

Rating: Buy  
S&P 500: 1473

## **Lukoil Oil Company** **Our Favorite Russian Oil Stock**

<i>Symbol</i>	LUKOY	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$mm)</i>	16,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	89.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	59
<i>Pricing Date</i>	12/13/07	<i>Adjusted Reserves/Production NTM</i>	18.4
<i>Shares (mm)</i>	826	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	74,100	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$mm)</i>	2,600	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	76,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.56
<i>Present Value (PV) (US\$mm)</i>	102,600	<i>Present Value Proven Reserves(US\$/boe)</i>	3.80
<i>Net Present Value (US\$/share)</i>	121	<i>Present Value Proven Reserves(US\$/mcf)</i>	0.63
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.55
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.56

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\$66 a barrel and natural gas, \$11 a million btu.

For historical research on Lukoil since 2004 see [www.mcdep.com/2luk.htm](http://www.mcdep.com/2luk.htm)

### **Summary and Recommendation**

Offering unlevered appreciation potential of 34% to estimated net present value (NPV) of \$121 a share, buy-recommended **Lukoil Oil Company (LUKOY)** combines rich resources with effective management amid the improving economic environment of Russia. Third quarter 2007 results, reported December 12, exceeded our expectations with the help of record downstream unlevered cash flow (Ebitda) (see table Next Twelve Months Operations). The disclosures prompt us to raise our projections of Ebitda for the next twelve months which could lead to a future increase in NPV (see table Functional Cash Flow and Present Value). The growing home market for oil products in Russia offers profits to Lukoil that are not available in the export market because of Russia's high export tax. We carry a double weighting of Lukoil stock in the illustrative McDep Energy Portfolio.

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**Lukoil Oil Company**  
**Next Twelve Months Operations**

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>
<b>Volume</b>									
Natural gas (bcf)		122	103	129	<b>481</b>	128	122	103	<b>482</b>
Natural Gas (mmcf)		1,338	1,122	1,404	<b>1,316</b>	1,404	1,338	1,122	<b>1,317</b>
Days	92	91	92	92	<b>365</b>	91	91	92	<b>366</b>
Oil (mmb)	180	180	178	178	<b>718</b>	177	177	178	<b>710</b>
Oil (mbd)	1,961	1,981	1,940	1,940	<b>1,966</b>	1,940	1,940	1,940	<b>1,940</b>
<b>Price</b>									
Natural gas (\$/mcf)		0.76	0.76	0.77	<b>0.77</b>	1.20	1.20	1.20	<b>1.20</b>
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	89.99	<b>72.11</b>	89.01	88.06	87.24	<b>87.71</b>
Lukoil export	64.42	65.30	72.21	86.10	<b>69.41</b>	85.16	84.25	83.46	<b>83.91</b>
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	8.16	<b>14.36</b>	10.51	14.44	14.20	<b>12.04</b>
<b>Revenue (\$mm)</b>									
Natural Gas		93	78	99	<b>370</b>	153	146	124	<b>578</b>
Oil	11,622	11,772	12,888	15,366	<b>49,817</b>	15,034	14,873	14,896	<b>59,580</b>
Other	6,627	8,424	8,527	8,527	<b>31,423</b>	8,527	8,527	8,527	<b>34,108</b>
Total	18,249	20,196	21,415	23,993	<b>81,340</b>	23,715	23,546	23,547	<b>94,266</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	2,437	1,982	2,058	2,475	<b>7,537</b>	2,430	2,403	2,403	<b>9,625</b>
Other	1,312	1,994	2,006	1,221	<b>6,701</b>	1,480	1,994	2,006	<b>6,701</b>
Total Ebitda	3,749	3,976	4,064	3,695	<b>14,239</b>	3,910	4,397	4,409	<b>16,326</b>
Exploration	55	50	51	51	<b>227</b>	51	51	51	<b>204</b>
Deprec., Deplet., & Amort.	468	558	570	570	<b>2,245</b>	570	570	570	<b>2,280</b>
<b>Ebit</b>	3,226	3,368	3,443	3,074	<b>11,767</b>	3,289	3,776	3,788	<b>13,842</b>
Interest	34	58	53	53	<b>211</b>	53	53	53	<b>212</b>
<b>Ebt</b>	3,192	3,310	3,390	3,021	<b>11,556</b>	3,236	3,723	3,735	<b>13,631</b>
Income Tax	770	789	912	906	<b>3,145</b>	971	1,117	1,121	<b>4,089</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	1,474	1,358	1,202						
Other	899	1,439	1,351						
Unallocated	49	(276)	(75)						
Total	2,422	2,521	2,478	2,115	<b>8,410</b>	2,265	2,606	2,615	<b>9,541</b>
<b>Shares (millions)</b>	835	832	826	826	<b>829</b>	826	826	826	<b>826</b>
Per share (\$)	2.90	3.03	3.00	2.56	<b>10.15</b>	2.74	3.16	3.17	<b>11.55</b>
Ebitda Margin (E&P)	21%	17%	16%	16%	<b>15%</b>	16%	16%	16%	<b>16%</b>
Tax Rate	24%	24%	27%	30%	<b>27%</b>	30%	30%	30%	<b>30%</b>

**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	93	32.6	8.6	800	1%
Oil	9,510	18.4	7.6	72,700	71%
Downstream	6,700		4.3	29,000	28%
	16,300		6.3	102,500	100%
Debt (US\$mm)					2,600
Net Present Value (US\$mm)					99,900
Shares (mm)					826
Net Present Value - Standard Estimate (US\$/sh)					121
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					134

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