

Market Watchers Contemplate a Gazprom Reshuffle

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Alexei Miller pictured with then-President Dmitry Medvedev in July 2008.

A new executive at the head of Gazprom could give a mighty boost to the stock price of the world's biggest gas producer, especially if the replacement came with a policy change, according to managers that run funds with Russian assets.

The belief comes even as there is understanding that the state-controlled giant makes its key moves at the government's bidding, and Gazprom's veteran chief, Alexei Miller, has a contract to lead the company until June 2016.

Gazprom, where Miller has been at the helm since 2001, is now facing a strong challenge to its lead in the Russian gas universe from the country's oil champion Rosneft and private gas producer Novatek.

"A company like Gazprom, where management has been incumbent for a long time, could

probably benefit from a shake-up," said Mattias Westman, founding partner at Prosperity Capital Management. "There are other Russian state-controlled companies that are better run than Gazprom."

Westman said he referred to Rosneft, led by former Kremlin and Cabinet heavyweight Igor Sechin; and Russia's biggest lender, Sberbank, managed by former Economic Development Minister German Gref.

Gazprom has in the past few years come under a barrage of criticism for its multibillion projects to build new pipelines to Europe — Nord Stream and South Stream — at a time when its exports to the continent have dwindled. Another perceived misstep, which led to the decline in European sales, was the company's refusal until last year to make price concessions, regardless of the glut on the market.

A reshuffle at the top of the company could send an encouraging message to the investment community, said Gennady Sukhanov, who helps manage the Russian oil fund at TKB BNP Paribas Investment Partners.

"A change of the chief executive could signal a different policy," he said. "If the new person had good reputation, it would be taken well by the market."

Gazprom's stock could then as much as double in value, he said.

"If I see that Gazprom is about to change its policy, I will mortgage my apartment and buy Gazprom shares," Sukhanov said.

Yelena Loven, who is part of the team that manages Russian stocks at Swedbank Robur, said Gazprom could gain 30 percent if the government decided to revamp its management, Bloomberg reported last week. Loven was on vacation and unavailable to comment for this story.

Westman said more efficient management could boost the share price, but he didn't indicate how much.

News media have occasionally reported rumors in the past few years that Miller was on his way out. Most recently, Financial Times blogger Nick Butler said Monday that these rumblings "continue to swirl around the markets across Europe."

Westman and Sukhanov said they were unaware of any changes in the near future.

There have not been any reports about who might succeed Miller.

Gazprom could benefit from a top executive that has a record of successfully running another traded company, Sukhanov said. As one possible replacement, he named Alexander Dyukov, chief of Gazprom's oil arm, Gazprom Neft.

Westman said only that he would like to see "someone from the outside coming in."

Another view held by investors is that the name of Gazprom's top executive does not matter, but the government's willingness to plot another course for the company would be important.

A reshuffle would appeal to investors only if it comes with a plan for Gazprom to spin off several companies, making it easier for investors to understand the business, said Pascal Menges, energy fund manager at Swiss investment firm Lombard Odier. The fund has a small exposure to Russian assets.

In addition to having an oil arm, Gazprom is big in power generation and runs the country's vast network of gas pipelines.

According to Westman, the government could turn Gazprom into a more valuable asset by changing the rules of the game, even if it continues to rely on the current executive team. For instance, a Gazprom that had to allow greater access of other gas producers to its sprawling pipelines would exercise more spending prudence as a result of more competition, he said.

Investment bank Renaissance Capital said Thursday that it expected the domestic gas sector to undergo an overhaul over the next few years because Gazprom needs to respond to pressure from domestic and global competition.

"We think the Russian government will finally decide to move toward an open-market model for the gas industry, ushering in an independently run transportation system, general parity between domestic and export prices, and ultimately liberalized exports of gas," the bank's analysts said in a research note.

Recent Gazprom performance has been a mixed bag. Its European exports sank 7 percent to 139 billion cubic meters last year, the company said last month.

And the reason for the lower sales, industry analysts said, was largely the company's refusal until last year to tweak prices regardless of the glut on the market.

Likewise, private gas producers have chipped away at Gazprom's domestic market share.

On the bright side, Gazprom paid record dividends for 2011. The payout, however, will likely be smaller for last year because of the decline in sales.

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