

# China / Hong Kong Company Update

## PetroChina

Bloomberg: 857 HK EQUITY | Reuters: 0857.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 May 2022

### BUY

Last Traded Price (6 May 2022): HK\$3.95 (HSI : 20,002)

Price Target 12-mth: HK\$5.50 (39% upside)

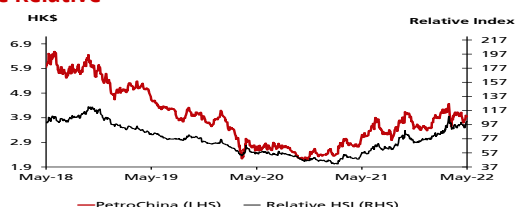
#### Analyst

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#### What's New

- 1Q22 net profit beat expectations, made up ~40% of consensus' FY22 estimate
- E&P segment was star performer with operating profits tripling y-o-y
- Slower demand in the near term due to COVID but optimistic for full year
- Maintain BUY; TP HK\$5.50

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	1,933,836	2,614,349	2,565,995	2,610,384
EBITDA	247,633	406,227	441,186	430,017
Pre-tax Profit	56,073	158,203	190,718	183,430
Net Profit	19,006	92,170	104,132	96,301
Net Pft (Pre Ex) (core profit)	(26,814)	92,170	104,132	96,301
Net Profit Gth (Pre-ex) (%)	N/A	N/A	13.0	(7.5)
EPS (RMB)	0.10	0.50	0.57	0.53
EPS (HK\$)	0.12	0.59	0.67	0.62
Core EPS (RMB)	(0.15)	0.50	0.57	0.53
Core EPS (HK\$)	(0.17)	0.59	0.67	0.62
EPS Gth (%)	(58.4)	385.0	13.0	(7.5)
Core EPS Gth (%)	N/A	N/A	13.0	(7.5)
Diluted EPS (HK\$)	0.12	0.59	0.67	0.62
DPS (HK\$)	0.21	0.27	0.30	0.28
BV Per Share (HK\$)	7.82	8.13	8.50	8.84
PE (X)	32.3	6.7	5.9	6.4
CorePE (X)	nm	6.7	5.9	6.4
P/Cash Flow (X)	1.9	1.8	1.5	1.5
P/Free CF (X)	8.5	6.8	3.5	4.0
EV/EBITDA (X)	4.0	2.3	1.9	1.8
Net Div Yield (%)	5.2	6.8	7.6	7.1
P/Book Value (X)	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	0.2	0.1	0.1	0.0
ROAE(%)	1.6	7.4	8.1	7.1

Earnings Rev (%)			9	8
Consensus EPS (RMB)			0.60	0.57
Other Broker Recs:	B:17	S:2	H:2	

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

### Soaring higher

#### Investment Thesis

Prime oil price proxy with its 60-70% earnings exposure to the upstream segment. Historically, its share price mirrors oil price movements with a high correlation coefficient of 0.8x. The earnings turnaround in 2021 was a confidence booster. We expect earnings to grow by 4% in 2022 on higher oil prices, partially mitigated by normalisation of downstream business.

**Attractive dividend yield.** Petrochina offers ~7% dividend yield. This is supported by stronger operating cash flows in anticipation of sustained high oil prices and downstream demand.

#### Valuation:

Our SOTP-based TP is HK\$ 5.50, and the E&P segment alone is worth HK\$2.68/share, representing about 55% of the total equity value. Natural Gas & Pipeline, Refining & Chemicals, and Marketing account for the remaining 23%, 10% and 12% respectively.

Valuation remains undemanding at ~0.5x P/BV, near its 5-year mean, which is unwarranted in view of improving oil and gas demand. Our TP implies ~0.8x P/BV (1SD above mean) which seems fair against ~7% ROE.

#### Where we differ:

Market has over-penalised PetroChina for policy risks and concerns on imported gas losses. We are optimistic that the liberalisation of the gas sector to market-based pricing will eventually allow cost pass through.

#### Key Risks to Our View:

**Oil price risk.** Oil price volatility caused by geopolitical situation. Unexpected supply increase from OPEC+ members and US shale players, or dip in demand could lead to a correction in oil prices, thus impacting PetroChina's profits.

#### At A Glance

Issued Capital - H shares (m shs)	21,099
- Non H shrs (m shs)	161,922
H shs as a % of Total	12
Total Mkt Cap (HK\$/US\$m)	1,091,772 / 139,082
Major Shareholders (%)	
China National Petroleum Corporation	94.4
Major H Shareholders (As % of H shares)	
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	68.5
GICS Industry: Energy / Oil, Gas & Consumable Fuels	



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**PetroChina****WHAT'S NEW****1Q beat expectations**

## Results highlights

- **Petrochina reported record profit in 1Q22.** Petrochina reported its best quarterly recurring income in 8-years with core net profit coming in at Rmb39.1bn in 1Q22, representing 41% y-o-y growth.
- **E&P was the star performer.** Operating profit tripled y-o-y to Rmb38.8bn, boosted by 67% higher oil prices.
- **Revised up FY22/23F earnings** by 9/8% factoring in the better-than-expected profitability for E&P business. We assume oil prices to average US\$90/bbl for 2022 and US\$85/bbl for 2023.
- **Demand slowdown in the near term but remain optimistic for full year.** COVID lockdown has impacted demand of certain refined products such as kerosene while diesel remains strong. Management remains positive on outlook for FY22.
- **Russian O&G settlement** is in USD or Euro mostly. Current O&G imports from Russian are merely execution of pre-signed contracts. Management has no plan to further increase imports from Russia to take advantage of discounted Russian oil and gas in the market.
- The Group has in place a low carbon fuels development plan, to achieve **carbon peak by 2025** and **net zero by 2050**. The strategy will be multi-pronged and includes: (a) fast development of **natural gas** in portfolio (55% of production by 2025), (b) **carbon capture and storage (CCS)** and **carbon removal technologies**, (c) integrated **gas to power projects** to cut carbon emissions, as well as **renewables and hydrogen** projects etc.
- Ideally, oil, gas, renewable assets to account for **one third each** of portfolio in the long run.

## PetroChina

### Segmental Performance

Profit from Operations (Rmb m)	1Q21	2Q21	3Q21	4Q21	1Q22	Comments
Exploration and Production	12,882	17,988	27,499	10,083	38,798	<p><b>Better-than-expected.</b> Higher profitability was driven by hike in average realised ASP for crude oil ~US\$86.3/bbl in 1Q22 (+32% from US\$65.6/bbl in 2021); natural gas ~US\$9.2/tcf (+16% from US\$7.9/tcf in 2021). Expects over 30% y-o-y increase in oil prices to US\$95/bbl in 2022, driving earnings growth.</p> <p>All-in cost for crude oil ~US\$45/bbl; while natural gas is much lower at US\$30/bbl. Cost reduction initiatives in place.</p> <p>O&amp;G output in 1Q22 grew 3.3% y-o-y to 430.9mboe - Crude output 224.9mmbbl (+1.6%); natural gas 1,235.5bcf (+5.2%). Expects moderate output growth of 2.8% in 2022: crude oil +1.2%; natural gas +4.6%</p>
Refining and Chemicals	14,675	7,510	9,805	17,750	10,765	<p><b>Steady Refining segment</b> on the back of strong demand and product prices; further boosted by inventory gains.</p> <p>Crude oil processing volume up 1.5% y-o-y to 302.4mmbbls with 26.25mt (-2.6%) of refined products produced in 1Q22.</p> <p>Despite 11.2% rise in Chemical commodity products to 8.207m tonnes, Chemical segment saw sharp declines in profitability in 4Q21 and 1Q22 due to rising raw material prices and narrower gross margins on the back of intense competition.</p>
Refining	10,205	3,251	6,677	17,597	10,748	
Chemicals	4,470	4,259	3,128	153	17	
Marketing	3,315	3,325	2,136	4,501	4,556	<p>In 1Q22, Petrochina sold 35.282m tonnes (-2.7% y-o-y) of gasoline, kerosene and diesel.</p> <p>Total number of service stations operated by Petrochina reached 22,701. First <b>integrated energy station</b> (O&amp;G, hydrogen, and non-fuel) officially commenced operations since 3Q21.</p> <p>While segment profitability has returned to <b>positive territory</b> since 2Q20, operating environment remains very <b>competitive</b> Pressure from higher natural gas prices.</p>
Natural Gas and Marketing	18,519	18,369	(173)	7,250	8,946	
Head Office and Other	(4,611)	(3,509)	(2,967)	(3,194)	(5,803)	
<b>Total operating profits</b>	<b>44,780</b>	<b>43,683</b>	<b>36,300</b>	<b>36,390</b>	<b>57,262</b>	

Source: Company, DBS Bank

## PetroChina

### Company Background

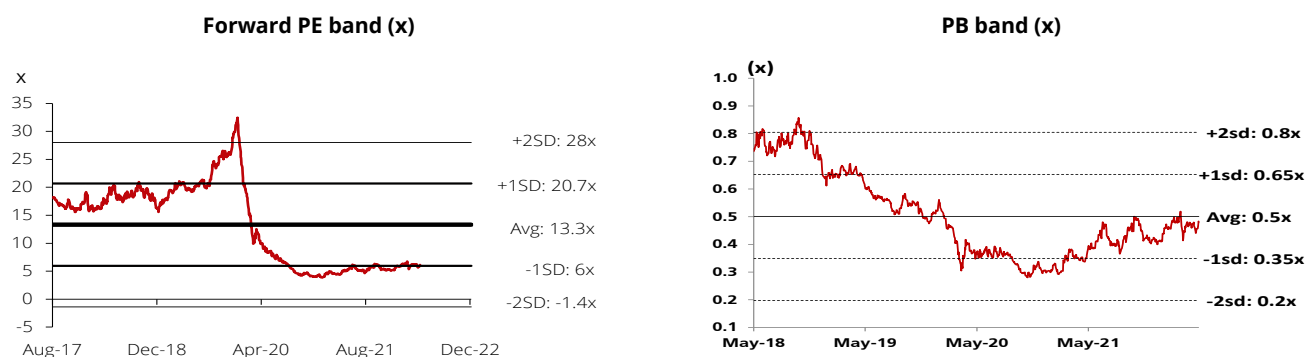
PetroChina is the largest integrated oil company in China with operations in the upstream, midstream and downstream segments (including chemicals) of the oil and gas value chain.

### Quarterly Income Statement (RMBm)

FY Dec	1Q2021	4Q2021	1Q2022	% chg yoy	% chg qoq
Revenue	551,923	734,008	779,368	41.2	6.2
Cost of Goods Sold	(492,922)	(677,182)	(710,815)	44.2	5.0
<b>Gross Profit</b>	<b>59,001</b>	<b>56,826</b>	<b>68,553</b>	<b>16.2</b>	<b>20.6</b>
Other Oper. (Exp)/Inc	(14,221)	(20,436)	(11,291)	(20.6)	(44.7)
<b>Operating Profit</b>	<b>44,780</b>	<b>36,390</b>	<b>57,262</b>	<b>27.9</b>	<b>57.4</b>
Other Non Opg (Exp)/Inc	28.0	246	418	1,392.9	69.9
Associates & JV Inc	3,239	2,023	3,395	4.8	67.8
Net Interest (Exp)/Inc	(4,585)	(3,661)	(4,305)	6.1	(17.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>43,462</b>	<b>34,998</b>	<b>56,770</b>	<b>30.6</b>	<b>62.2</b>
Tax	(11,817)	(13,361)	(13,134)	11.1	(1.7)
Minority Interest	(3,924)	(4,593)	(4,576)	(16.6)	(0.4)
<b>Net Profit</b>	<b>27,721</b>	<b>17,044</b>	<b>39,060</b>	<b>40.9</b>	<b>129.2</b>
Net profit bef Except.	27,721	17,044	39,060	40.9	129.2
EBITDA	103,843	114,102	112,974	8.8	(1.0)
<b>Margins (%)</b>					
Gross Margins	10.7	7.7	8.8		
Opg Profit Margins	8.1	5.0	7.3		
Net Profit Margins	5.0	2.3	5.0		

Source: Company, DBS HK

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## PetroChina

### Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Brent price (US\$/bbl)	62.0	42.0	71.0	90.0	85.0
PetroChina realised crude oil price (RMB/ton)	3,162.0	2,070.0	3,198.0	4,148.5	3,898.4
PetroChina realised natural gas price (RMB/cubic metre)	1,313.0	1,590.1	1,517.8	1,758.7	1,999.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
E&P	123,648	93,137	116,629	151,294	142,171
Refining & Chemicals	190,501	282,108	324,954	258,752	287,991
Marketing	1,850,234	1,221,030	1,772,577	1,724,355	1,704,504
Natural gas & pipeline	350,371	335,334	397,496	428,901	473,025
HQ and other	2,056	2,227	2,693	2,693	2,693
<b>Total</b>	<b>2,516,810</b>	<b>1,933,836</b>	<b>2,614,349</b>	<b>2,565,995</b>	<b>2,610,384</b>
<b>Operating profit (RMB m)</b>					
E&P	96,097	23,092	68,452	113,470	99,520
Refining & Chemicals	13,764	(1,834)	49,740	33,638	37,439
Marketing	(565)	(2,906)	13,277	12,933	12,784
Natural gas & pipeline	26,108	72,410	43,965	47,400	51,992
HQ and other	(13,642)	(14,825)	(14,281)	(14,995)	(15,745)
<b>Total</b>	<b>121,762</b>	<b>75,937</b>	<b>161,153</b>	<b>192,446</b>	<b>185,990</b>
<b>Operating profit Margins (%)</b>					
E&P	77.7	24.8	58.7	75.0	70.0
Refining & Chemicals	7.2	(0.7)	15.3	13.0	13.0
Marketing	0.0	(0.2)	0.7	0.8	0.8
Natural gas & pipeline	7.5	21.6	11.1	11.1	11.0
HQ and other	(663.5)	(665.7)	(530.3)	(556.8)	(584.7)
<b>Total</b>	<b>4.8</b>	<b>3.9</b>	<b>6.2</b>	<b>7.5</b>	<b>7.1</b>

Source: Company, DBS HK

**PetroChina**
**Income Statement (RMB m)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>
Revenue	2,516,810	1,933,836	2,614,349	2,565,995	2,610,384
Cost of Goods Sold	(2,375,549)	(1,903,719)	(2,453,196)	(2,373,549)	(2,424,395)
<b>Gross Profit</b>	<b>141,261</b>	<b>30,117</b>	<b>161,153</b>	<b>192,446</b>	<b>185,990</b>
Other Opg (Exp)/Inc	0	0	0	0	0
<b>Operating Profit</b>	<b>141,261</b>	<b>30,117</b>	<b>161,153</b>	<b>192,446</b>	<b>185,990</b>
Other Non Opg (Exp)/Inc	1	108	538	0	0
Associates & JV Inc	8,229	3,533	13,267	15,267	13,267
Net Interest (Exp)/Inc	(26,778)	(23,505)	(16,755)	(16,995)	(15,826)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(19,499)	45,820	0	0	0
<b>Pre-tax Profit</b>	<b>103,214</b>	<b>56,073</b>	<b>158,203</b>	<b>190,718</b>	<b>183,430</b>
Tax	(36,199)	(22,588)	(43,507)	(57,215)	(55,029)
Minority Interest	(21,333)	(14,479)	(22,526)	(29,371)	(32,100)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>45,682</b>	<b>19,006</b>	<b>92,170</b>	<b>104,132</b>	<b>96,301</b>
Net Profit before Except.	65,181	(26,814)	92,170	104,132	96,301
EBITDA	374,753	247,633	406,227	441,186	430,017
<b>Growth</b>					
Revenue Gth (%)	6.9	(23.2)	35.2	(1.8)	1.7
EBITDA Gth (%)	(2.7)	(33.9)	64.0	8.6	(2.5)
Opg Profit Gth (%)	0.5	(78.7)	435.1	19.4	(3.4)
Net Profit Gth (%)	(13.1)	(58.4)	385.0	13.0	(7.5)
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	5.6	1.6	6.2	7.5	7.1
Opg Profit Margin (%)	5.6	1.6	6.2	7.5	7.1
Net Profit Margin (%)	1.8	1.0	3.5	4.1	3.7
ROAE (%)	3.7	1.6	7.4	8.1	7.1
ROA (%)	1.8	0.7	3.7	4.1	3.6
ROCE (%)	1.8	(2.4)	3.7	4.2	3.8
Div Payout Ratio (%)	57.6	168.4	45.0	45.0	45.0
Net Interest Cover (x)	5.3	1.3	9.6	11.3	11.8

Source: Company, DBS HK

## PetroChina

### Quarterly Income Statement (RMB m)

FY Dec	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022
Revenue	551,923	644,658	683,760	734,008	779,368
Cost of Goods Sold	(492,922)	(604,745)	(633,525)	(677,182)	(710,815)
<b>Gross Profit</b>	<b>59,001</b>	<b>39,913</b>	<b>50,235</b>	<b>56,826</b>	<b>68,553</b>
Other Oper. (Exp)/Inc	(14,221)	3,770	(13,935)	(20,436)	(11,291)
<b>Operating Profit</b>	<b>44,780</b>	<b>43,683</b>	<b>36,300</b>	<b>36,390</b>	<b>57,262</b>
Other Non Opg (Exp)/Inc	28	7	257	246	418
Associates & JV Inc	3,239	4,194	3,811	2,023	3,395
Net Interest (Exp)/Inc	(4,585)	(4,330)	(4,179)	(3,661)	(4,305)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>43,462</b>	<b>43,554</b>	<b>36,189</b>	<b>34,998</b>	<b>56,770</b>
Tax	(11,817)	(7,382)	(10,947)	(13,361)	(13,134)
Minority Interest	(3,924)	(10,856)	(3,153)	(4,593)	(4,576)
<b>Net Profit</b>	<b>27,721</b>	<b>25,316</b>	<b>22,089</b>	<b>17,044</b>	<b>39,060</b>
Net profit bef Except.	27,721	25,316	22,089	17,044	39,060
EBITDA	100,443	100,443	87,839	114,102	112,974

### Growth (QoQ)

Revenue Gth (%)	8.7	16.8	6.1	7.3	6.2
EBITDA Gth (%)	56.4	(3.3)	(12.5)	29.9	(1.0)
Opg Profit Gth (%)	186.0	(2.4)	(16.9)	0.2	57.4
Net Profit Gth (%)	210.1	(8.7)	(12.7)	(22.8)	129.2

### Growth (YoY)

Revenue Gth (%)	8.4	53.5	37.5	44.6	41.2
EBITDA Gth (%)	91.6	82.1	22.2	71.8	8.8
Opg Profit Gth (%)	(1,425.2)	(1,739.8)	77.0	132.4	27.9
Net Profit Gth (%)	N/A	N/A	(44.8)	90.7	40.9

### Margins

Gross Margins (%)	10.7	6.2	7.3	7.7	8.8
Opg Profit Margins (%)	8.1	6.8	5.3	5.0	7.3
Net Profit Margins (%)	5.0	3.9	3.2	2.3	5.0

Source: Company, DBS HK

## PetroChina

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	1,783,224	1,452,091	1,459,296	1,468,746	1,487,985
Invt in Associates & JVs	102,073	250,603	265,785	271,052	274,319
Other LT Assets	380,700	298,665	296,343	296,843	297,343
Cash & ST Invt	110,665	145,950	163,536	244,054	315,949
Inventory	181,921	128,539	143,848	179,620	182,727
Debtors	64,184	52,325	56,659	51,320	52,208
Other Current Assets	110,143	159,953	116,795	125,753	127,929
<b>Total Assets</b>	<b>2,732,910</b>	<b>2,488,126</b>	<b>2,502,262</b>	<b>2,637,388</b>	<b>2,738,458</b>
ST Debt	175,840	117,542	53,275	53,275	53,275
Creditors	328,314	316,140	303,002	392,555	437,789
Other Current Liab	157,265	171,736	161,881	162,087	163,419
LT Debt	290,882	251,379	287,175	287,175	287,175
Other LT Liabilities	336,304	264,708	288,060	276,155	277,694
Shareholder's Equity	1,230,156	1,215,158	1,263,561	1,320,834	1,373,799
Minority Interests	214,149	151,463	145,308	145,308	145,308
<b>Total Cap. &amp; Liab.</b>	<b>2,732,910</b>	<b>2,488,126</b>	<b>2,502,262</b>	<b>2,637,388</b>	<b>2,738,458</b>
Non-Cash Wkg. Capital	(129,331)	(147,059)	(147,581)	(197,949)	(238,344)
Net Cash/(Debt)	(356,057)	(222,971)	(176,914)	(96,396)	(24,501)
Debtors Turn (avg days)	9.0	11.0	7.6	7.7	7.2
Creditors Turn (avg days)	53.3	69.6	50.9	59.3	69.1
Inventory Turn (avg days)	30.5	33.5	22.4	27.6	30.1
Asset Turnover (x)	1.0	0.7	1.0	1.0	1.0
Current Ratio (x)	0.7	0.8	0.9	1.0	1.0
Quick Ratio (x)	0.3	0.3	0.4	0.5	0.6
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	0.3	0.2	0.1	0.1	0.0
Capex to Debt (%)	63.6	66.8	73.8	71.1	73.4
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	103,214	56,073	158,203	190,718	183,430
Dep. & Amort.	225,262	213,875	231,269	233,473	230,762
Tax Paid	(36,199)	(22,588)	(43,507)	(57,215)	(55,029)
Assoc. & JV Inc/(loss)	(8,229)	(3,533)	(13,267)	(15,267)	(13,267)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	2,699	50,078	(9,727)	49,868	39,895
Other Operating CF	72,863	24,670	18,498	16,995	15,826
<b>Net Operating CF</b>	<b>359,610</b>	<b>318,575</b>	<b>341,469</b>	<b>418,571</b>	<b>401,617</b>
Capital Exp.(net)	(296,776)	(246,493)	(251,178)	(242,000)	(250,000)
Other Invt.(net)	(100)	(100)	(100)	(99)	(98)
Invt in Assoc. & JV	0	(149,500)	0	0	0
Div from Assoc & JV	10,000	10,000	10,000	10,000	10,000
Other Investing CF	(46,072)	204,107	28,246	3,432	6,303
<b>Net Investing CF</b>	<b>(332,948)</b>	<b>(181,986)</b>	<b>(213,032)</b>	<b>(228,667)</b>	<b>(233,795)</b>
Div Paid	(47,626)	(46,478)	(64,002)	(76,230)	(75,436)
Chg in Gross Debt	0	0	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	20,350	(52,922)	(43,969)	(33,255)	(20,590)
<b>Net Financing CF</b>	<b>(27,276)</b>	<b>(99,400)</b>	<b>(107,971)</b>	<b>(109,485)</b>	<b>(96,026)</b>
Currency Adjustments	1,069	(4,967)	(2,308)	0	0
Chg in Cash	455	32,222	18,158	80,419	71,797
Opg CFPS (RMB)	1.95	1.47	1.92	2.01	1.98
Free CFPS (RMB)	0.34	0.39	0.49	0.96	0.83

Source: Company, DBS HK



**PetroChina**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Aug-21	HK\$3.14	HK\$4.40	Buy
2:	1-Apr-22	HK\$4.06	HK\$5.50	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: 10 May 2022 10:29:38 (HKT)

Dissemination Date: 10 May 2022 11:20:54 (HKT)

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

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