



Independent Stock Idea

April 8, 2009

rating: hold
s&p 500: 816

Lukoil (LUKOY) Making Money after Interruption

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	10,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	42.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	41
<i>Pricing Date</i>	4/7/09	<i>Adjusted Reserves/Production NTM</i>	16.7
<i>Shares (mm)</i>	850	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (US\$mm)</i>	36,400	<i>PV/Ebitda</i>	11.3
<i>Debt (US\$mm)</i>	6,300	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$mm)</i>	42,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	6.17
<i>Present Value (PV) (US\$mm)</i>	121,100	<i>Present Value Proven Reserves(US\$/boe)</i>	3.41
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.57
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.86
<i>McDep Ratio - EV/PV</i>	0.35	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.13
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 www.mcdep.com/2luk.htm			

Summary and Recommendation

Priced below estimated Net Present Value (NPV) of \$135 a share, hold-rated **Lukoil (LUKOY)** offers more appreciation potential measured by the McDep Ratio than all of the stocks outside of Russia in our coverage. Investors' main concern may be Russian Government policy, which during the last two months of 2008 levied such a high tax on oil exports that the company disclosed a loss in its fourth quarter results released on April 7. The negative impact of a mismatch in timing of the tax was not a surprise though we had little basis for determining the magnitude in advance. Fortunately, that has been straightened out apparently and profits appear to be flowing again in 2009 (see table [Next Twelve Months Operating and Financial Estimates](#)). At the same time, the export tax indirectly encourages the refining of Russian crude oil in Russia, which has been a profitable growth area for the company. Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports our estimate of NPV (see table [Functional Cash Flow and Present Value](#)). Pointing in the direction of oil price that would spark stock price gains, futures prices for the next six years averaged US\$71 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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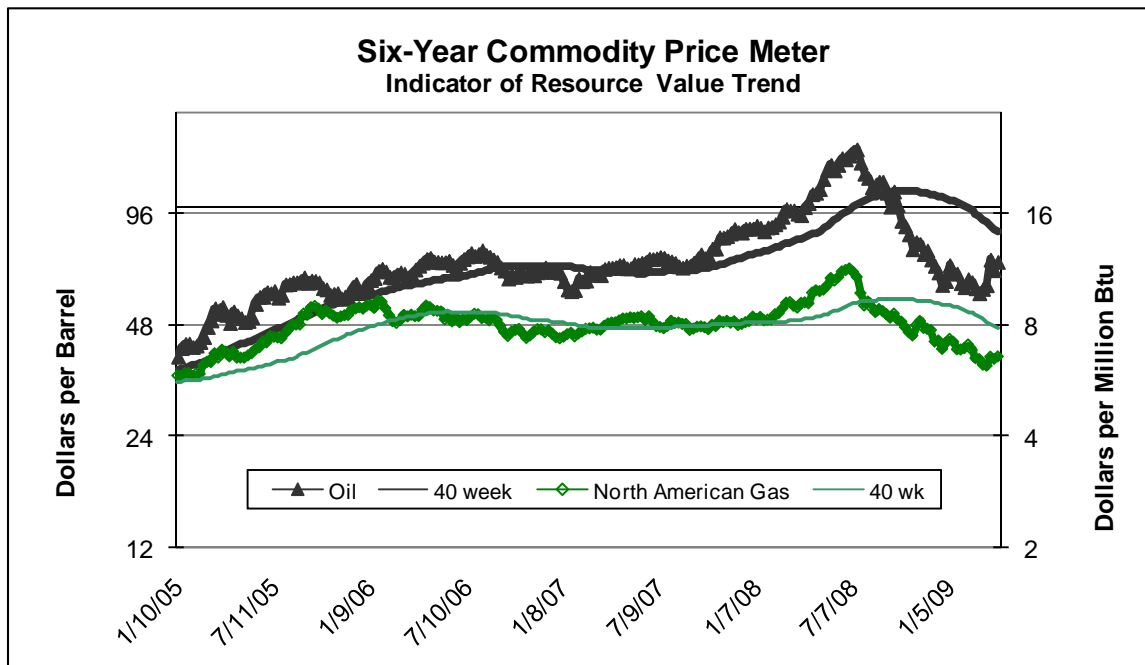
Lukoil Oil Company									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Year</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>2009E</i>	<i>3/31/10</i>
Volume									
Natural gas (bcf)	141	155	146	598	158	182	231	899	1,030
Natural Gas (mmcf)	1,537	1,680	1,590	1,634	1,760	2,001	2,512	2,464	2,822
Days	92	92	92	366	90	91	92	365	365
Oil (mmb)	174	178	178	703	174	176	178	706	706
Oil (mbd)	1,887	1,935	1,935	1,920	1,935	1,935	1,935	1,935	1,935
Price									
Natural gas (\$/mcf)	0.83	1.25	0.92	1.17	1.25	1.27	1.25	1.13	1.15
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	42.96	51.83	56.67	52.81	57.60
Lukoil export	85.75	113.55	55.25	94.59	40.61	48.99	53.57	49.97	54.44
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	9.18	8.35	6.60	6.75	5.30
Revenue (\$mm)									
Natural Gas	118	193	135	702	197	232	288	1,020	1,183
Oil	14,890	20,214	9,836	66,474	7,072	8,627	9,536	35,295	38,451
Other	10,001	12,341	8,117	41,206	8,117	8,117	8,117	32,470	32,470
Total	24,891	32,555	17,953	107,680	15,387	16,976	17,942	68,784	72,104
Ebitda (\$mm)									
Exploration and Production	3,146	2,291	535	8,626	800	974	1,081	3,995	4,360
Other	2,013	3,446	216	9,057	1,458	1,458	1,712	6,340	6,340
Total Ebitda	5,160	5,737	750	17,684	2,258	2,433	2,792	10,335	10,700
Exploration	131	188	214	487	214	214	214	856	856
Deprec., Deplet., & Amort.	497	771	860	2,958	860	860	860	3,440	3,440
Ebit									
Ebit	4,532	4,778	(324)	14,239	1,184	1,359	1,718	6,039	6,404
Interest	42	39	127	285	127	127	127	506	506
Ebt									
Ebt	4,490	4,739	(450)	13,954	1,057	1,232	1,592	5,532	5,897
Income Tax	1,268	1,271	(421)	3,222	317	370	478	1,660	1,769
Net Income (\$mm)									
Exploration and Production	1,729	1,212	(713)						
Other	1,194	2,004	(1,005)						
Unallocated	299	252	1,689						
Total	3,222	3,468	(29)	10,732	740	862	1,114	3,873	4,128
Shares (millions)									
Shares (millions)	828	848	850	838	850	850	850	850	850
Per share (\$)	3.89	4.09	(0.03)	12.81	0.87	1.01	1.31	4.56	4.86
Ebitda Margin (E&P)	21%	11%	5%	13%	11%	11%	11%	11%	11%
Tax Rate	28%	27%	93%	23%	30%	30%	30%	30%	30%



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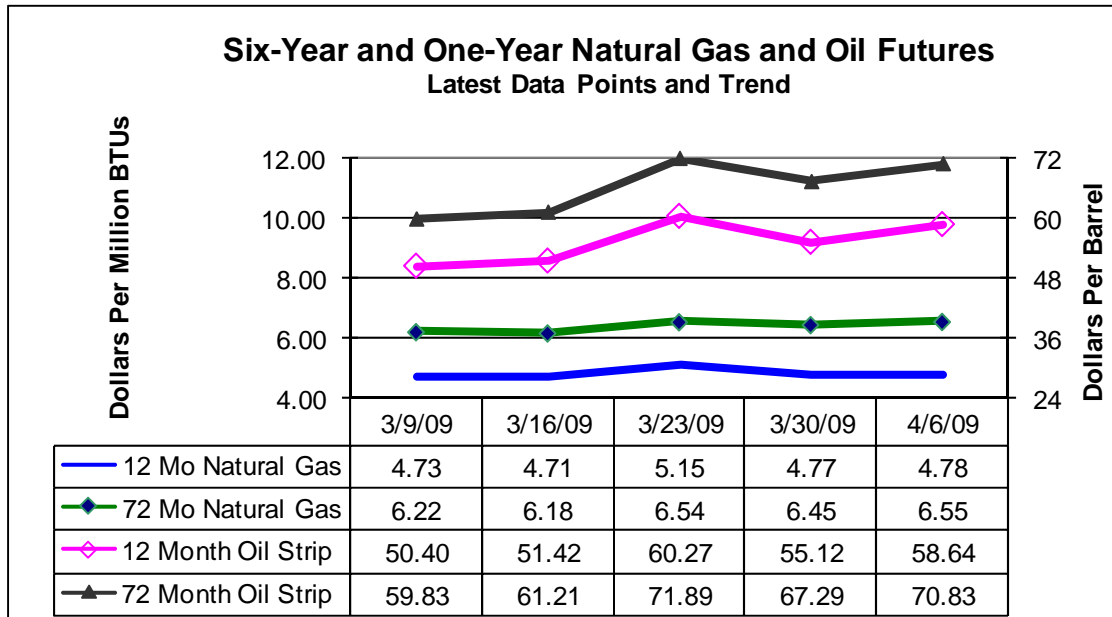
Lukoil					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	130	18.0	10.0	1,300	1%
Oil	4,270	16.7	15.2	64,800	54%
Downstream	6,300		8.7	55,000	45%
	10,700		11.3	121,100	100%
Debt (US\$mm)					6,300
Net Present Value (US\$mm)					114,800
Shares (mm)					850
Net Present Value - Standard Estimate (US\$/sh)					135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					129





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