



# Independent Stock Idea

December 16, 2008

rating: hold  
s&p 500: 869

## Lukoil (LUKOY) Credible Russian Champion

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	16,800
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	38.60	<i>Natural Gas and Oil Production/Ebitda (%)</i>	35
<i>Pricing Date</i>	12/15/08	<i>Adjusted Reserves/Production NTM</i>	18.2
<i>Shares (mm)</i>	848	<i>EV/Ebitda</i>	2.1
<i>Market Capitalization (US\$mm)</i>	32,700	<i>PV/Ebitda</i>	6.9
<i>Debt (US\$mm)</i>	2,000	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	34,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	8.45
<i>Present Value (PV) (US\$mm)</i>	116,400	<i>Present Value Proven Reserves(US\$/boe)</i>	2.63
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.44
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.59
<i>McDep Ratio - EV/PV</i>	0.30	<i>Price/Earnings Next Twelve Months</i>	4
<i>Dividend Yield (%/year)</i>	3.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.37
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, \$10 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

Hold-rated **Lukoil (LUKOY)** appears to have the resource strength, management capability and political skill to help Russia achieve a positive rate of economic growth in the years ahead and to make money for investors along the way. In third quarter results reported on December 11, oil production reversed the modest tax-inspired quarterly decline with new volumes from the Yuzhnoye Khylochuyu field under development in partnership with buy-recommended **ConocoPhillips (COP)**. Applying incentives in Russian government tax policy to encourage domestic refining of crude oil, Lukoil earned more than half of cash flow and earnings in the refining and downstream (Other) account (see table Next Twelve Months Operating and Financial Estimates). Presuming the company and the government continue to work together, we are projecting little weakness in the growing domestic downstream business. In oil production, we look for next twelve months results to be proportional to volume and global price. We expect mismatches in the timing of excise tax on oil exports and fluctuations in global pricing to be manageable, but would not be surprised at temporary imbalances. Supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P), Net Present Value (NPV) is far from current stock price (see table Functional Cash Flow and Present Value). Meanwhile any improvement in political relations between the U.S. and Russia, in the wake of a humbling period in the global economy, ought to help the common stock of Lukoil appreciate after a surprisingly steep decline.

Kurt H. Wulff, CFA



# Independent Stock Idea

December 16, 2008

Lukoil Oil Company										
Next Twelve Months Operating and Financial Estimates										
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
<b>Volume</b>										
Natural gas (bcf)	103	145	155	141	<b>593</b>	157	181	229	314	<b>881</b>
Natural Gas (mmcf)	1,122	1,596	1,680	1,537	<b>1,620</b>	1,746	1,985	2,492	3,414	<b>2,414</b>
Days	92	91	92	92	<b>366</b>	90	91	92	92	<b>365</b>
Oil (mmb)	178	172	178	178	<b>703</b>	174	176	178	178	<b>706</b>
Oil (mbd)	1,940	1,895	1,935	1,935	<b>1,920</b>	1,935	1,935	1,935	1,935	<b>1,935</b>
<b>Price</b>										
Natural gas (\$/mcf)	0.76	1.27	1.25	1.25	<b>1.25</b>	1.25	1.27	1.25	1.25	<b>1.25</b>
Oil (\$/bbl)										
WTI Cushing	75.48	123.97	117.99	59.56	<b>99.87</b>	47.33	52.84	55.31	57.42	<b>53.22</b>
Lukoil export	72.21	117.24	113.55	57.32	<b>95.12</b>	45.55	50.85	53.23	55.26	<b>51.25</b>
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	4.64	<b>9.75</b>	3.85	5.39	4.80	1.96	<b>4.00</b>
<b>Revenue (\$mm)</b>										
Natural Gas	78	185	193	176	<b>743</b>	196	230	286	391	<b>1,103</b>
Oil	12,888	20,217	20,214	10,204	<b>66,842</b>	7,932	8,954	9,476	9,838	<b>36,199</b>
Other	8,527	11,871	12,341	12,341	<b>45,430</b>	12,341	12,341	12,341	12,341	<b>49,363</b>
Total	21,415	32,088	32,555	22,721	<b>112,448</b>	20,469	21,525	22,103	22,570	<b>86,666</b>
<b>Ebitda (\$mm)</b>										
Exploration and Production	2,058	3,308	2,291	1,661	<b>9,752</b>	1,300	1,469	1,562	1,637	<b>5,968</b>
Other	2,006	3,016	3,446	2,013	<b>10,855</b>	2,380	3,016	3,446	2,013	<b>10,855</b>
Total Ebitda	4,064	6,324	5,737	3,674	<b>20,608</b>	3,680	4,486	5,008	3,650	<b>16,823</b>
Exploration	51	51	188	188	<b>461</b>	188	188	188	188	<b>752</b>
Deprec., Deplet., & Amort.	570	703	771	771	<b>2,869</b>	771	771	771	771	<b>3,084</b>
<b>Ebit</b>	3,443	5,570	4,778	2,715	<b>17,278</b>	2,721	3,527	4,049	2,691	<b>12,987</b>
Interest	53	80	39	39	<b>197</b>	39	39	39	39	<b>156</b>
<b>Ebt</b>	3,390	5,490	4,739	2,676	<b>17,080</b>	2,682	3,488	4,010	2,652	<b>12,831</b>
Income Tax	912	1,360	1,271	803	<b>4,446</b>	805	1,046	1,203	796	<b>3,849</b>
<b>Net Income (\$mm)</b>										
Exploration and Production	1,202	2,286	1,212							
Other	1,351	2,305	2,004							
Unallocated	(75)	(461)	252							
Total	2,478	4,130	3,468	1,873	<b>12,635</b>	1,877	2,441	2,807	1,856	<b>8,982</b>
<b>Shares (millions)</b>	826	839	848	848	<b>840</b>	848	848	848	848	<b>848</b>
Per share (\$)	3.00	4.92	4.09	2.21	<b>15.05</b>	2.21	2.88	3.31	2.19	<b>10.59</b>
Ebitda Margin (E&P)	16%	16%	11%	16%	<b>15%</b>	16%	16%	16%	17%	<b>16%</b>
Tax Rate	27%	25%	27%	30%	<b>26%</b>	30%	30%	30%	30%	<b>30%</b>



# Independent Stock Idea

December 16, 2008

<b>Lukoil</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	177	20.4	7.4	1,300	1%
Oil	5,820	18.2	12.1	70,200	60%
Downstream	10,800		4.2	45,000	39%
	16,800		6.9	116,500	100%
Debt (US\$mm)					2,000
Net Present Value (US\$mm)					114,500
Shares (mm)					848
Net Present Value - Standard Estimate (US\$/sh)					135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					178

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.