



# Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

March 15, 2011

## Lukoil and Russia Ride the Rise of Oil

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 3/31/12 (US\$mm)</i>	20,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	69.50	<i>Natural Gas and Oil Production/Ebitda (%)</i>	65
<i>Pricing Date</i>	3/14/11	<i>Adjusted Reserves/Production NTM</i>	15.9
<i>Shares (mm)</i>	781	<i>EV/Ebitda</i>	3.0
<i>Market Capitalization (US\$mm)</i>	54,300	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$mm)</i>	5,800	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$mm)</i>	60,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	18.81
<i>Present Value (PV) (US\$mm)</i>	123,000	<i>Present Value Proven Reserves(US\$/boe)</i>	6.02
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.00
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	14.92
<i>McDep Ratio - EV/PV</i>	0.49	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	2.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.82
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\$100 a barrel and natural gas, \$8 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

The rising importance of oil in global economic growth is good for buy-recommended **Lukoil (LUKOY)** and its home country, Russia. By our analysis, Lukoil stock has 105% unlevered appreciation potential to estimated Net Present Value (NPV) of \$150 a share where the McDep Ratio would be 1.0 (see [Tables 1-3](#) on pages 2-4). NPV corresponds to an unlevered multiple of cash flow (PV/Ebitda) at just 6 times, at the low end of the range for large cap companies. Normally the longer life of Lukoil's reserves would justify a premium multiple. Nor does NPV presume much improvement in the untypically low cash flow margin for oil production clocked at 19% in 2010, according to our interpretation of latest results released on March 10 in New York (see table [Next Twelve Months Operating and Financial Estimates](#) on page 5). At the same time, we see increasing alignment of interest between the Russian government and Lukoil and between management of Lukoil and investors in the stock. Russia has a wide margin for reducing the oil export tax to incentivize Lukoil to reinvest to replace the decline in old oil fields, thereby keeping export revenues up for the country and profits growing for Lukoil. Management leaders, President Alekperov and Head of Strategy Fedun, have large holdings of Lukoil stock and are committed to reinvesting and building Lukoil. Vagit Alekperov also "knows where the oil is" having life-long experience in the Russian oil industry beginning from his roots in the historic oil center of Baku. Further certifying his credentials, author Alekperov just published his book on the history of the Russian oil industry, which he signed for us. Finally, underscoring the prospects in the wake of the tragic earthquake and tsunami in Japan, crude oil price is in an uptrend with the current quote of \$101 a barrel for the next six years above the rising 40-week average of \$90 (see chart [Six-Year and One-Year Natural Gas and Oil Futures](#) on page 9).

Kurt H. Wulff, CFA





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Table 2								
McDep Large Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (US\$/sh)		Market Cap	Net Present Value	Debt/ Present Value	McDep Ratio
	Symbol/Rating		14-Mar 2011	Shares (mm)	(US\$mm)	(US\$/sh)		
	B = Buy, CB (see below)							
<b>U.S. Integrated</b>								
Exxon Mobil Corporation	XOM	B	82.38	5,031	415,000	107.00	0.11	0.80
Marathon Oil Corporation	MRO	B	49.67	713	35,410	68.00	0.19	0.78
Chevron Corporation	CVX	B	100.80	2,009	203,000	146.00	0.06	0.71
ConocoPhillips	COP	B	75.84	1,414	107,000	119.00	0.19	0.71
	<i>Total or Median</i>				760,000		0.15	0.75
<b>Europe</b>								
BG Group plc	BRGXF		24.63	3,407	83,900	25.00	0.13	0.99
Royal Dutch Shell plc	RDS-A	B	69.11	3,074	212,000	96.00	0.19	0.77
Statoil ASA (33%)	STO	B	26.38	1,050	27,700	44.00	0.22	0.69
BP plc	BP		45.07	3,168	143,000	93.00	0.24	0.61
Total S.A.	TOT	B	58.53	2,248	132,000	111.00	0.13	0.59
	<i>Total or Median</i>				599,000		0.19	0.69
<b>Brazil/Russia/Australia/China</b>								
CNOOC Limited (34%)	CEO		229.77	152	35,000	220.00	0.04	1.04
Woodside Petroleum Ltd.	WOPEY	B	42.98	774	33,300	49.00	0.14	0.89
PetroChina Company Ltd (14%)	PTR	B	138.32	256	35,400	210.00	0.11	0.70
Petrobras	PBR	B	39.80	6,544	260,500	62.00	0.12	0.69
Gazprom (50%)	OGZPY	B	30.50	2,875	87,700	56.00	0.10	0.59
Lukoil Oil Company	LUKOY	B	69.50	781	54,300	150.00	0.05	0.49
	<i>Total or Median</i>				506,000		0.11	0.69
<b>U.S. Independent</b>								
Chesapeake Energy Corp.	CHK		33.56	746	25,000	33.00	0.40	1.01
Anadarko Petroleum Corp.	APC		77.18	498	38,400	78.00	0.35	0.99
Southwestern Energy Company	SWN		38.38	349	13,400	42.00	0.09	0.92
EOG Resources, Inc.	EOG	B	106.53	251	26,700	130.00	0.15	0.85
Occidental Petroleum Corp.	OXY	B	99.02	814	80,600	123.00	0.05	0.81
Devon Energy Corporation	DVN	B	88.57	434	38,400	112.00	0.08	0.81
	<i>Total or Median</i>				222,500		0.12	0.88
<b>Canada</b>								
Penn West Exploration	PWE		26.97	440	12,300	31.00	0.22	0.93
Imperial Oil Limited (30%)	IMO	B	50.71	256	13,000	62.00	0.07	0.83
Cenovus Energy Inc.	CVE	B	35.79	753	27,000	49.00	0.17	0.77
Canadian Natural Resources Limited	CNQ		46.30	1,089	50,400	67.00	0.14	0.73
Suncor Energy	SU	B	43.23	1,575	68,100	64.00	0.14	0.72
EnCana Corporation	ECA	B	31.96	736	23,500	51.00	0.21	0.70
Canadian Oil Sands Limited	COSWF	B	30.95	484	15,000	52.00	0.06	0.62
	<i>Total or Median</i>				209,000		0.14	0.73
CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$8 a million btu.								



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Table 3									
McDep Large Cap Energy Portfolio									
Value Multiples and Distribution Yield									
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM	
	Symbol/Rating		14-Mar 2011	NTM	NTM	NTM	NTM	(%)	
B = Buy, CB (see below)									
<b>U.S. Integrated</b>									
	Exxon Mobil Corporation	XOM	B	82.38	12.5	7.1	5.6	9	2.1
	ConocoPhillips	COP	B	75.84	10.5	7.4	5.2	10	3.5
	Marathon Oil Corporation	MRO	B	49.67	8.6	6.0	4.7	9	2.0
	Chevron Corporation	CVX	B	100.80	9.0	6.1	4.3	9	2.9
	<i>Total or Median</i>				9.7	6.6	5.0	9	2.5
<b>Europe</b>									
	BG Group plc	BRGXF		24.63	13.8	8.8	8.7	16	0.9
	Royal Dutch Shell plc	RDS-A	B	69.11	8.4	6.3	4.9	8	4.9
	BP plc	BP		45.07	10.4	7.1	4.3	6	3.7
	Statoil ASA (33%)	STO	B	26.38	6.7	5.9	4.1	8	4.3
	Total S.A.	TOT	B	58.53	9.4	6.7	3.9	8	5.4
	<i>Total or Median</i>				9.4	6.7	4.3	8	4.3
<b>Brazil/Russia/Australia/China</b>									
	Woodside Petroleum Ltd.	WOPEY	B	42.98	15.1	10.5	9.4	15	2.4
	Petrobras	PBR	B	39.80	13.3	10.4	7.1	13	3.0
	CNOOC Limited (34%)	CEO		229.77	5.6	5.1	5.3	9	2.3
	PetroChina Company Ltd (14%)	PTR	B	138.32	13.4	7.3	5.1	9	1.4
	Gazprom (50%)	OGZPY	B	30.50	30.2	6.9	4.1	5	1.1
	Lukoil Oil Company	LUKOY	B	69.50	15.9	6.1	3.0	5	2.6
	<i>Total or Median</i>				14.2	7.1	5.2	9	2.4
<b>U.S. Independent</b>									
	Chesapeake Energy Corp.	CHK		33.56	12.3	12.4	12.5	24	0.9
	Southwestern Energy Company	SWN		38.38	8.3	12.5	11.5	25	-
	Anadarko Petroleum Corp.	APC		77.18	8.8	8.2	8.1		0.5
	Devon Energy Corporation	DVN	B	88.57	10.9	9.6	7.8	15	0.8
	EOG Resources, Inc.	EOG	B	106.53	8.7	7.9	6.7	23	0.6
	Occidental Petroleum Corp.	OXY	B	99.02	10.9	7.8	6.3	13	1.9
	<i>Total or Median</i>				9.8	8.9	7.9	23	0.7
<b>Canada</b>									
	EnCana Corporation	ECA	B	31.96	12.5	14.6	10.3	31	2.5
	Cenovus Energy Inc.	CVE	B	35.79	21.0	12.2	9.5	25	2.3
	Imperial Oil Limited (30%)	IMO	B	50.71	21.0	11.3	9.4	16	0.9
	Penn West Exploration	PWE		26.97	8.8	10.0	9.3	34	4.1
	Canadian Natural Resources Limited	CNQ		46.30	21.0	11.3	8.3	20	0.8
	Suncor Energy	SU	B	43.23	21.1	10.0	7.2	15	1.0
	Canadian Oil Sands Limited	COSWF	B	30.95	29.0	10.8	6.7	11	2.7
	<i>Total or Median</i>				21.0	11.3	9.3	20	2.3
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.									
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2012; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses									



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Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q1E</i>	<i>Next</i>
	<i>12/31/09</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>3/31/12</i>	<i>Months</i>
									<i>3/31/12</i>
<b>Volume</b>									
Natural gas (bcf)	140	161	168	<b>655</b>	164	166	168	166	<b>668</b>
Natural Gas (mmcf)	1,518	1,746	1,825	<b>1,794</b>	1,825	1,825	1,825	1,825	<b>1,825</b>
Days	92	92	92	<b>365</b>	90	91	92	91	<b>366</b>
Oil (mmb)	180	178	175	<b>708</b>	171	173	175	173	<b>697</b>
Oil (mbd)	1,953	1,934	1,905	<b>1,940</b>	1,905	1,905	1,905	1,905	<b>1,905</b>
<b>Price</b>									
Natural gas (\$/mcf)	1.01	1.00	0.95	<b>0.99</b>	1.00	1.00	1.00	1.00	<b>1.00</b>
Oil (\$/bbl)									
WTI Cushing	76.09	76.08	85.10	<b>79.43</b>	93.38	101.98	103.61	103.18	<b>103.23</b>
Lukoil export	74.79	75.55	85.35	<b>78.27</b>	93.66	102.28	103.92	103.48	<b>103.54</b>
NY Harbor 3-2-1 (\$/bbl)	5.22	8.31	11.15	<b>9.68</b>	17.94	23.61	21.00	17.87	<b>19.62</b>
<b>Revenue (\$mm)</b>									
Natural Gas	141	161	160	<b>647</b>	164	166	168	166	<b>668</b>
Oil	13,440	13,442	14,957	<b>55,420</b>	16,056	17,729	18,211	17,937	<b>72,180</b>
Other	10,841	13,075	13,727	<b>49,536</b>	13,727	13,727	13,727	13,727	<b>54,909</b>
Total	24,281	26,517	28,684	<b>104,956</b>	29,947	31,622	32,106	31,831	<b>127,757</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,048	3,145	2,897	<b>10,597</b>	2,920	3,221	3,308	3,259	<b>13,113</b>
Other	1,217	1,465	1,298	<b>5,738</b>	1,568	1,952	2,044	1,568	<b>7,000</b>
Total Ebitda	3,265	4,609	4,195	<b>16,335</b>	4,488	5,173	5,352	4,827	<b>20,113</b>
Exploration	30	29	161	<b>336</b>	100	100	100	50	<b>350</b>
Deprec., Deplet., & Amort.	936	1,054	1,040	<b>4,154</b>	1,040	1,040	1,040	1,040	<b>4,160</b>
<b>Ebit</b>	2,299	3,526	2,994	<b>11,845</b>	3,348	4,033	4,212	3,737	<b>15,603</b>
Interest	130	144	116	<b>491</b>	116	116	116	116	<b>466</b>
<b>Ebt</b>	2,169	3,382	2,877	<b>11,355</b>	3,231	3,917	4,096	3,620	<b>15,137</b>
Income Tax	441	564	691	<b>2,351</b>	743	901	942	833	<b>3,482</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,044	1,895	1,603	<b>6,226</b>					
Other	1,120	645	660	<b>2,780</b>					
Unallocated	(436)	278	(77)	<b>(2)</b>					
Total	1,728	2,818	2,186	<b>9,004</b>	2,488	3,016	3,154	2,788	<b>11,656</b>
<b>Shares (millions)</b>	847	814	781	<b>820</b>	781	781	781	781	<b>781</b>
Per share (\$)	2.04	3.46	2.80	<b>10.98</b>	3.19	3.86	4.04	3.57	<b>14.92</b>
Ebitda Margin (E&P)	15%	23%	19%	<b>19%</b>	18%	18%	18%	18%	<b>18%</b>
Tax Rate	20%	17%	24%	<b>21%</b>	23%	23%	23%	23%	<b>23%</b>



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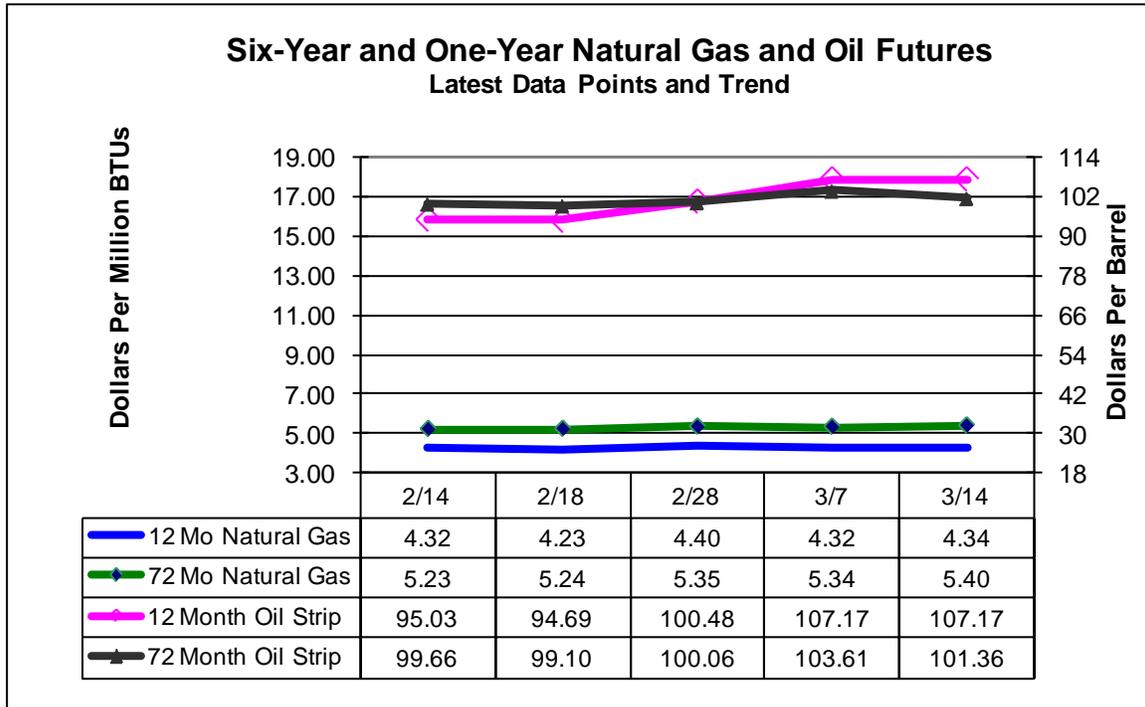
<b>Index of Recent Research</b>			
<b>Stock Ideas</b>			
<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
11-Mar	HGT	Hugoton Royalty Trust	Contrarian Commodity Income (Income and SC Weekly)
8-Mar	CNQ	Canadian Natural Resources	End Buy (Meter Reader)
8-Mar	COSWF	Canadian Oil Sands Limited	Favored by Price Blowout (Meter Reader)
4-Mar	RRC	Range Resources	Long-Life Resource (Income and Small Cap Weekly)
1-Mar	CVE	Cenovus Energy	High Growth in Deep Oil Sands (Meter Reader)
25-Feb	DMLP	Dorchester Minerals, L.P.	Profitable Production amid Unstable Politics (ISCW)
23-Feb	WOPEY	Woodside Petroleum Ltd.	Double LNG Late 2011
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China (Meter Reader)
18-Feb	PEYUF	Peyto Exploration	Raise NPV to \$24 a Share from \$20 (Income and Small Cap)
16-Feb	XEC	Cimarex Energy	Raise NPV to \$120 on Oil Reserves
17-Jan	BIREF	Birchcliff Energy Ltd.	China Buys Natural Gas in Canada (Income and Small Cap)
10-Feb	ECA	Encana	\$C5.4 Billion Joint Venture Highlights Undervaluation
4-Feb	HK	Petrohawk	Raise NPV to \$24 a Share from \$20 (Income and Small Cap)
1-Feb	COP	ConocoPhillips	Rising Trends (Meter Reader)
1-Feb	CVX	Chevron Corporation	Rising Trends (Meter Reader)
1-Feb	XOM	ExxonMobil	Rising Trends (Meter Reader)
26-Jan	OXY	Occidental Petroleum	Growing U.S. Oil Production
18-Jan	MRO	Marathon Oil	Refining/Marketing Spinoff May Boost Value 27% (MR)
11-Jan	IMO	Imperial Oil	Accelerating Growth (Meter Reader)
7-Jan	WLL	Whiting Petroleum	Raise NPV to \$150 on North Dakota Oil (ISCW)
4-Jan	PBR	Petrobras	Restore Buy on Oil Growth (Meter Reader)
21-Dec	CHK	Chesapeake Energy	Carl Icahn Owns 5.8% (Meter Reader)
26-Nov	SBR	Sabine Royalty Trust	Raise NPV on Proven Performance (Income and SC Weekly)
22-Nov	SJT	San Juan Basin Royalty Trust	Distribution Yield 5.8%, Not 4.6%
9-Nov	SU	Suncor Energy	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	DVN	Devon Energy Corporation	Breakout from a Long Stock Price Base (Meter Reader)
4-Nov	EOG	EOG Resources	Buy on Stock Price Drop
For historical research by stock, go to <a href="http://mcddep.com">mcddep.com</a> , click on <a href="#">Stock Ideas</a> , click on stock by name.			
<b>Meter Reader</b>			
8-Mar	COSWF, CNQ	Cdn Oil Sands, Cdn Natural Res	Favor COSWF, End Buy on CNQ
1-Mar	CVE	Cenovus Energy	High Growth in Deep Oil Sands
22-Feb	OGZPY	Gazprom	Nearer Accord on Natural Gas to China
15-Feb	TOT STO RDS	Total, Statoil, Royal Dutch	Euro Oils Pay High Dividends from Global Profits
For earlier editions, go to <a href="http://mcddep.com">mcddep.com</a> , click on <a href="#">Meter Reader</a> .			
<b>Income and Small Cap Weekly</b>			
11-Mar	HGT	Hugoton Royalty Trust	Contrarian Commodity Income
4-Mar	RRC	Range Resources	Long-Life Resource
25-Feb	DMLP	Dorchester Minerals, L.P.	Profitable Production amid Unstable Politics
18-Feb	PEYUF	Peyto Exploration	Raise NPV to \$24 a Share from \$20
For earlier editions, go to <a href="http://mcddep.com">mcddep.com</a> , click on <a href="#">Energy Income</a> .			



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**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty 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.