

# China Petroleum & Chem (Sinopec)

Bloomberg: 386 HK EQUITY | Reuters: 0386.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\$3.88 (HSI : 20,276)  
Price Target 12-mth: HK\$5.30 (37% upside)

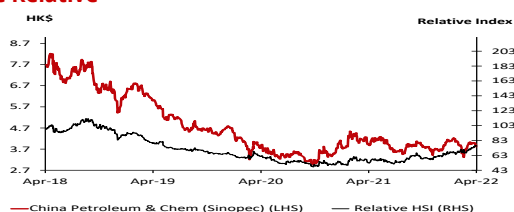
### Analyst

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### What's New

- Strong 1Q22 net profit of Rmb23.3bn made up 33% of consensus' FY22 estimate
- Driven largely by E&P and Refining segments
- Refining margins to normalize from 1Q22 in anticipation of less inventory gain impact but still remain healthy
- Maintain BUY; TP HK\$5.30

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	2,117,838	2,740,884	3,015,740	3,129,865
EBITDA	117.31	220,611	217,853	227,004
Pre-tax Profit	48.143	109,169	103,449	100,971
Net Profit	33.096	71,975	63,701	62,185
Net Pft (Pre Ex) (core profit)	2,920	71,975	63,701	62,185
Net Profit Gth (Pre-ex) (%)	(94.9)	2,364.9	(11.5)	(2.4)
EPS (RMB)	0.27	0.59	0.53	0.51
EPS (HK\$)	0.33	0.71	0.63	0.61
Core EPS (RMB)	0.02	0.59	0.53	0.51
Core EPS (HK\$)	0.03	0.71	0.63	0.61
EPS Gth (%)	(42.4)	117.5	(11.5)	(2.4)
Core EPS Gth (%)	(94.9)	2,364.9	(11.5)	(2.4)
Diluted EPS (HK\$)	0.33	0.71	0.63	0.61
DPS (HK\$)	0.24	0.56	0.38	0.36
BV Per Share (HK\$)	7.32	7.65	7.89	8.15
PE (X)	11.9	5.5	6.2	6.3
CorePE (X)	134.5	5.5	6.2	6.3
P/Cash Flow (X)	2.3	1.7	2.2	2.0
P/Free CF (X)	10.1	4.8	nm	6.0
EV/EBITDA (X)	3.9	2.0	2.4	2.2
Net Div Yield (%)	6.2	14.5	9.9	9.2
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	4.5	9.5	8.1	7.7
Earnings Rev (%)			Nil	Nil
Consensus EPS (RMB)			0.59	0.61
Other Broker Recs:		B:14	S:0	H:5

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

## Still going steady

### Investment Thesis

**Unjustifiable low valuation at 0.5x PB.** Sinopec is accelerating its green energy initiatives, which should reduce the current ESG discount. Downstream profitability is expected to remain at elevated levels despite moderation from 2021 in the absence of exceptionally high inventory gains, supported by strong product demand and pricing.

**Oil price ~US\$100/bbl seems manageable.** We expect refining margins to moderate from 2021's high of US\$11.2/bbl, to US\$8-9/bbl in view of the higher oil prices at ~US\$100/bbl. This will partially be offset by higher E&P profits with oil price substantially above breakeven level of US\$50/bbl. We expect oil price to average US\$95-100/bbl in FY22, before normalising to US\$80-90/bbl from 2H22 closer to Sinopec's sweet spot of US\$60-80/bbl.

**An attractive dividend play with 10% yield.** We assume c.60% payout on elevated earnings in FY22-23, translating to Rmb0.30-0.32 DPS or ~10% yield.

### Valuation:

Our SOTP-based TP of HK\$5.30 is based on a 50% discount to the reported PV-10 (present value of flows from oil & gas reserves) for the E&P segment, 7x PE for Chemicals and Refining, DCF for Marketing and its PipeChina stake.

### Where we differ:

We appreciate that the company is working on addressing the high E&P breakeven, which is yet to be reflected in its share price. The IPO of the marketing business is a potential catalyst that could attract investors to revisit the stock.

### Key Risks to Our View:

A slower-than-expected ramp-up in Chinese industrial sector activity could depress demand for refined products and fuels, which would be negative for Sinopec.

### At A Glance

Issued Capital - H shares (m shs)	25,513
- Non H shrs (m shs)	95,558
H shs as a % of Total	21
Total Mkt Cap (HK\$/US\$m)	587,872 / 74,916
Major Shareholders (%)	
China Petrochemical Corporation	86.6
Major H Shareholders (As % of H shares)	
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	65.07
GICS Industry: Energy / Oil, Gas & Consumable Fuels	



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## China Petroleum & Chem (Sinopec)

### WHAT'S NEW

#### 1Q22 stronger than expected

##### 1Q22 result highlights:

- **Stellar 1Q22 results boosted by high oil price and inventory gains.** Sinopec posted a stellar 1Q22, registering net profit growth of 26% y-o-y to Rmb23.3bn, above expectations of c.Rmb20bn. Outperformance stems from higher E&P profits and inventory gains.

While 1Q profit has made up 33% of consensus' full-year estimate, we are maintaining our below-consensus-forecasts for now given the expected moderation of refining margins in the next few quarters.

- **Refining and Marketing** results were partially aided by inventory gains, benefitting from higher oil prices during the quarter, as Sinopec typically keeps 20 days of inventory for crude oil and 15 days for refined products.
- Operationally, **remarkable improvements were seen in E&P and refining segments in particular:**

1. **E&P** generated Rmb10.4bn (+343% y-o-y) operating profits on the back of a higher realised oil price of c.US\$89/bbl and natural gas price of US\$8.14 / '000 cubic feet.
2. **Refining** saw a 15% y-o-y increase in operating profits to Rmb22.5bn on strong demand.

- While the **following quarters will likely be weaker sequentially in the absence of the significant inventory gains, profitability should remain elevated** in view of high oil prices, strong demand for refined products, and a shift towards high value-add products. Overall, industry sees some disruption due to COVID but this should be temporary and demand should pick up as soon as the situation is under control.

- Sinopec spent **c.Rmb25bn capex** in 1Q22, of which 60% was for E&P, 24% for Refining, 9% for Chemicals and 3% for Marketing. This is in line with its strategy to enhance E&P reserves and pivot towards high value-add products.

## China Petroleum & Chem (Sinopec)

Profit from Operations (Rmb m)	1Q21	2Q21	3Q21	4Q21	1Q22	Comments
Exploration and production	2,356	3,877	2,475	(4,023)	10,429	E&P segment EBIT more than quadrupled y-o-y. thanks to high oil prices. <b>Realised oil price +62% y-o-y to US\$89.02/bbl.</b>  E&P production <b>output</b> grew 3.7% y-o-y to of 121.41mmboe in 1Q22; crude oil +1% to 69.07mmbbls while natural gas +11.9% to 1,199.44bcf.
Refining	19,487	19,911	14,143	11,738	22,493	Refining maintained a high <b>utilisation</b> rate.  <b>Refinery throughput</b> rose 2.7% to 64.19mt in 1Q22 on the back of strong demand recovery.
Marketing and distribution	8,021	8,047	5,560	(424)	8,564	Marketing domestic sales volume <b>increased 2.6% y-o-y</b> to 41.06mt in 1Q22  New business model with comprehensive energy supply, providing refined oil products, natural gas, hydrogen, EV charging & batter swapping and non-fuel businesses
Chemicals	7,104	5,901	2,559	(4,458)	1,325	Chemical segment faced strong competition and margin squeeze in 1Q22.  Sinopec has rapidly adjusted production to optimise product mix .
Corporate and others	(567)	(3,168)	935	(425)	(81)	
Elimination	(7,700)	(5,160)	1,025	7,414	(9,770)	
<b>Total Operating Profit</b>	<b>28,701</b>	<b>29,408</b>	<b>26,697</b>	<b>9,822</b>	<b>32,960</b>	

Source: Company, DBS Bank

## China Petroleum & Chem (Sinopec)

### Company Background

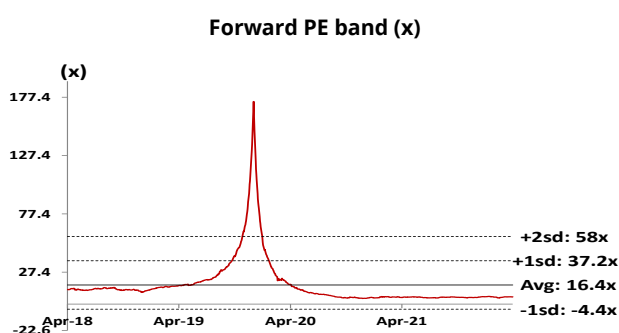
Sinopec is an integrated oil major based in China, with operations in the upstream and downstream segments (marketing, refining, chemicals). Sinopec is the largest refiner in China and accounts for about 40% of China's total refinery throughput.

### Quarterly Income Statement (RMBm)

FY Dec	1Q2021	4Q2021	1Q2022	% chg yoy	% chg qoq
Revenue	576,982	737,643	771,386	33.7	4.6
Cost of Goods Sold	(512,158)	(662,176)	(688,999)	34.5	4.1
<b>Gross Profit</b>	<b>64,824</b>	<b>75,467</b>	<b>82,387</b>	<b>27.1</b>	<b>9.2</b>
Other Oper. (Exp)/Inc	(36,123)	(65,541)	(49,427)	36.8	(24.6)
<b>Operating Profit</b>	<b>28,701</b>	<b>9,926</b>	<b>32,960</b>	<b>14.8</b>	<b>232.1</b>
Other Non Opg (Exp)/Inc	76.0	200	115	51.3	(42.5)
Associates & JV Inc	4,311	6,217	3,619	(16.1)	(41.8)
Net Interest (Exp)/Inc	(2,387)	(1,851)	(2,356)	1.3	(27.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>30,701</b>	<b>14,492</b>	<b>34,338</b>	<b>11.8</b>	<b>136.9</b>
Tax	(7,082)	(2,399)	(7,009)	(1.0)	192.2
Minority Interest	(5,076)	(799)	(3,991)	21.4	399.5
<b>Net Profit</b>	<b>18,543</b>	<b>11,294</b>	<b>23,338</b>	<b>25.9</b>	<b>106.6</b>
Net profit bef Except.	18,543	11,294	23,338	25.9	106.6
EBITDA	59,624	30,549	63,388	6.3	107.5
<b>Margins (%)</b>					
Gross Margins	11.2	10.2	10.7		
Opg Profit Margins	5.0	1.3	4.3		
Net Profit Margins	3.2	1.5	3.0		

Source: Company, DBS HK

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## China Petroleum & Chem (Sinopec)

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Crude oil price forecast (US\$/bbl)	64.0	42.0	43.0	95.0	85.0
Refining margins (US\$/bbl)	7.3	4.7	11.2	8.5	0.0
Crude oil reserves	6.6	6.4	6.2	7.2	8.2

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Exploration and Production	210,712	167,755	249,998	274,083	280,084
Refining	1,224,156	944,510	1,385,564	1,210,780	1,237,452
Marketing and Distribution	1,430,963	1,102,206	1,411,544	1,484,965	1,554,447
Chemicals	495,234	371,854	505,503	512,676	533,692
Corporate and others	1,484,822	890,283	1,297,701	1,323,655	1,350,128
Elimination	(1,879,694)	(1,358,770)	(2,109,426)	(1,790,419)	(1,825,937)
<b>Total</b>	<b>2,966,193</b>	<b>2,117,838</b>	<b>2,740,884</b>	<b>3,015,740</b>	<b>3,129,865</b>
<b>Operating profit (RMB m)</b>					
Exploration and Production	9,284	(16,476)	4,685	13,469	12,268
Refining	30,632	(5,555)	65,279	54,965	54,963
Marketing and Distribution	29,107	20,828	21,204	19,442	19,355
Chemicals	17,151	10,372	11,106	14,883	15,933
Corporate and others	64	(393)	(3,225)	(3,645)	(3,718)
Elimination	(40)	4,417	(4,421)	0	0
<b>Total</b>	<b>86,198</b>	<b>13,193</b>	<b>94,628</b>	<b>99,114</b>	<b>98,801</b>
<b>Operating profit Margins (%)</b>					
Exploration and Production	4.4	(9.8)	1.9	4.9	4.4
Refining	2.5	(0.6)	4.7	4.5	4.4
Marketing and Distribution	2.0	1.9	1.5	1.3	1.2
Chemicals	3.5	2.8	2.2	2.9	3.0
Corporate and others	0.0	0.0	(0.2)	(0.3)	(0.3)
Elimination	0.0	(0.3)	0.2	0.0	0.0
<b>Total</b>	<b>2.9</b>	<b>0.6</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>

Source: Company, DBS HK

## China Petroleum & Chem (Sinopec)

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	2,966,193	2,117,838	2,740,884	3,015,740	3,129,865
Cost of Goods Sold	(2,742,764)	(1,957,612)	(2,463,759)	(2,726,635)	(2,833,882)
<b>Gross Profit</b>	<b>223,429</b>	<b>160,226</b>	<b>277,125</b>	<b>289,106</b>	<b>295,983</b>
Other Opg (Exp)/Inc	(137,231)	(147,033)	(182,497)	(189,992)	(197,182)
<b>Operating Profit</b>	<b>86,198</b>	<b>13,193</b>	<b>94,628</b>	<b>99,114</b>	<b>98,801</b>
Other Non Opg (Exp)/Inc	749	1,829	574	83	115
Associates & JV Inc	12,777	6,712	23,253	8,384	8,270
Net Interest (Exp)/Inc	(9,797)	(10,391)	(9,286)	(4,132)	(6,216)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	36,800	0	0	0
<b>Pre-tax Profit</b>	<b>89,927</b>	<b>48,143</b>	<b>109,169</b>	<b>103,449</b>	<b>100,971</b>
Tax	(17,894)	(6,219)	(23,318)	(23,797)	(23,220)
Minority Interest	(14,568)	(8,828)	(13,876)	(15,951)	(15,566)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>57,465</b>	<b>33,096</b>	<b>71,975</b>	<b>63,701</b>	<b>62,185</b>
Net Profit before Except.	57,465	2,920	71,975	63,701	62,185
EBITDA	192,759	117,315	220,611	217,853	227,004
<b>Growth</b>					
Revenue Gth (%)	2.6	(28.6)	29.4	10.0	3.8
EBITDA Gth (%)	(9.9)	(39.1)	88.0	(1.2)	4.2
Opg Profit Gth (%)	4.8	(84.7)	617.3	4.7	(0.3)
Net Profit Gth (%)	(6.7)	(42.4)	117.5	(11.5)	(2.4)
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	7.5	7.6	10.1	9.6	9.5
Opg Profit Margin (%)	2.9	0.6	3.5	3.3	3.2
Net Profit Margin (%)	1.9	1.6	2.6	2.1	2.0
ROAE (%)	7.9	4.5	9.5	8.1	7.7
ROA (%)	3.4	1.9	4.0	3.3	3.2
ROCE (%)	4.1	(0.6)	5.0	4.6	4.2
Div Payout Ratio (%)	65.3	73.2	79.1	60.8	58.4
Net Interest Cover (x)	8.8	1.3	10.2	24.0	15.9

Source: Company, DBS HK

## China Petroleum & Chem (Sinopec)

### Quarterly Income Statement (RMB m)

FY Dec	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022
Revenue	576,982	684,621	741,638	737,643	771,386
Cost of Goods Sold	(512,158)	(615,008)	(674,417)	(662,176)	(688,999)
<b>Gross Profit</b>	<b>64,824</b>	<b>69,613</b>	<b>67,221</b>	<b>75,467</b>	<b>82,387</b>
Other Oper. (Exp)/Inc	(36,123)	(40,205)	(40,628)	(65,541)	(49,427)
<b>Operating Profit</b>	<b>28,701</b>	<b>29,408</b>	<b>26,593</b>	<b>9,926</b>	<b>32,960</b>
Other Non Opg (Exp)/Inc	76	133	165	200	115
Associates & JV Inc	4,311	6,822	5,903	6,217	3,619
Net Interest (Exp)/Inc	(2,387)	(2,609)	(2,439)	(1,851)	(2,356)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>30,701</b>	<b>33,754</b>	<b>30,222</b>	<b>14,492</b>	<b>34,338</b>
Tax	(7,082)	(7,867)	(5,970)	(2,399)	(7,009)
Minority Interest	(5,076)	(4,476)	(3,525)	(799)	(3,991)
<b>Net Profit</b>	<b>18,543</b>	<b>21,411</b>	<b>20,727</b>	<b>11,294</b>	<b>23,338</b>
Net profit bef Except.	18,543	21,411	20,727	11,294	23,338
EBITDA	64,094	64,094	60,852	30,549	63,388

### Growth (QoQ)

Revenue Gth (%)	2.4	18.7	8.3	(0.5)	4.6
EBITDA Gth (%)	139.2	7.5	(5.1)	(49.8)	107.5
Opg Profit Gth (%)	251.5	2.5	(9.6)	(62.7)	232.1
Net Profit Gth (%)	114.7	15.5	(3.2)	(45.5)	106.6

### Growth (YoY)

Revenue Gth (%)	3.9	43.0	42.5	31.0	33.7
EBITDA Gth (%)	88,891.0	111.2	7.3	22.5	6.3
Opg Profit Gth (%)	(209.1)	512.2	0.2	21.6	14.8
Net Profit Gth (%)	N/A	N/A	(55.1)	30.8	25.9

### Margins

Gross Margins (%)	11.2	10.2	9.1	10.2	10.7
Opg Profit Margins (%)	5.0	4.3	3.6	1.3	4.3
Net Profit Margins (%)	3.2	3.1	2.8	1.5	3.0

Source: Company, DBS HK

## China Petroleum & Chem (Sinopec)

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	622,423	589,247	598,925	692,554	713,788
Invt in Associates & JVs	152,204	188,342	209,179	222,563	235,832
Other LT Assets	534,588	500,821	523,127	517,423	511,507
Cash & ST Invt	131,246	188,058	221,989	157,386	176,820
Inventory	192,442	151,895	207,433	197,961	194,102
Debtors	54,865	35,587	34,861	57,836	60,025
Other Current Assets	67,303	79,855	93,741	93,741	93,741
<b>Total Assets</b>	<b>1,755,071</b>	<b>1,733,805</b>	<b>1,889,255</b>	<b>1,939,464</b>	<b>1,985,814</b>
ST Debt	83,810	29,033	38,125	33,125	28,125
Creditors	187,958	161,656	215,640	208,776	216,988
Other Current Liab	304,606	331,501	387,515	406,503	405,926
LT Debt	58,782	83,815	91,990	91,990	91,990
Other LT Liabilities	244,080	244,942	240,911	243,087	245,372
Shareholder's Equity	738,150	741,494	774,182	799,140	825,004
Minority Interests	137,685	141,364	140,892	156,843	172,409
<b>Total Cap. &amp; Liab.</b>	<b>1,755,071</b>	<b>1,733,805</b>	<b>1,889,255</b>	<b>1,939,464</b>	<b>1,985,814</b>
Non-Cash Wkg. Capital	(177,954)	(225,820)	(267,120)	(265,741)	(275,046)
Net Cash/(Debt)	(11,346)	75,210	91,874	32,271	56,705
Debtors Turn (avg days)	6.9	7.8	4.7	5.6	6.9
Creditors Turn (avg days)	25.8	34.3	29.2	29.6	28.6
Inventory Turn (avg days)	26.0	33.7	27.8	28.3	26.4
Asset Turnover (x)	1.8	1.2	1.5	1.6	1.6
Current Ratio (x)	0.8	0.9	0.9	0.8	0.8
Quick Ratio (x)	0.3	0.4	0.4	0.3	0.4
Net Debt/Equity (X)	0.0	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	CASH	CASH	CASH
Capex to Debt (%)	99.0	113.9	110.2	158.4	112.5
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	89,927	48,143	109,169	103,449	100,971
Dep. & Amort.	93,035	95,581	102,156	110,274	119,819
Tax Paid	(19,523)	(9,022)	(23,786)	(4,809)	(23,797)
Assoc. & JV Inc/(loss)	(12,777)	(6,712)	(23,253)	(8,384)	(8,270)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(36,323)	19,255	15,859	(20,367)	9,883
Other Operating CF	39,081	20,273	45,029	2,176	2,285
<b>Net Operating CF</b>	<b>153,420</b>	<b>167,518</b>	<b>225,174</b>	<b>182,339</b>	<b>200,891</b>
Capital Exp.(net)	(141,141)	(128,533)	(143,443)	(198,198)	(135,135)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(3,810)	45,140	10,598	(5,000)	(4,999)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	37,009	10,929	(12,353)	0	0
<b>Net Investing CF</b>	<b>(107,942)</b>	<b>(72,464)</b>	<b>(145,198)</b>	<b>(203,198)</b>	<b>(140,134)</b>
Div Paid	(46,008)	(31,479)	(35,110)	(38,743)	(36,321)
Chg in Gross Debt	(12,242)	18,665	18,227	(5,000)	(5,000)
Capital Issues	0	0	0	0	0
Other Financing CF	(26,463)	(20,871)	(28,158)	0	0
<b>Net Financing CF</b>	<b>(84,713)</b>	<b>(33,685)</b>	<b>(45,041)</b>	<b>(43,743)</b>	<b>(41,321)</b>
Currency Adjustments	147	(1,239)	(1,003)	0	0
Chg in Cash	(39,088)	60,130	33,932	(64,602)	19,436
Opg CFPS (RMB)	1.57	1.22	1.73	1.67	1.58
Free CFPS (RMB)	0.10	0.32	0.68	(0.13)	0.54

Source: Company, DBS HK



**China Petroleum & Chem (Sinopec)**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Apr-21	HK\$3.96	HK\$5.20	Buy
2:	30-Aug-21	HK\$3.53	HK\$5.20	Buy
3:	30-Mar-22	HK\$3.89	HK\$5.30	Buy

Source: DBS HK

Analyst: Pei Hwa HO

## China Petroleum & Chem (Sinopec)

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: 29 Apr 2022 13:29:38 (HKT)

Dissemination Date: 29 Apr 2022 14:34:43 (HKT)

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

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**China Petroleum & Chem (Sinopec)**

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