



PetroChina Co. Ltd (PTR)

Updated September 3rd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	11.8%	Volatility Percentile:	54.6%
Fair Value Price:	\$53	5 Year Growth Estimate:	9.7%	Momentum Percentile:	11.7%
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Growth Percentile:	92.2%
Dividend Yield:	4.1%	5 Year Price Target	\$74	Valuation Percentile:	65.4%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	88.6%

Overview & Current Events

PetroChina is the largest Chinese oil and gas producer. In 2018, it produced 4.09 million barrels of oil equivalent per day (60% oil and 40% natural gas) and thus slightly exceeded the production rate of Exxon Mobil. It has a market capitalization of \$90 billion.

PetroChina operates in four segments: exploration & production, refining & chemicals, natural gas, and marketing. In 2018, the first three segments generated 52%, 30% and 18%, respectively, of the total earnings of the company, while the marketing segment posted a minor loss due to excess supply of products in the market and intense competition. Just like the well-known oil majors, such as Exxon Mobil and Chevron, PetroChina is an integrated oil company and is greatly affected by the price of oil and natural gas. Due to suppressed oil prices since mid-2014, the earnings of PetroChina have remained under pressure in the last four years.

In late August, PetroChina reported (8/29/19) financial results for the first half of fiscal 2019. The average prices of WTI and Brent were 12.4% and 6.6% lower, respectively, over last year's period. However, PetroChina grew its production by 5.9% and its upstream operating profit by 79%. While management attributed the impressive profit growth of the upstream segment to the 5.9% production growth and a 2.4% decrease in operating expenses, it is evident that other factors were in play as well, such as better realized prices than the benchmark prices. Despite the high growth of the upstream profit, earnings-per-share grew only 3.6%, primarily due to the collapse of the profit of the refining & chemicals segment, which resulted from poor refining margins and 5-year low prices of chemicals due to excess supply in the Chinese market.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$8.20	\$11.23	\$11.30	\$9.98	\$11.46	\$9.60	\$3.05	\$0.60	\$1.78	\$4.38	\$4.40	\$6.17
DPS	\$3.56	\$3.83	\$5.35	\$5.06	\$4.68	\$5.29	\$2.56	\$0.70	\$1.57	\$1.36	\$2.00	\$2.50
Shares¹	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830

Like its peers, PetroChina has a lackluster and volatile performance record. As its upstream segment is by far the largest contributor to its overall performance, its earnings are greatly affected by underlying commodity prices. Since the onset of the downturn of the energy sector in mid-2014, earnings-per-share of PetroChina have remained suppressed. Despite the strong recovery in 2018, earnings-per-share were still less than half of their previous level during 2010-2014. This compares unfavorably to the well-known oil majors, Exxon Mobil, Chevron and BP, whose earnings-per-share in 2018 were more than half of their pre-crisis level. The superior performance of the oil majors shows that they have cut operating expenses and improved their asset portfolio much more drastically than PetroChina.

On the bright side, we expect oil prices to rise somewhat from the current level with the global supply continuing to increase in tandem with demand growth. If this materializes, it will help PetroChina grow its earnings in the upcoming years. On the other hand, we are cautious and do not expect the earnings-per-share to return to their pre-crisis level. Due to the weak recovery of PetroChina, we now expect 7.0% (instead of 9.7%) average annual earnings-per-share growth over the next five years.

1. In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.0	10.4	11.9	13.6	10.6	12.3	32.3	---	38.7	16.8	11.1	12.0
Avg. Yld.	3.3%	3.3%	4.0%	3.7%	3.8%	4.5%	2.6%	1.0%	2.3%	1.8%	4.1%	3.4%

Excluding the years 2015-2017, in which the depressed earnings of PetroChina resulted in abnormally high price-to-earnings ratios, PetroChina has traded at an average price-to-earnings ratio of 12.7 during the last decade. Due to the high cyclicality of the stock, we assume a fair earnings multiple of 12.0. PetroChina is currently trading at a price-to-earnings ratio of 11.1. If it reaches our fair valuation level over the next five years, it will enjoy a 1.5% annualized boost in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

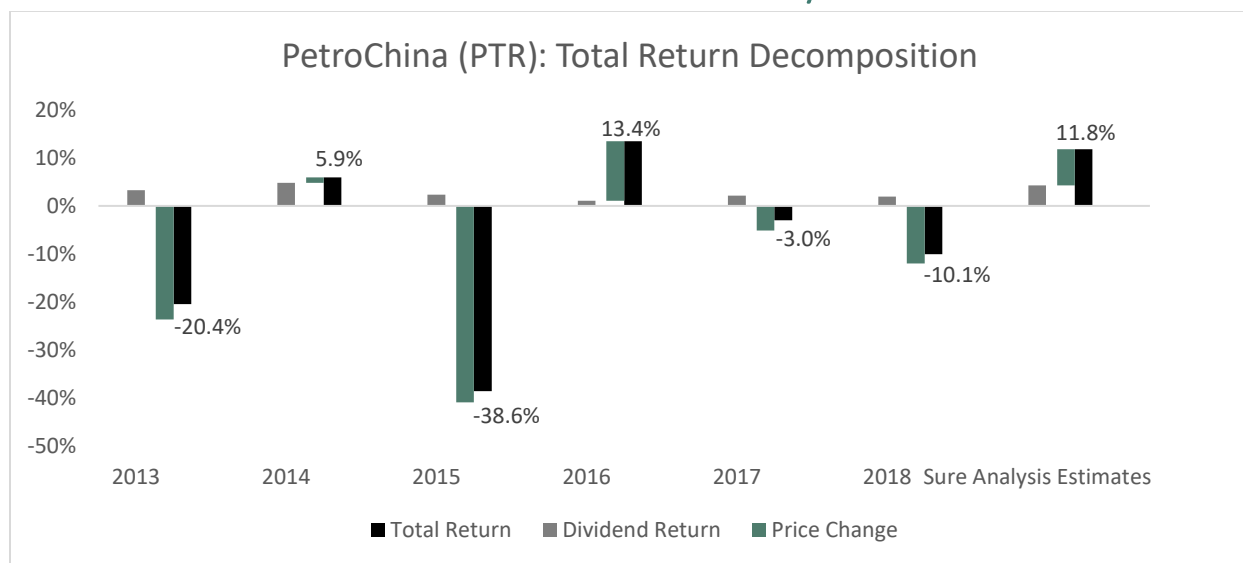
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43.5%	34.2%	47.3%	50.7%	40.8%	55.1%	84.1%	117%	88.3%	31.1%	45.5%	40.6%

The economy of China has grown by more than 6% per year in every year of the last decade. While this fact is supposed to provide some sort of competitive advantage to PetroChina over its international peers, its heavy reliance on its upstream segment mitigates its benefit from the growth of China. Although oil prices have doubled off their bottom in early 2016, the earnings-per-share of PetroChina are still less than half of what they were before the onset of the downturn of the energy sector in mid-2014. This is in sharp contrast to China Petroleum (SNP), whose earnings-per-share have almost returned to its pre-crisis level thanks to its more integrated structure. Overall, PetroChina is highly vulnerable to suppressed oil prices, as shown with the 95% plunge of its earnings-per-share between 2013 and 2016.

Final Thoughts & Recommendation

Although oil prices have more than doubled off their bottom three years ago, PetroChina is still 67% lower than its pre-crisis level and is currently trading at a 10-year low level. In the absence of renewed pressure on oil prices, the stock could offer an 11.8% average annual return over the next five years. However, we do not like the weak recovery of its results, its dramatic underperformance and its almost full valuation. We thus maintain our hold rating for the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	149.4	216.0	309.7	347.5	367.2	370.5	274.6	242.9	298.8	356.0
Gross Profit (\$B)	77.23	82.06	98.64	100.07	102.4	100.49	74.13	65.96	73.05	88.14
Gross Margin	51.7%	38.0%	31.9%	28.8%	27.9%	27.1%	27.0%	27.2%	24.4%	24.8%
SG&A Exp.	19262	23224	25831	28628	31779	31518	30136	28827	30005	32979
Operating Profit	21737	27330	27695	26951	29911	26681	11666	8338	9230	18303
Op. Margin	14.5%	12.7%	8.9%	7.8%	8.1%	7.2%	4.2%	3.4%	3.1%	5.1%
Net Profit	15156	20637	20550	18253	21073	17391	5653	1180	3379	7955
Net Margin	10.1%	9.6%	6.6%	5.3%	5.7%	4.7%	2.1%	0.5%	1.1%	2.2%
Free Cash Flow	1019	8051	2567	-12636	-3012	7603	6362	11768	19800	53182
Income Tax	4907	5677	5913	5728	5819	6123	2503	2368	2416	6473

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	212.3	249.7	303.0	347.5	386.5	387.8	368.7	345.1	368.3	353.6
Cash & Equivalents	12726	6892	9665	6952	8483	11894	11210	14100	18806	12443
Acc. Receivable	4214	6785	8504	10326	10565	8561	8050	6813	8140	8505
Inventories	16804	20337	28796	34304	37460	26757	19544	21146	22159	25380
Goodwill & Int.	2638	3838	3423	3868	4035	4168	9823	9183	9129	14290
Total Liab. (\$B)	79.44	97.45	131.94	158.31	176.92	175.35	161.71	147.43	156.74	148.51
Accounts Payable	9200	14679	17919	21136	21510	13691	10705	11606	15807	17635
Long-Term Debt	34305	35223	50303	71297	81784	86961	83290	74334	71266	59189
Total Equity (\$B)	124.04	141.56	158.43	170.47	186.91	189.57	181.72	171.20	182.81	176.52
D/E Ratio	0.28	0.25	0.32	0.42	0.44	0.46	0.46	0.43	0.39	0.34

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.8%	8.9%	7.4%	5.6%	5.7%	4.5%	1.5%	0.3%	0.9%	2.2%
Return on Equity	12.6%	15.5%	13.7%	11.1%	11.8%	9.2%	3.0%	0.7%	1.9%	4.4%
ROIC	9.8%	11.6%	10.1%	7.6%	7.6%	5.9%	1.9%	0.4%	1.2%	2.9%
Shares Out.	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830
Revenue/Share	81.64	118.03	169.22	189.84	200.62	202.41	150.04	132.70	163.27	194.53
FCF/Share	0.56	4.40	1.40	-6.90	-1.65	4.15	3.48	6.43	10.82	29.06

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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