



# Independent Stock Idea

March 31, 2010

rating: buy  
s&p 500: 1173

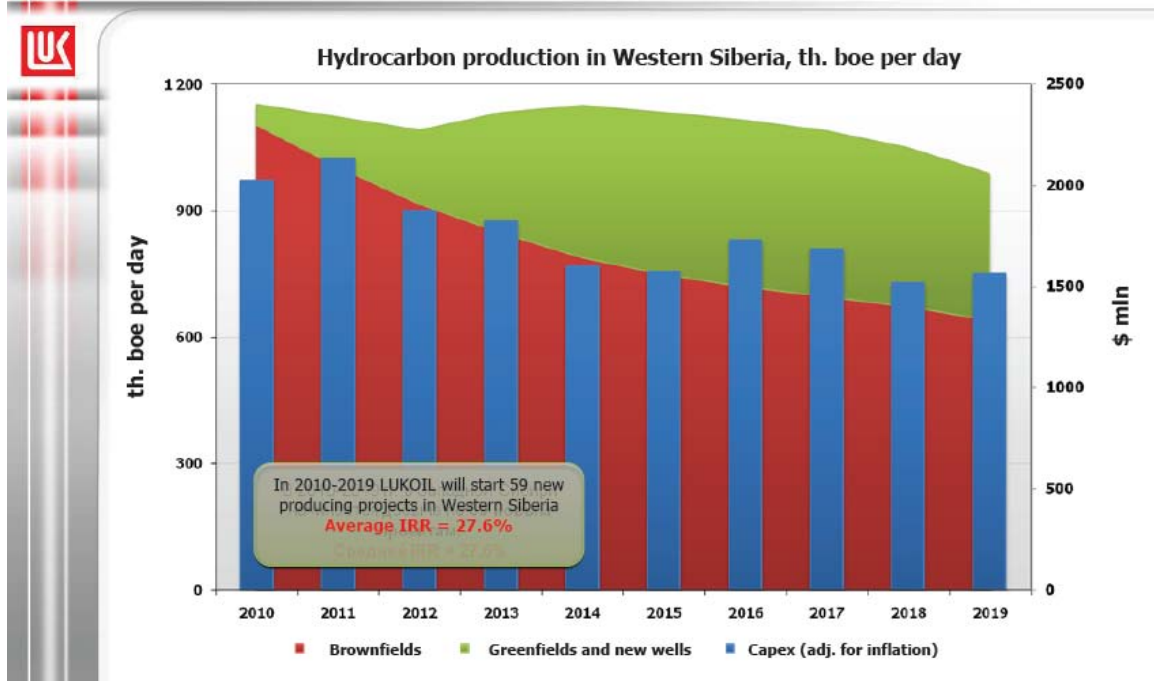
## Lukoil (LUKOY) Shares Available

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	14,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	56.00	<i>Natural Gas and Oil Production/Ebitda (%)</i>	67
<i>Pricing Date</i>	3/30/10	<i>Adjusted Reserves/Production NTM</i>	15.8
<i>Shares (mm)</i>	847	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (US\$mm)</i>	47,400	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$mm)</i>	6,500	<i>Undeveloped Reserves (%)</i>	42
<i>Enterprise Value (EV) (US\$mm)</i>	54,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.24
<i>Present Value (PV) (US\$mm)</i>	120,900	<i>Present Value Proven Reserves(US\$/boe)</i>	5.89
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.98
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.06
<i>McDep Ratio - EV/PV</i>	0.45	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.0	<i>Indicated Annual Dividend (US\$/sh)</i>	1.69
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical research on Lukoil since 2004 see <a href="http://www.mcdep.com/2luk.htm">www.mcdep.com/2luk.htm</a>			

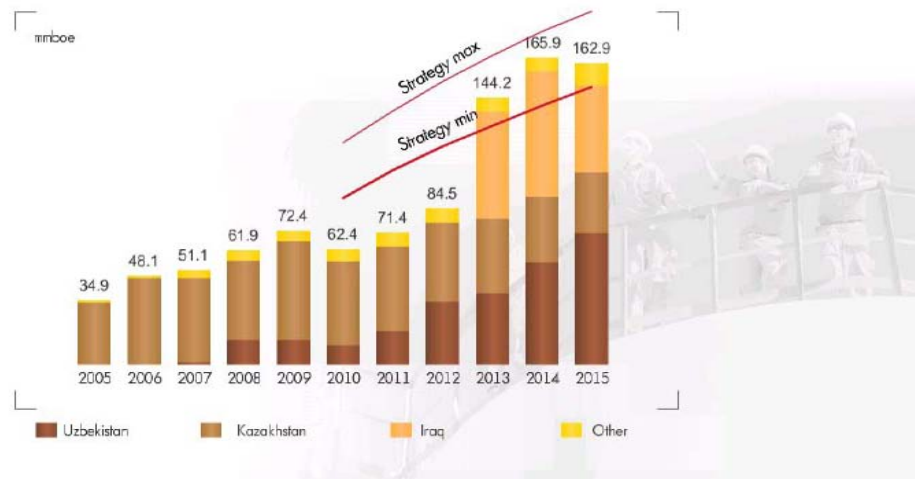
### Summary and Recommendation

Buy-recommended **Lukoil (LUKOY)** offers unlevered appreciation potential of 120% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$135 a share. Most of the unrecognized value lies in oil reserves in western Siberia where the company expects to develop new production to offset normal decline (see slide [Western Siberia](#)). Lukoil sees volume growth in Kazakhstan, Uzbekistan and Iraq (see slide [Lukoil Overseas](#)). Control of refining helps the company achieve optimal value for its oil production (see slide [Refining Balance](#)). Back on the production side, the switch to reporting reserves conforming to the standards of the U.S. Securities and Exchange Commission reduced the life index modestly, but not enough to change NPV (see table on page 3, [Functional Cash Flow and Present Value](#)). Meanwhile, fourth quarter results, released along with strategy presentations at the company's Capital Day in London last week, met our expectation from three months ago for unlevered cash flow from production. Downstream cash flow was stronger than the minimal levels reported by U.S. and European companies in a distressed environment (see table on page 4, [Next Twelve Months Operating and Financial Estimates](#)). Buy-recommended ConocoPhillips' confirmation last week that it intended to reduce its ownership of Lukoil to 10% from 20% over the next two years may have a dampening effect on Lukoil stock. Perhaps Lukoil stock price has already adjusted since there was speculation of COP's potential disposition since it announced plans to sell some assets late last year. In any case, Lukoil stock trends upward with current quote above the 200-day average of \$54 a share.

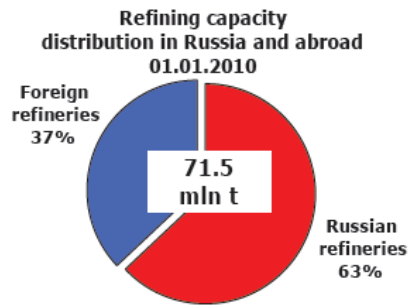
Kurt H. Wulff, CFA



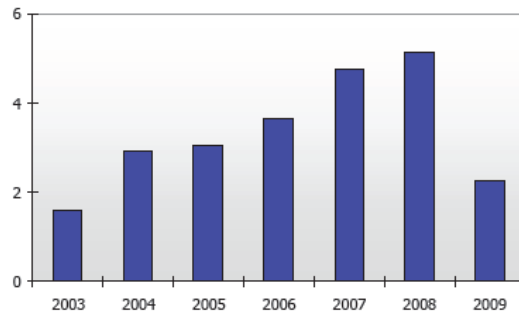
## Keeping Up the Pace: Production



## Production and refining balance is reached



Net income in R&M segment, \$ bln



By present time refining capacity to production ratio has reached an **optimum level of 75%**.

No further capacity expansion in Europe is planned.

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Lukoil					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	89	27.6	11.3	1,000	1%
Oil	9,310	15.8	8.8	81,800	68%
Downstream	4,700		8.1	38,000	31%
	14,100		8.6	120,800	100%
Debt (US\$mm)					6,500
Net Present Value (US\$mm)					114,300
Shares (mm)					847
Net Present Value - Standard Estimate (US\$/sh)					135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					139



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Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Year	Next
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	2010E	Twelve
									Months
									3/31/11
<b>Volume</b>									
Natural gas (bcf)	146	126	140	<b>526</b>	137	138	140	<b>554</b>	<b>554</b>
Natural Gas (mmcf)	1,590	1,374	1,518	<b>1,440</b>	1,518	1,518	1,518	<b>1,518</b>	<b>1,518</b>
Days	92	92	92	<b>365</b>	90	91	92	<b>365</b>	<b>365</b>
Oil (mmb)	176	182	180	<b>720</b>	176	178	180	<b>713</b>	<b>713</b>
Oil (mbd)	1,918	1,974	1,953	<b>1,972</b>	1,953	1,953	1,953	<b>1,953</b>	<b>1,953</b>
<b>Price</b>									
Natural gas (\$/mcf)	0.92	0.99	1.01	<b>0.95</b>	1.00	1.00	1.00	<b>1.00</b>	<b>1.00</b>
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	<b>61.70</b>	78.64	82.38	83.31	<b>82.05</b>	<b>83.40</b>
Lukoil export	55.25	67.88	74.79	<b>61.28</b>	77.30	80.97	81.89	<b>80.67</b>	<b>81.98</b>
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	<b>8.34</b>	7.13	11.07	9.80	<b>8.59</b>	<b>8.44</b>
<b>Revenue (\$mm)</b>									
Natural Gas	135	126	141	<b>498</b>	137	138	140	<b>554</b>	<b>554</b>
Oil	9,748	12,328	13,440	<b>44,108</b>	13,589	14,392	14,715	<b>57,513</b>	<b>58,444</b>
Other	8,205	9,613	10,841	<b>36,975</b>	10,841	10,841	10,841	<b>43,366</b>	<b>43,366</b>
Total	17,953	21,941	24,281	<b>81,083</b>	24,567	25,372	25,696	<b>101,433</b>	<b>102,364</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	535	2,212	2,048	<b>8,971</b>	2,196	2,325	2,377	<b>9,291</b>	<b>9,440</b>
Other	216	1,597	1,217	<b>4,697</b>	335	1,548	1,597	<b>4,697</b>	<b>4,697</b>
Total Ebitda	750	3,809	3,265	<b>13,668</b>	2,531	3,873	3,974	<b>13,988</b>	<b>14,137</b>
Exploration	214	119	30	<b>218</b>	30	30	30	<b>120</b>	<b>120</b>
Deprec., Deplet., & Amort.	860	998	936	<b>3,937</b>	936	936	936	<b>3,744</b>	<b>3,744</b>
<b>Ebit</b>	(324)	2,692	2,299	<b>9,513</b>	1,565	2,907	3,008	<b>10,124</b>	<b>10,273</b>
Interest	127	114	130	<b>506</b>	130	130	130	<b>522</b>	<b>522</b>
<b>Ebt</b>	(450)	2,578	2,169	<b>9,007</b>	1,434	2,776	2,878	<b>9,602</b>	<b>9,751</b>
Income Tax	(421)	520	441	<b>1,994</b>	430	833	863	<b>2,881</b>	<b>2,925</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	(713)	1,260	1,044	<b>5,456</b>					
Other	(1,005)	700	1,120	<b>2,194</b>					
Unallocated	1,689	98	(436)	<b>(637)</b>					
Total	(29)	2,058	1,728	<b>7,013</b>	1,004	1,943	2,014	<b>6,721</b>	<b>6,826</b>
<b>Shares (millions)</b>	850	847	847	<b>847</b>	847	847	847	<b>847</b>	<b>847</b>
Per share (\$)	(0.03)	2.43	2.04	<b>8.28</b>	1.19	2.29	2.38	<b>7.94</b>	<b>8.06</b>
Ebitda Margin (E&P)	5%	18%	15%	<b>20%</b>	16%	16%	16%	<b>16%</b>	<b>16%</b>
Tax Rate	93%	20%	20%	<b>22%</b>	30%	30%	30%	<b>30%</b>	<b>30%</b>



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