



Rating: Buy
 S&P 500: 1355

Lukoil Oil Company

Strong Cash, Possibly Lower Tax

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$mm)</i>	18,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	85.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	60
<i>Pricing Date</i>	4/9/08	<i>Adjusted Reserves/Production NTM</i>	18.7
<i>Shares (mm)</i>	828	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (US\$mm)</i>	71,100	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$mm)</i>	2,100	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	73,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	16.23
<i>Present Value (PV) (US\$mm)</i>	113,100	<i>Present Value Proven Reserves(US\$/boe)</i>	4.31
<i>Net Present Value (US\$/share)</i>	134	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.72
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	13.52
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.61
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 www.mcdep.com/2luk.htm			

Summary and Recommendation

The common shares of buy-recommended **Lukoil Oil Company (LUKOY)** offer unlevered appreciation potential of 54% to estimated net present value (NPV) of \$134 a share. In fourth quarter 2007 results reported on April 10, unlevered cash flow (Ebitda) exceeded our projection by 39%. The two-month lag in the application of the crude oil export tax made results look better, at least temporarily. Some of the gains may stick as the Russian government promises to ease up on the tax. Lukoil's fourth quarter volume decline is symptomatic of overall Russian oil production decline as a result of the tax. In any case, 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 well 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). We remain optimistic about economic and political progress in Russia and its implication for the value of Lukoil stock.

Kurt H. Wulff, CFA



Lukoil Oil Company										
Next Twelve Months Operating and Financial Estimates										
										Next Twelve Months
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	3/31/09
	12/31/06	9/30/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008E	
Volume										
Natural gas (bcf)		103	141	493	128	122	103	141	494	494
Natural Gas (mmcf/d)		1,122	1,537	1,350	1,404	1,338	1,122	1,537	1,350	1,354
Days	92	92	92	365	91	91	92	92	366	365
Oil (mmb)	180	178	174	713	172	172	174	174	691	689
Oil (mbd)	1,953	1,940	1,887	1,953	1,887	1,887	1,887	1,887	1,887	1,887
Price										
Natural gas (\$/mcf)		0.76	0.83	0.79	1.20	1.20	1.20	1.20	1.20	1.20
Oil (\$/bbl)										
WTI Cushing	59.99	75.48	90.67	72.28	98.01	108.91	107.24	105.47	104.91	106.38
Lukoil export	58.00	72.21	85.75	69.22	92.69	103.00	101.42	99.75	99.22	100.61
NY Harbor 3-2-1 (\$/bbl)	7.54	12.64	8.19	14.37	7.57	12.18	12.39	9.97	10.53	11.45
Revenue (\$mm)										
Natural Gas		78	118	389	153	146	124	170	593	591
Oil	10,420	12,888	14,890	49,341	15,919	17,690	17,611	17,320	68,541	69,312
Other	6,020	8,527	10,001	32,897	10,001	10,001	10,001	10,001	40,004	40,004
Total	16,440	21,415	24,891	82,238	26,074	27,837	27,736	27,491	109,138	109,907
Ebitda (\$mm)										
Exploration and Production	1,018	2,058	3,146	8,209	2,572	2,854	2,838	2,798	11,061	11,184
Other	1,221	2,006	2,013	7,494	1,480	1,994	2,006	2,013	7,494	7,494
Total Ebitda	2,239	4,064	5,160	15,703	4,051	4,848	4,844	4,812	18,555	18,678
Exploration	91	51	131	307	131	131	131	131	524	524
Deprec., Deplet., & Amort.	526	570	497	2,172	497	497	497	497	1,988	1,988
Ebit	1,622	3,443	4,532	13,224	3,423	4,220	4,216	4,184	16,043	16,166
Interest	48	53	42	200	42	42	42	42	168	168
Ebt	1,574	3,390	4,490	13,024	3,382	4,178	4,174	4,142	15,875	15,998
Income Tax	495	912	1,268	3,507	1,014	1,253	1,252	1,243	4,763	4,800
Net Income (\$mm)										
Exploration and Production	100	1,202	1,729	4,686						
Other	624	1,351	1,194	4,918						
Unallocated	355	(75)	299	(87)						
Total	1,079	2,478	3,222	9,517	2,367	2,925	2,922	2,899	11,113	11,199
Shares (millions)										
Per share (\$)	1.30	3.00	3.89	11.48	2.86	3.53	3.53	3.50	13.42	13.52
Ebitda Margin (E&P)	10%	16%	21%	17%	16%	16%	16%	16%	16%	16%
Tax Rate	31%	27%	28%	27%	30%	30%	30%	30%	30%	30%

Lukoil					
Functional Cash Flow and Present Value					
					Present
	NTM Ebitda	Adjusted	PV/		Value
	(US\$mm)	R/P	Ebitda		(US\$mm)
Natural Gas	95	36.4	10.6	1,000	1%
Oil	11,110	18.7	7.5	83,100	73%
Downstream	7,500		3.9	29,000	26%
	18,700		6.0	113,100	100%
Debt (US\$mm)					2,100
Net Present Value (US\$mm)					111,000
Shares (mm)					828
Net Present Value - Standard Estimate (US\$/sh)					134
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					156

McDep LLC
Independent Stock Idea
April 10, 2008



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