fields in the regions close to China would be sufficient to sell massive amounts of gas to China for at least half a century, probably even a lot more once more exploration is done in the region.

3. Incremental operational improvements

The area I have found the least useful information on, and which I strongly suspect to be the weakest overall point of Gazprom right now, is its operational efficiency. Are the costs of Gazprom's core business too high, is the company wasting money, and is this issue not receiving enough attention?

I would place a bet that the answer to all of the above is "Yes," but I have yet to find concrete evidence over and above various media and analyst reports claiming as much without offering the necessary concrete evidence.

The picture that I would expect to emerge once someone with access to the right data takes a close look is that some improvements have been made in this area over the past ten years, but that significantly more remains to be done.

Why do I expect that?

Because any company that is in an existential struggle with its biggest ever investment projects, the funding thereof, and highly volatile energy prices and financing markets, will have had its hands full with other challenges. In such times, working on internal efficiency questions isn't any CEO's or COO's no. 1 priority.

I'd further expect some divisions of Gazprom to be more advanced than others. Once again, Gazprom Neft, which operates as a separate unit and has previously been managed by the team of a private owner, is likely to be a few years ahead of the mothership. Its latest annual report indicates that Gazprom Neft is indeed much more advanced in turning itself into a company that can compete for the attention of investors.

Gazprom has a lot of potential for improved efficiency

If my gut feeling about huge remaining inefficiencies in Gazprom's core business is right, it'd prove the Gazprom critics right, but also show potential for the future. Exploiting under-utilized potential for internal efficiencies is comparatively low-hanging fruit for a management team. Problems you can fix internally are, after all, very much under your own control (as opposed to, for example, energy prices fluctuating).

For investors buying Gazprom at the current depressed levels, that'd be a further upside that is thrown into the mix. Though it is impossible to quantify at this stage

4. Liberalization of Russian gas exports

Gazprom investors should keep another issue on their mind. Even though currently it's unlikely to materialize in the short-term, it does have the potential to get onto the agenda a bit further down the road, and with potentially powerful effects.

At this time, only Gazprom is allowed to use its pipelines for exports to foreign markets. However, this monopoly is regularly being challenged by a host of players and stakeholders.

Gazprom isn't alone anymore

How Did Russia's Gas Goliath Get Beaten by Its David?

By Elena Mazneva and Dina Khrennikova
7 September 2018, 01:01 CEST *Updated on 7 September 2018, 10:02 CEST*

- Novatek's market value exceeds Gazprom's for first time
- Gazprom's appeal weakened over uncertain spending returns

Photographer: Andrey Rudakov/Bloomberg

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Imagine a decade from now, U.S. giant Exxon Mobil Corp. has been knocked from its perch as the world's largest oil company by its rival from tiny Portugal -- about 20 times smaller. It seems unlikely, but something equally strange has just happened in Russia.

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Chief among them are, for example, the governments of those European markets that Gazprom is selling into, and as an extension of that, the EU. There is a feeling of uneasiness about purchasing from a monopolist. If, on the other hand, other Russian gas producers were allowed to also utilize the existing pipeline network to sell to European markets, then the entire worry about "Kremprom" (i.e., a Kremlin-influenced Gazprom) switching off the gas would be a moot point. Europe's concerns could be addressed if they could also purchase from other Russian gas companies.

Gazprom has a 68% market share in Russia's gas production. The second and third largest Russian gas providers, Novatek and Rosneft, both have a 9% market share. For foreign buyers, these would be significant gas producers to buy from if they were allowed to export their gas not just as LNG (which Gazprom's competitors are already permitted to do) but also through pipelines.

Apparently, the other Russian gas producers already complain regularly about the monopoly-situation in pipeline exports.

Could the Russian government eventually change the rules, why would they do so, and what effect would it have on Gazprom?

Contrary to popular belief, such a move could actually benefit both Gazprom and the Russian government financially. Which is why I believe it will eventually be on the cards, just as Russia has already undertaken numerous other steps towards liberalizing its markets both in energy and elsewhere.

Since Gazprom's position in gas exports through pipelines is protected, this business division of Gazprom is probably extraordinarily inefficient. The company simply isn't forced to think hard enough about how it could improve its performance in this area. I spelled this out in a bit more detail in the previous section.

Russian gas market moving to open model?

Moving the Russian gas pipeline system to an open-market model would put short-term pressure on some of Gazprom's earnings, but in the longer run it would benefit everyone involved:

- I hazard a guess (admittedly not more than a gut feeling and comparisons with other such cases around the world to back it up) that Gazprom's short-term loss in revenue from facing competition would be outweighed by far by the additional cost-savings it will generate once the company is forced to take a critical look at how it operates this division. Ushering in an independently run gas transport system in Russia and liberalizing gas exports would force Gazprom to exercise more spending prudence.

- With improved efficiency in the core business will come a higher valuation of the company, benefiting the Russian government as the largest shareholder. The Russian government has already seen how much additional investment and wealth is generated when new players are let into a market. Such was the case when it allowed more companies to operate in gas production in Russia, where Gazprom's market share of now 68% is still dominant but a far cry from being a monopoly. At last count, 230 (!) other gas producers were active throughout the country.

- Improved overall cost-effectiveness of the Russian gas sector should help protect the market share of Russian gas providers in Europe. Pricing is a big issue in Europe, contrary to Asia where price is less of an issue because the newly generated economic wealth by far outweighs the higher costs of energy. Keeping Europe from thinking too much about potential alternatives to Russian gas is an interest that binds together all Russian gas producers. Even Gazprom will realize that once other Russian gas producers are permitted to sell pipelined gas to Europe, its own vulnerability to political attacks will decrease to a point where this is hardly an issue anymore.

Higher gas prices for Russians? Unlikely!

It's sometimes been speculated about whether Gazprom will ever move to charge Russian consumers a higher price, given that they are currently only charged half the price for gas that European consumers have to pay. I doubt that such a move is going to happen in the foreseeable future. Increasing costs for heating, in a country that still has plenty of weak income groups (especially pensioners) and which has extremely cold winters, would be a terrible political move, even if done in small steps. Some say this could be on the cards from 2020 onwards, but I doubt it.

A liberalization of the Russian pipeline network, however, is relatively easily imaginable. There'd be far-reaching structural preparations to be made, e.g., it would probably be best if the Gazprom pipeline network were spun off into a separate entity that operates on a profit maximization basis and is no longer subjected to Gazprom's controlling interest (see page 79). But there is ample experience around the world how to create and operate such a model.

This discussion is probably more advanced than outside observers would expect given that it has not recently come up in major Western publications. It was talked about in the late 1990s, but the timing wasn't right, and Putin himself turned down such a suggestion in the early 2000s. Earlier proposals from the European Bank for Reconstruction and Development (EBRD) and the IMF, both of which argued in favor of liberalizing the Russian gas pipeline network for everyone's benefits, contained the right theoretical arguments but came too early and were therefore rebuffed.

It keeps coming up, though, e.g. in mid-2017 in the form of a report published by the Security Council of Russia. A division of the council recommended that with regard to the long-term security of the economic and social spheres of Russia, gas exports and the operation of the gas pipeline network should be liberalized. The report leaked out to Russian newspaper *Vedomosti*.

As the newspaper noted, the commission included representatives of the Ministry of Economic Development and the Ministry of Trade. With the structure of world energy demand changing through the rise of LNG in some parts of the world, there is now much more pressure to look at such measures.

The EU has also been making some noise with regard to wanting Russian companies other than Gazprom to be able to make use of the new, highly political Nord Stream 2 pipeline. Since Gazprom is selling such a large chunk of its gas into Europe, the company does have to heed the energy market dynamics of the European continent and the political institutions that are involved with it.

One day, all the stars will be aligned

Eventually, there'll be sufficient political pressure; the right overall timing for the Russian gas industry and its different players; and a desire of the Russian government to maximize the value of its Gazprom stake. Once all these stars are aligned, the liberalization of the Gazprom gas pipeline network will happen. Until it does, this is yet another exciting optionality that Gazprom shareholders currently get thrown in for free, and which will likely have powerful effects when implemented.

Don't dwell on parts of it, look at the big picture

As you will have gathered by now (if you have made it this far), Gazprom is an engine with A LOT of moving parts to it. Even after finishing a 94-page report about the company, I feel like I have done a superficial, incomplete job. No doubt there'll be some readers who will feel strongly that other aspects is missing. Which I won't even argue with.

To be clear, some of the Gazprom subsidiaries alone would warrant writing a lengthy report. The gradual liberalization of the Russian gas market and how it is likely to continue would be a good subject for a Ph.D. thesis. Never mind the complexity of the global gas market and how that continues to change due to the factors briefly set out on pages 60-65. All of this I could have written about much more extensively, especially since I did round up a lot more research material on these subjects than I've listed on pages 90-93.

The big trends play out in Gazprom's favour

The point is, though, for an assessment of where Gazprom (and its share) are likely to go in the long run, it's sufficient to look at the bigger picture. For Gazprom, this includes key factors such as:

- Gas demand in Gazprom's part of the world will continue to rise.
- Gazprom can produce gas cheaper than almost anyone else on earth.
- The company's ability to produce cheaply is secured for the next 20 years.
- The company's 2018 budget is based on fairly conservative assumptions, such as an oil price of $43.80 (currently $44, and it was higher for much of the year.
- Its reserves are so big that they'll probably outlast our lifetime (unless you are a minor).

- There is a lot of room for Gazprom to achieve further cost efficiencies.

- The company's net debt to EBITDA ratio is only around half the level that would signal excessive debt.

- Political risks have been decreasing and will continue to wane.

- The interests of outside shareholders and the Russian government are aligning.

- At the current share price, you pay for around 10% of its assets and the rest is thrown in for free.

- It probably takes just one trigger for Gazprom shares to double overnight (as a first step towards the valuation returning to a more sensible level).

- While you wait, you are being paid a dividend yield of 6% or more.

All the bad stuff is priced in

Provided I can buy into an asset at a fraction of its cost and at a level where I have the prospect of strong and growing cash returns, most of the problems that are likely associated with that asset fall under the category: "Sufficiently priced in and will be resolved over time." This is contrary to how most people think. Human nature and human instinct lead most people to invest in companies that are doing well already. Which would currently lead them to invest into Apple, or back in the early 2000s it would have led them to invest in General Electric or Nokia.

Being a contrarian almost inevitably turns you into a bit of a loner. You have to trust your own judgment and your own judgment alone. Which, by the way, is what I spell out clearly in the disclaimer of my website and all my publications: Use my writing as inspiration and as an initial resource to then carry out your own research, before making your own decision. I view Gazprom as a company one should gradually build a position in (using cost averaging – see page 88) and then hold on to it for the long term.

As Warren Buffett said: "Activity is the enemy of investment returns."

For something you can tuck away under the mattress and probably keep for three, five, ten or even 20 years, Gazprom shares, bought at the current level, are perhaps one of the smarter bets you can make. While holding them, you'll see most of the problems we currently worry about fall away, be resolved, become irrelevant because of changing times. What won't change is that you bought into these world-class assets at a fraction of their replacement cost, giving you a great head-start once this company gets back to being valued on a normalized basis.

A shot at valuing the Kraken

GAZPROM

ADR Symbol: OGZPY
ISIN (ADR): US3682872078
Stock Exchanges: Moscow, New York, London, Germany, Vienna

Earnings projections are nigh on impossible

Usually, I wouldn't simply rely on the earnings projections provided by a company. I'd dig into its details and try to run my own numbers. Or, as I sometimes do, have someone else do that for me.

In the case of Gazprom, I'll make an exception. When it comes to earnings, I'll solely rely on the guidance currently provided by the company.

If someone feels compelled to have a stab at coming up with their own detailed projections for Gazprom's future earnings, best of luck! At least currently, such an undertaking is nigh on impossible (and as set out in several parts of this report, it's also not even necessary).

For significant parts of Gazprom's business, key details are not available. E.g., the exact details of the 30-year, $400bn gas supply and pipeline construction deal with China were never disclosed. They were considered a trade secret, which is not an entirely unreasonable position to take. Some information has become available through company publications and subsequent statements made by company officials across both the Russian and international media. However, for the biggest of Gazprom's deals ever, analysts to this day cannot agree amongst themselves whether Gazprom will earn money or lose money (though my bet remains they will make money, as explained on page 65).

Even if all details of the China contract were known, the future income would still remain an unknown inasmuch as it's already been officially stated that parts of the deal are tied to international energy prices. These fluctuate, and no one can reliably predict short-term movements of commodity prices. Add the Russian ruble exchange rate to the mix, where in a single year you can see currency fluctuations of up to 50%. Currencies and commodities are two of the least predictable parts of the world's financial markets. Gazprom operates on the basis of a basket of different currencies – obviously, gas is primarily priced on a US dollar basis – and no one knows for sure what currency hedging the company may have in place. Because of currency fluctuations, comparing current figures with past figures is also difficult.

Gazprom has countless different divisions in the energy sector alone, to which you then need to add subsidiaries of an entirely different nature, such as Gazprom Bank. Its sheer size and number of layers make this an extraordinarily tricky company to provide conventional earnings estimates for (at least at this stage, and I'll explain later what I mean with that).

Transparency is lacking

This is one of the reasons why the share price is currently so low. Investors don't feel there is sufficient transparency, which together with a lack of trust in basic governance mechanisms and other concerns leads to a depressed share price.

It is possible, though, to come to a pretty clear view of the valuation if you roll up the subject from the back.

Gazprom Neft guides the way

Gazprom has 23,673,512,900 shares outstanding. Nota bene, each ADR represents not one but two of the underlying shares!

A current share price of RUB 147 and an equivalent ADR price of $4.24, Gazprom has a market capitalization of $50bn.

It owns 95.68% of Gazprom Neft, which has 4,741,639 shares outstanding and where each ADR is equivalent to five Russian shares. Gazprom Neft has a market capitalization of $25bn.

For a start, even just the current market capitalization of a single subsidiary is worth about half of Gazprom's own market capitalization. There is a good chance that Gazprom Neft's market capitalization will continue to rise (it is trading on a p/e of 5), and its value could even surpass Gazprom's current value.

There are a lot of fun aspects you can dig out regarding Gazprom Neft:

- Gazprom Neft is a few years ahead of Gazprom when it comes to making its operation more efficient. Its return on equity of 17.3% is the highest of any major Russian oil company, and considerably higher than the 11% ROE achieved by ExxonMobil.

- Gazprom Neft is also a few years ahead of Gazprom when it comes to its dividend policy. Like Gazprom, it had only paid out 25% of its profits for a long time in order to carry out major investments (and to do so, it was exempt from the legal requirement of government-controlled companies having to pay out 50% of their profit). However, Gazprom Neft has already entered the cycle of reaping the fruits of its investments. After five years of paying out 25% of its profit as dividend, it stepped up earlier in 2018 to pay out 28%. In 2019, the company is likely to pay out 35% of its profits; with further gradual increases to come in the years ahead. Based on the projected 2018 earnings and the current share price, Gazprom Neft shares pay a dividend yield of approximately 8%. With such a healthy yield, it's no wonder the share price has held up very nicely recently despite the massive volatility in the oil price.

- Gazprom Neft has already carried out extensive reforms to its reporting and governance, as anyone can easily see on its website, www.gazprom-neft.com. The Extraordinary General Meeting in mid-December 2018 approved extensive reforms (i.e., upgrades) of its governance policies which the shareholders could vote on electronically, for the first time ever.

Gazprom Neft is a superbly interesting indicator

A company that is 95.68% owned by a government-controlled company doesn't implement far-reaching communication, transparency and governance reforms if it was planning to squeeze out, rob, and confiscate its small remaining number of minority shareholders. You only do that if you have entirely different plans, e.g., electronic voting for shareholders is something much more suitable for foreign shareholders.

It seems pretty evident what is happening here:

- Gazprom Neft is turned into the lean, profitable fighting machine that you'd expect a privately-owned company to be; quite the opposite to what would generally be expected from a company that is ultimately majority-controlled by the Russian state.

- At this stage, its stock market listing isn't required to fund the company (i.e., it doesn't need to issue and place additional shares to raise more equity). But the tiny free-float of 4.32% is preserved to publicly show the company's progress, both through the publication of information required for a publicly listed company and the gradually increasing share price. By having a share price rise gradually over a number of years, you establish a reliable benchmark for the company's valuation. This also indicates that Gazprom's management is already thinking about capital market strategies.

- Eventually, the company is likely to be spun off from Gazprom through measures such as getting a proper listing on the New York Stock Exchange or London Stock Exchange by increasing its free-float, and selling some of the stake held by Gazprom (or raising more funds through more shares, which also decreases the percentage stake of the major shareholder). Gazprom Neft ADRs are actually already listed abroad, dating back to the days of Sibneft; albeit this listing is now largely dormant due to the lack of free-float.

There is a Russian precedent

If you think these are pipe-dreams and that none of this is going to happen "because it's Russia," then it's useful to take a look at the Russian government's history with such cases. There is actually a precedent for something similar, which those with a longer memory of Russian equities will remember.

UES was broken up into 20 entities

Unified Energy Systems ("UES") was a well-known Russian company in the 2000s and one of which the share was actively traded on Western exchanges.

Sounds familiar?

What Gazprom is today for Russian gas, UES was for Russian electricity. The company controlled 70% of Russia's installed power generation capacity, 96% of its high-voltage grid, and over 70% of its transmission lines (totalling 118,000 km in length). Sounds familiar?

It was a similar octopus as Gazprom is today, operating through a plethora of regional subsidiaries and suffering under the vast inefficiencies that are virtually inevitable when managing a company of such a size. Also, Russia was at a loss how to find the $550bn (!) in additional investments that UES needed to get its entire electricity network up to scratch.

Russia's solution to UES' structural problems?

In 2007, the company was broken up. Through spin-offs, 20 smaller companies were released into independence, and at the end of the process, the mothership was dissolved.

It's tough to research the exact history of the UES spin-offs today because web resources for this period are not overly plentiful or have vanished off the English-language web by now. However, it does appear that some investors made a killing of the break-up.

Some of my old readers will remember Nick Roditi

E.g., legendary former Soros fund manager turned reclusive private investor, Nicholas "Nick" Roditi, once appeared in the *Sunday Times* as owning 1.5% of UES. This was at a time when his net wealth estimate on the newspaper's annual "Rich List" soared from formerly GBP 200m to over GBP 1bn. Little is known about uber-secretive Roditi, but it seems likely that his major bet on UES' break-up played a significant part in it (and he is superbly well connected in Russia).

Through what happened at UES, there is a precedent for Putin's government applying the simple but effective technique of spin-offs to make an octopus-like company become easier to understand and therefore also easier to value and more attractive to investors. If Wikipedia is to be believed, the entire UES manoeuvre also helped to raise a quick $79bn in private investment for Russia's electricity sector.

The Western electricity companies E.ON (Germany), Enel (Italy) and Fortum (Finland) used the UES break-up as an opportunity to enter the

Russian market. The UES break-up happened at the time of the 2008 financial crisis, which is why parts of it got delayed or side-lined. However, some observers later gave Russia credit for carrying out, despite difficult overall circumstances, a textbook version of a comprehensive electricity sector privatization, following examples from the UK and the US.

It was an effective step to generate massive value out of a company. Previously, UES shares were trading at a considerable discount compared to other electricity companies because at the time it was >50% owned by the Russian government. If one of my readers happens to be aware of a detailed, reliable calculation of just how much additional value the break-up generated, I'd be eager to have a copy!

Will Gazprom go the way of UES?

A break-up scenario for Gazprom was actually regularly under discussion in Russia between the years 2004 and 2008. However, with the collapsed share price and the other challenges the company faced, the subject largely vanished off the radar screen in the years after 2008.

It did occasionally resurface, although primarily in the context of journalists asking about it and a variety of Russian politicians, including Putin, answering: "No break-up of Gazprom is planned," occasionally adding "at this time" to the answer.

Industry publication "Oilprice.com" speculating about a break-up of Gazprom (August 2017)

Russia May Break Gazprom Monopoly To Stimulate LNG

By Irina Slav - Aug 07, 2017, 11:00 AM CDT

A Russian Security Council commission has recommended breaking down Gazprom's gas export monopoly in a bid to boost the competitiveness of Russia's gas, Russian daily Vedomosti reported after seeing the protocol from a July 6 meeting of the commission.

I do expect that sometime over the next five years, the discussion will resurface in earnest and action will be taken. Probably in a different way than at UES, i.e., not in the form of a radical approach of breaking it into that many pieces all at once. More likely through a gradual restructuring of Gazprom. I hazard a guess that an international listing of Gazprom Neft combined with the usual measures that come with it (e.g., secondary share placement) will kick off such a strategy.

During much of the past decade, a break-up would have been viewed as a defensive measure. E.g., the *Financial Times* in 2016 reported how Gazprom might be forced to break itself up as a result of its then ongoing financing challenges. The company is now getting to a point where a break-up could be done in the context of showing its increasing strength, e.g., taking Gazprom Neft public in New York or London to demonstrate just how far this particular subsidiary has come. The last time most anyone heard of Sibneft was during the Kremlin's conflicts with certain oligarchs. Today, renamed Gazprom Neft can be presented as the Russian oil major with the highest return on equity for its shareholders.

Legal documents contain a vital clue

There is also a growing business case – and need – for Russia to create more competition between its different gas companies.

The threat posed by LNG from the US and the Middle East shouldn't be overestimated, but it is real and mustn't be underestimated either. The Russian gas industry as a whole needs to improve its efficiency and operating models (see also page 66). This ultimately leads to the question as to why other Russian gas companies aren't allowed to use parts of the Gazprom pipeline network to deliver their gas to other markets.

With the various advances achieved at Gazprom during the past decade, the balance between the benefits derived from occasionally abusing the company for short-term political purposes versus the possibility of generating enormous additional financial resources for the Russian government has now definitely tilted towards the latter.

An easily-overlooked factor within this is the fact that by breaking up Gazprom, the Russian government would not only make its own stake in the business tremendously more valuable, to the tune of hundreds of billions of dollars. It would also make it easier for the new entities to raise additional investment capital, just as UES raised an extra $79bn in capital in the context of its own break-up. By breaking up Gazprom, it would probably be possible to mobilize, within a number of years, somewhere between $100bn and $300bn in additional investment.

These are potent figures that would provide substantial financial advantages, not just for the Kremlin and the rest of the government, but trickle through the entire Russian economy and society.

Interestingly, Gazprom's legal documents have always kept the doors open to carry out such a measure as and when the time was right. A Gazprom bond prospectus available online states (in typical lawyer-speak, i.e. looking at the subject from the perspective of risks rather than opportunities) that there was no certainty that Gazprom wasn't going to see "a state-led reorganization into several smaller and less powerful production and transportation companies, or that certain of our operations may be re-allocated to other entities."

Lawyer-speak for "a break-up is entirely possible"

Open Joint Stock Company Gazprom
U.S.$30,000,000,000
Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,
Gaz Capital S.A. for the sole purpose of financing loans to

Open Joint Stock Company Gazprom

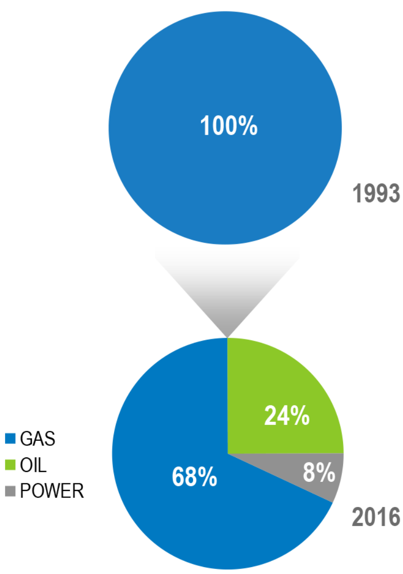
Although Government officials and senior members of our management have stated that the reorganization or division of Gazprom is not currently planned, and moreover the Gas Supply Law provides that the transfer of ownership to the UGSS may only be effected by federal law, there are no assurances that we are protected against the risks of a state-led reorganization into several smaller and less powerful production and transportation companies, or that certain of our operations may be re-allocated to other entities.

How would a break-up unfold?

Looking only at its major assets and leaving smaller entities and divisions aside for now, Gazprom could eventually be split into the following separately listed entities:

Gazprom's revenue split between gas, oil and electricity

Revenue structure[1]



[1] *According to IFRS standards and taking into account revenue structures of gas, oil and electrical power companies of Gazprom's Group*

- Gazprom Neft: Third largest Russian oil producer, already listed separately on the Moscow Stock Exchange and "ready to go."
- Gazprom Energoholding: Electricity generation, 15% market share in Russia, probably a candidate for selling to another energy firm that wants to enter the Russian market or increase the scale of its existing business. Nota bene, three of its subsidiaries are in turn listed on the Russian stock market.
- Gazprom: The core gas business, this will remain as it is, the nucleus of Gazprom. It

has energy reserves equivalent to Saudi Arabia's ARAMCO. One day, Gazprom and ARAMCO could be the no. 1 and no. 2 biggest publicly listed companies on the planet – no doubt an excellent opportunity for Putin and "MBS" to enjoy a cup of celebratory tea together!

- Gazprom pipeline network: Interestingly, this could also be spun off. It could be the equivalent of Russia's Transneft, the publicly listed company that owns much of the country's oil pipeline network and rents out pipeline capacity to oil producers. It could also be compared to other infrastructure plays that offer investors a reliable yield, e.g., NYSE-listed Kinder Morgan Inc. (ticker symbol "KMI").

- Gazprom Bank: Russia's third largest bank with over 300 branches. Because of the bank's involvement in financing Gazprom's operation, this is probably not a straightforward case for a spin-off. Gazprom Bank falls under the "remains to be seen" category.

Media holdings have lost much of their use for Putin

- Gazprom Media: The company owns TV stations and other media outlets, going back to Putin's desire in the mid-2000s to control the local media. The political importance of these assets has steadily decreased, e.g., just like anywhere else, Russians increasingly use other sources such as social media or the popular messenger app Telegram, to get their information. In amongst these media assets are a number of potential jewels, e.g., Gazprom acquired the Russian YouTube equivalent, RuTube, in 2007 for then $15m. The channel has since achieved staggering growth. With the waning political influence of convential media, this division is likely to eventually be spun off or possibly even be sold, if only in parts.

Sum of the parts valuation done on the back of an envelope

It doesn't take much to get a feel for Gazprom as one of the most undervalued major companies on the world's stock markets.

The group has net debt of $37bn. Its stake in Gazprom Neft is worth $25bn, and its 10% stake in publicly listed Novatek is worth another $5bn. Throw in a bit of loose change, and selling these two assets would essentially pay for Gazprom becoming debt-free. The shareholders would then own everything else outright.

Gazprom owns 172,000 km (107,000 miles) of pipelines. If you applied the old rule of thumb of one kilometer of pipeline being worth $1m, that'd be $150bn in value, or nearly three times the current share price of Gazprom. You can argue that some of the pipelines will be old and rusty, and don't deserve the $1m/km valuation. Equally, you can argue that just the latest three long pipeline projects that Gazprom has built or are in the final stages of construction are worth somewhere between $50bn and $100bn because that's how much it has cost to construct them (the wide range I give is due to a number of different ways how you can calculate the final price tag for these projects). Kinder Morgan, the American pipeline operator owning 135,000 km (84,000 miles) of pipelines is valued on the stock market with $38bn. You can get a feel for Gazprom's vast pipeline network alone being worth more than the current market cap of the company, no matter how you turn it.

What replacement value per kilometer?

There are the gas reserves that are about as big as Saudi Arabia's oil reserves when looked at on a barrel of oil equivalency basis. If they got auctioned off separately, they'd also achieve a triple-digit billion price. The pricing would be complicated by the fact that currently, Gazprom sells about half of its production at a lower price to Russian consumers, who only pay about half the price of European consumers (but about the same as US consumers). Will that ever change? Probably, but not anytime soon when Gazprom has so many other means to increase its profitability without asking Russian citizens to pay more for heating and cooking – a politically touchy area. Overall, the reserves Gazprom has in the ground would probably be worth between $200bn and $600bn if there was a (theoretical) possibility of selling them separately.

What price tags do you need to attach for the following?

- Owning Russia's third largest bank: Very hard to estimate but probably a few billions.
- Owning 15% of Russia's energy generation capacity: Very hard to estimate but probably a few billions. Stakes in three of Energoholding's listed subsidiaries are already worth about $1bn, based on the current share price.
- Media companies: Challenging to value but chances are they are also worth a few billions.

- Several hundred other subsidiaries, including quirky ones such as a soccer club in St. Petersburg: Impossible to say at this stage.

There are a lot of moving parts to all this, including what is probably the most expensive piece of real estate in Russia, i.e., the new headquarter in St. Petersburg, recently finished at a cost of $1.8bn

Gazprom's shiny new headquarter in St. Petersburg

E.g., relative to other Russian oil companies (and despite its share price being up 200% over the past two years), Gazprom Neft shares have another 50-100% to rise before they trade on a comparable level to other Russian oil companies. If Gazprom Neft's valuation caught up to that of its Russian peers, this one subsidiary alone could already be worth the same as Gazprom's current market cap.

The truth is, there is neither a perfect nor a complete way of valuing Gazprom. I can already see the criticism coming for my back of the envelope calculation. Of course, it's not as sophisticated as it would be if you employed a number cruncher to spend two months going through all the figures of every single one of the several hundred subsidiaries. But that's not required anyway.

If a house that would cost $1m to construct is offered to you for $100,000, you'd first carry out a survey of any potential major issues: Asbestos, damp, static, electrical problems, roof issues, insulation. You wouldn't spend much time asking whether a kitchen sink or a lightbulb needed replacing. If the headline issues are fine, you know you are standing in front of a bargain.

Amazon versus Gazprom

During the 2017 fiscal year, Gazprom has made a net profit of $11.4bn. In comparison, Amazon has made a net profit of $3.03bn.

Gazprom is valued at $50bn. Amazon is valued at $657bn (even after the recent tech stock rout).

Gazprom is a lot more likely to rise by a factor of five from here than Amazon. The facts, spelled out over this report's 94 pages make it pretty clear why.

Why has Gazprom become SO cheap?

I've already provided a lot of background information about why Gazprom shares haven't been in favor in recent years.

I'll sure get hate mail anyway following the publication of this report, e.g., from people who are allergic to all things Russian and from people who think that investing into early-stage ventures through crowdfunding platforms will make them rich. For the record, and in the context of the valuation metrics touched upon above, let me repeat that like with any company, there are risks and challenges.

For example:

- The US tries to compete against Russian gas by selling LNG to the rest of the world. This makes the US energy industry a Gazprom competitor in the critical markets of Europe and Asia. LNG can be transported on ships so it doesn't rely on pipelines and can be delivered to any destination in the world.

- Gazprom does have remaining governance problems. The Russian government is the company's largest shareholder, and Gazprom remains a potential political tool for President Putin to use in certain circumstances.

Transporting LNG when pipelines are not an option

Only the gods can predict the oil price

Energy prices fluctuate, and there is no guarantee that the current price level for gas is going to be sustained. Just three months before publishing this report, oil shot to nearly $80 per barrel and commentators were going on about the $100 mark being back in sight. It then experienced one of its fastest ever price collapses and went down as far as $42 per barrel in a matter of just eleven weeks. No one saw that coming, and energy prices will continue to be near-impossible to predict as far as their short-term movements are concerned.

However, in the long run, such factors usually balance each other out, or they get dealt with, and matters improve because problems, once identified, can usually be resolved.

Here are some of the reasons why the fear of these particular factors is probably overblown.

American LNG isn't nearly the threat it was made out to be

One decade after LNG exports from the US to Europe have become a subject, they have yet to become a significant factor in all but a few European markets.

American LNG has been well-received in European markets with constrained access to the gas pipeline network. These are mostly Western European countries with access to the sea, such as the Netherlands, Spain and the UK; as opposed to more Eastern European countries that lack the sea access required to easily import LNG.

Somewhat particular among the European countries is Poland, where a move is underway to replace all of its Russian gas imports and instead rely more heavily on LNG imports. However, when looked at from a market share perspective, LNG is far from making truly significant inroads in price-sensitive Europe. To paraphrase a way of depicting the situation as chosen by Gazprom, Europe's gas market was a cup of tea, American LNG so far would only make up a few drops.

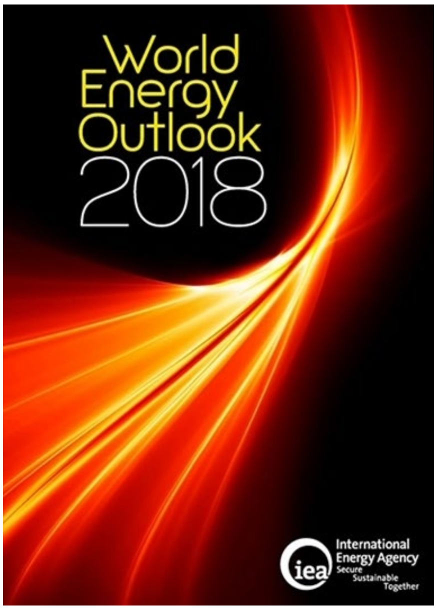
Gazprom likes trolling its American LNG competitors

Comparison of Gazprom and U.S. LNG supply volumes to the European[2] market (figurative)

Source: Gazprom

Also, what is often overlooked is the fact that Europe's own gas supplies are on the wane. Countries such as Norway and Italy are nearing the depletion of their reserves. The European shale gas industry hasn't taken off as some had hoped ("shale fail"), and all this happens at a time when gas is vital to Europe if it wants to stick to its ambitious climate change-related energy policy goals.

Well worth a read: The annual World Energy Outlook



The 2018 World Energy Outlook, arguably the most respected independent assessment of world energy markets, projects that European gas imports will have to grow by 86% (!) by 2025 to make up for Europe's falling indigenous production. In 2017, Gazprom managed to capture two-thirds of that year's incremental increase of gas demand. LNG and other competitors are a factor, but not more than in any other market situation (i.e., American LNG is no more an existential risk to Gazprom than Samsung is to Apple). The same report estimated that Russia's share of the European gas market will remain at roughly 37% until 2040, i.e., there won't be any significant change at all. It's always worth keeping in mind that the European market is also steadily growing its absolute size.

All the media fuss and political posturing aside, it appears that Europe and Russia are locked in a marriage when it comes to gas. Europe is constrained by its inability to absorb higher prices, Russia by the absolute need to utilize its existing pipeline network. There is simply no real way out for either party. Also, it's unrealistic to expect that Europe will move to a stringent classification of "Gas of Liberty" (US) and "Gas of Totalitarianism." It'd run into serious issues with its gas supplies from the likes of Algeria and Qatar, and never mind what that would mean for its purchases of oil from key suppliers such as Saudi Arabia.

All of Gazprom's issues can be resolved

Provided there is the will – and the prospect of making lots of money is usually a strong enough motivation – then there aren't any problems at Gazprom that couldn't be resolved one way or another.

There is plenty of evidence that Gazprom is gradually tackling its governance challenges, impressively documented through the rise of Gazprom Neft and other changes already implemented on a holding company level (see page 58). In the meantime, remaining state interference and corruption are already fully priced into the share price. After all, The World Energy Outlook doesn't see Gazprom's role in Europe changing

Russia To Remain Europe's Main Gas Supplier Through 2040

By Vusala Abbasova November 19, 2018

Russia has the world's largest proved reserves and exports much of it to surrounding countries, primarily via pipelines. / *Bloomberg*

Russia, the world's second-largest natural gas producer, is expected to continue to be Europe's primary supplier of natural gas until 2040, despite a significant decrease in the demand for the blue fuel.

> *"Russia will remain the largest gas supplier in the region and one of the cheapest, but this influence should weaken on the much more integrated European gas market, where buyers will have access to different sources of gas," RIA Novosti quoted (https://ria.ru/economy/20181113/1532652495.html) the annual report published by the International Energy Agency (IEA) as saying this week.*

According to the IEA's 2018 World Energy Outlook (https://www.iea.org/weo2018/), gas demand in the European Union is expected to drop to 408 billion cubic meters (bcm) by 2040, or by 16.4 percent in comparison with last year's level. At the same time, the EU's decrease in domestic production of natural gas will cause imports to grow up to 86 percent by 2025.

you are basically getting most of the company's assets for free!

Commodity price movements can't be accurately predicted by anyone. There is, however, a way to predict with a relatively high degree of certainty that Asia alone is going to make for further increases in world energy demands.

The bad news has truly been priced in the company's valuation already. Case in point, despite the onslaught of bad news from Russia over the past few years, the share price has held stable rather than to fall further.

A cash cow with the potential to turn into a growth stock

Even if nothing else was to change, with the conclusion of Gazprom's large investment projects the company is now set to sell ever more gas to growing markets.

If nothing else, Gazprom is set to become a cash cow like Western cigarette companies - unfavorable reputation, but HUGE returns for its shareholders because it's paying out a lot of cash through dividends.

Unpopular businesses can make for great investments

Altria Group, for example, the company that owns Marlborough, has been one of the world's best performing shares despite the backlash against smoking, and that should tell you something. Because of the steady cash flow provided by its cigarette business, Altria shares are up more than 5,000 times (!) since 1970; equivalent to an annual return of over 20% each year. Over the course of the past five decades, producing oodles of cash off the back of an unpopular but reliable business has made Altria the single best performing major company in the world.

Gazprom shares are trading at such an incredibly low valuation that it wouldn't take much to deliver a similar performance one day. While you wait for that to happen, you are being paid an attractive dividend yield every year. You are not buying into an entrepreneur's plans and promises; instead, you are buying a stake in existing, reliable, cash flow positive asset. Gas, pipelines and customers are already there, after all. Throw in a few positive surprise developments, and you could see this share price go up three, four or five times its current price. Possibly even more in the longer term, if the entire Russia situation changes for the better and provided energy prices remain on the up.

The downside? At this stage, it seems relatively limited.

Bad news about Russia haven't done any further damage to the share price in recent years, and the big investment projects are now all seemingly on the path to successful completion.

The ruble also seems rather cheap these days; based on the Big Mac Index, which compares the price of McDonald's food in different countries, the Russian currency is currently 62% too cheap. So says the *Economist*, the publication that has been publishing the Big Mac Index since 1986.

Buy, Sell, Yes, No?

In summary, should you buy Gazprom shares now?

Undervalued-Shares.com isn't going to issue specific recommendations to buy and sell. That's not my job. I only deliver all sorts of inspi-

Receiving dividends from Russia

Dividends paid by Gazprom are subject to taxes. Contrary to the past, there is now a clear procedure in place to keep these taxes to a reasonable level. Russia today has 78 double taxation treaties in place, including with the US, Germany, Switzerland and most other major Western countries.

Since 2014, it has a procedure in place that basically looks as follows:

- If you purchase Gazprom ADRs, your bank needs to disclose your identity and tax residence to Gazprom. If you do that and reside in one of the 78 countries that has a double taxation treaty with Russia, you become eligible to receive these dividends under your respective double taxation treaty, i.e., you will never be taxed twice.

- If you disclose your identity and tax residence but reside in a country that does NOT have a double taxation treaty with Russia, you become eligible to receive the dividend with a Russian tax of no more than 15% applied to it. It is then up to you to decide what additional tax you may or may not have to pay in your country of residence.

- If you fail to comply with disclosing your identity and tax residence, the Russian government will apply a 30% withholding tax on your dividend. You will also have to decide whether you may or may not become liable for other taxes in your country of residence.

Gazprom has an informative website section about this subject: http://ir.gazprom-neft.com/retail-shareholder-information/for-adr-holders

When in doubt, you should speak to your broker, bank, or tax advisor.

ration, background information, and entertainment. What you do with your money is entirely your decision (and your decision alone).

I am only here to challenge the status quo and give you new ideas and some leads to start your own research and make your own decisions.

If you were to consider investing in Gazprom after doing your own research, here are just some of the approaches you could consider:

1. Outright purchase

The current price is cheap as chips. You could simply say that now is the right time to purchase a few shares and put them away with a view to keeping them for a few years or many years.

2. Cost averaging

Depending on how much time you spend managing and monitoring your investments, you could apply the old strategy of cost-averaging.

Which, in simple terms, could look like this:

- Make an initial investment using 20% of the overall amount you want to invest.
- If the share price falls back, buy more to get your average purchase price down.
- Base that on some kind of fixed rule, e.g., each time the share price has fallen another 10% relative to your initial purchase price, use another 20% of your overall amount to buy more shares.

If the share climbs from here onwards, you end up being invested with only a part of the funds that you wanted to invest.

In a worst-case scenario of the share price falling by 50% after your purchase, you end up with an average price that is calculated as follows:

Total amount to be invested: $10,000

20% invested @ $4.50 = 444 shares (starting position)

20% invested @ $4.05 = 494 shares

20% invested @ $3.60 = 555 shares

20% invested @ $3.15 = 635 shares

20% invested @ $2.70 = 741 shares

Total number of shares purchased: 2,869
Average overall price: $3.48

3. Bottom-fishing

In 2016, Gazprom shares fell as low as $3.40. Markets sometimes do funny things, especially in times of extraordinary political or financial crises and wildly fluctuating energy prices.

You could treat Gazprom as an investment that you purchase if or when another such extreme period occurs. Put another way, you define a very low price at which you are willing to invest, and if that price is ever reached, you pounce.

A portfolio approach

Which part of your portfolio should you invest in companies like Gazprom?

Do define your own portfolio strategy

Even if I wanted to, it's impossible to give any advice in this regard. It depends on what phase of your life you are in, what other assets you own, what your goals are.

For these decisions, reading a few books about financial planning or (if you are so inclined) speaking to a licensed financial advisor would be good ways forward.

You might want to invest 20% or 30% of your portfolio in equities and, over time, build a portfolio that is equivalent to you basically running your own fund (without having to pay the fees for a fund manager!). In this scenario you should probably spread your investments across 20-30 shares, i.e., build up such a portfolio over a period of 2-3 years through one additional investment each month (and each company ends up making up about 1% of your portfolio). Friends have asked me to provide suggestions for such an approach, which is why I chose to relaunch Undervalued-Shares.com and base it on a plan of publishing ten extensive research reports each year.

Ultimately, it's up to you to educate yourself about all possible approaches; carry out your own research so that you derive at investment decisions that are your own and which you feel comfortable with, and then do whatever is necessary to carry them out and monitor them.

If somewhere along the way my writing has been useful to you in some shape or form, I'll have achieved my goal for this website.

Appendix: Resources to carry out your own research

There is an ocean of information available about Gazprom and all related aspects. To give you a head-start for carrying out research on your own (as I always advise you to do), here are a number of resources that I found particularly useful.

1. All things Gazprom

Gazprom
http://www.gazprom.com

Gazprom corporate video (4 min)
https://www.youtube.com/watch?v=5FA6X_ZeXQc

Gazprom YouTube channel
https://www.youtube.com/channel/UC0kFLbP4dLIQ99s6Cf3gwAA

Speech by Gazprom's CEO at the annual shareholder meeting, 29 June 2018
https://www.youtube.com/watch?v=s2dKhKTwj-k

Website of Gazprom's gas export arm
http://www.gazpromexport.ru/en

Gazprom Neft
http://www.gazprom-neft.com

Gazprom's (dormant) Shtokman project
http://www.shtokman.ru

Gazprom's football engagement
https://www.gazprom-football.com

Why is Gazprom investing in football?
https://www.youtube.com/watch?v=NxcrSL3-BKc

FASCINATING long read about Gazprom's global football engagement
https://thesefootballtimes.co/2015/01/15/the-gazprom-empire

Gazprom shares: Value trap or bargain (by Dr. Sven Carlin)
https://www.youtube.com/watch?v=pKEMP3KKkdY

Sberbank CBI: Tickling giants (report for which the author was fired)
http://globalstocks.ru/wp-content/uploads/2018/05/Sberbank-CIB-OG_Tickling-Giants.pdf

Gazprom Wikipedia profile (some useful historical perspectives)
https://en.wikipedia.org/wiki/Gazprom

Forbes: Russia's Gazprom is investing more in oil & gas worldwide than rival Exxon
https://www.forbes.com/sites/kenrapoza/2018/08/22/russias-gazprom-is-worlds-biggest-energy-investor/#16932c403553

Petroleum Economist: Gazprom continues to aim high
http://www.petroleum-economist.com/articles/corporate/company-profiles/2018/gazprom-continues-to-aim-high

Gazprom Lakhta building: Video about the new corporate HQ in St. Petersburg
https://www.youtube.com/watch?v=95Jm5KT56Tw

2010 Gazprom Bond prospectus
http://www.ise.ie/debt_documents/Base%20Prospectus_58b2c5ee-a08a-46a8-8dff-1d9fbbe84ec0.pdf

Seeking Alpha community discussing Gazprom
https://seekingalpha.com/symbol/OGZPY?s=ogzpy

Seeking Alpha community discussing Gazprom Neft
https://seekingalpha.com/symbol/GZPFY?s=gzpfy

Natural Gas World: Gazprom repays debt, eyes growth (paywall, free trial sub available)
https://www.naturalgasworld.com/gazprom-repays-debt-eyes-growth-62626

Financial Times: Gazprom spends big to keep trillion dollar dream alive (paywall)
https://www.ft.com/content/62bfc776-d37e-11e7-8c9a-d9c0a5c8d5c9

Bloomberg: How did Russia's gas Goliath get beaten by its David?
https://www.bloomberg.com/news/articles/2018-09-06/how-did-russia-s-gas-giant-get-beaten-by-its-smaller-rival

The Barents Observer: Gazprom hints at comeback for Shtokman project
https://thebarentsobserver.com/en/industry-and-energy/2017/10/gazprom-hints-comeback-shtokman-project

OilPrice.com: Is 2018 a banner year for Gazprom?
https://oilprice.com/Energy/Natural-Gas/Is-2018-A-Banner-Year-For-Gazprom.html

Vesti News: 25 years of stunning success for Gazprom (propaganda video, but interesting nonetheless)
https://www.youtube.com/watch?v=ZDoizOYBluQ

Russia Insight: 2020 is the big date – Nord Stream 2
https://www.youtube.com/watch?v=KTxAG69UI94

Nord Stream 2 project website
https://www.nord-stream2.com

2. Gas market

Oxford Institute for Energy Studies: Russian gas to flow despite sanctions
https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/06/Russian-Gas-to-Flow-Despite-US-Sanctions.pdf

Natural Gas World: Russia eyes doubling gas exports by 2035
https://www.naturalgasworld.com/russian-producers-eye-doubling-exports-64936

Bank of Finland: Overview of Russia's oil and gas sector
https://helda.helsinki.fi/bof/bitstream/handle/123456789/14701/bpb0517.pdf?sequence=1

World Energy Outlook 2018: Five take-homes for fossil fuels
https://www.power-technology.com/features/world-energy-outlook-2018-fossil-fuels/

Columbia Center on Global Energy Policy: Gazprom's response to US LGN exports and the changing global market (presentation slides)
https://energypolicy.columbia.edu/sites/default/files/pictures/The_Impact_of_US_LNG_on_Russian_Natural_Gas_Export_Policy.pdf

Same as above, in the form of a 1h 11min video of the presentation and discussion (highly recommended!)
https://www.youtube.com/watch?v=1N_KcxCQK1Q

Seeking Alpha: Why Europe will only ramp up LNG conditionally
https://seekingalpha.com/article/4223716-europe-will-ramp-lng-conditionally?page=2

Europe to boost Russian gas imports by 25% (November 2018) (paywall)
https://www.ft.com/content/2d4e453e-f70b-11e8-af46-2022a0b02a6c

3. Russia

Forbes: How Russia's largest companies have weathered sanctions
https://www.forbes.com/sites/kenrapoza/2018/06/06/2018-global-2000-how-the-biggest-russian-companies-have-weathered-sanctions

Bloomberg: Poland waves goodbye to Russian gas after 74 years
https://www.bloomberg.com/news/articles/2018-02-08/poland-bets-on-lng-norwegian-gas-as-divorce-with-russia-looms

OilPrice.com: Russia may break Gazprom monopoly to stimulate LNG
https://oilprice.com/Energy/Natural-Gas/Russia-May-Break-Gazprom-Monopoly-To-Stimulate-LNG.html

Caspian News: Russia to remain Europe's main gas supplier to 2040
https://caspiannews.com/news-detail/russia-to-remain-europes-main-gas-supplier-through-2040-2018-11-18-37/

Scott Adams explains the potential good news about Russia: Dilbert's creator has a video column where he regularly presents an alternative view to world events
https://www.youtube.com/watch?v=d3uADYXd7Pg

The Power of Putin – 2018 BBC documentary (the single best piece of "Western mainstream media Russia hysteria" I found – hysterical to watch)
https://www.youtube.com/watch?v=ZZ-Kwr0VFUE

Putinomics – Power and Money in a Resurgent Russia (30-minute presentation by Chris Miller, scholar, and author of a book about Putinomics – very interesting to watch)
https://www.youtube.com/watch?v=s-eI_5It63w

Caspian Report: How Putinomics works
https://www.youtube.com/watch?v=nhu3n8vkJSg

Russia Insider: Russia's Bonds are toxic nuclear waste again, Hello Bondageddon
https://russia-insider.com/en/russias-bonds-are-toxic-nuclear-waste-again-hello-bondageddon/ri23305

Forbes: Russia's controversial Nord Stream 2 pipeline may now be unstoppable
https://www.forbes.com/sites/davekeating/2018/09/05/as-of-today-russias-controversial-nord-stream-2-pipeline-is-already-underwater/#7d70462b1e1c

Financial Times: Russian sanctions, why "isolationism is impossible" (paywall)
https://www.ft.com/content/c51ecf88-e125-11e8-a6e5-792428919cee

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