



PetroChina Co. Ltd (PTR)

Updated November 9th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	12.9%	Market Cap:	\$54.8 B
Fair Value Price:	\$32	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	09/28/20
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date:	11/23/20
Dividend Yield:	6.2%	5 Year Price Target	\$45	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 \$54.8 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 six years.

In late October, PetroChina reported (10/29/20) financial results for the first nine months of fiscal 2020. The average Brent price plunged -35% over last year's period due to the pandemic but the company grew its production 4.3%. In addition, the Chinese economy recovered strongly from the pandemic thanks to its effective measures, with 4.9% GDP growth in the third quarter. As a result, PetroChina posted an impressive profit per share of \$0.82 in the first nine months of the year and thus outperformed the well-known oil majors. Thanks to the sustained momentum of the Chinese economy, we now expect PetroChina to earn \$1.40 per share this year instead of losing -\$0.70 per share.

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	\$1.40	\$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 has inevitably hurt PetroChina this year. However, we expect this downturn to fade next year. The company also benefits from the recovery of China from the pandemic thanks to its drastic measures, in contrast to the vast majority of the other countries. Overall, 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	11.2	12.0
Avg. Yld.	3.3%	4.0%	3.7%	3.8%	4.5%	2.6%	1.0%	2.3%	1.8%	3.4%	6.2%	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 11.2 times its mid-cycle earnings. If it reaches our fair valuation level over the next five years, it will enjoy a 1.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

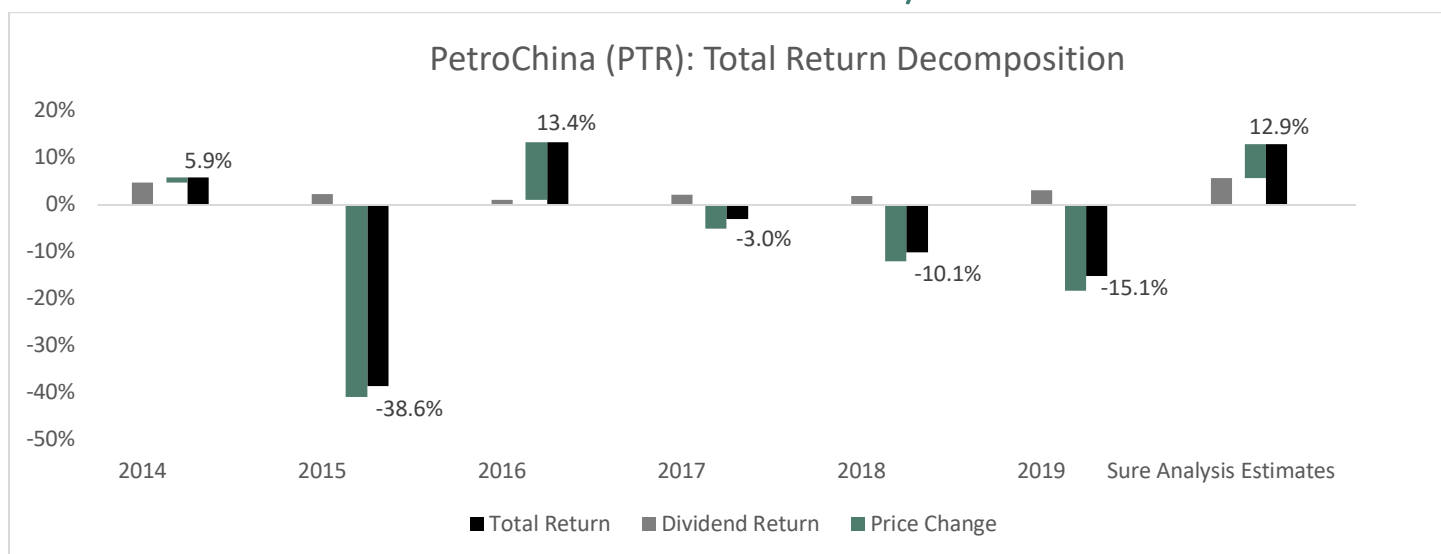
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	34.2%	47.3%	50.7%	40.8%	55.1%	84.1%	117%	88.3%	31.1%	52.2%	69.1%	53.1%

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 thus it will be vulnerable in the event of a prolonged pandemic. 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 -41% this year due to the downturn in the energy sector caused by the pandemic. As we expect the pandemic to subside next year, we expect the stock to offer a 12.9% average annual return over the next five years. However, we do not like the high debt load and the weak recovery of earnings before the ongoing downturn. We thus maintain our hold rating. Those who want to invest in a Chinese oil company might prefer China Petroleum, which is undervalued in our view and has a strong balance sheet.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	216.0	309.7	347.5	367.2	370.5	274.6	242.9	301.2	359.3	364.4
Gross Profit (\$B)	82.1	98.6	100.0	102.4	100.5	74.2	66.0	74.0	89.1	86.0
Gross Margin	38.0%	31.9%	28.8%	27.9%	27.1%	27.0%	27.2%	24.6%	24.8%	23.6%
SG&A Exp.	23,224	25,831	28,628	31,779	31,518	30,136	28,827	30,129	33,108	32,272
Operating Profit	27,330	27,695	26,951	29,911	26,681	11,666	8,338	9,692	17,739	16,828
Op. Margin	12.7%	8.9%	7.8%	8.1%	7.2%	4.2%	3.4%	3.2%	4.9%	4.6%
Net Profit	20,637	20,550	18,253	21,073	17,391	5,653	1,180	3,489	8,023	6,614
Net Margin	9.6%	6.6%	5.3%	5.7%	4.7%	2.1%	0.5%	1.2%	2.2%	1.8%
Free Cash Flow	8,051	2,567	(12,636)	(3,012)	7,603	6,362	11,768	20,070	12,295	5,309
Income Tax	5,677	5,913	5,728	5,819	6,123	2,503	2,368	2,416	6,473	5,241

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	249.7	303.0	347.5	386.5	387.8	368.7	345.1	368.3	353.6	390.6
Cash & Equivalents	6,892	9,665	6,952	8,483	11,894	11,210	14,100	18,806	12,495	12,350
Acc. Receivable	6,785	8,504	10,326	10,565	8,561	8,050	6,813	8,140	8,653	9,173
Inventories	20,337	28,796	34,304	37,460	26,757	19,544	21,146	22,159	25,814	26,001
Goodwill & Int.	3,838	8,643	10,227	11,493	12,019	17,942	9,183	17,568	17,356	8,917
Total Liab. (\$B)	97.5	132.0	158.3	176.9	175.3	161.7	147.4	156.7	150.0	184.2
Accounts Payable	14,679	17,919	21,136	21,510	13,691	10,705	11,606	15,807	17,891	21,200
Long-Term Debt	35,223	50,303	71,297	81,784	86,961	83,290	74,334	71,266	60,266	66,705
Total Equity (\$B)	141.6	158.4	170.5	186.9	189.6	181.7	171.2	182.8	176.5	175.8
D/E Ratio	0.25	0.32	0.42	0.44	0.46	0.46	0.43	0.39	0.34	0.38

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.9%	7.4%	5.6%	5.7%	4.5%	1.5%	0.3%	1.0%	2.2%	1.8%
Return on Equity	15.5%	13.7%	11.1%	11.8%	9.2%	3.0%	0.7%	2.0%	4.5%	3.8%
ROIC	11.6%	10.1%	7.6%	7.6%	5.9%	1.9%	0.4%	1.3%	2.9%	2.5%
Shares Out.	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,827
Revenue/Share	118.03	169.22	189.84	200.62	202.41	150.04	132.70	164.59	196.29	199.08
FCF/Share	4.40	1.40	(6.90)	(1.65)	4.15	3.48	6.43	10.97	6.72	2.90

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

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