



Independent Stock Idea

August 31, 2009

rating: buy
s&p 500: 1029

Lukoil (LUKOY) Contributing to Russia's Oil Future

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	13,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	50.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	60
<i>Pricing Date</i>	8/28/09	<i>Adjusted Reserves/Production NTM</i>	16.3
<i>Shares (mm)</i>	847	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (US\$mm)</i>	42,900	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	6,700	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$mm)</i>	49,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	11.15
<i>Present Value (PV) (US\$mm)</i>	121,100	<i>Present Value Proven Reserves(US\$/boe)</i>	5.06
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.84
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.18
<i>McDep Ratio - EV/PV</i>	0.41	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	2.4	<i>Indicated Annual Dividend (US\$/sh)</i>	1.20
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 www.mcdep.com/2luk.htm			

Summary and Recommendation

Buy-recommended **Lukoil (LUKOY)** offers unlevered appreciation potential of 140% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$135 a share. Second quarter results released on August 28 exceeded our estimate from four months ago for unlevered cash flow (Ebitda) and earnings. Ebitda margin for exploration and production continued at 25% rather than at the lower level of the past several years (see table Next Twelve Months Operating and Financial Estimates). The volatility of the exchange value of the U.S. dollar contributed to a wider spread between oil price in dollars and costs in local currency. At the same time, the Russian government seems more willing to lower the high rate of tax on oil production to encourage new investment. After latest disclosures, we see oil production making up about two-thirds of NPV (see table Functional Cash Flow and Present Value). Oil volume up 5% a year in the second quarter may continue to grow through 2013 including large potential increments from the Caspian Sea (see slide from company presentation). Lukoil independent director, Dick Matzke, former Chevron executive, sees oil growth in Lukoil almost unmatched by large companies. While political risk continues as a concern, we are optimistic that the Russian government will see that a positive stock price trend for Lukoil, Russia's largest company not government controlled, would be a symbol of confidence in the country's future.

Kurt H. Wulff, CFA



Independent Stock Idea

August 31, 2009

Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	Twelve
									Months
									6/30/10
Volume									
Natural gas (bcf)	145	134	125	126	126	512	124	125	502
Natural Gas (mmcf)	1,596	1,494	1,374	1,374	1,374	1,404	1,374	1,374	1,374
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	172	178	181	183	183	724	179	181	725
Oil (mbd)	1,895	1,976	1,985	1,985	1,985	1,983	1,985	1,985	1,985
Price									
Natural gas (\$/mcf)	1.27	0.88	0.90	0.90	0.90	0.89	0.88	0.90	0.89
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	69.87	75.07	61.85	76.94	78.43	75.08
Lukoil export	117.24	43.73	58.48	68.65	73.76	61.28	75.60	77.06	73.75
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.58	6.17	8.60	6.72	10.42	8.22
Revenue (\$mm)									
Natural Gas	185	119	112	113	113	457	109	112	448
Oil	20,217	7,777	10,564	12,537	13,469	44,347	13,506	13,919	53,431
Other	11,871	6,968	9,552	9,552	9,552	35,625	9,552	9,552	38,210
Total	32,088	14,745	20,116	22,203	23,135	80,199	23,168	23,583	92,089
Ebitda (\$mm)									
Exploration and Production	3,308	2,119	2,592	1,898	2,037	8,646	2,042	2,105	8,082
Other	3,016	335	1,548	1,712	1,712	5,306	335	1,548	5,306
Total Ebitda	6,324	2,454	4,140	3,609	3,749	13,952	2,377	3,652	13,388
Exploration	51	37	32	32	32	133	32	32	128
Deprec., Deplet., & Amort.	703	994	1,009	1,009	1,009	4,021	1,009	1,009	4,036
Ebit	5,570	1,423	3,099	2,568	2,708	9,798	1,336	2,611	9,224
Interest	80	127	135	135	135	531	135	135	540
Ebt	5,490	1,296	2,964	2,433	2,573	9,267	1,201	2,477	8,684
Income Tax	1,360	390	643	730	772	2,535	360	743	2,605
Net Income (\$mm)									
Exploration and Production	2,286	1,607	1,545						
Other	2,305	(457)	831						
Unallocated	(461)	(244)	(55)						
Total	4,130	906	2,321	1,703	1,801	6,732	841	1,734	6,079
Shares (millions)	839	847	847	847	847	847	847	847	847
Per share (\$)	4.92	1.07	2.74	2.01	2.13	7.95	0.99	2.05	7.18
Ebitda Margin (E&P)	16%	27%	25%	15%	15%	19%	15%	15%	15%
Tax Rate	25%	30%	22%	30%	30%	27%	30%	30%	30%

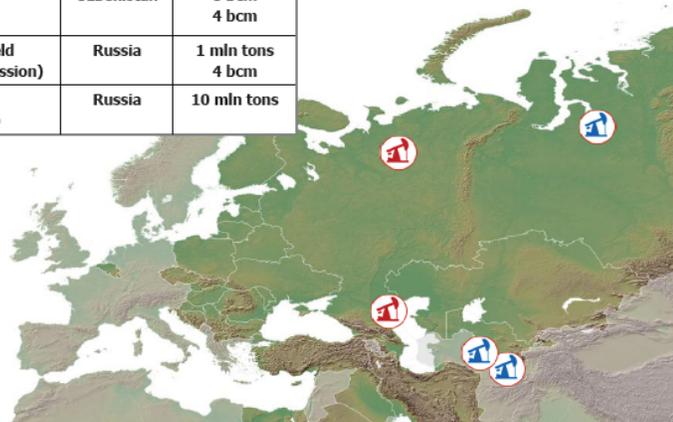
Lukoil					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	67	37.1	14.9	1,000	1%
Oil	8,030	16.3	10.0	80,000	66%
Downstream	5,300		7.5	40,000	33%
	13,400		9.0	121,000	100%
Debt (US\$mm)					6,700
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)					158

E&P Key Growth Projects



Year of launch	Field	Country	Peak production
2007	Khauzak	Uzbekistan	3 bcm
2008	Yuzhnaya Khylichuya (Timan-Pechora)	Russia	7.5 mln tons
2010	Yu. Korchagin field (Caspian offshore)	Russia	2.3 mln tons
2011	Kandym S-W Gissar	Uzbekistan	8 bcm 4 bcm
2013	Pyakyakhinskoye field (Bolshekhetskaya depression)	Russia	1 mln tons 4 bcm
2013	Filanovsky field (Caspian offshore)	Russia	10 mln tons

Priority projects which will secure hydrocarbon production growth in 2007–2013:





Independent Stock Idea

August 31, 2009

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 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.