



PetroChina Co. Ltd (PTR)

Updated March 26th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	8.5%	Volatility Percentile:	51.5%
Fair Value Price:	\$60	5 Year Growth Estimate:	7.8%	Momentum Percentile:	30.0%
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Growth Percentile:	75.5%
Dividend Yield:	2.2%	5 Year Price Target	\$88	Valuation Percentile:	34.6%
Dividend Risk Score:	D	Retirement Suitability Score:	DF	Total Return Percentile:	42.4%

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.

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 March, PetroChina reported (3/21/19) financial results for full fiscal 2018. The company greatly benefited from the 32% increase in the average price of Brent over the prior year. As a result, while its upstream production grew only 2.3%, its upstream operating income surged more than 4-fold and thus led earnings-per-share to more than double, from \$1.78 in 2017 to \$4.38 in 2018. Production growth was stronger in overseas operations, where the company grew its output by 7.8% over the prior year.

Earnings-per-share growth would have been even more impressive if the price of oil had not collapsed in the fourth quarter. However, the oil price has rallied 40% since it bottomed at the end of last year thanks to supply disruptions, particularly in Venezuela. As a result, PetroChina is likely to continue growing its earnings this year.

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	\$4.80	\$7.00
DPS	\$3.56	\$3.83	\$5.35	\$5.06	\$4.68	\$5.29	\$2.56	\$0.70	\$1.57	\$1.36	\$1.40	\$2.00
Shares	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0

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 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 of around \$7.00 by 2024, for a 7.8% annual earnings-per-share growth rate.

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	N/A	38.7	16.8	13.5	12.5
Avg. Yld.	3.3%	3.3%	4.0%	3.7%	3.8%	4.5%	2.6%	1.0%	2.3%	1.8%	2.2%	2.3%

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 12.5 during the last decade. The stock is currently trading at a higher earnings multiple of 13.5. 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 cause a 1.5% annualized drag to total returns due to the contraction of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

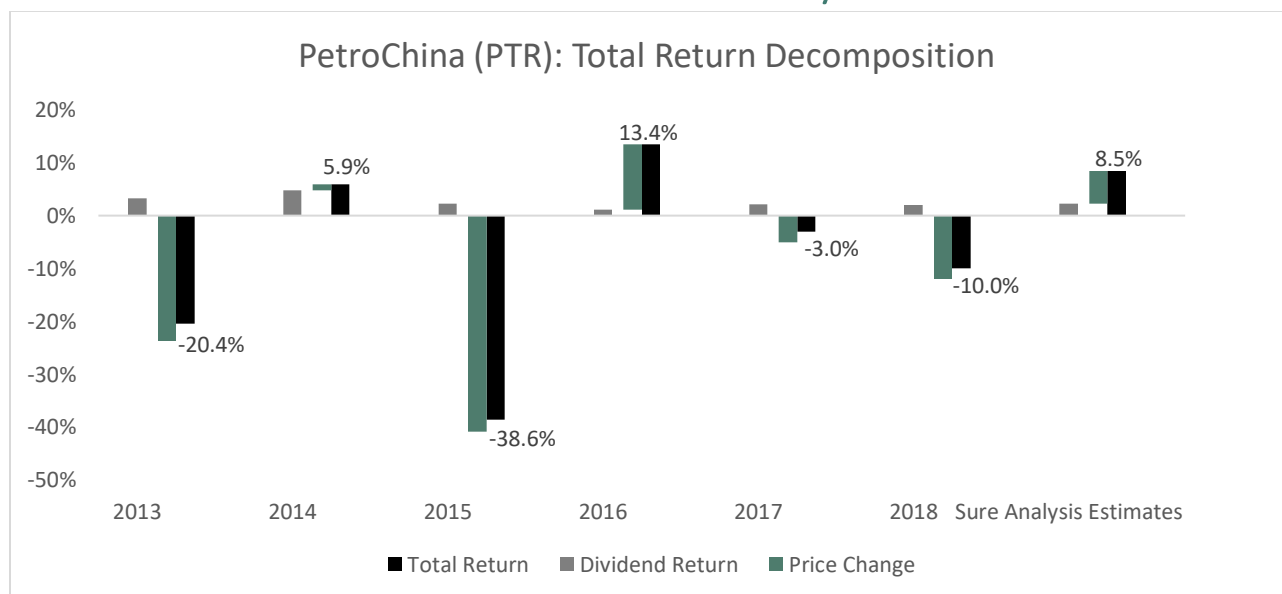
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43.5%	34.2%	47.3%	50.7%	40.8%	55.1%	84.1%	117%	88.3%	31.1%	29.2%	28.6%

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 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 (SNP), whose earnings-per-share have almost returned to 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 the oil price has more than doubled off its bottom three years ago, PetroChina is still 57% 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 8.5% 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 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.	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0	183.0
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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