LUKOIL Investment Report

26/03/2025

Public Joint Stock Company "LUKOIL" is one of the largest **oil and gas** companies in the world and a leading publicly traded company in the industry. It accounts for approximately **2% of global oil production** and **1% of proven hydrocarbon reserves**.

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For Investment Research Challenge hosted by **New Economic School (NES)**

Executive Summary

Investment Recommendation: BUY

- **Target Price – ₽8,921 | Current Price – ₽7,291**
- **Expected Upside ~20%**

This, combined with high operational efficiency, stable profits, and a reliable dividend policy, makes the company's shares attractive in the medium term.

- **Share price, ₽** LKOH — **7 291**
- **Mkt Cap, ₽ bn** — **5 052**
- **Shares Outstanding, mln** — **692,8**
- **EV, ₽ bn** — **4 495**
- **P/E** — **4,75**
- **EV/ EBITDA** — **1,98**
- **RAEX** — **ruAAA**

- **The company benefits from strategic flexibility** and **private ownership**, setting it apart from state-owned enterprises. Its **management team** has over 30 years of experience, and the corporate governance structure is two-tiered: strategic (Board of Directors, committees) and operational.
- **LUKOIL's operations** cover **the full cycle** from exploration and production to refining and sales, with **assets in more than 10 countries**. Core production is concentrated in **Russia** (Western Siberia, Timan-Pechora, Caspian Sea, etc.), but the company is also actively developing projects in **Iraq**, **Azerbaijan**, **Uzbekistan**, **Egypt**, and other countries.
- **The company focuses on** maintaining **stable production and margins** while **increasing investment in strategic regions**. New projects in the Caspian Sea, Siberia, and Uzbekistan will support current volumes and strengthen market position. The shift toward localized technology and digitalization helps reduce operational costs and enhances production flexibility.
- **LUKOIL demonstrates strong fundamentals.** It consistently holds around a **15% share of the Russian oil market** and has **the largest resource base** among private companies—sufficient for 18 years of production. Despite external constraints, the company promptly restructured its export routes, successfully replacing Western markets with deliveries to Asia, Africa, and Latin America.
- **Strong financial resilience.** Net debt < 0, high liquidity, ruAAA rating, substantial liquid assets, and moderate CAPEX primarily directed toward strategic project development.
- **Growth drivers**: **export reorientation**, **ruble depreciation**, launch of **new projects** and **M&A activity**.
- **Key risks** include oil price **volatility**, **sanctions** (including logistics and equipment access), **inflation**, and **rising drilling costs**. However, the company mitigates these risks through geographic diversification, technological investments, and reserve buffers.
- **LUKOIL remains a dividend leader among Russian companies**. In 2023, it paid **₽523 billion in dividends**, delivering a **yield of 6.6%**. Payouts are regular, growing, and backed by **stable free cash flow**, making the stock attractive to income-focused investors.

Business and operations

General information

PJSC "LUKOIL" is a large-scale holding company that has been operating since 1991. LUKOIL, along with its numerous subsidiaries, is a leading player in the oil extraction and refining markets both in Russia and abroad. The Russian government has designated the company as "systemically important," meaning it plays a crucial role in maintaining the stability of the national economy.

LUKOIL's business model is based on the principle of vertical integration. The public joint-stock company oversees a vast holding structure engaged in simultaneous oil and gas extraction, refining, fuel trading, and distribution. Throughout its existence, the company has demonstrated remarkable adaptability to challenging economic conditions and a strong commitment to enhancing production efficiency.

Figure 1: Lukoil Business model

exploration
(oil and gas)

production

refining

fuel distribution

energy generation
(electric power, renewable fuels)

Governance Structure

The General Meeting of Shareholders serves as the supreme governing body of PJSC "LUKOIL." According to available data, over **90% of shares** are held by legal entities, with more than **84%** controlled by depositories. Approximately **8% of shares** are directly and indirectly owned by **Vagit Alekperov**, the former president of LUKOIL (1993–2022), who continues to influence the company's strategic direction.

LUKOIL's governance framework operates on two levels: strategic and operational. The strategic level includes the Board of Directors (15 members) and its three committees, while the operational level focuses on performance analysis and proposals for achieving strategic objectives. The current **CEO, Sergey Kochkurov**, was appointed in 2025 after his predecessor was added to the U.S. sanctions list.

Corporate Structure

The holding company actively conducts production and investment activities both domestically and internationally. **The group comprises 50 subsidiaries**, four of which are registered abroad, with operations spanning Europe, Africa, Asia, the Americas, and the Middle East. This extensive global presence allows LUKOIL to effectively diversify risks.

The company's core operations are concentrated in **the Russian Federation.** Main operational areas include: Northwestern Russia, Volga Region, Ural, Southern Russia, West Siberia. In these regions, **LUKOIL is a key contributor** to regional economic development.

In the social sphere, LUKOIL strives to maintain its reputation as one of the best employers and support regional social projects (particularly in its areas of operation).

Projects

The company's largest projects are located in Russia and neighboring countries, **with five priority initiatives currently underway:** Western Siberia (4 fields), Baltic Sea (2 fields), Timan-Pechora (2 fields), North Caspian (3 fields), Uzbekistan (2 fields).

Internationally, LUKOIL is expanding its resource base in: Azerbaijan ("Shah Deniz" gas field), Iraq ("West Qurna-2", LUKOIL's largest international project), Kazakhstan, Egypt, Cameroon, Nigeria, Ghana, Mexico, the UAE, and the Republic of the Congo.

LUKOIL's upstream strategy is to maintain stable production by launching new projects and improving recovery from mature assets while maintaining financial discipline. LUKOIL diversifies its operations by developing **onshore** and **offshore oil fields** of varying density and viscosity, **gas fields** and **oil refineries**.

The company is also exploring inorganic growth opportunities: in 2022, LUKOIL acquired Shell's retail network and oil storage facilities in Russia, strengthening its downstream segment. For upstream operations, targeted M&A is possible - such as purchasing stakes in projects and entities being exited by Western companies. This was the case with the acquisitions in Shah Deniz (Azerbaijan) and Enel Russia.

Technology and Innovation

LUKOIL actively develops and implements **cutting-edge technologies** to optimize resource potential and enhance operational efficiency. In 2022, LUKOIL's capital investments in exploration and production totaled approximately **$4.5 billion**, representing about **75% of the company's total CAPEX.** In 2023, investment volume increased (in rubles) accounting for inflation, but the company is flexibly revising projects due to sanctions risks. For example, some offshore projects were postponed due to technology unavailability.

The company focuses on **11 key innovation areas** and operates its own **scientific and engineering division** (LLC "LUKOIL-Engineering").
Key technologies in use include:

- **Small-diameter wells**
- **Three-casing well designs**
- **Eco-friendly seismic surveys**
- **Valve actuators**
- **Refinery waste processing**

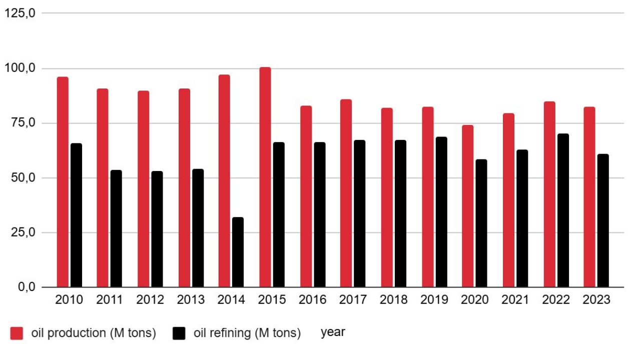
Simultaneously, LUKOIL is actively investing in digitalization and innovations: R&D costs grew by approximately **+8% annually (2019-2023)**, with implementation of geological modeling systems, digital field twins, etc., which helps optimize oil recovery.

In 2023, **exploration activities** yielded a net increase of 408 million boe in proven reserves, primarily driven by assets in Western Siberia, the Caspian Sea, and the Urals.

Production and Sales

PJSC "LUKOIL" accounts for approximately **2%** of **global oil production**. Despite economic challenges (the global pandemic crisis, sanctions), the company has maintained **high levels of extraction and refining** (totaling over 100 million tons of output annually).

Figure 2: Lukoil: oil production and refining (2010-2023)



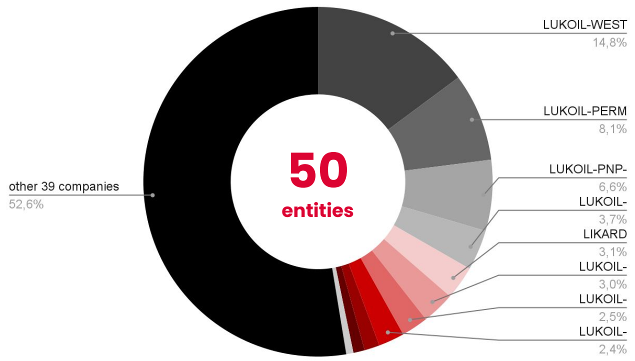
Sources: official LUKOIL website, TASS, Interfax, Finam, InvestFuture, Neftegaz.Ru, Gazprombank Investments

Proven hydrocarbon reserves of the Company at the end of 2023 totaled **15.1 billion barrels of oil equivalent** (boe), with **76%** attributed to **liquid hydrocarbons** and **24%** to **natural gas.** The reserve life stands at **18 years.**

The holding's primary production facilities are located in **Russia**, with the largest revenue-generating subsidiaries being:

- **LUKOIL-Western Siberia**
- **LUKOIL-Perm**
- **LUKOIL-RNP-Trading** (wholesale of petroleum products)
- **LUKOIL-Lower Volga Oil**
- **LIKARD** (sale of products at gas stations)
- **LUKOIL-Central Fuel Company**

Figure 3: Revenue of PJSC Lukoil by companies belonging to the holding



Sources: SPARK

In **2022**, over **95%** of oil was extracted in Russia. However, by **2023**, **97.6%** of sold oil and petroleum products were exported as the company expanded into regions less affected by **EU and U.S. sanctions**.
Consequently, LUKOIL's financial performance remains highly sensitive to:

- **Global market conditions**
- **Geopolitical developments**
- **Exchange rate fluctuations**

Figure 4: Lukoil oil sales 2023

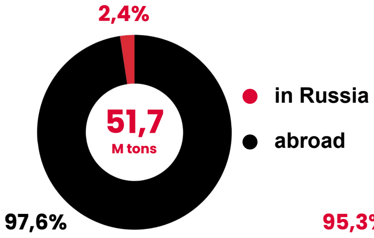
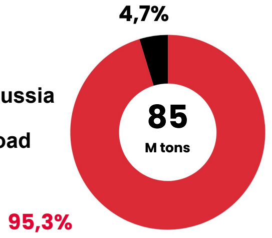


Figure 5: Lukoil oil production 2022



Sources: official LUKOIL website, Neftegaz.ru

Nevertheless, in recent years LUKOIL has successfully redirected its sales flows toward Asia, Africa and Latin America, where the company already has an established presence. The company is also working to localize production technologies (e.g., Arctic drilling equipment).

Financial and Operational Performance

In 2021, revenue surged due to **rising oil prices, post-pandemic demand recovery,** and the **depreciation of the ruble**. However, **net profit growth from 2021 to 2024** was slower due to concurrent increases in **production costs and selling expenses**. Moving forward, the company aims to **improve cost management efficiency** to restore pre-crisis profitability levels.

Figure 6: Historical financial performance of Lukoil

	2020	2021	2022	2023	2024
Revenue, b USD (IFRS)	78,4	128,1	-	93,6	93,3
Net Income, b USD (IFRS)	0,2	10,5	11,7	13,6	9,2

Source: Smart-Lab, Audit.ru, Interfax.ru

Compared to competitors (on the Russian oil market), PJSC "LUKOIL" performs strongly across **key operational and managerial efficiency** metrics*.

**based on Latest Available IFRS 2021 Data*

Effective Debt Management:

- Debt-to-equity ratio is below industry average (**16,4%** vs **36,8%**).
- Cash Flow Adequacy Ratio is above industry average (**105,4%** vs **71,1%**).
- Current liquidity ratio is above industry average (**172,7%** vs **150%**).

Strong Asset & Equity Utilization:

- ROE (**17,8 %**) and ROA (**12%**) exceed industry averages (**14,2%** and **8,9%** respectively).
- Asset turnover (**146,2%**) and fixed capital turnover (**220,3%**) outperforms comparables (**62,4%** and **101,6%** respectively).

Current 2025–2026 Targets:

- Sustain dividends (historically **top-tier payouts**).
- Optimize **supply chains** amid import substitution.

With a long-standing track record of success, LUKOIL prioritizes corporate reputation and strict adherence to obligations toward suppliers and creditors.

During **2025-2026**, the company plans to maintain production at the current level while continuing to pay substantial dividends to shareholders, simultaneously complying with environmental and industrial safety requirements.

Overall, the company remains committed to enhancing operational efficiency and executing strategic plans for future growth.

Industry overview

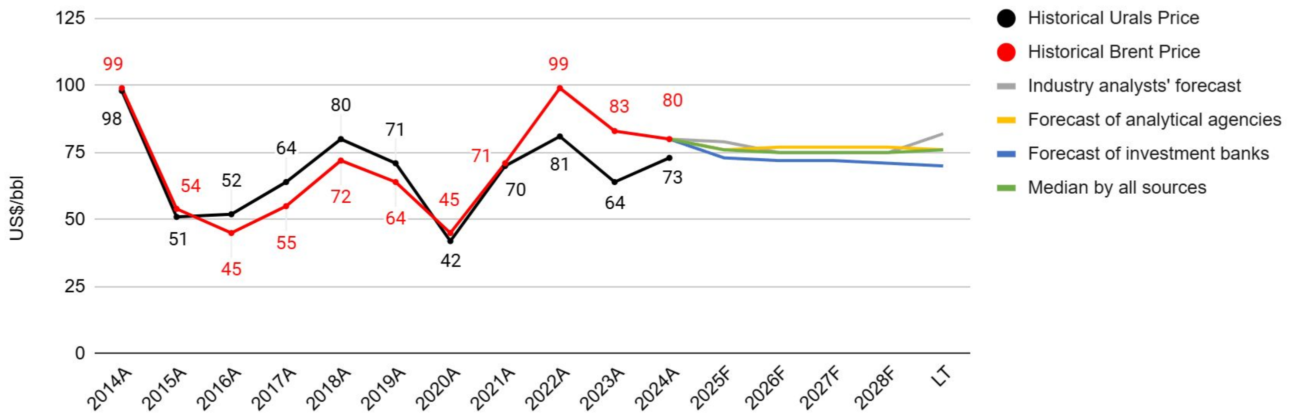
Global Oil Market

Demand and Oil Prices. Following the 2020 pandemic, global oil demand recovered rapidly. In 2022, the market faced a supply deficit due to surging consumption and geopolitical tensions. By 2023, the situation stabilized: OPEC+ implemented deeper production cuts, while output growth from non-OPEC countries (USA, Brazil, Guyana, Iran, etc.) helped offset supply losses.

As a result, **2023 ended with a slight surplus.** Despite slower growth, global demand is expected to reach record highs in 2024–2025, even with moderate economic growth. According to OPEC, **demand will continue rising to 110 million barrels per day by 2028** (+10.6 million from 2022), **mainly driven by non-OECD countries** (especially in Asia and Africa). In developed economies, demand is near its peak: in Europe, it is expected to stabilize by 2025 and begin declining due to weak economic growth, the spread of electric vehicles, and climate policy.

In 2022, geopolitical crises pushed **Brent** prices to $128/bbl, but **by 2023** they had corrected to **$80–90**. **In 2024**, **average prices remained within this range**, with forecasts suggesting a decline to **$70–75** in 2025–2026 and **$65–70** in the longer term. **Prices are supported by** OPEC+ supply cuts and increased geopolitical risk premiums, particularly due to instability in the Middle East.

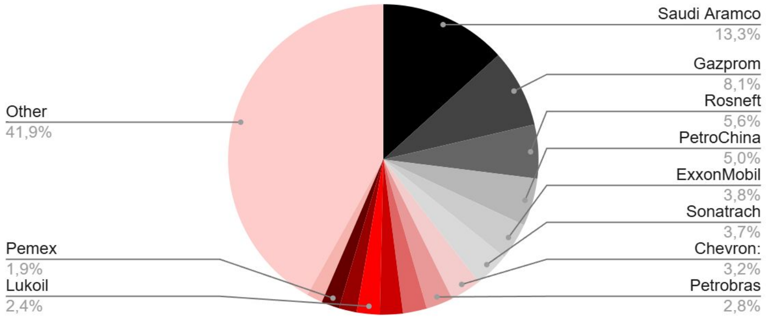
Figure 7: Urals and Brent prices



Sources: Investing.com, OPEC, Kept Oil & Gas Industry overview, World Energy Institute

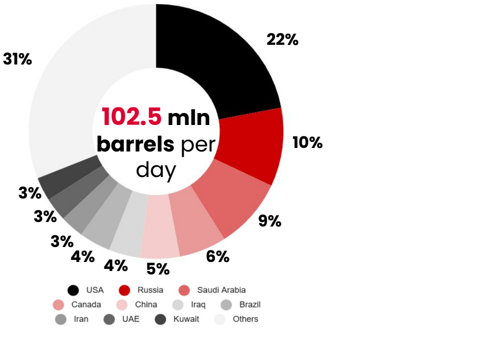
Until 2022, Russian **Urals** crude traded at a $1–2 discount to Brent, but sanctions widened the gap to $30. In 2023, the spread narrowed to $9.6 as logistics adapted and Asian demand grew, though it widened again to $15–20 by year-end amid new sanctions, tighter enforcement, and payment issues. **In 2024,** Urals traded at **$60–70/bbl,** and a **$10–12 discount** is expected for **2025–2026.**

Figure 8: Production of million barrels of hydrocarbons per day in 2023



Sources: EIA, OPEC

Figure 9: Leading countries in terms of hydrocarbon supply in 2023



Sources: EIA

Russian Oil Market

Geography. Russian oil production is highly concentrated in **Western Siberia**, which accounts for over **50% of output** and more than **80% of recoverable reserves.** Due to high depletion (70–75%), production is declining and expected to **fall by ~1%** annually even with new projects. The region remains critical, with companies actively developing hard-to-recover reserves (oil shales, Bashkir layer) and using advanced technologies. **The Volga-Ural region** contributes **~20%** of production. **Timan-Pechora — 5–10%**. **Eastern Siberia** and **the Russian Far East** are newer producing regions, now providing **~15%** of output. Most production is onshore. Arctic shelf projects are frozen due to sanctions, and Caspian fields account for less than 5% of output.

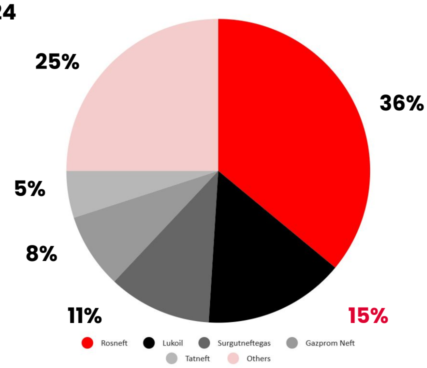
Production Volumes. Russia has remained a global leader despite sanctions and a shift in export markets. **In 2022,** oil and condensate production reached **534 million tons** (~10.7 million bbl/day), **2% higher than in 2021**, driven by post-COVID recovery and redirected exports to Asia. **In 2023**, production **fell to ~10.5 million bbl/day** due to voluntary OPEC+ cuts and a high base from 2022. **Over 2019–2023**, production stagnated, with an average annual decline of **1.4%**. **The 2024–2026 outlook** is for stable volumes with slight potential growth. The Ministry of Energy expects output to remain at **525–530 million tons per year** for the next 2–3 years, supported by new projects despite natural declines at mature fields.

Export flows. Following the EU embargo (end of 2022), Russia's export structure shifted significantly: **the European market**, which had consumed ~40% of Russian exports, **was almost entirely lost. In 2023, over 90% of oil exports went to China, India, and Turkey**, which actively purchased discounted Urals. **In 2022,** export volumes grew **by 7.6% to 242 million tons** (~4.9 million bbl/day), and **in 2023**, they stabilized at **4.7–4.8 million bbl/day**. This level persisted into 2024, with gradual diversification toward the Middle East, Africa, and Latin America. In the future, expansion of port capacities in the Russian Far East and Arctic will offer greater logistics flexibility.

Key Industry Players. Russia's oil sector is concentrated among **five major vertically integrated oil companies** (VIOCs), which together account for **80% of national oil production.**

Rosneft is the market leader with a resource base nearly three times larger than Lukoil's (40 billion vs. 15.1 billion barrels of oil equivalent). It dominates in Eastern and parts of Western Siberia, is fully integrated, and benefits from state support. **Surgutneftegas** ranks third, followed by **Gazprom Neft** and **Tatneft**.

Figure 10: Market share of Russian companies in 2024



Sources: Kept Oil & Gas Industry overview

Lukoil is Russia's largest private oil company, responsible for **over 2% of global output** and holding **~1% of proven global reserves. In 2022**, the company produced **85 million tons** (1.7 million bbl/day), **up 7% from 2021**, and maintained that level **in 2023**. Unlike most competitors, which are state-owned or state-controlled, Lukoil's private ownership grants it greater strategic independence and decision-making agility.

Russia's oil and gas sector remains resilient despite mounting external pressure. **In 2024, the industry showed growth** in the face of increased cyber attacks, physical threats, and sanctions. Despite ongoing geopolitical tensions, the sector continues to expand domestically and explore new export markets. Russia remains one of the world's leading producers and exporters of energy resources. Looking ahead, **the sector may be affected** by a stronger ruble in early 2025, a wider discount on Russian oil, and the possible extension of the OPEC+ production cut agreement for the entire year.

Valuation

Lukoil currently trades at RUB 7 291 per share, while **our DCF analysis** suggests a t**arget price of RUB 8,827.** This indicates **a potential upside** of approximately **21%**. Given the company's robust operational performance, strong cash flow generation, and strategic positioning within the oil sector, **we recommend a BUY rating.**

Our analysis reflects confidence in Lukoil's ability to navigate current market challenges and capitalize on future growth opportunities. Should the stock's performance fall below our expected returns, we would consider a **HOLD recommendation,** but we currently see no indicators warranting a **SELL stance.**

Figure 11: DCF estimation

		21%	Estimated value
Share price	₽	8 827	
Market Cap	₽	6 115 586	mln
			Current value
Share price	₽	7 291	
Market Cap	₽	5 051 684	mln

Sources: Own calculations based on the company's public reporting

Assumptions of the DCF Model

In the context of our Discounted Cash Flow (DCF) analysis, it is essential to recognize that the general "going concern" assumption is not applicable for companies operating in sectors reliant on natural resources. This is primarily due to the exhaustible nature of these resources, which has significant implications for financial modeling. The following **key assumptions** are made:

- **Time Horizon:** The DCF model incorporate long time horizons, aligning with the life of the resource field.
- **Terminal Value:** As previously mentioned, the company operates in the upstream, midstream and downstream sectors, so we can include a terminal value into the analysis
- **WACC:** Given the current geopolitical instability and elevated country risk, we have opted to use a standard approach to the discount rate. Instead of the NPV10 methodology, typical for the industry, we calculated the Weighted Average Cost of Capital (WACC).

WACC

The cost of equity was determined using the Capital Asset Pricing Model (CAPM). We utilized a **yield to maturity** (YTM) of **14.56% from 10-year government bonds** as the risk-free rate. **The equity risk premium of 8.35%** was sourced from Aswath Damodaran's database, which reflects mature markets. Initially, we calculated an unlevered beta of 0.68 using the bottom-up approach (Appendices 3); however, we decided to adopt a **beta of 0.44 based on industry averages.** This approach is preferable because it provides a more accurate reflection of the systematic risk associated with the industry as a whole, rather than relying solely on company-specific factors.

Figure 12: Key metrics for calculating wacc

Metric	Measure	Value
Risk-free rate	%, RUB	14,43%
Equity risk premium	%, RUB	8,35%
Levered beta (bottom-up)	x	0,44
Country risk premium	%	2,98%
Cost of equity	%, RUB	19,41%
Pre-tax cost of debt	%, RUB	17,21%
Marginal tax rate	%	20%
Post-tax cost of debt	%, RUB	13,77%
E/(D+E) ratio	x	0,7991
D/(D+E) ratio	x	0,2009
WACC	%, RUB	18,28%

Sources: CBR, Aswath Damodaran's database, investing.com, own calculations

We assumed that Lukoil would maintain its current capital structure, which we used as the basis for our discount rate calculations. **The country risk premium of 2.98%** represents the average risk associated with the countries in which Lukoil operates (Appendices 5), weighted by the share of revenue, and this data was also obtained from Aswath Damodaran's database. The calculation of the cost of debt is based on the company's long-term loans and bond issuances.

Ultimately, the weighted average cost of capital (WACC) was calculated to be 18.3%.

Sensitivity Analysis

Given the high uncertainty associated with geopolitical factors and oil price fluctuations, it is strongly recommended to conduct regular reviews of key assumptions. It is crucial to recognize that even minor adjustments in WACC and TGR can significantly impact the company's valuation and, consequently, investment decisions.

Figure 13: Sensitivity Analysis

		WACC				
	8 827	13,3%	15,8%	18,3%	20,8%	23,3%
TGR	0,0%	11 608	9 604	8 159	7 070	6 222
	1,0%	12 310	10 061	8 474	7 296	6 389
	2,0%	13 137	10 585	8 827	7 546	6 572
	3,0%	14 126	11 191	9 227	7 824	6 773
	4,0%	15 327	11 899	9 683	8 135	6 995

Sources: Own calculations based on the company's public reporting

Lukoil Valuation Using Multiples Approach

In evaluating Lukoil through the multiples approach, I have chosen to compare it with several domestic and international oil and gas companies. This selection is based on their operational similarities, market presence, and financial metrics. The companies selected for comparison include Bashneft, Gazpromneft, Rosneft, Russneft, Surgutneftegas, Tatneft, Gazprom, Novatek, Eni, Shell, Suncor, ExxonMobil, Chevron, and Petrobras.

Figure 14: Multiples estimation

		32% Estimated value	
Share price	₽	9 617	
Market Cap	₽	6 663 277	mln
		Current value	
Share price	₽	7 291	
Market Cap	₽	5 051 684	mln

Sources: Own calculations based on the company's public reporting

Domestic Peers

Companies like Bashneft, Gazpromneft, Rosneft, and Tatneft are significant players in the Russian oil market. Their operations, market dynamics, and regulatory environments are similar to those of Lukoil, providing relevant benchmarks for comparison.

International Peers

Including companies such as Shell, ExxonMobil, and Chevron allows for a broader perspective on Lukoil's valuation relative to global standards. These firms are well-established with diverse operations across various markets, making them suitable comparators for assessing Lukoil's performance on an international scale.

Overall, Lukoil's financial metrics demonstrate a solid operational performance, with a reasonable valuation relative to its market and industry counterparts. The combination of its market capitalization of 6 663 billion, manageable net debt of 445 billion, and strong EBITDA of 1 832.7 billion positions Lukoil as a compelling investment opportunity in the oil and gas sector.

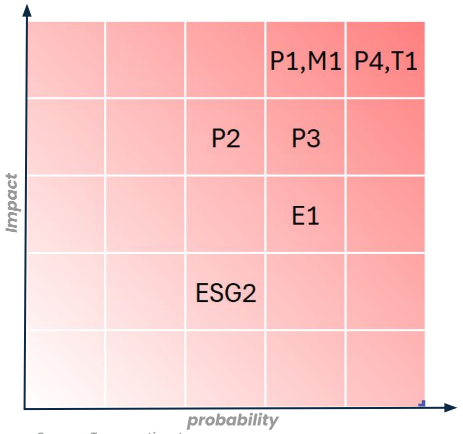
Figure 15: Oil Companies

Logo	Company	EV ltm	EBITDA ltm	EV/ EBITDA	CAGR 5y EBITDA	Div. Yield
	Bashneft	₽ 514,8 B	₽ 194,2 B	**2,65x**	2,5%	8,00%
	Gazpromneft	₽ 362 B	₽ 1396 B	**2,60x**	11,9%	18,00%
	Rosneft	₽ 5703,3 B	₽ 2951 B	**1,93x**	7,5%	12,60%
	Russneft	₽ 122,7 B	₽ 72,3 B	**1,70x**	-3,6%	0,00%
	Surgutneftegas	₽ 948,8 B	₽ 583,65 B	**1,63x**	5,7%	14,50%
	Tatneft	₽ 1549 B	₽ 391,7 B	**3,95x**	10,5%	17,90%
	Gazprom	₽ 7730,1 B	₽ 1538,6 B	**5,02x**	-7,4%	0,00%
	Novatek	₽ 2594,3 B	₽ 1007,6 B	**2,57x**	16,9%	11,60%
	Eni Next	€50,986 B	€16,822 B	**3,00x**	-4,6%	6,74%
	Shell plc	$234,4 B	$58,486 B	**4,00x**	-2,8%	3,90%
	Suncor	C$79,592 B	C$16,349 B	**4,90x**	13,8%	4,30%
	Galp	NA	NA	**4,50x**	~20%	1,82%
	Exxon Mobil Corp	NA	NA	**7,80x**	12,4%	3,35%
	Chevron Corp	NA	NA	**6,70x**	2,3%	4,01%
	Petroleo Brasileiro SA	NA	NA	**4,20x**	8,8%	18.65%
	PetroChina Co Ltd	NA	NA	**4,90x**	-9,8%	7.99%

Sources: investing.com, tipranks.com

Investment risks

Figure 16: Lukoil Risk assessment matrix



Source: Team estimates

Figure 17: Lukoil SWOT analysis

Strengths	Weaknesses
1) Vertically integrated structure: 2) Significant hydrocarbon reserves 3) Financial stability and low debt burden 4) Diversification of production and processing by region 5) ESG focus and innovation: digitalization, environmental and technological projects	1) Sanctions-related restrictions on markets, technologies and financing 2) Limited access to advanced technologies and equipment 3) High dependence on Western oilfield service contractors in the past
Opportunities	**Threats**
1) Growing demand for petroleum products in developing countries (Asia, Africa) 2) Development of green energy (solar, wind, hydroelectric power plants) 3) Digitalization potential: intelligent deposits, AI, automation	1) Increasing the tax burden in the Russian Federation (the income tax rate is up to 25%) 2) Environmental accidents and their consequences 3) Dependence on world oil prices and foreign economic conditions

Figure 18: Lukoil PESTLE analysis

P	• Geopolitical tensions & sanctions due to the special military operation in Ukraine • Western embargo & price cap on Russian oil • Sanctions from Ukraine: transit ban → halted deliveries to Slovakia & Hungary • OPEC+ quotas (−500,000 bpd for Russia) • Drone attacks on oil infrastructure (e.g., Nizhny Novgorod refin.)
E	• High global oil demand (102.9 mb/d in 2024) → revenue growth (+20%) • Net profit H1 2024: $6.4B (+4.6%) • Export pivot to Asia • Urals sold above price cap, but with higher logistics costs • Challenges: price volatility, inflation, tax pressure, OPEC+ cuts
S	• Rising environmental & climate awareness • EVs displacing 1.7 mb/d of oil demand • Reputational damage abroad (protests, boycotts) • Social investments: clean water projects, local community support • Growing ESG expectations from the public
T	• Digitalization: smart fields, automation, logistics analytics • Sanction-related tech/equipment shortages • Lag behind Western firms in green tech (renewables, carbon capture) • Challenges maintaining infrastructure post-drone attacks
L	• Not on US SDN list, but under indirect sanctions (oil bans, G7/EU) • Ukraine: transit ban; EU (e.g., Bulgaria): windfall tax, import bans • Domestic: tax hikes, currency controls • Growing global climate litigation risk (may affect foreign assets)
E	• Climate targets from US, EU, China → pressure on oil sector • Renewable capacity: 631 MW (solar, wind, hydro) • Emission reductions: flaring cuts, energy efficiency • High carbon footprint remains • Risks from Arctic operations & climate change impacts (e.g., permafrost)

Sources for SWOT and PEST: Based on publicly available data, including LUKOIL's official website and investor materials, RAEX ratings, industry publications, and business news sources.

Political and Geopolitical Risks

[P1] Primary and Secondary Sanctions
LUKOIL is not subject to direct US/EU sanctions but is significantly affected by the oil embargo, restrictions on technology imports, and financial barriers. In 2024, Ukraine banned oil transit through the Druzhba pipeline, limiting supplies to Slovakia and Hungary. The risk of secondary sanctions on the company's partners (e.g., in India or China) remains high.

[P2] Geopolitical Instability and Military Threats
Strikes on infrastructure (e.g., the Volgograd refinery) and potential disruptions to logistics routes (ports, pipelines) pose threats to operational continuity. There is also a growing risk of pressure on the company's assets in "friendly" jurisdictions due to increasing global sanctions enforcement.

Economic and Financial Risks

[E1] Macroeconomic Instability
Exchange rate fluctuations, inflation, and high interest rates increase project costs and limit access to financing. At the same time, ruble depreciation boosts export revenues denominated in foreign currencies.

[E2] Foreign Currency Liquidity Shortage
Capital controls and limited access to hard currency complicate equipment imports and financing of international operations.

Market Risks

[M1] Decline in Urals Oil Prices
The persistent discount of Urals to Brent reduces export profitability. Fluctuations in global oil prices directly affect LUKOIL's revenues and financial performance.

[M2] Dependence on OPEC+ Production Quotas
Production restrictions under OPEC+ agreements limit the company's output capacity and affect export volumes, restraining revenue growth.

Technological and Operational Risks

[T1] Dependence on Imported Equipment
Sanctions hinder the procurement and servicing of advanced equipment, potentially causing delays in maintenance and reduced reliability of operations.

[T2] Cybersecurity Threats
The company's digital infrastructure is exposed to the risk of cyberattacks, including potential production shutdowns and data breaches.

ESG Risks

[ESG1] Climate Regulation and Energy Transition
Stricter climate policies (including the EU's CBAM mechanism), the growth of renewables, and increased investor expectations require LUKOIL to adapt its long-term sustainability strategy.

[ESG2] Reputational Risks
Operations in jurisdictions with elevated sanctions or reputational risks, as well as projects in environmentally sensitive areas, may provoke negative public or investor reactions.

Appendices 1

Lukoil valuation using the DCF method

	Units	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	TGR
FCFF													
Revenue	RUBm	7 841 246	5 639 401	9 435 143		7 928 300	8 621 561	9 314 822	10 008 083	10 701 344	11 394 605	11 887 866	12 125 623
growth	%		(28,1%)	67,3%		-	8,7%	8,0%	7,4%	6,9%	6,5%	4,3%	2,0%
EBIT	RUBm	1 220 898	280 654	2 278 955		1 427 693	1 235 300	1 242 907	1 250 514	1 358 121	1 465 728	1 693 335	1 727 202
margin	%	15,6%	5,0%	24,2%		18,0%	14,3%	13,3%	12,5%	12,7%	12,9%	14,2%	14,2%
tax rate	%	29,6%	33,2%	24,3%		27,9%	27,9%	27,9%	27,9%	27,9%	27,9%	27,9%	27,9%
NOPAT	RUBm	859 022	187 415	1 724 532		1 029 659	890 905	896 391	901 877	979 484	1 057 090	1 221 242	1 245 666
D&A	RUBm	415 094	405 440	425 466		577 367	593 446	589 857	589 781	596 026	599 391	602 757	614 812
Change in NWC	RUBm		(12 626)	(41 424)		(47 610)	(77 180)	38 438	(19 045)	(26 575)	(28 899)	(26 812)	(31 713)
Capex	RUBm	(449 975)	(495 443)	(433 042)		(720 317)	(779 724)	(673 722)	(713 523)	(673 722)	(673 722)	(673 722)	(614 812)
FCFF	**RUBm**	**824 141**	**84 786**	**1 675 532**		**839 099**	**627 447**	**850 964**	**759 090**	**875 213**	**953 860**	**1 123 464**	**1 213 954**
Discount Factor													
WACC	%	18,3%											
TGR	%	2,0%											
Valuation date		12/31/2024											
		3/24/2025											
								0,78	1,00	1,00	1,00	1,00	1,00
Period								0,39	1,28	2,28	3,28	4,28	4,28
Alternative								0,50	1,50	2,50	3,50	4,50	4,50
Discount factor								0,9	0,8	0,7	0,6	0,5	0,5
DFCFF	**RUBm**							**618 358**	**612 363**	**596 926**	**550 025**	**547 706**	**3 635 383**
EV and Equity Value													
EV	**RUBm**	6 560 761											
Debt	RUBm	2 390 611											
Cash	RUBm	1 426 264											
Investments	RUBm	519 172											
Equity Value	RUBm	6 115 586											
NOSH	M	693											
Share Price	RUB	**8 827**											
Current share price	RUB	3 276											
		169,4%											

Sources: Own calculations based on the company's public reporting

Appendices 2

Aswath Damodaran's database, Russia 2025

Country	Adj. Default Spread	Equity Risk Premium	Country Risk Premium	Corporate Tax Rate
Russia	2,98%	8,35%	4,02%	20,0%

Sources: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

Appendices 3
Estimated Beta based on the Russian market, 5 years,

Beta = 0,68	2020	2021	2022	2023	2024
IMOEX	5953	7250	4549	2883	3099
IMOEX, return		21,79%	-37,26%	-36,62%	7,49%
Lukoil	5279	4970	4070	4270	5079
Lukoil, return		-5,85%	-18,12%	4,93%	18,95%

Sources: Moscow Exchange, Tbank

Appendices 4
Comparative assessment of Lukoil's Beta (5 years) indicator

Company	Ticker	Beta (5 years)
Bashneft PJSC	MISX:BANE	-
ENEOS Holdings, Inc.	DB:JHJ	0,36
Idemitsu Kosan Co.,Ltd.	DB:I7B	0,39
Energy	SECTOR:NRG.RU	0,39
Lukoil	MISX:LKOH	0,44
Rosneft	MISX:ROSN	0,45
Omv Petrom S.A	BVB:SNP	0,52
China Petroleum & Chemical Corp	DB:CHU	0,64
Woodside Petroleum Ltd	DB:WOP0	0,65
Inpex Corp	DB:I8U	0,7
ConocoPhillips	BRSE:COP	1,13
APA Corporation	DB:2S3	3,27

Sources: https://ru.investing.com/pro/MISX:LKOH/explorer/beta

Appendices 5
Country risk by countries of operations

Countries of operations	Adj. Default Spread
Russia	4,02%
Egypt	10,01%
Iraq	10,01%
UAE	0,66%
Kazakhstan	2,13%
Singapore	0%
China	0,94%

Sources: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html