



Independent Stock Idea

December 8, 2009

rating: buy
s&p 500: 1092

Lukoil (LUKOY) Reemphasizing Oil

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	13,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	54.03	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date</i>	12/8/09	<i>Adjusted Reserves/Production NTM</i>	16.4
<i>Shares (mm)</i>	847	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (US\$mm)</i>	45,800	<i>PV/Ebitda</i>	8.7
<i>Debt (US\$mm)</i>	5,700	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$mm)</i>	51,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	12.04
<i>Present Value (PV) (US\$mm)</i>	120,000	<i>Present Value Proven Reserves(US\$/boe)</i>	5.19
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.87
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.39
<i>McDep Ratio - EV/PV</i>	0.43	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	2.3	<i>Indicated Annual Dividend (US\$/sh)</i>	1.24
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

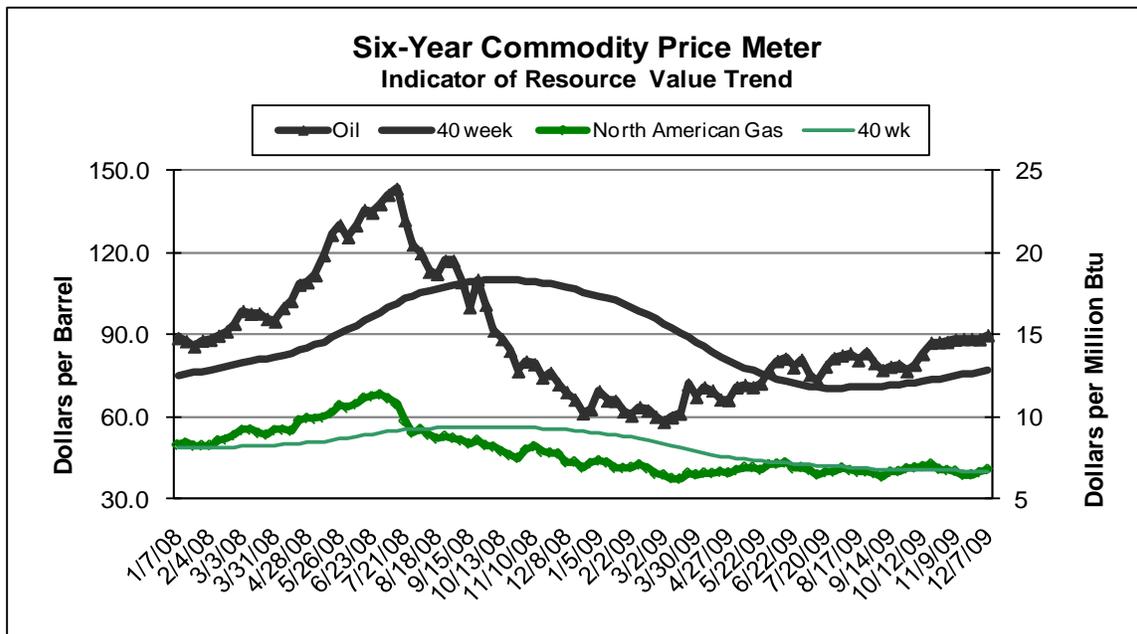
Buy-recommended **Lukoil (LUKOY)** offers unlevered appreciation potential of 130% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$135 a share. Momentum continues positive with stock price above its 200-day average and the futures prices for oil delivered over the next six years above the 40-week average (see charts on page 2, [Lukoil Stock Price](#) and [Six-Year Commodity Price Meter](#)). In a strategy presentation accompanying third quarter results released today, Deputy Chief Executive Leonid Fedun disclosed a lower growth target of 2% a year in hydrocarbon volume (see slide on page 3 from presentation). Much of the reduction is in natural gas. We liked the previous natural gas potential, but have not given it more than 1% of NPV (see table on page 3, [Functional Cash Flow and Present Value](#)). Meanwhile, latest results exceeded our expectation from three months ago helped mainly by higher Ebitda Margin at 18% (see table on page 4, [Next Twelve Months Operating and Financial Estimates](#)). Lukoil has reduced costs that help margin while the largest cost remains taxes. The Russian government seems more willing to lower the high rate of tax on oil production by Lukoil and others to encourage new investment. In any case, our estimate of NPV is justified at the current level of tax with some credit for a long reserve life. Investors are highly skeptical as indicated by a low cash flow multiple (EV/Ebitda) of 3.7 times. Partly addressing those concerns, management expects to increase the dividend payout and to repurchase stock.

Kurt H. Wulff, CFA



Independent Stock Idea

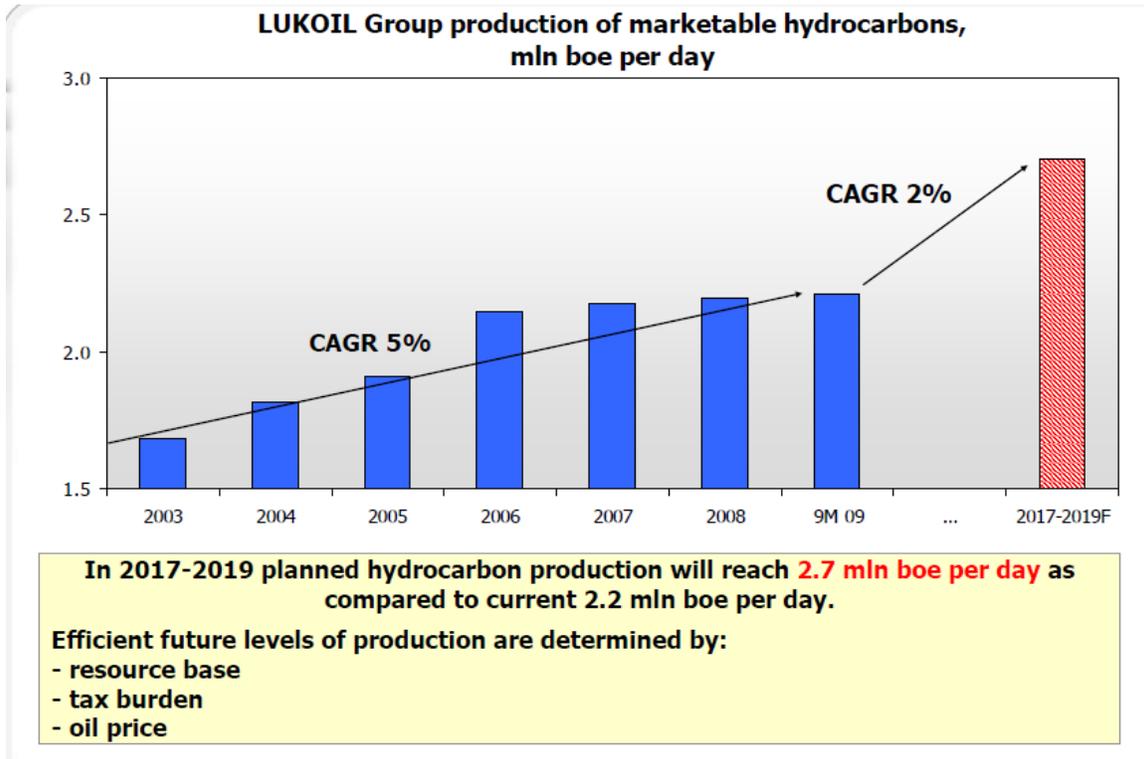
December 8, 2009





Independent Stock Idea

December 8, 2009



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	8,630	16.4	9.2	79,000	66%
Downstream	5,200		7.7	40,000	33%
	13,900		8.6	120,000	100%
Debt (US\$mm)					5,700
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)					152



Independent Stock Idea

December 8, 2009

Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/08	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	9/30/10	12/31/10
Volume									
Natural gas (bcf)	155	125	126	126	512	124	125	126	502
Natural Gas (mmcf)	1,680	1,374	1,374	1,374	1,404	1,374	1,374	1,374	1,374
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)	178	181	182	182	722	178	180	182	721
Oil (mbd)	1,935	1,985	1,974	1,974	1,977	1,974	1,974	1,974	1,974
Price									
Natural gas (\$/mcf)	1.25	0.90	0.99	0.99	0.94	0.88	0.90	0.90	0.89
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	76.24	61.73	75.82	79.51	81.50	80.01
Lukoil export	113.55	58.48	67.88	75.86	61.58	75.45	79.12	81.09	79.63
NY Harbor 3-2-1 (\$/bbl)	11.84	9.49	9.45	5.23	8.34	7.94	9.50	9.66	8.28
Revenue (\$mm)									
Natural Gas	193	112	126	126	482	109	112	113	448
Oil	20,214	10,564	12,328	13,776	44,444	13,404	14,212	14,727	57,375
Other	12,341	9,552	9,613	9,613	35,747	9,613	9,613	9,613	38,454
Total	32,555	20,116	21,941	23,515	80,317	23,126	23,937	24,454	96,276
Ebitda (\$mm)									
Exploration and Production	2,291	2,592	2,212	2,085	9,008	2,027	2,149	2,226	8,673
Other	3,446	1,548	1,597	1,712	5,192	335	1,548	1,597	5,192
Total Ebitda	5,737	4,140	3,809	3,797	14,200	2,362	3,696	3,823	13,865
Exploration	188	32	119	119	307	119	119	119	476
Deprec., Deplet., & Amort.	771	1,009	998	998	3,999	998	998	998	3,992
Ebit									
Interest	4,778	3,099	2,692	2,680	9,894	1,245	2,579	2,706	9,397
Interest	39	135	114	114	489	114	114	114	455
Ebt									
Income Tax	4,739	2,964	2,578	2,566	9,405	1,131	2,466	2,593	8,942
Income Tax	1,271	643	520	770	2,323	339	740	778	2,683
Net Income (\$mm)									
Exploration and Production	1,212	1,545	1,260						
Other	2,004	831	700						
Unallocated	252	(55)	98						
Total	3,468	2,321	2,058	1,796	7,082	792	1,726	1,815	6,260
Shares (millions)									
Per share (\$)	848	847	847	847	847	847	847	847	847
Per share (\$)	4.09	2.74	2.43	2.12	8.36	0.93	2.04	2.14	7.39
Ebitda Margin (E&P)	11%	25%	18%	15%	20%	15%	15%	15%	15%
Tax Rate	27%	22%	20%	30%	25%	30%	30%	30%	30%



Independent Stock Idea

December 8, 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.