



Rating: Buy  
 S&P 500: 1304

## Lukoil Oil Company Anticipate Easing of Export Tax

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$mm)</i>	17,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	71.95	<i>Natural Gas and Oil Production/Ebitda (%)</i>	62
<i>Pricing Date</i>	3/6/08	<i>Adjusted Reserves/Production NTM</i>	18.1
<i>Shares (mm)</i>	826	<i>EV/Ebitda</i>	3.5
<i>Market Capitalization (US\$mm)</i>	59,400	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$mm)</i>	2,600	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	62,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	15.45
<i>Present Value (PV) (US\$mm)</i>	113,300	<i>Present Value Proven Reserves(US\$/boe)</i>	4.48
<i>Net Present Value (US\$/share)</i>	134	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.75
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.69
<i>McDep Ratio - EV/PV</i>	0.55	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	2.2	<i>Indicated Annual Dividend (US\$/sh)</i>	1.59
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\$80 a barrel and natural gas, \$11 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

A possible and logical reduction in the crude oil export tax imposed by Russia could help the stock market performance of buy-recommended **Lukoil Oil Company (LUKOY)**. Near \$50 a barrel the tax is leading to a decline in the country's oil production and a magnified decline in exports in the face of rising domestic consumption. Among our continuing buy recommendations, Lukoil stock is down the most from its 52-week high (25%) and has the lowest McDep Ratio (0.55). As a result, Lukoil stock offers unlevered appreciation potential of more than 80% to estimated net present value (NPV) of \$134 a share. We increased NPV from \$121 a share on December 18 when we increased long-term oil price for calculating present value to \$80 from \$66 a barrel. On March 5 the company disclosed proven reserves at year end that continued to imply an adjusted life index more than 18 years. Estimated on a Society of Petroleum Engineers basis, reserves are audited by the American engineering firm of Miller and Lents. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). NPV is supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value).

Kurt H. Wulff, CFA



<b>Lukoil Oil Company</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>12/31/08</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>
<b>Volume</b>									
Natural gas (bcf)		122	103	129	<b>481</b>	128	122	103	<b>482</b>
Natural Gas (mmcf)		1,338	1,122	1,404	<b>1,316</b>	1,404	1,338	1,122	<b>1,317</b>
Days	92	91	92	92	<b>365</b>	91	91	92	<b>366</b>
Oil (mmb)	180	180	178	178	<b>718</b>	177	177	178	<b>710</b>
Oil (mbd)	1,961	1,981	1,940	1,940	<b>1,966</b>	1,940	1,940	1,940	<b>1,940</b>
<b>Price</b>									
Natural gas (\$/mcf)		0.76	0.76	0.77	<b>0.77</b>	1.20	1.20	1.20	<b>1.20</b>
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	90.67	<b>72.28</b>	97.00	102.01	100.95	<b>100.06</b>
Lukoil export	64.42	65.30	72.21	86.75	<b>69.58</b>	92.80	97.59	96.58	<b>95.73</b>
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	8.19	<b>14.37</b>	9.36	12.66	12.44	<b>10.80</b>
<b>Revenue (\$mm)</b>									
Natural Gas		93	78	99	<b>370</b>	153	146	124	<b>578</b>
Oil	11,622	11,772	12,888	15,483	<b>49,934</b>	16,383	17,229	17,238	<b>67,971</b>
Other	6,627	8,424	8,527	8,527	<b>31,423</b>	8,527	8,527	8,527	<b>34,108</b>
Total	18,249	20,196	21,415	24,109	<b>81,456</b>	25,064	25,902	25,889	<b>102,658</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,437	1,982	2,058	2,493	<b>7,556</b>	2,646	2,780	2,778	<b>10,968</b>
Other	1,312	1,994	2,006	1,221	<b>6,701</b>	1,480	1,994	2,006	<b>6,701</b>
Total Ebitda	3,749	3,976	4,064	3,714	<b>14,257</b>	4,126	4,774	4,784	<b>17,669</b>
Exploration	55	50	51	51	<b>227</b>	51	51	51	<b>204</b>
Deprec., Deplet., & Amort.	468	558	570	570	<b>2,245</b>	570	570	570	<b>2,280</b>
<b>Ebit</b>	3,226	3,368	3,443	3,093	<b>11,785</b>	3,505	4,153	4,163	<b>15,185</b>
Interest	34	58	53	53	<b>211</b>	53	53	53	<b>212</b>
<b>Ebt</b>	3,192	3,310	3,390	3,040	<b>11,574</b>	3,452	4,100	4,110	<b>14,973</b>
Income Tax	770	789	912	912	<b>3,151</b>	1,036	1,230	1,233	<b>4,492</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,474	1,358	1,202						
Other	899	1,439	1,351						
Unallocated	49	(276)	(75)						
Total	2,422	2,521	2,478	2,128	<b>8,423</b>	2,416	2,870	2,877	<b>10,481</b>
<b>Shares (millions)</b>									
Per share (\$)	835	832	826	826	<b>829</b>	826	826	826	<b>826</b>
Ebitda Margin (E&P)	21%	17%	16%	16%	<b>15%</b>	16%	16%	16%	<b>16%</b>
Tax Rate	24%	24%	27%	30%	<b>27%</b>	30%	30%	30%	<b>30%</b>



<b>Lukoil</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	93	37.3	10.8	1,000	1%
Oil	10,910	18.1	7.6	83,300	74%
Downstream	6,700		4.3	29,000	26%
	17,700		6.4	113,300	100%
Debt (US\$mm)					2,600
Net Present Value (US\$mm)					110,700
Shares (mm)					826
Net Present Value - Standard Estimate (US\$/sh)					134
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					153

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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