



PetroChina Co. Ltd (PTR)

Updated April 4th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	10.7%	Market Cap:	\$94.8 B
Fair Value Price:	\$122	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date:	6/17/22 ¹
% Fair Value:	42%	5 Year Valuation Multiple Estimate:	18.7%	Dividend Payment Date:	8/8/22
Dividend Yield:	6.5%	5 Year Price Target	\$72	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

PetroChina is the largest Chinese oil and gas producer. In 2021, it produced 3.99 million barrels of oil equivalent per day (52% oil and 48% natural gas) and thus exceeded the production rate of Exxon Mobil (3.8 million barrels per day). It has a market capitalization of \$94.8 billion and operates in four segments: exploration & production, refining & chemicals, natural gas, and marketing. 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 prices of oil and natural gas.

In early April, PetroChina reported (4/1/22) financial results for full fiscal 2021. It grew its production 3.4% over the prior year and its average realized oil price jumped 54% thanks to strong recovery of global oil consumption and tight supply from OPEC and Russia. In addition, the Chinese economy recovered strongly from the pandemic thanks to its effective measures, with 8.1% GDP growth, partly thanks to the low comparison base formed in 2020. Moreover, the Chinese demand for refined products has returned to pre-COVID levels. As a result, the earnings-per-share of PetroChina jumped from \$1.45 to a 7-year high of \$7.75. Even better for PetroChina, the price of oil has rallied to a 13-year high lately due to the invasion of Russia in Ukraine. We thus expect nearly 10-year high earnings-per-share of \$10.20 this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$9.98	\$11.46	\$9.60	\$3.05	\$0.60	\$1.78	\$4.33	\$3.68	\$1.45	\$7.75	\$10.20	\$6.02
DPS	\$5.06	\$4.68	\$5.29	\$2.56	\$0.70	\$1.57	\$1.36	\$1.92	\$1.86	\$3.38	\$3.38	\$2.48
Shares²	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,827	1,829	1,824	1,820	1,820

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 is now thriving thanks to 13-year high oil prices, which have resulted from the war between Russia and Ukraine. Nevertheless, we expect oil prices to deflate after the war and thus we expect the earnings-per-share of PetroChina to decline -10.0% per year on average beyond 2022.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.6	10.6	12.3	32.3	---	38.7	16.8	15.2	24.5	5.4	5.1	12.0
Avg. Yld.	3.7%	3.8%	4.5%	2.6%	1.0%	2.3%	1.8%	3.4%	5.2%	8.1%	6.5%	3.4%

¹ Estimated date for semiannual dividend.

² In millions.

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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 12.3 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 5.1. If it reaches our fair valuation level in five years, it will enjoy an 18.7% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

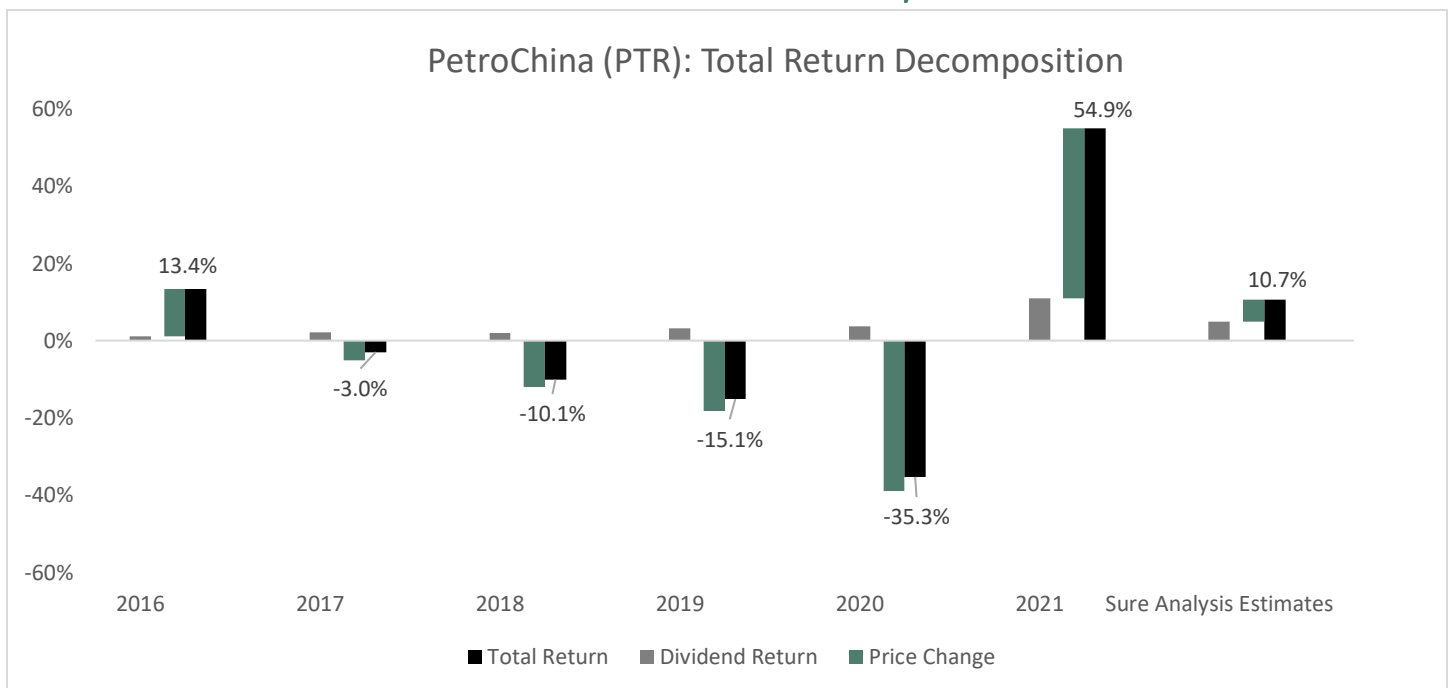
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	50.7%	40.8%	55.1%	84.1%	117%	88.3%	31.1%	52.2%	128%	43.6%	33.1%	41.2%

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 is vulnerable to the downturns of the energy sector. 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 rallied 18% since our previous research report, in November. Thanks to its cheap valuation and its generous dividend, PetroChina could still offer a 10.7% 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 lower the rating of the stock from “buy” to “hold”. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	347.5	367.2	370.5	274.6	242.9	301.2	359.3	364.4	280.2
Gross Profit (\$B)	100.0	102.4	100.5	74.2	66.0	74.0	89.1	86.0	65.5
Gross Margin	28.8%	27.9%	27.1%	27.0%	27.2%	24.6%	24.8%	23.6%	23.4%
SG&A Exp.	28,628	31,779	31,518	30,136	28,827	30,129	33,108	32,272	30,712
Operating Profit	26,951	29,911	26,681	11,666	8,338	9,692	17,739	16,828	10,264
Op. Margin	7.8%	8.1%	7.2%	4.2%	3.4%	3.2%	4.9%	4.6%	3.7%
Net Profit	18,253	21,073	17,391	5,653	1,180	3,489	8,023	6,614	2,754
Net Margin	5.3%	5.7%	4.7%	2.1%	0.5%	1.2%	2.2%	1.8%	1.0%
Free Cash Flow	(14,493)	(3,527)	7,159	5,961	11,379	19,487	11,712	4,756	8,962
Income Tax	5,728	5,819	6,123	2,503	2,368	2,416	6,473	5,241	3,273

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.6%	5.7%	4.5%	1.5%	0.3%	1.0%	2.2%	1.8%	0.7%
Return on Equity	11.1%	11.8%	9.2%	3.0%	0.7%	2.0%	4.5%	3.8%	1.5%
ROIC	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	1,827	1,829
Revenue/Share	189.84	200.62	202.41	150.04	132.70	164.59	196.29	199.08	153.11
FCF/Share	(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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