

Rating: Buy  
S&P 500: 1288

## **Lukoil Oil Company** **Raise Net Present Value to \$100 a Share**

<i>Symbol</i>	(LKOD) LUKOY	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$mm)</i>	14,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	71.20	<i>Natural Gas and Oil Production/Ebitda (%)</i>	60
<i>Pricing Date</i>	1/17/06	<i>Adjusted Reserves/Production NTM</i>	20.0
<i>Shares (mm)</i>	830	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (US\$mm)</i>	59,100	<i>PV/Ebitda</i>	5.9
<i>Debt (US\$mm)</i>	600	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	59,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	12.86
<i>Present Value (PV) (US\$mm)</i>	83,600	<i>Present Value Proven Reserves(US\$/boe)</i>	3.86
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcfe)</i>	0.64
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.19
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	1.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.99

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.

### **Summary and Recommendation**

We raise our estimate of net present value of buy-recommended **Lukoil Oil Company (LUKOY)** to \$100 a share from \$65. Results for the third quarter of 2005 reported on January 13 demonstrate progress toward Western standards of profitability. Cash flow generation has reached about half that for a mega cap energy company with Lukoil's level of production. A long reserve life would normally justify an overall unlevered cash flow multiple of perhaps 9 times instead of about 6 corresponding to our current estimate. Thus at twice the cash flow and 1.5 times the multiple, potential NPV at today's global oil price may be three times our new estimate of \$100. The company reports virtually no debt. With oil demand outpacing supply, management apparently expects a gasoline shortage in Russia next summer.

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**Lukoil**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
Natural Gas					
Oil	8,500	19.7	7.4	62,700	75%
Downstream	5,700		3.7	20,900	25%
	14,200		5.9	83,600	100%
Debt (US\$mm)					600
Net Present Value (US\$mm)					83,000
Shares (mm)					830
Net Present Value (US\$/sh)					100

**Lukoil Oil Company**  
**Next Twelve Months Operations**

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>Twelve</i>
										<i>Months</i>
<b>Volume</b>										
Oil (mmb)	159	164	<b>635</b>	162	164	167	167	<b>659</b>	163	<b>661</b>
Oil (mbd)	1,730	1,780	<b>1,739</b>	1,800	1,800	1,811	1,811	<b>1,806</b>	1,811	<b>1,811</b>
<b>Price</b>										
Oil (\$/bbl)										
WTI Cushing	43.89	48.31	<b>41.44</b>	49.65	53.05	62.52	59.99	<b>56.30</b>	62.94	<b>65.36</b>
Lukoil export	36.52	40.52	<b>34.50</b>	41.29	47.74	57.28	54.96	<b>50.39</b>	57.66	<b>59.89</b>
NY Harbor 3-2-1 (\$/bbl)	7.78	5.72	<b>7.74</b>	6.17	10.59	16.70	9.05	<b>10.63</b>	10.50	<b>11.66</b>
<b>Revenue (\$mm)</b>										
Oil	5,813	6,634	<b>21,896</b>	6,689	7,820	9,544	9,157	<b>33,210</b>	9,399	<b>39,590</b>
Other	4,009	2,993	<b>12,162</b>	3,927	5,814	6,780	6,780	<b>23,302</b>	6,780	<b>27,122</b>
Total	9,822	9,627	<b>34,058</b>	10,616	13,634	16,324	15,938	<b>56,512</b>	16,179	<b>66,712</b>
<b>Expense (\$mm)</b>										
Fixed	1,233	1,527	<b>4,838</b>	1,510	1,707	1,890	1,890	<b>6,998</b>	1,890	<b>7,562</b>
Variable	3,699	4,580	<b>14,514</b>	4,529	5,122	5,671	5,442	<b>20,764</b>	5,585	<b>23,526</b>
Other	2,724	1,509	<b>7,401</b>	2,593	4,318	5,361	5,361	<b>17,633</b>	5,361	<b>21,443</b>
<b>Ebitda (\$mm)</b>										
Exploration and Production	881	527	<b>2,543</b>	650	990	1,982	1,825	<b>5,447</b>	1,923	<b>8,502</b>
Other	1,285	1,484	<b>4,762</b>	1,334	1,496	1,420	1,420	<b>5,669</b>	1,420	<b>5,679</b>
Total Ebitda	2,166	2,011	<b>7,305</b>	1,984	2,486	3,402	3,245	<b>11,117</b>	3,343	<b>14,182</b>
Exploration	38	46	<b>171</b>	36	147	61	61	<b>305</b>	61	<b>244</b>
Deprec., Deplet., & Amort.	292	269	<b>1,075</b>	284	317	336	336	<b>1,273</b>	336	<b>1,344</b>
<b>Ebit</b>	1,836	1,696	<b>6,059</b>	1,664	2,022	3,005	2,848	<b>9,539</b>	2,946	<b>12,594</b>
Interest	30	21	<b>194</b>	19	34	13	13	<b>78</b>	13	<b>51</b>
<b>Ebt</b>	1,806	1,675	<b>5,865</b>	1,645	1,988	2,992	2,835	<b>9,461</b>	2,933	<b>12,543</b>
Income Tax	397	516	<b>1,585</b>	458	569	776	735	<b>2,538</b>	761	<b>3,253</b>
<b>Net Income (\$mm)</b>										
Exploration and Production	528	156	<b>1,229</b>	332	545	1,373	1,236	<b>3,486</b>	1,308	<b>5,829</b>
Other	871	934	<b>2,956</b>	983	865	946	961	<b>3,755</b>	966	<b>3,892</b>
Unallocated	10	69	<b>94</b>	(128)	9	(103)	(98)	<b>(319)</b>	(101)	<b>(431)</b>
Total	1,409	1,159	<b>4,279</b>	1,187	1,419	2,216	2,100	<b>6,922</b>	2,173	<b>9,290</b>
<b>Shares (millions)</b>	834	834	<b>834</b>	830	830	830	830	<b>830</b>	830	<b>830</b>
Per share (\$)	1.69	1.39	<b>5.13</b>	1.43	1.71	2.67	2.53	<b>8.34</b>	2.62	<b>11.19</b>
Ebitda Margin (E&P)	15%	8%	<b>12%</b>	10%	13%	21%	20%	<b>16%</b>	20%	<b>21%</b>
Tax Rate	22%	31%	<b>27%</b>	28%	29%	26%	26%	<b>27%</b>	26%	<b>26%</b>

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