

# Gazprom Cutting Investment For 2012, Increasing Dividends

By [The Moscow Times](#)

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Gazprom is slashing investments and more than doubling its dividend in a move that will boost government coffers in an election year and lift the overall dividend yield of the Russian stock market.

The gas giant said Tuesday that its 2012 investment program would fall to 776.7 billion rubles (\$24.2 billion), down 39 percent from the 1.23 trillion allocated to investments in 2011.

It also proposed more than doubling its dividend payout on 2011 results to 8.39 rubles per share, or 198.6 billion rubles (\$6.19 billion) from 3.85 rubles per share a year earlier.

It did not detail the reasons for its decisions.

"A doubling of the dividend was the minimum that could be expected as 2011 has been quite successful for Gazprom thanks to record-high oil prices," said Alexei Kokin, a sector analyst

at UralSib in Moscow.

"The state, which owns more than a half of the company, is itching to milk more from it due to these uneasy times."

In the second quarter, Gazprom's net income leapt 79 percent to \$10 billion thanks to rising sales of gas, pricing of which is pegged to oil products with a lag of six to nine months.

Gazprom typically revises initial plans for investments upward several times during the year. Kokin said further plans would depend on the government, however.

"Gazprom is poised for harder times. The company's capex plans depend on the government's financial needs," he said.

Oil and gas industry levies account for half of federal revenues, and the government may ramp up spending ahead of a presidential election set for March 4, when Prime Minister Vladimir Putin is widely expected to return to the Kremlin.

Analysts say Gazprom, which pays lower taxes than its oil industry peers, can lend the government a hand by paying higher dividends — based on Tuesday's share price its dividend yield would be 5 percent if shareholders approve the payout.

Gazprom's heavy weighting in stock indexes means that a higher payout would boost the dividend yield on the Russian market as a whole to above the average for its emerging markets peers, analysts at Citibank estimate.

Gazprom, in which the state owns a slim majority, has a weighting of 15 percent in the benchmark MICEX and RTS indices, where the weighting of the biggest constituents is capped.

It also has the heaviest weighting, of 27.4 percent, in the MSCI Russia Index, which serves as a benchmark for international investors who follow Russia. The MSCI Russia is down 22 percent in the year to date.

Gazprom is facing stiff competition from cheaper fuel, such as liquefied natural gas in Europe, its key source of revenues.

European clients have been increasingly demanding that Gazprom include a greater element of spot market pricing in its long-term contracts, which are mainly indexed to oil prices.

According to a report in Vedomosti on Monday, Gazprom will ramp up investment in 2013 and 2014 as it starts work on the 1.2 trillion cubic meter Chayandinskoye field in Eastern Siberia and an eastbound export pipeline.

Capex will rise 1.75 trillion rubles in 2013, then retreat to 1.54 trillion in 2014, the newspaper said.

The investments should help Gazprom diversify away from its core European export market, which accounted for over half of its revenues last year.

But the company has yet to agree a supply deal with China after five years of talks, and Beijing is moving to ramp up supplies from the Central Asian state of Turkmenistan and boost its imports of LNG.

Gazprom also plans to borrow 90 billion rubles next year on international markets, the company said.

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