

China / Hong Kong Company Update

CNOOC Ltd

Bloomberg: 883 HK EQUITY | Reuters: 0883.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 Mar 2022

BUY

Last Traded Price (30 Mar 2022): HK\$11.12 (HSI : 22,232)
Price Target 12-mth: HK\$16.00 (44% upside) (Prev HK\$15.00)

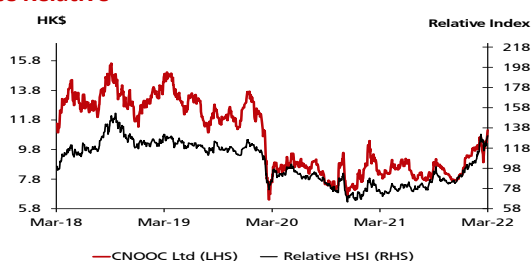
Analyst

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What's New

- FY21 net profit would have been ahead of consensus estimate if not for asset impairment
- A-share listing approved by China Securities Regulatory Commission (CSRC)
- Final dividend and 20th Anniversary special dividend to be held back till completion of the A-share listing
- Stock remains undervalued due to US sanction; Reiterate BUY; TP lifted to HK\$16.00 after earnings revisions

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	155,372	246,111	332,277	318,449
EBITDA	91,930	157,735	197,822	193,537
Pre-tax Profit	34,907	95,821	131,032	123,562
Net Profit	24,956	70,320	96,130	90,650
Net Pft (Pre Ex) (core profit)	24,956	70,320	96,130	90,650
Net Profit Gth (Pre-ex) (%)	(59.1)	181.8	36.7	(5.7)
EPS (RMB)	0.56	1.58	2.15	2.03
EPS (HK\$)	0.69	1.94	2.65	2.50
EPS Gth (%)	(59.1)	181.8	36.7	(5.7)
Diluted EPS (HK\$)	0.69	1.94	2.65	2.50
DPS (HK\$)	0.49	0.88	1.06	1.00
BV Per Share (HK\$)	11.98	13.28	15.00	16.64
PE (X)	16.2	5.7	4.2	4.5
P/Cash Flow (X)	4.9	2.7	3.0	2.5
P/Free CF (X)	142.2	6.7	10.0	6.3
EV/EBITDA (X)	5.2	2.9	2.2	2.0
Net Div Yield (%)	4.4	7.9	9.5	9.0
P/Book Value (X)	0.9	0.8	0.7	0.7
Net Debt/Equity (X)	0.2	0.1	0.1	CASH
ROAE(%)	5.7	15.4	18.8	15.8
Earnings Rev (%)			20	0
Consensus EPS (RMB)			2.01	1.95
Other Broker Recs:		B:27	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

All eyes on A-share listing

Investment Thesis

Solid oil price proxy. As a pure upstream company, CNOOC is our preferred proxy to ride on the oil price rebound, given its world-class execution and cost control capabilities, supported by its firm output compound annual growth rate (CAGR) of 6% from 2021 to 2024. CNOOC has again outperformed expectations, with output in FY21 growing by 8% y-o-y (vs 4% guidance).

Positive catalysts in place – Elevated oil prices, A-share listing, share buyback exercise, and special dividend. After near tripling of FY21 earnings, CNOOC's earnings is expected to grow by a further 22% in FY22. The A-share listing plan is progressing well with the receipt of China Securities Regulatory Commission (CSRC) at end-Mar. Investors can look forward to FY21 final dividend and special dividend that have been delayed to after the completion of the A-share listing. Share buyback exercise should also lend support to share price.

Valuation:

We value CNOOC based on discounted cash flow (DCF) assuming 10% weighted average cost of capital (WACC), 0% terminal growth, and long-term oil price assumption of US\$70/bbl.

The stock is deeply undervalued, trading at 0.7x FY22 PB and 5x FY22F PE. The share price remains a far cry from pre-COVID high of HK\$13-14 despite oil prices recovering to above US\$100/bbl, no thanks to US sanctions.

Where we differ:

We remain hopeful on CNOOC's reserve growth, on which there could be a potential understatement of its proven reserve life by ~40% under US SEC reporting standards versus Society of Petroleum Engineers (SPE) guidelines.

Key Risks to Our View:

Oil price volatility, which is dependent on output by OPEC and US as well as geopolitical tensions.

At A Glance

Issued Capital (m shrs)	44,647
Mkt Cap (HK\$/US\$m)	496,475 / 63,429
Major Shareholders (%)	
CASH	65.0
China National Offshore Oil Corp	65.0
Free Float (%)	35.0
3m Avg. Daily Val. (US\$m)	163.74
GICS Industry: Energy / Oil, Gas & Consumable Fuels	



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WHAT'S NEW

Record Profit Year

FY21 record profit broadly in line. CNOOC's FY21 net profit almost tripled to Rmb70.3bn, a record high since 2011. Bottomline would have exceeded expectations if not for significant impairment of Rmb7.9bn in 2H, largely on North American assets.

The strong earnings was driven by over 60% surge in oil prices and 8.5% production growth.

66% increase in realised crude oil prices in 2021; forecasting 36-43% oil price hike in 2022. Realised oil prices rose 66% y-o-y to US\$67.89/bbl (from US\$40.96/bbl in 2020). Realised gas prices increased 13% y-o-y to US\$6.95/mcf (from US\$6.17/mcf).

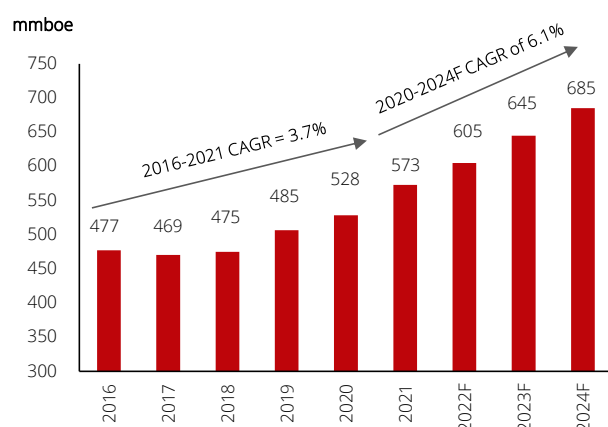
We recently raised our average oil price forecasts to US\$95-100/bbl this year, representing 36-43% increase from 2021 level. We have therefore lifted our FY22/23F earnings by 22/5% to reflect the higher oil price assumption of US\$90/bbl and US\$85/bbl respectively.

Production volume grew ~8.5%; strong growth ahead.

CNOOC produced c.572.9mmbœ in 2021, representing 8.5% y-o-y growth, beating its initial guidance of 3-5% increase to 545-555mmbœ. Crude volumes produced in FY20 was 452.4 mmbbl (+7.9% y-o-y) while natural gas was 700.6bcf (+10.8% y-o-y).

Production is expected to grow 5.6% / 6.6% to 605mmbœ and 645mmbœ in FY22 / 23.

CNOOC's production targets



Source: Company, DBS Bank

All-in costs inched up 12% from US\$26.34/boe to Cost

Cost rose 11.9% to US\$29.49/boe. All-in costs per boe in USD terms was up 11.9% y-o-y in 2021 to US\$29.49/boe (vs US\$26.34/boe in 2020). The cost increase was largely driven by higher DD&A of US\$15.33/boe (vs US\$14.11/boe in 2020) and opex of US\$7.83/boe (from US\$6.90/boe). While CNOOC reports its all-in-cost in USD for ease of comparison with global peers, nearly two-thirds of its volume is produced domestically, where cost is primarily Rmb-denominated. Management is confident to keep costs under control and stay cost competitive against peers.

Capex targets. CNOOC spent Rmb88.7bn capex in 2021, falling short of its guidance of Rmb90-100bn. Management maintains this capex range for 2022 and expects to spend c.Rmb100bn capex pa in the coming years to achieve product growth target of 5-6% pa. Domestic capex as a proportion of total capex has risen from typically 50% to ~60% in 2020 and 72% in 2021.

Upcoming A-share listing is a key catalyst. CNOOC's share price has underperformed oil prices and peers, no thanks to US sanctions since Jan-2021. We anticipate the upcoming A-share listing to re-rate CNOOC's valuation, which could complete the next 1-2 month after the receipt of CSRC's approval on 30-Mar.

Delaying final and special dividend till completion of A-share listing.

CNOOC had guided during the strategy preview that it would pay a special dividend for FY21 in conjunction with company's 20th anniversary of listing. CNOOC paid HK\$0.30 interim dividend for 1H21, and we expect a final dividend of HK\$0.49 and a special dividend of HK0.06, bringing full year dividend to HK\$0.85, or c.8% yield. The planned final and special dividend will be postponed till after completion of A-share listing to expedite the listing process.

Management has assured investors that company remains committed to pay out at least 40% of profits as dividend and absolute dividend would not be less than HK\$0.70 (c. 8% yield) for the next 3-years. Assuming 40% payout, we project DPS to be HK\$0.97-1.03 in FY22-23, implying ~9% dividend yield. We believe the dividend payout is sustainable as projected OCF of >Rmb130bn is sufficient to fund capex and dividends.

In addition, in view of the undervaluation of CNOOC, the company intends to activate its buyback mandate for 2022.

CNOOC Ltd

Stepping up green energy investment. CNOOC plans to invest 5-10% of annual capex in new energy sector over the next 5 years. It will steadily advance offshore wind power business and carry out exploratory research of technologies in frontier fields, part of their initiatives to

promote low-carbon transformation. It plans to grow renewable capacity to 5-10GW by 2025, from current installed offshore windfarm capacity of approx.. 1.5GW. Its first 300 MW offshore wind farm is already connected to the grid, and operating at full capacity.

Key P&L and operating statistics:

	1H20	2H20	1H21	2H21	YoY	HoH	FY20	FY21	YoY
Profit & Loss									
Revenue	74,560	80,812	110,233	135,878	68%	23%	155,372	246,111	58%
Operating Profit	15,579	20,810	45,449	50,530	143%	11%	36,389	95,979	164%
Operating margin %	21%	26%	41%	37%			23%	39%	67%
Net Profit	10,383	14,573	33,326	36,981	154%	11%	24,956	70,320	182%
Net margin %	14%	18%	30%	27%			16%	29%	78%
Production (mboe)	258	267	278	278	4%	0%	524	545	4%
Realised Oil Price (US\$/bbl)	39	43.20	62.38	62.38	44%	0%	40.96	67.89	66%
All-in-cost (US\$/boe)	25.72	26.96	28.98	28.98	7%	0%	26.34	29.49	12%

Source: Company, DBS Bank

Company Background

CNOOC is engaged in the exploration and production of crude oil and natural gas, primarily within offshore China, with exclusive rights to engage in oil and gas exploration in offshore China. It has also increased its overseas output levels significantly via inorganic growth over the last 6-7 years.

Interim Income Statement (RMBm)

FY Dec	2H2020	1H2021	2H2021	% chg_yoy	% chg_hoh
Revenue	80,812	110,233	135,878	68.1	23.3
Cost of Goods Sold	(53,269)	(58,174)	(77,130)	44.8	32.6
Gross Profit	27,543	52,059	58,748	113.3	12.8
Other Oper. (Exp)/Inc	(6,733)	(6,610)	(8,218)	22.1	24.3
Operating Profit	20,810	45,449	50,530	142.8	11.2
Other Non Opg (Exp)/Inc	2,106	1,351	2,823	34.0	109.0
Associates & JV Inc	(610)	469	(123)	79.8	nm
Net Interest (Exp)/Inc	(2,345)	(2,296)	(2,382)	(1.6)	(3.7)
Exceptional Gain/(Loss)	0	0	0	nm	nm
Pre-tax Profit	19,961	44,973	50,848	154.7	13.1
Tax	(5,388)	(11,647)	(13,867)	157.4	19.1
Minority Interest	0	0	0	nm	nm
Net Profit	14,573	33,326	36,981	153.8	11.0
Net profit bef Except.	14,573	33,326	36,981	153.8	11.0
EBITDA	22,306	47,269	53,230	138.6	12.6
Margins (%)					
Gross Margins	34.1	47.2	43.2		
Opg Profit Margins	25.8	41.2	37.2		
Net Profit Margins	18.0	30.2	27.2		

Source: Company, DBS HK

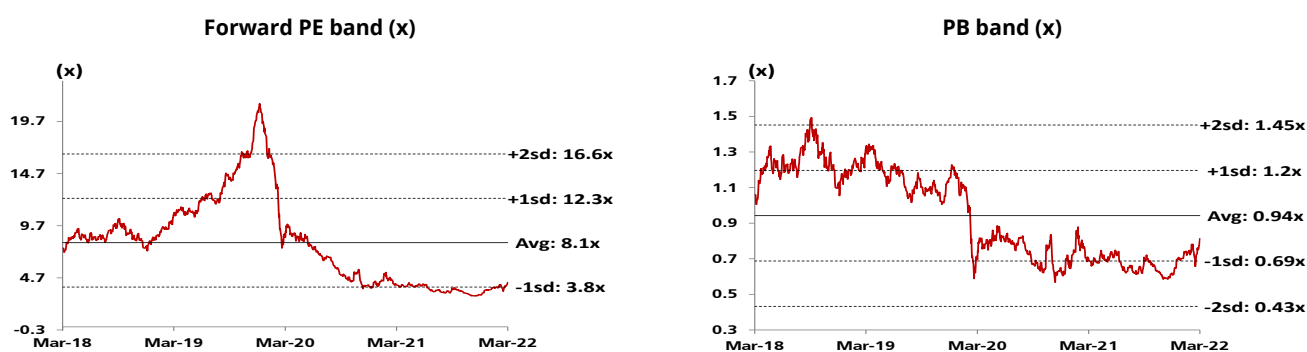
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Income Statement (RMB m)

FY Dec	2020A	2021A	% cha	vov
Revenue	155,372	246,111		58.4
Cost of Goods Sold	(106,296)	(135,304)		27.3
Gross Profit	49,076	110,807		125.8
Other Opng (Exp)/Inc	(12,687)	(14,828)		16.9
Operating Profit	36,389	95,979		163.8
Other Non Opg (Exp)/Inc	3,867	4,174		7.9
Associates & JV Inc	(632)	346		nm
Net Interest (Exp)/Inc	(4,717)	(4,678)		0.8
Exceptional Gain/(Loss)	0	0		nm
Pre-tax Profit	34,907	95,821		174.5
Tax	(9,951)	(25,514)		156.4
Minority Interest	0	13		nm
Net Profit	24,956	70,320		181.8
Net Profit before Except.	24,956	70,320		181.8
EBITDA	91,930	157,735		71.6
Margins & Ratio				
Gross Margins (%)	31.6	45.0		
Opg Profit Margin (%)	23.4	39.0		
Net Profit Margin (%)	16.1	28.6		

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Realized oil price (US\$/bbl)	63.3	41.0	67.9	84.8	75.1
Realized gas price (US\$/mcf)	6.3	6.2	7.0	6.3	6.3
Oil production (mmbbls)	410.5	419.1	458.3	471.9	503.1
Gas production (bcf)	561.3	632.2	664.6	772.0	823.0

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	233,199	155,372	246,111	332,277	318,449
Cost of Goods Sold	(135,960)	(106,296)	(135,304)	(182,238)	(177,639)
Gross Profit	97,239	49,076	110,807	150,039	140,811
Other Opng (Exp)/Inc	(13,044)	(12,687)	(14,828)	(18,608)	(17,833)
Operating Profit	84,195	36,389	95,979	131,432	122,977
Other Non Opg (Exp)/Inc	5,250	3,867	4,174	2,700	2,700
Associates & JV Inc	1,002	(632)	346	335	435
Net Interest (Exp)/Inc	(4,798)	(4,717)	(4,678)	(3,435)	(2,551)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	85,649	34,907	95,821	131,032	123,562
Tax	(24,604)	(9,951)	(25,514)	(34,889)	(32,900)
Minority Interest	0	0	13	(12)	(11)
Preference Dividend	0	0	0	0	0
Net Profit	61,045	24,956	70,320	96,130	90,650
Net Profit before Except.	61,045	24,956	70,320	96,130	90,650
EBITDA	148,146	91,930	157,735	197,822	193,537
Growth					
Revenue Gth (%)	2.7	(33.4)	58.4	35.0	(4.2)
EBITDA Gth (%)	13.9	(37.9)	71.6	25.4	(2.2)
Opg Profit Gth (%)	4.9	(56.8)	163.8	36.9	(6.4)
Net Profit Gth (%)	15.9	(59.1)	181.8	36.7	(5.7)
Margins & Ratio					
Gross Margins (%)	41.7	31.6	45.0	45.2	44.2
Opg Profit Margin (%)	36.1	23.4	39.0	39.6	38.6
Net Profit Margin (%)	26.2	16.1	28.6	28.9	28.5
ROAE (%)	14.1	5.7	15.4	18.8	15.8
ROA (%)	8.5	3.4	9.3	11.9	10.6
ROCE (%)	8.7	3.0	9.6	12.6	11.2
Div Payout Ratio (%)	47.5	71.6	45.1	40.0	40.0
Net Interest Cover (x)	17.5	7.7	20.5	38.3	48.2

Source: Company, DBS HK

CNOOC Ltd
Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	124,319	74,560	80,812	110,233	135,878
Cost of Goods Sold	(75,984)	(53,027)	(53,269)	(58,174)	(77,130)
Gross Profit	48,335	21,533	27,543	52,059	58,748
Other Oper. (Exp)/Inc	(7,450)	(5,954)	(6,733)	(6,610)	(8,218)
Operating Profit	40,885	15,579	20,810	45,449	50,530
Other Non Opg (Exp)/Inc	2,861	1,761	2,106	1,351	2,823
Associates & JV Inc	525	(22)	(610)	469	(123)
Net Interest (Exp)/Inc	(2,664)	(2,372)	(2,345)	(2,296)	(2,382)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	41,607	14,946	19,961	44,973	50,848
Tax	(10,815)	(4,563)	(5,388)	(11,647)	(13,867)
Minority Interest	0	0	0	0	0
Net Profit	30,792	10,383	14,573	33,326	36,981
Net profit bef Except.	30,792	10,383	14,573	33,326	36,981
Growth					
Revenue Gth (%)	2.5	(31.5)	(35.0)	47.8	68.1
Opg Profit Gth (%)	4.8	(64.0)	(49.1)	191.7	142.8
Net Profit Gth (%)	13.2	(65.7)	(52.7)	221.0	153.8
Margins					
Gross Margins (%)	38.9	28.9	34.1	47.2	43.2
Opg Profit Margins (%)	32.9	20.9	25.8	41.2	37.2
Net Profit Margins (%)	24.8	13.9	18.0	30.2	27.2

Source: Company, DBS HK

CNOOC Ltd

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	440,554	446,668	465,451	481,052	493,875
Invt in Associates & JVs	45,490	42,366	41,540	41,775	42,110
Other LT Assets	65,742	68,850	71,596	69,062	67,664
Cash & ST Invt	50,534	65,831	79,730	87,332	118,769
Inventory	6,314	5,644	5,703	9,851	12,504
Debtors	24,794	18,982	27,048	43,196	47,767
Other Current Assets	124,303	72,934	95,501	95,501	95,501
Total Assets	757,731	721,275	786,569	827,768	878,190
ST Debt	12,590	11,217	15,329	11,217	11,217
Creditors	40,146	41,203	48,990	37,507	39,321
Other Current Liab	38,513	22,432	29,632	29,632	29,632
LT Debt	136,152	125,013	112,893	105,325	92,199
Other LT Liabilities	82,104	87,480	97,749	100,013	102,346
Shareholder's Equity	448,187	433,708	480,912	542,998	602,388
Minority Interests	39	222	1,064	1,076	1,087
Total Cap. & Liab.	757,731	721,275	786,569	827,768	878,190
Non-Cash Wkg. Capital	76,752	33,925	49,630	81,409	86,820
Net Cash/(Debt)	(98,208)	(70,399)	(48,492)	(29,210)	15,353
Debtors Turn (avg days)	36.6	51.4	34.1	38.6	52.1
Creditors Turn (avg days)	171.3	275.0	210.8	132.8	127.2
Inventory Turn (avg days)	28.4	40.4	26.5	23.9	37.0
Asset Turnover (x)	0.3	0.2	0.3	0.4	0.4
Current Ratio (x)	2.3	2.2	2.2	3.0	3.4
Quick Ratio (x)	0.8	1.1	1.1	1.7	2.1
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	CASH
Capex to Debt (%)	53.5	58.4	68.6	81.5	91.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

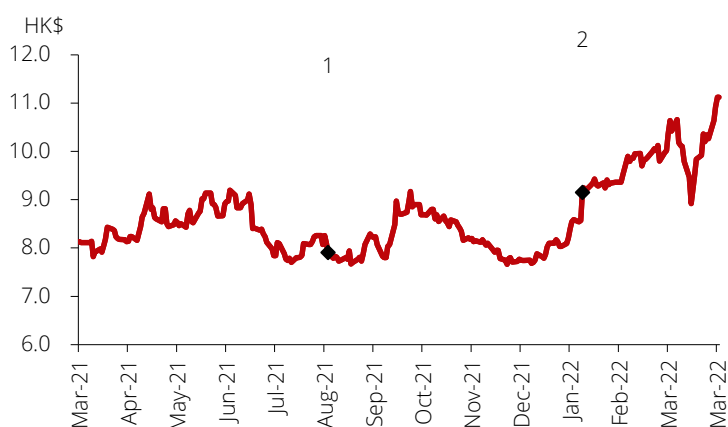
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	85,649	34,907	95,821	131,032	123,562
Dep. & Amort.	57,699	52,306	57,236	63,355	67,426
Tax Paid	(24,604)	(9,951)	(25,514)	(34,889)	(32,900)
Assoc. & JV Inc/(loss)	(1,002)	632	(346)	(335)	(435)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	15,630	(11,472)	7,532	(31,779)	(5,411)
Other Operating CF	(9,851)	15,916	13,164	8,000	7,183
Net Operating CF	123,521	82,338	147,893	135,383	159,424
Capital Exp.(net)	(79,600)	(79,500)	(88,000)	(95,000)	(95,000)
Other Invt.(net)	11,900	53,958	(21,624)	0	0
Invt in Assoc. & JV	(7,707)	0	0	0	0
Div from Assoc & JV	100	100	100	100	100
Other Investing CF	7,850	(25,408)	13,289	21,242	21,470
Net Investing CF	(67,457)	(50,850)	(96,235)	(73,658)	(73,430)
Div Paid	(28,973)	(17,859)	(31,700)	(38,452)	(36,260)
Chg in Gross Debt	4,037	0	(9,844)	(9,844)	(13,125)
Capital Issues	0	0	0	0	0
Other Financing CF	(12,755)	(20,839)	8,211	(5,827)	(5,171)
Net Financing CF	(37,691)	(38,698)	(33,333)	(54,123)	(54,556)
Currency Adjustments	311	(2,450)	(912)	0	0
Chg in Cash	18,684	(9,660)	17,413	7,602	31,438
Opg CFPS (RMB)	2.42	2.10	3.14	3.74	3.69
Free CFPS (RMB)	0.98	0.06	1.34	0.90	1.44

Source: Company, DBS HK

CNOOC Ltd

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	20-Aug-21	HK\$8.11	HK\$15.00	Buy
2:	12-Jan-22	HK\$8.57	HK\$15.00	Buy

Source: DBS HK

Analyst: Pei Hwa HO

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 31 Mar 2022 09:29:38 (HKT)

Dissemination Date: 31 Mar 2022 10:26:35 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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