

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

29 Apr 2022

BUY

Last Traded Price (28 Apr 2022): HK\$10.84 (HSI : 20,276)
Price Target 12-mth: HK\$16.00 (48% upside)

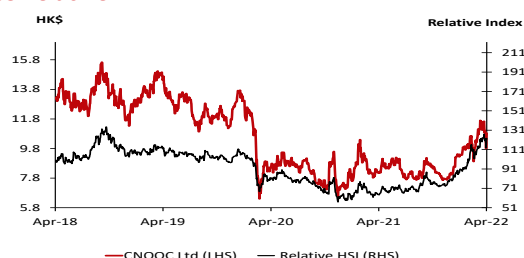
Analyst

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What's New

- 1Q22 net profit of Rmb34.3bn made up 34% of consensus' full year estimate
- All-in cost inched up to US\$30.59/boe due largely to higher windfall tax
- Declared final and special dividend of HK\$1.18 for FY21; full year DPS of HK\$1.48 offers 14% dividend yield
- Maintain BUY; TP HK\$16.00

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\$)	0.66	1.87	2.55	2.40
EPS Gth (%)	(59.1)	181.8	36.7	(5.7)
Diluted EPS (HK\$)	0.66	1.87	2.55	2.40
DPS (HK\$)	0.47	1.48	1.02	0.96
BV Per Share (HK\$)	11.50	12.76	14.40	15.98
PE (X)	16.4	5.8	4.3	4.5
P/Cash Flow (X)	5.0	2.8	3.0	2.6
P/Free CF (X)	144.0	6.8	10.1	6.3
EV/EBITDA (X)	5.2	2.9	2.2	2.0
Net Div Yield (%)	4.4	13.5	9.4	8.9
P/Book Value (X)	0.9	0.8	0.8	0.7
Net Debt/Equity (X)	0.2	0.1	0.1	CASH
ROAE (%)	5.7	15.4	18.8	15.8
Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB)			2.33	2.15
Other Broker Recs:		B:25	S:0	H:1

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

Delivering promising growth and yield

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.

Positive catalysts in place – Elevated oil prices, 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. Share buyback exercise should also lend support to share price. The HK\$1.18/share special dividend for FY21 announced in 1Q22 results translates to 11% yield.

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 the pre-COVID high of HK\$13-14 despite oil prices recovering to above US\$100/bbl, given US sanctions in place.

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 the US as well as geopolitical tensions.

At A Glance

Issued Capital (m shrs)	44,647
Mkt Cap (HKm/US\$m)	483,973 / 61,676
Major Shareholders (%)	
CASH	China National Offshore Oil Corp 65.2
Free Float (%)	34.8
3m Avg. Daily Val. (US\$m)	202.59
GICS Industry: Energy / Oil, Gas & Consumable Fuels	



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CNOOC Ltd

WHAT'S NEW

An astounding 1Q

1Q22 net profit beat consensus. CNOOC reported net profit of Rmb34.3bn for 1Q22, making up 34% of consensus' FY22 estimate. The 134% y-o-y surge in earnings was driven largely by over 65% spike in oil prices and 10% production growth.

65% y-o-y spike in realised crude oil prices in 1Q22; expect oil price to average at the US\$90-95/bbl level. Realised oil prices rose 65% y-o-y to US\$97.47/bbl (from US\$59.07/bbl in 1Q21), in tandem with benchmark prices. Realised gas prices increased 24% y-o-y to US\$8.35/mcf (from US\$6.71/mcf). Our oil price forecasts of US\$90-95/bbl this year implies elevated oil prices and earnings ahead.

Production volume grew ~10%; looks set to outperform guidance of 5-6%. CNOOC produced c.151mmboe in 1Q22, representing ~10% y-o-y growth (vs guidance of 5-6% increase for full year year). This accounted for ~25% of full year production guidance, and seem to track ahead of target considering there will be more new projects coming onstream.

All-in costs inched up 8% y-o-y from US\$28.25/boe to US\$30.59/boe. All-in costs per boe in USD terms was up 8% y-o-y in 1Q22 to US\$30.59/boe (vs US\$28.25/boe in 1Q21), just a notch higher than US\$30/boe in 2H21. The cost increase was driven mainly by higher taxes. The opex increase was largely offset by lower DD&A. 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 target maintained. CNOOC spent ~Rmb16.9bn capex in 1Q22, which is just slightly higher than 1Q21. This makes up c.18% of its Rmb90-100bn target this year. Management clarifies that this is in line with historical

trends that bulk of capex is incurred in 2H. New projects are largely on schedule despite a slight delay by COVID for overseas projects. Management remains confident to meet their capex plan.

Generous special dividend. As promised, management announced a special dividend in the 1Q results. The final + special dividend for FY21 was delayed due to A-share listing. The total HK\$1.18 dividend declared comprises HK\$0.50 final dividend and HK\$0.68 special dividend. Including the HK\$0.30 interim, ordinary dividend amounted to HK\$0.80, implying ~42% payout that is in line with management guidance of not less than 40%. With special dividend, full year payout amounted to HK\$1.48/share, representing ~14% yield.

Management is committed to pay at least HK\$0.70/share dividend (translates to c.6.5% yield at current share price) and not less than 40% payout for next 3 years. Based on our earnings projection, CNOOC could pay c.~HK\$1 (or ~9% yield) in these two years assuming 40% payout.

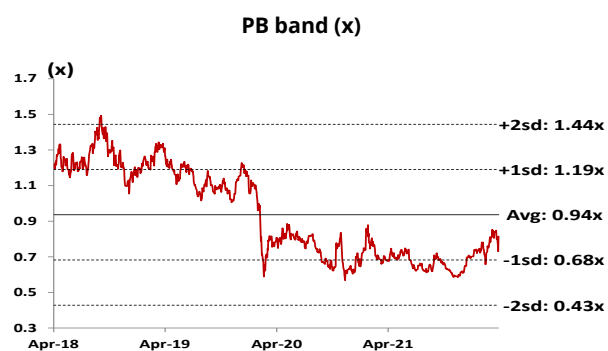
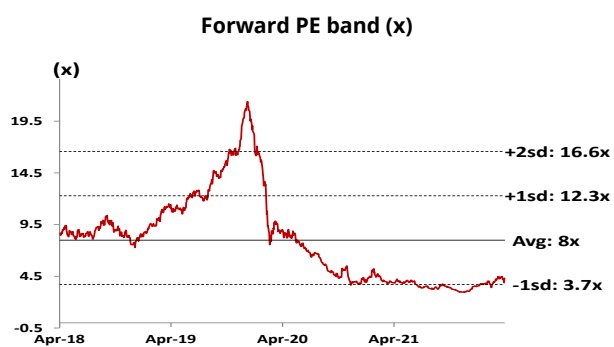
Steady operations. CNOOC's operations are not affected by COVID and sanctions. Management has also shrugged off market talk of them exiting operations in US / UK / Canada. As an upstream E&P company, following other global upstream peers, CNOOC aims to have an overseas E&P presence.

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.

CNOOC Ltd

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	78.3	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)	(55,065)	(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)	31,576	(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
3:	31-Mar-22	HK\$11.12	HK\$16.00	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

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

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CNOOC Ltd

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