

# Three Things Keeping Gazprom Managers Awake at Night



Undervalued shares, the risk of sanctions and increasing competition with liquefied natural gas are all causing sleepless nights for Gazprom PJSC's managers.

At an investor meeting in Singapore on Thursday, when asked about what keeps Gazprom managers awake at night, board member Oleg Aksyutin said it was the need to "take into account all the aspects" for the future of its gas exports to Europe and Asia.

It's "in particular the black swans, and trying to understand the extent to which we can whiten these swans and expect them to appear, is something that continuously keeps us alert," Aksyutin said.

The remarks indicate the company's board sees the need to firm up its competitive position against alternatives such as LNG and new pipeline routes reaching into Europe from the south and the Caspian Sea region.

Russia's biggest gas producer aims to strengthen its position in Europe, where it increased its market share to almost 37 percent last year, according to Gazprom. The company also aims to become the top gas supplier to China where it plans to

start deliveries by the end of this year.

While Gazprom's projects to expand export routes in Europe, such as the TurkStream pipeline across the Black Sea and the Nord Stream 2 link across the Baltic Sea, have faced criticism both within and outside the European Union, the company sees them as one of the reasons its shares should be valued higher.

Germany Preparing to Draw More Russian Gas, Disregarding Trump

Once Russia's biggest company by market capitalization, Gazprom is now surpassed by domestic oil companies Rosneft PJSC and Lukoil PJSC. The nation's state-run gas producer has been losing investor appeal in recent years as spending plans have eclipsed the promise of higher dividend payouts.

Gazprom management has signaled it sees the possibility of paying half of its profit out as dividends after its current investment cycle ends in 2020, according to Chief Financial Officer Andrey Kruglov. The final decision will be made by shareholders, Kruglov said.

"Raising its market cap is one of the fundamental objectives that the management of the company is pursuing," Kruglov said at the same event. The company budgeted for record high dividends of 10.43 rubles (16 cents) per share for 2018, or 27 percent of net income under International Financial Reporting Standards.

Besides the valuation of the company, which depends "on the effort contributed by every office and every employee," said Elena Burmistrova, director general of the company's export unit, sanctions and "certain pressure" from U.S. LNG deliveries to Europe are also "worrisome" for Gazprom.

Earlier this week in Hong Kong, Gazprom's top executives dismissed the impact of LNG on the company's position in the European gas market and said U.S. sanctions had little impact on its operations.