



PetroChina Co. Ltd (PTR)

Updated September 3rd, 2021, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------------------|
| Current Price: | \$45 | 5 Year CAGR Estimate: | 12.2% | Market Cap: | \$82.4 B |
| Fair Value Price: | \$90 | 5 Year Growth Estimate: | -6.0% | Ex-Dividend Date: | 9/9/21 ¹ |
| % Fair Value: | 50% | 5 Year Valuation Multiple Estimate: | 14.9% | Dividend Payment Date: | 9/16/21 |
| Dividend Yield: | 7.5% | 5 Year Price Target | \$66 | Years Of Dividend Growth: | 1 |
| Dividend Risk Score: | D | Retirement Suitability Score: | C | Last Dividend Increase: | 81.2% |

Overview & Current Events

PetroChina is the largest Chinese oil and gas producer. In 2020, it produced 3.85 million barrels of oil equivalent per day (53% oil and 47% natural gas) and thus exceeded the production rate of Exxon Mobil (3.76 million barrels per day). It has a market capitalization of \$82.4 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% 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. In 2020, the refining and marketing segments incurred losses due to the pandemic while the profit of the upstream segment plunged -74% and hence 2019 is a more representative year. 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. As the price of oil has not returned to \$100 since mid-2014, the earnings of PetroChina have remained under pressure since then.

In late August, PetroChina reported (8/27/21) financial results for the first half of fiscal 2021. It reduced its production by -1.7% over last year's period but the average price of Brent jumped 63%. In addition, the Chinese economy recovered strongly from the pandemic thanks to its effective measures, with 12.7% GDP growth, partly thanks to the low comparison base formed in last year's quarter. Moreover, the Chinese demand for refined products has returned to pre-COVID levels. As a result, PetroChina switched from a loss per share of -\$2.46 to an impressive profit per share of \$4.35. Given the sustained high oil prices, we have raised our earnings-per-share forecast for the full year from \$5.60 to \$7.50.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|---------|--------|---------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$11.30 | \$9.98 | \$11.46 | \$9.60 | \$3.05 | \$0.60 | \$1.78 | \$4.33 | \$3.68 | \$1.45 | \$7.50 | \$5.50 |
| DPS | \$5.35 | \$5.06 | \$4.68 | \$5.29 | \$2.56 | \$0.70 | \$1.57 | \$1.36 | \$1.92 | \$1.86 | \$3.37 | \$2.47 |
| Shares² | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,827 | 1,829 | 1,832 | 1,832 |

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.

On the other hand, PetroChina has proved much more resilient to the pandemic than its international peers thanks to the efficient measures of the Chinese government. Nevertheless, due to the high comparison base formed this year, we expect the earnings-per-share of PetroChina to decline -6.0% per year on average over the next five years.

¹ Semiannual Dividend.

² 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 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 11.9 | 13.6 | 10.6 | 12.3 | 32.3 | --- | 38.7 | 16.8 | 15.2 | 24.5 | 6.0 | 12.0 |
| Avg. Yld. | 4.0% | 3.7% | 3.8% | 4.5% | 2.6% | 1.0% | 2.3% | 1.8% | 3.4% | 5.2% | 7.5% | 3.7% |

Excluding the years 2015-2017 and 2020, 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 13.4 over the last decade. Due to the high cyclicality of the stock, we assume a fair earnings multiple of 12.0. Due to exceptionally high earnings this year, the stock is trading at a price-to-earnings ratio of 6.0. If it reaches our fair valuation level in five years, it will enjoy a 14.9% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

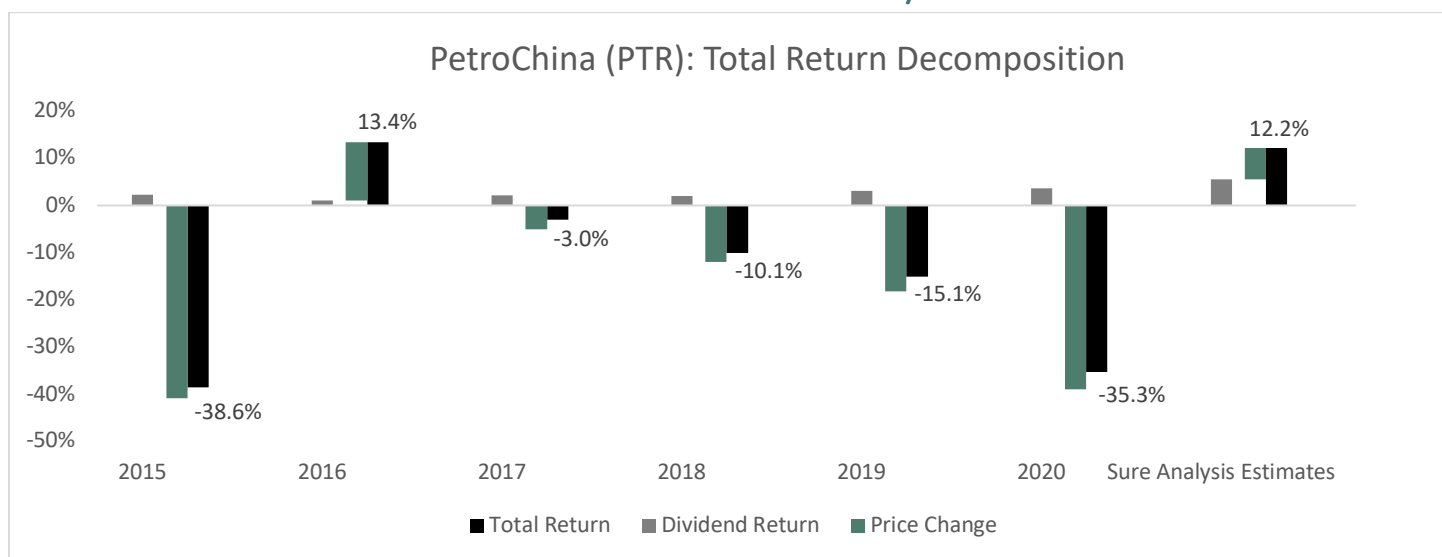
| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|-------|-------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|
| Payout | 47.3% | 50.7% | 40.8% | 55.1% | 84.1% | 117% | 88.3% | 31.1% | 52.2% | 128% | 44.9% | 44.9% |

The economy of China has grown by more than 6% per year in every year of the last decade except for 2020. 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 pandemic, 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 if the pandemic takes a turn for the worse. 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

Thanks to its cheap valuation and its generous dividend, PetroChina could offer a 12.2% 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 pandemic. We thus rate the stock as a cautious buy. 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 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------|--------|----------|---------|--------|--------|--------|--------|--------|--------|--------|
| Revenue (\$B) | 309.7 | 347.5 | 367.2 | 370.5 | 274.6 | 242.9 | 301.2 | 359.3 | 364.4 | 280.2 |
| Gross Profit (\$B) | 98.6 | 100.0 | 102.4 | 100.5 | 74.2 | 66.0 | 74.0 | 89.1 | 86.0 | 65.5 |
| Gross Margin | 31.9% | 28.8% | 27.9% | 27.1% | 27.0% | 27.2% | 24.6% | 24.8% | 23.6% | 23.4% |
| SG&A Exp. | 25,831 | 28,628 | 31,779 | 31,518 | 30,136 | 28,827 | 30,129 | 33,108 | 32,272 | 30,712 |
| Operating Profit | 27,695 | 26,951 | 29,911 | 26,681 | 11,666 | 8,338 | 9,692 | 17,739 | 16,828 | 10,264 |
| Op. Margin | 8.9% | 7.8% | 8.1% | 7.2% | 4.2% | 3.4% | 3.2% | 4.9% | 4.6% | 3.7% |
| Net Profit | 20,550 | 18,253 | 21,073 | 17,391 | 5,653 | 1,180 | 3,489 | 8,023 | 6,614 | 2,754 |
| Net Margin | 6.6% | 5.3% | 5.7% | 4.7% | 2.1% | 0.5% | 1.2% | 2.2% | 1.8% | 1.0% |
| Free Cash Flow | 262 | (14,493) | (3,527) | 7,159 | 5,961 | 11,379 | 19,487 | 11,712 | 4,756 | 8,962 |
| Income Tax | 5,913 | 5,728 | 5,819 | 6,123 | 2,503 | 2,368 | 2,416 | 6,473 | 5,241 | 3,273 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets (\$B) | 303.0 | 347.5 | 386.5 | 387.8 | 368.7 | 345.1 | 368.3 | 353.6 | 390.6 | 380.8 |
| Cash & Equivalents | 9,665 | 6,952 | 8,483 | 11,894 | 11,210 | 14,100 | 18,806 | 12,495 | 12,350 | 18,158 |
| Acc. Receivable | 8,504 | 10,326 | 10,565 | 8,561 | 8,050 | 6,813 | 8,140 | 8,653 | 9,173 | 8,009 |
| Inventories | 28,796 | 34,304 | 37,460 | 26,757 | 19,544 | 21,146 | 22,159 | 25,814 | 26,001 | 19,674 |
| Goodwill & Int. | 8,643 | 10,227 | 11,493 | 12,019 | 17,942 | 9,183 | 17,568 | 17,356 | 8,917 | 4,384 |
| Total Liab. (\$B) | 132.0 | 158.3 | 176.9 | 175.3 | 161.7 | 147.4 | 156.7 | 150.0 | 184.2 | 171.7 |
| Accounts Payable | 17,919 | 21,136 | 21,510 | 13,691 | 10,705 | 11,606 | 15,807 | 17,891 | 21,200 | 17,314 |
| Long-Term Debt | 50,303 | 71,297 | 81,784 | 86,961 | 83,290 | 74,334 | 71,266 | 60,266 | 66,705 | 56,468 |
| Total Equity (\$B) | 158.4 | 170.5 | 186.9 | 189.6 | 181.7 | 171.2 | 182.8 | 176.5 | 175.8 | 186.0 |
| D/E Ratio | 0.32 | 0.42 | 0.44 | 0.46 | 0.46 | 0.43 | 0.39 | 0.34 | 0.38 | 0.30 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 7.4% | 5.6% | 5.7% | 4.5% | 1.5% | 0.3% | 1.0% | 2.2% | 1.8% | 0.7% |
| Return on Equity | 13.7% | 11.1% | 11.8% | 9.2% | 3.0% | 0.7% | 2.0% | 4.5% | 3.8% | 1.5% |
| ROIC | 10.1% | 7.6% | 7.6% | 5.9% | 1.9% | 0.4% | 1.3% | 2.9% | 2.5% | 1.0% |
| Shares Out. | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,830 | 1,827 | 1,829 |
| Revenue/Share | 169.22 | 189.84 | 200.62 | 202.41 | 150.04 | 132.70 | 164.59 | 196.29 | 199.08 | 153.11 |
| FCF/Share | 0.14 | (7.92) | (1.93) | 3.91 | 3.26 | 6.22 | 10.65 | 6.40 | 2.60 | 4.90 |

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

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