



PetroChina Co. Ltd (PTR)

Updated September 1st, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	9.5%	Market Cap:	\$64.0 B
Fair Value Price:	\$32	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	09/11/20
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	11/09/20
Dividend Yield:	5.3%	5 Year Price Target	\$45	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

PetroChina is the largest Chinese oil and gas producer. In 2019, it produced 4.28 million barrels of oil equivalent per day (58% oil and 42% natural gas) and thus exceeded the production rate of Exxon Mobil. It has a market capitalization of \$64.0 billion.

PetroChina operates in four segments: exploration & production, refining & chemicals, natural gas, and marketing. In 2019, the first three segments generated 87%, 12% and 1%, 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 five years.

In late August, PetroChina reported (8/27/20) financial results for the first half of fiscal 2020. The company grew its production by 7.0% over last year's period but the average Brent price plunged -39.4% due to the pandemic. As a result, PetroChina posted a net loss of -\$4.36 billion. In the first quarter of the year, the GDP of China declined -6.8% over last year due to the pandemic but the country controlled the virus better in the second quarter and thus its GDP grew 11.5% sequentially. Thanks to the positive momentum of the Chinese economy and improved oil prices, we expect PetroChina to narrow its losses in the second half of the year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$11.23	\$11.30	\$9.98	\$11.46	\$9.60	\$3.05	\$0.60	\$1.78	\$4.33	\$3.68	-\$0.70	\$3.77
DPS	\$3.83	\$5.35	\$5.06	\$4.68	\$5.29	\$2.56	\$0.70	\$1.57	\$1.36	\$1.92	\$1.86	\$2.00
Shares¹	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,827	1,827	1,825

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, the earnings-per-share of PetroChina have remained suppressed. Despite the strong recovery in 2018-2019, 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 2018-2019 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 portfolios much more drastically than PetroChina.

Moreover, the ongoing coronavirus crisis is likely to lead PetroChina to incur losses this year. However, we do not expect this downturn to extend beyond this year. As a result, we expect PetroChina to return towards last year's profitability in the upcoming years and thus we expect 7.0% annualized growth off mid-cycle earnings-per-share of \$2.69 (5-year average) 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.4	11.9	13.6	10.6	12.3	32.3	---	38.7	16.8	15.2	13.0	12.0
Avg. Yld.	3.3%	4.0%	3.7%	3.8%	4.5%	2.6%	1.0%	2.3%	1.8%	3.4%	5.3%	4.4%

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 13.0 over the last decade. Due to the high cyclicality of the stock, we assume a fair earnings multiple of 12.0. PetroChina is now trading at 13.0 times its mid-cycle earnings. If it reaches our fair valuation level over the next five years, it will incur a -1.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

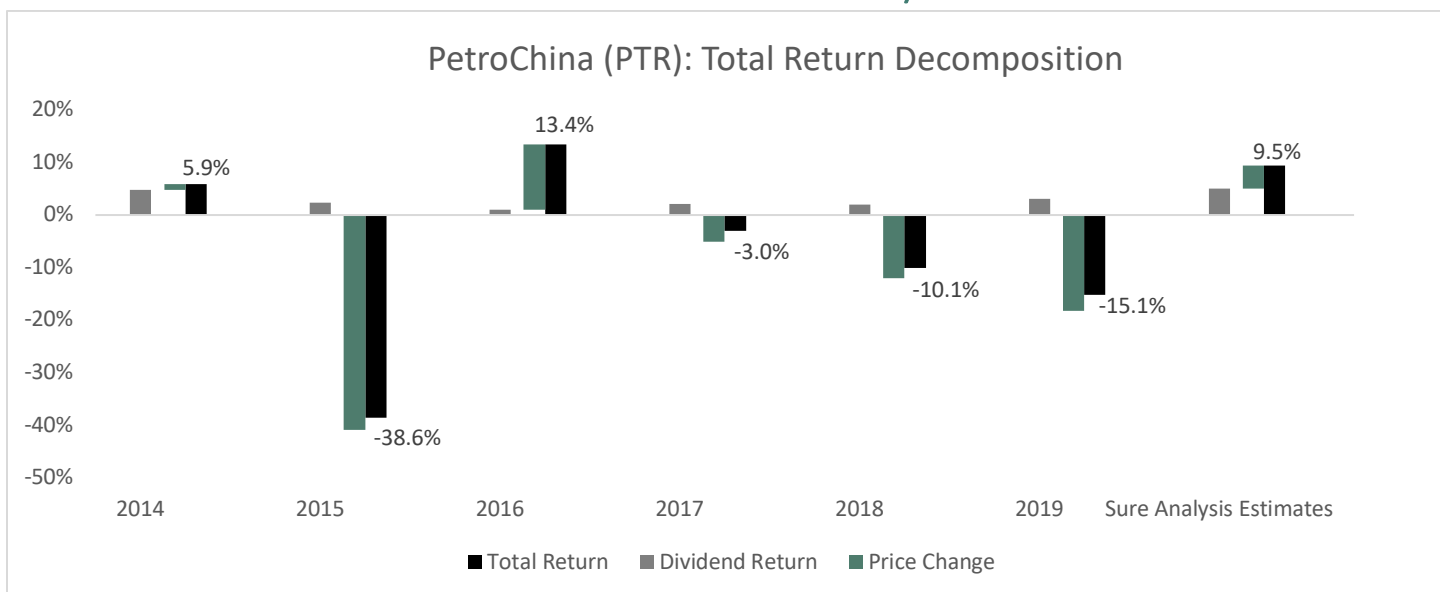
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	34.2%	47.3%	50.7%	40.8%	55.1%	84.1%	117%	88.3%	31.1%	52.2%	69.1%	53.1%

The economy of China has grown by more than 6% per year in every year of the last decade. While this 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. Moreover, even before the recent collapse of the oil price, the earnings-per-share of PetroChina were 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 almost returned to their pre-crisis level thanks to its more integrated structure. Furthermore, PetroChina has a high debt load and it is susceptible in the ongoing downturn of the energy sector due to the coronavirus. 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

PetroChina has fallen -35% since early this year due to the downturn in the energy sector caused by the coronavirus. As we do not expect the crisis to extend beyond this year, we expect the stock to offer a 9.5% average annual return over the next five years. However, we do not like the high debt load, the weak recovery of earnings before the ongoing downturn and the dramatic business underperformance compared to its peers. We thus maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.9%	7.4%	5.6%	5.7%	4.5%	1.5%	0.3%	0.9%	2.2%
Return on Equity	15.5%	13.7%	11.1%	11.8%	9.2%	3.0%	0.7%	1.9%	4.4%
ROIC	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
Revenue/Share	118.03	169.22	189.84	200.62	202.41	150.04	132.70	163.27	194.53
FCF/Share	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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