



# PetroChina Co. Ltd (PTR)

Updated January 29<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$63	<b>5 Year CAGR Estimate:</b>	8.7%	<b>Volatility Percentile:</b>	59.7%
<b>Fair Value Price:</b>	\$55	<b>5 Year Growth Estimate:</b>	9.2%	<b>Momentum Percentile:</b>	23.3%
<b>% Fair Value:</b>	115%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Growth Percentile:</b>	88.1%
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$85	<b>Valuation Percentile:</b>	23.1%
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	38.6%

## Overview & Current Events

PetroChina is the largest Chinese oil and gas producer. In the first nine months of 2018, it produced approximately 4.0 million barrels of oil equivalent per day (60% oil and 40% natural gas) and thus slightly exceeded the production rate of Exxon Mobil.

PetroChina operates in four segments: exploration & production, refining & chemicals, natural gas, and marketing. In the first nine months of 2018, these segments generated 48%, 31%, 16% and 5%, respectively, of the total earnings of the company. Just like the well-known oil majors, such as Exxon Mobil and Chevron, PetroChina is an integrated oil company. It is greatly affected by the price of oil and natural gas. Due to the suppressed oil prices since mid-2014, the earnings of PetroChina have remained under pressure in the last four years.

In late October, PetroChina reported (10/30/18) its financial results for the first nine months of fiscal 2018. The company greatly benefited from the 39% increase in the average price of Brent over prior year. As a result, while its upstream production grew only 2.2%, its upstream operating income surged more than 5-fold and thus led the earnings-per-share to almost triple, from \$1.41 in the first nine months of 2017 to \$3.97 in the first nine months of 2018.

While performance in the third quarter was strong, the price of Brent has plunged 29% since early October, from \$84 to \$60. Consequently, the results in the fourth quarter will be much weaker than initially expected. Moreover, in late January, PetroChina warned that it wrote off about \$1.5 billion of assets in the fourth quarter. Management did not provide specific details for those assets. The stock declined 3% on the news and is now trading close to a 3-year low.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$9.07	\$8.20	\$11.23	\$11.30	\$9.98	\$11.46	\$9.60	\$3.05	\$0.60	\$1.78	<b>\$4.50</b>	<b>\$7.00</b>
<b>DPS</b>	\$3.91	\$3.56	\$3.83	\$5.35	\$5.06	\$4.68	\$5.29	\$2.56	\$0.70	\$1.57	<b>\$1.40</b>	<b>\$2.00</b>
<b>Shares</b>	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	<b>183.0</b>	<b>183.0</b>

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, the earnings of the company are greatly affected by the 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, earnings-per-share were still less than half of their previous level during 2010-2014.

On the bright side, we expect the oil price to somewhat rise from its current level so that the global supply continues to rise 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. We thus assume earnings-per-share around \$7.00 by 2023, for a 9.2% annual earnings-per-share growth rate.



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## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.7	13.0	10.4	11.9	13.6	10.6	12.3	32.3	N/A	38.7	14.0	12.2
Avg. Yld.	3.2%	3.3%	3.3%	4.0%	3.7%	3.8%	4.5%	2.6%	1.0%	2.3%	2.2%	2.4%

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 12.2 during the last decade. The stock is currently trading at a higher earnings multiple of 14.0. As the recovery of the business occurs over the next five years (assuming higher oil prices), the valuation of the stock is likely to revert to its historical average. If this occurs, the stock will incur a 2.7% annualized drag in its returns due to the contraction of its price-to-earnings ratio.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

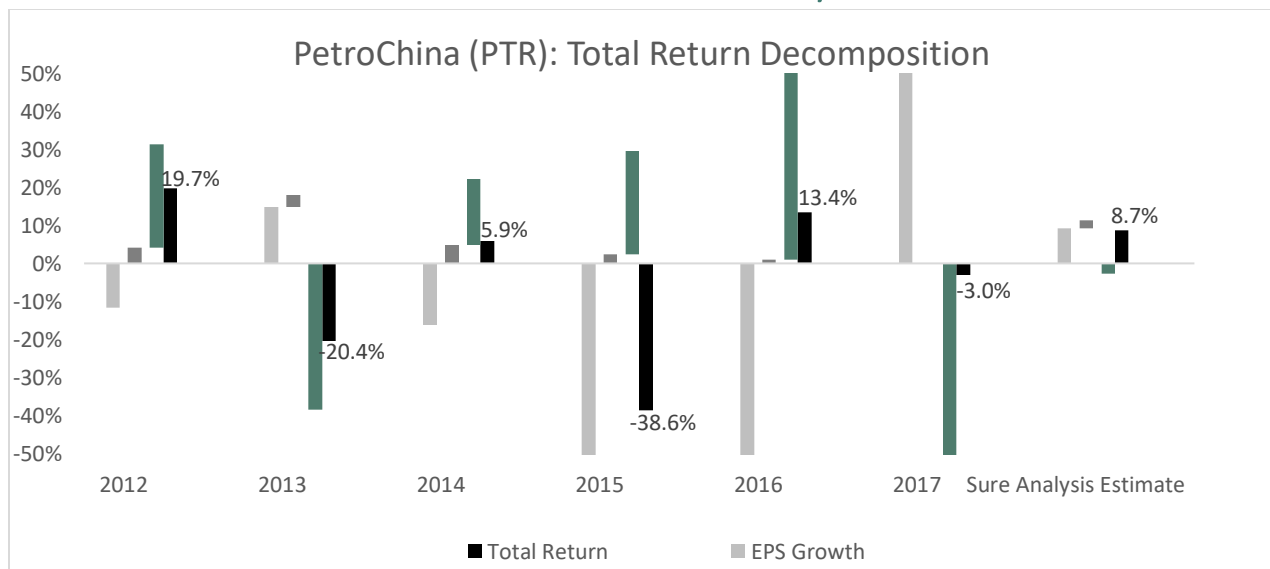
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	43.1%	43.5%	34.2%	47.3%	50.7%	40.8%	55.1%	84.1%	117%	88.3%	31.1%	28.6%

The economy of China has grown by more than 6% per year in every year of the last decade. However, the heavy reliance of PetroChina on its upstream segment mitigates its benefit from the growth of China. Although the oil price has doubled off its 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, whose earnings-per-share have almost returned to their pre-crisis level thanks to the more integrated structure of the company. Overall, PetroChina is highly vulnerable to suppressed oil prices. This is evident from the 95% plunge of its earnings-per-share between 2013 and 2016.

## Final Thoughts & Recommendation

Although the oil price has doubled off its bottom three years ago, PetroChina is still 58% lower than its pre-crisis level and is currently trading close to its 3-year lows. In the absence of renewed pressure on the oil price, the stock can offer an 8.7% average annual return over the next five years. However, we do not like the weak recovery of its results and its full valuation. We thus rate the stock as a hold at its current price.

## Total Return Breakdown by Year



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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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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue (\$B)</b>	154.61	149.42	216.02	309.71	347.45	367.17	370.45	274.60	242.87	298.81
<b>Gross Profit (\$B)</b>	73.48	77.23	82.06	98.64	100.07	102.43	100.49	74.13	65.96	73.05
<b>Gross Margin</b>	47.5%	51.7%	38.0%	31.9%	28.8%	27.9%	27.1%	27.0%	27.2%	24.4%
<b>SG&amp;A Exp.</b>	17554	19262	23224	25831	28628	31779	31518	30136	28827	30005
<b>Operating Profit</b>	23001	21737	27330	27695	26951	29911	26681	11666	8338	9230
<b>Op. Margin</b>	14.9%	14.5%	12.7%	8.9%	7.8%	8.1%	7.2%	4.2%	3.4%	3.1%
<b>Net Profit</b>	16498	15156	20637	20550	18253	21073	17391	5653	1180	3379
<b>Net Margin</b>	10.7%	10.1%	9.6%	6.6%	5.3%	5.7%	4.7%	2.1%	0.5%	1.1%
<b>Free Cash Flow</b>	-6782	1019	8051	2567	-12.6B	-3012	7603	6362	11768	19800
<b>Income Tax</b>	5075	4907	5677	5913	5728	5819	6123	2503	2368	2416

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets (\$B)</b>	175.57	212.33	249.75	302.98	347.48	386.47	387.79	368.75	345.07	368.31
<b>Cash &amp; Equivalents</b>	4865	12726	6892	9665	6952	8483	11894	11210	14100	18806
<b>Acc. Receivable</b>	2467	4214	6785	8504	10326	10565	8561	8050	6813	8140
<b>Inventories</b>	13310	16804	20337	28796	34304	37460	26757	19544	21146	22159
<b>Goodwill &amp; Int.</b>	1570	2638	3838	3423	3868	4035	4168	9823	9183	9129
<b>Total Liab. (\$B)</b>	51.13	79.44	97.45	131.94	158.31	176.92	175.35	161.71	147.43	156.74
<b>Accounts Payable</b>	5694	9200	14679	17919	21136	21510	13691	10705	11606	15807
<b>Long-Term Debt</b>	18570	34305	35223	50303	71297	81784	86961	83290	74334	71266
<b>Total Equity (\$B)</b>	116.08	124.04	141.56	158.43	170.47	186.91	189.57	181.72	171.20	182.81
<b>D/E Ratio</b>	0.16	0.28	0.25	0.32	0.42	0.44	0.46	0.46	0.43	0.39

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	10.3%	7.8%	8.9%	7.4%	5.6%	5.7%	4.5%	1.5%	0.3%	0.9%
<b>Return on Equity</b>	15.2%	12.6%	15.5%	13.7%	11.1%	11.8%	9.2%	3.0%	0.7%	1.9%
<b>ROIC</b>	12.7%	9.8%	11.6%	10.1%	7.6%	7.6%	5.9%	1.9%	0.4%	1.2%
<b>Shares Out.</b>	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0
<b>Revenue/Share</b>	84.48	81.64	118.03	169.22	189.84	200.62	202.41	150.04	132.70	163.27
<b>FCF/Share</b>	-3.71	0.56	4.40	1.40	-6.90	-1.65	4.15	3.48	6.43	10.82

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

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