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Additional LUKoil Dividend Is Possible

By The Moscow Times

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LUKoil could pay an additional dividend next year because of higher-than-expected crude prices, chief executive Vagit Alekperov said.

The Moscow-based company has no plans to change its investment strategy for 2011, which was based on oil prices at $76, he said.

"This may allow us at the end of 2011 to look at the possibilities of paying additional dividends," Alekperov said in New York.

LUKoil produced record free cash flow of $6.9 billion last year, the company said on its web site late last week, as it follows a plan to scale back output growth and keep more money through 2019. The producer plans to boost dividend payout ratios by more than 30 percent in that period.

"Theoretically they could pay out part of it as dividends," said Pavel Sorokin, an oil and gas analyst at Alfa Bank.

In practice, the company had immaterial increases in free cash flow in the fourth quarter, and plans to build the cash position further may be at risk, Sorokin said. LUKoil must invest in international projects and manage declines in output rates domestically, he said.

The company plans to spend $8.5 billion this year and next, mostly on exploration and production, according to a presentation. LUKoil is exploring deepwater blocks off the coast of West Africa.

The company wrote off $68 million from a dry well in Ivory Coast, according to a regulatory filing.

It wants to stabilize output in West Siberia, where LUKoil produces over half its oil, in the next three years after production fell 3.8 percent last year, LUKoil vice president Leonid Fedun said.

Net income in the fourth quarter rose 27 percent to $2.19 billion against the previous year after crude prices rose, according to Bloomberg calculations based on full-year earnings released by the company Thursday.

Standard & Poor's removed the company from its "creditwatch" in November after it sold $1 billion in eurobonds. S&P raised the possibility of a ratings downgrade after LUKoil agreed to buy back 7.6 percent of its own stock from ConocoPhillips for $3.44 billion last year.

LUKoil and an investor group including UniCredit Bank and a company related to Alekperov bought an additional 5 percent of the company's shares from Conoco for $2.4 billion last year.

The company is considering listing shares in Hong Kong or Singapore, Fedun said.

The "timing of the listing will depend on how long the legal process takes," he said. "I do believe in Hong Kong very much because China has been opening to it."

The average price for Russia's Urals export oil blend increased 15 percent to $85.23 a barrel in the fourth quarter from the previous year.

LUKoil said it had free cash flow of $2.36 billion in 2009.

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