



Independent Stock Idea

September 2, 2008

rating: buy
s&p 500: 1282

Lukoil (LUKOY) Domestic Demand Up, Exports Down

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	21,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	72.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	57
<i>Pricing Date</i>	9/2/08	<i>Adjusted Reserves/Production NTM</i>	18.6
<i>Shares (mm)</i>	839	<i>EV/Ebitda</i>	3.0
<i>Market Capitalization (US\$mm)</i>	61,100	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$mm)</i>	4,000	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	65,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	17.75
<i>Present Value (PV) (US\$mm)</i>	146,700	<i>Present Value Proven Reserves(US\$/boe)</i>	5.28
<i>Net Present Value (US\$/share)</i>	170	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.88
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	15.31
<i>McDep Ratio - EV/PV</i>	0.44	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	2.1	<i>Indicated Annual Dividend (US\$/sh)</i>	1.54
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, \$14 a million btu.			
For historical research on Lukoil since 2004 see www.mcdep.com/2luk.htm			

Summary and Recommendation

Buy-recommended **Lukoil (LUKOY)**, with estimated net present value (NPV) of \$170 a share, offers portfolio representation mainly in crude oil production and non-U.S. domicile at a low McDep Ratio along with political risk. Second quarter results reported Friday illustrated the effects of Russian government tax policy to encourage domestic refining of crude oil. Refining and downstream (Other) account for half of strong cash flow and earnings that exceeded our expectations from three months ago (see table Next Twelve Months Operating and Financial Estimates). Production profits also increased despite a 4% decline in crude oil volume from the previous year. Like the blades of a scissors, both rising domestic products demand and declining crude oil supply cut oil available for export to the rest of the world. Citing recent favorable tax changes, the company is moving ahead to add a million barrels a day of new production over the next decade from undeveloped oil fields in the Russian Caspian region. The prospects are across the border from Kazakhstan giant Kashagan under development by an international consortium. Meanwhile NPV is 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). At the same time in the early hours after Hurricane Gustav reached the U.S. Gulf Coast on September 1, crude oil price for delivery over the next six years is ranging near the 40-week average of \$108 (see chart Six-Year Commodity Price Meter).

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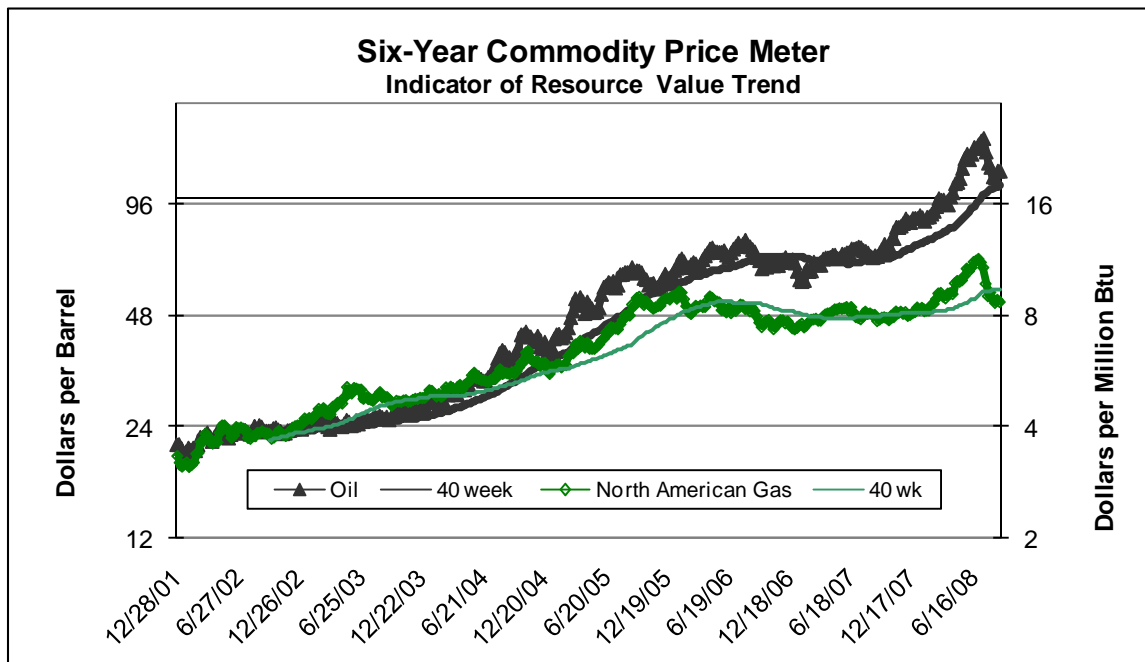
Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q2E	Q3E	Next Twelve Months
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	6/30/09	9/30/09	9/30/09
Volume									
Natural gas (bcf)	122	152	145	103	141	542	165	140	542
Natural Gas (mmcf)	1,338	1,668	1,596	1,122	1,537	1,480	1,813	1,520	1,484
Days	91	91	91	92	92	366	91	92	365
Oil (mmb)	180	174	172	174	174	695	172	174	692
Oil (mbd)	1,981	1,915	1,895	1,895	1,895	1,900	1,895	1,895	1,895
Price									
Natural gas (\$/mcf)	0.76	1.25	1.27	1.20	1.20	1.23	1.20	1.20	1.31
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	121.64	115.87	114.86	115.59	116.64	116.26
Lukoil export	65.30	93.00	117.24	115.04	109.58	108.69	109.31	110.31	109.94
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	11.12	8.28	10.48	13.13	13.54	11.32
Revenue (\$mm)									
Natural Gas	93	189	185	124	170	668	198	168	708
Oil	11,772	16,207	20,217	20,055	19,104	75,584	18,850	19,231	76,043
Other	8,424	8,877	11,871	11,871	11,871	44,489	11,871	11,871	47,482
Total	20,196	25,084	32,088	32,050	31,144	120,366	30,919	31,269	124,233
Ebitda (\$mm)									
Exploration and Production	1,982	2,492	3,308	3,229	3,084	12,113	3,048	3,104	12,280
Other	1,994	2,380	3,016	2,006	2,013	9,415	3,016	2,006	9,415
Total Ebitda	3,976	4,872	6,324	5,235	5,097	21,528	6,064	5,110	21,695
Exploration	50	34	51	51	51	187	51	51	204
Deprec., Deplet., & Amort.	558	624	703	703	703	2,733	703	703	2,812
Ebit	3,368	4,214	5,570	4,481	4,343	18,608	5,310	4,356	18,679
Interest	58	39	80	80	80	280	80	80	321
Ebt	3,310	4,175	5,490	4,401	4,263	18,328	5,229	4,276	18,358
Income Tax	789	1,012	1,360	1,320	1,279	4,971	1,569	1,283	5,507
Net Income (\$mm)									
Exploration and Production	1,358	1,449	2,286						
Other	1,439	1,709	2,305						
Unallocated	(276)	5	(461)						
Total	2,521	3,163	4,130	3,080	2,984	13,357	3,661	2,993	12,850
Shares (millions)									
Per share (\$)	3.03	3.83	4.92	3.67	3.55	15.97	4.36	3.57	15.31
Ebitda Margin (E&P)	17%	15%	16%	16%	16%	16%	16%	16%	16%
Tax Rate	24%	24%	25%	30%	30%	27%	30%	30%	30%



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Lukoil					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	113	33.2	11.5	1,300	1%
Oil	12,190	18.6	7.8	95,400	65%
Downstream	9,400		5.3	50,000	34%
	21,700		6.8	146,700	100%
Debt (US\$mm)					4,000
Net Present Value (US\$mm)					142,700
Shares (mm)					839
Net Present Value - Standard Estimate (US\$/sh)					170
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					193





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