



Gazprom to hit ₺350 (\$9.5 ADS)?!

THE CORRELATION BETWEEN THE NATURAL GAS AND GAZPROM EQUITY PRICE AS WELL EASE IN GEOPOLITICAL TENSIONS ASSUME ₺350 (\$9.5 ADS) TARGET BY THE END OF AUGUST

Natural gas prices in the U.K. have soared 90% since late March 2021, while Gazprom's stock price has jumped as low as 35%. Meanwhile, the correlation between the two assets stood at 90% over the period as compared to -25% (negative correlation), the 10-year average.

Natural gas prices and demand for Gazprom stocks have recorded the strongest growth since July 2007 (14 years ago), when the correlation between the two assets stood at 77%.

Gas prices rally spurred by record-low storage levels (under 50%) and growing demand amid high temperatures in the US and in many countries with colder climate.

Our target for the rest of September is ₺350 (\$9.5 ADS) per share, assuming a 4.3% drop in price after the 2020 dividend cut-off date on July 15.

DO HIGHER GAS PRICES MEAN HIGHER GAZPROM PRICES? THE SITUATION HAS CHANGED AND LOOKS POSITIVE

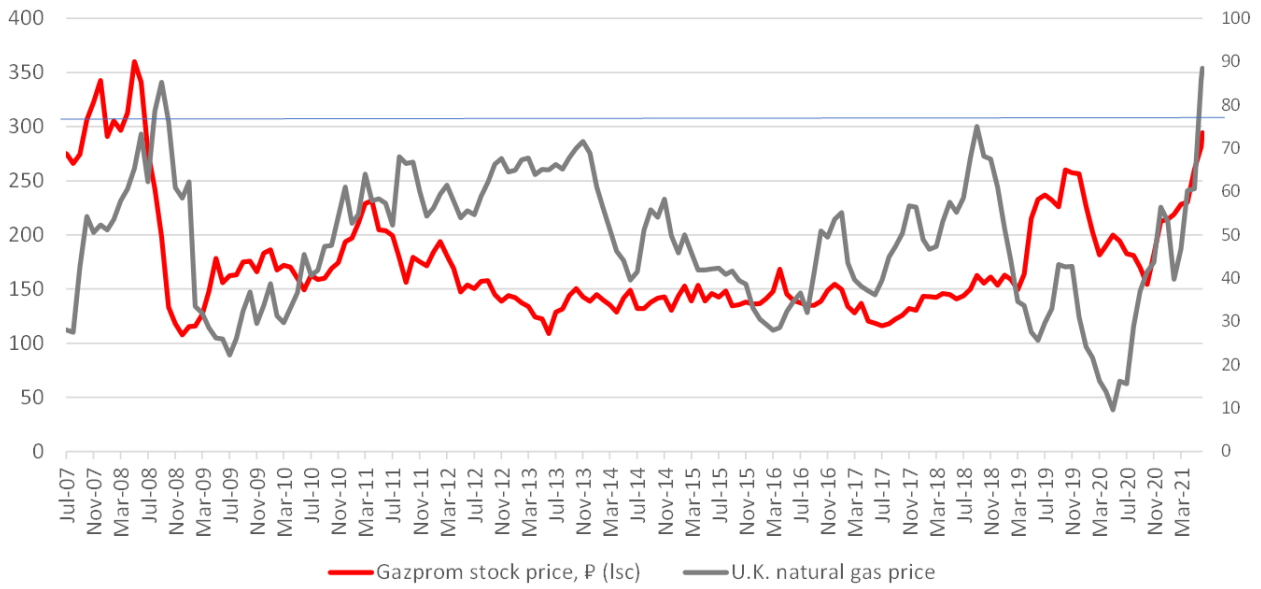
The latest commodity cycle of 2010-2013 did not affect Gazprom's shares, back then Gazprom suffered from inefficient expenditures and a large-scale capital investment programme. At that time, transit countries actively dictated their terms, damaging Gazprom's image as a reliable partner following the launch of liquefied gas supplies to Europe, Gazprom's traditional export market. The 2013-2018 saw a gap between the share price and the price of gas due to sanctions after the incorporation of Crimea.

We assume the situation around Gazprom has changed over the past decade. The company has diversified its gas delivery routes: it laid two pipelines to Turkey, two to Europe (Nord Stream 1,2) and China (Power of Siberia).

During the 2020 crisis Gazprom has ensured effective control over capital and operating costs. Geopolitical risks have also eased after Russia resumed its dialogue with the U.S. in June 2021. Moreover, Gazprom is successfully completing its Nord Stream 2 project despite previous sanctions threats. The additional export potential of Nord Stream 2 is 55 bcm, the 2020 exports to Europe dropped by 13%, to 175 bcm, excluding Nord Stream 2.

The beginning of 2021 showed that the company is actively winning back the lost market share in Europe even amid rising gas prices. With Gazprom's profits rising, the company is expected to become one of the most appealing dividend stocks of the year, which will put it back on the radars of investors. Despite the stock's growth of

41% YTD, we see strong upside potential.



Source: Bloomberg, ITI Capital

CONTACT LIST

Trading

Mikhail Durov | Fixed Income Trader | Mikhail.Durov@iticapital.com

Sales

Aleksandr Panfilov | Head of Fixed Income Sales | Aleksandr.Panfilov@iticapital.com

Research

Iskander Lutsko | Head of Research, Chief Investment Strategist | Iskander.Lutsko@iticapital.com

Olga Nikolaeva | Senior Fixed Income Research Analyst | Olga.Nikolaeva@iticapital.com

Stanislav Yudin | Senior analyst, Equity Research | Stanislav.Yudin@iticapital.com

Irina Fomkina | Research Analyst | Irina.Fomkina@iticapital.com

Elizaveta Herne | Research Analyst | Elizaveta.Herne@iticapital.com

Oleg Makarov | Chief Editor | Oleg.Makarov@iticapital.ru

CONTACT DETAILS:

ITI Capital Limited
Level 33 Tower 42,
25 Old Broad Street,
London EC2N 1HQ,
United Kingdom

PHONE:

+44 (0) 20 3889 8333
+44 (0) 20 3889 8331

WEB:

iticapital.com

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