

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

26 Jan 2024

BUY

Last Traded Price (25 Jan 2024): HK\$14.44 (HSI : 16,212)
Price Target 12-mth: HK\$16.00 (11% upside) (Prev HK\$14.50)

Analyst

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What's New

- FY23E production up 8% y-o-y, higher than guidance of 5%; FY24-25 production targets lifted by 2-7%
- In its 2024 Strategy Preview, CNOOC raised 2024 capex to Rmb125-135bn, supporting accelerated growth on higher base
- Dividend policy maintained; expect HK\$1.20/share in FY24 or 8% yield based on 40% payout
- Revised up FY23-25F earnings by 6-11% and TP to HK\$16; reiterate BUY

On the fast track

Investment Thesis

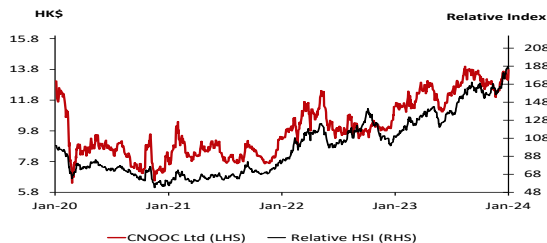
Best-in-class O&G giant with greener portfolio. As the largest offshore E&P company in China, CNOOC has a very competitive all-in-cost of ~US\$30/bbl. Coupled with its steady growth strategy and superior execution, it is highly regarded as one of the best oil price proxies. The group is also stepping up ESG initiatives, committing to spend 10% of capex into clean energy assets, in particular offshore windfarm.

Accelerated output growth, lucrative dividend. In its 2024 strategy preview, CNOOC raised 2024-2025 production target by c.2-7% and aims for 7-8% average annual production growth through to 2026. It also offers a very attractive dividend yield of ~8%. Management has committed to pay dividends at the higher of HK\$0.70/share or 40% payout

China recovery / stimulus a key catalyst. While oil price is expected to moderate slightly in 2024, CNOOC could surprise on the upside with accelerated growth and cost management. The improving sentiment of China recovery could drive a re-rating, and share buyback exercise should also lend support to share price.

Reiterate BUY; TP HK\$16, based on DCF (12% WACC, 0% terminal growth). Valuations remain unjustifiably suppressed at <5x FY24F PE and 0.9x PB despite 17-19% ROE and 8% dividend yield. Upside risks are geopolitical tensions resulting in oil price upswing.

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	422.230	375.330	373.882	382.350
EBITDA	260.669	246.171	249.128	255.136
Pre-tax Profit	194.770	179.687	180.196	178.940
Net Profit	141.700	130.689	131.059	130.146
Net Pft (Pre Ex) (core profit)	141,700	130,689	131,059	130,146
Net Profit Gth (Pre-ex) (%)	101.5	(7.8)	0.3	(0.7)
EPS (RMB)	3.17	2.75	2.76	2.74
EPS (HK\$)	3.47	3.00	3.01	2.99
EPS Gth (%)	101.5	(13.4)	0.3	(0.7)
Diluted EPS (HK\$)	3.47	3.00	3.01	2.99
DPS (HK\$)	1.38	1.20	1.20	1.20
BV Per Share (HK\$)	14.61	14.85	16.77	18.67
PE (X)	4.2	4.8	4.8	4.8
P/Cash Flow (X)	2.9	3.2	3.1	3.0
P/Free CF (X)	5.7	9.6	8.7	6.9
EV/EBITDA (X)	2.3	2.4	2.2	1.9
Net Div Yield (%)	9.5	8.3	8.3	8.3
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	26.3	21.0	19.0	16.9
Earnings Rev (%):		6	11	8
Consensus EPS (RMB)		2.74	2.85	2.80
Other Broker Recs:		B:17	S:0	H:0

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

Key Risks

Oil price volatility is the key risk. CNOOC's earnings is sensitive to oil prices, which would be dictated by output by the Organization of the Petroleum Exporting Countries (OPEC) and the US in the near term.

At A Glance

Issued Capital (m shrs)	44,577
Mkt Cap (HKm/US\$m)	643,692 / 82,332
Major Shareholders (%)	
China National Offshore Oil Corp	66.1
Free Float (%)	33.9
3m Avg. Daily Val. (US\$m)	122.95
GICS Industry: Energy / Oil, Gas & Consumable Fuels	

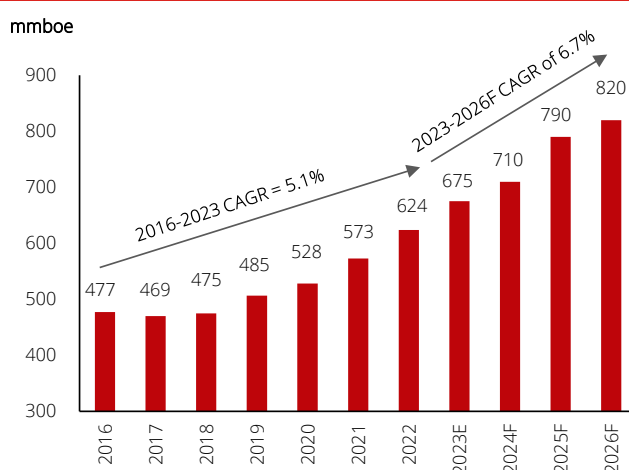
CNOOC Ltd

WHAT'S NEW

2024 Strategy Preview

Raising the bar. CNOOC produced c. 675 mmboe (+8.2% yoy) in FY23E, 3% above guidance of c. 650 – 660 mmboe announced in its 2023 Strategy Preview. Management has also raised its average production targets for FY24-25 by 2-7% to 710 and 790 mmboe respectively (versus previous targets of 695 / 735 mmboe) and introduced FY26 target of ~820 mmboe. This translates into output compound annual growth rate (CAGR) of 6.7% during 2023-2026. Production will target both oil and gas, with higher weightage towards gas exploration.

3-year Production Target



Source: Company, DBS HK

Higher capex guidance. CNOOC spent ~RMB128bn capex in FY23E, in line with the adjusted guidance of RMB120-130bn. Management has also guided higher capex spending of Rmb125-135bn for FY24F, as it increased development capex to support future growth. While this is marginally higher than 2023 levels, it is 25-35% higher than the Rmb100bn levels in 2021/22. Approximately 63% of the capex will be deployed for development projects, 16% for exploration and 19% for product capitalization. More projects expected in China with domestic capex as a proportion of total capex projected to make up 72% in FY24F. Recent exploration efforts have generated positive returns; Reserves Replacement Ratio (RRR) is expected to stay above 100% at >130%.

Green initiatives. CNOOC aims to increase its natural gas production, the transitional cleaner fossil fuel, to c.30% of total output by 2025, from 20-25% currently. It is also actively promoting exploration of tight gas and deep-play coalbed methane (CBM). In addition, it continues to grow the deep-sea floating wind power as part of its renewable drive.

Dividend policy maintained. CNOOC paid HK\$0.65/sh interim dividend for 1H23, we expect similar final dividend, bringing full year dividend to c.HK\$1.2/sh, or over 8% yield.

CNOOC maintains its commitment to pay out at least 40% of profits as dividend and absolute dividend to be not less than HK\$0.70 (c. 5% yield) for FY22-24. Assuming 40% payout, we project DPS to be around HK\$1.2 in FY23-25, implying c.8% dividend yield. We believe the dividend payout is sustainable as projected OCF of ~Rmb200bn is sufficient to fund capex and dividends.

Earnings revisions. We have adjusted our forecasts to reflect the higher production growth and capex. Our FY23-25F earnings forecasts are revised up by 6-11%.

In 1H23, CNOOC reported net profit of Rmb64bn on the back of ~US\$74/bbl realised oil price. We expect the company to report slightly higher profit in 2H23E in view of 3% higher output and steady average oil price.

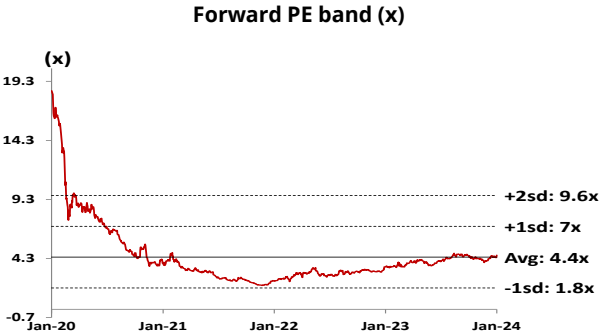
Reiterate BUY and TP of HK\$16. Our DCF-based TP is adjusted to HK\$16 after raising earnings and capex as well as rolling over to FY24F. We continue to like CNOOC. While oil price seems normalizing to US\$80/bbl range, CNOOC could surprise on the upside with accelerated growth and cost management. The improving sentiment of a recovery in China could drive valuation re-rating, and the share buyback exercise should also lend support to share price. Valuation remains undemanding at 0.9x PB and <5x FY24PE with a high dividend yield of ~8% in FY24-25.

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 six to seven years.



Historical PE and PB band



Source: Thomson Reuters, DBS HK

CNOOC Ltd**Key Assumptions**

FY Dec	2021A	2022A	2023F	2024F	2025F
Realized oil price (US\$/bbl)	67.9	96.6	82.5	77.5	75.3
Realized gas price (US\$/mcf)	7.0	8.6	7.0	7.0	7.0
Oil production (mmbbls)	452.4	489.9	526.5	553.8	616.2
Gas production (bcf)	700.6	778.7	861.3	906.0	1,008.0

Source: Company, DBS HK

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Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	246,111	422,230	375,330	373,882	382,350
Cost of Goods Sold	(135,304)	(209,517)	(180,296)	(179,885)	(190,758)
Gross Profit	110,807	212,713	195,034	193,997	191,591
Other Opng (Exp)/Inc	(14,828)	(19,388)	(18,767)	(18,694)	(19,117)
Operating Profit	95,979	193,325	176,268	175,303	172,474
Other Non Opg (Exp)/Inc	4,174	2,581	3,000	3,000	3,000
Associates & JV Inc	346	1,911	1,948	2,048	2,148
Net Interest (Exp)/Inc	(4,678)	(3,047)	(1,529)	(155)	1,318
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	95,821	194,770	179,687	180,196	178,940
Tax	(25,514)	(53,093)	(48,981)	(49,120)	(48,778)
Minority Interest	13	23	(16)	(16)	(16)
Preference Dividend	0	0	0	0	0
Net Profit	70,320	141,700	130,689	131,059	130,146
Net Profit before Except.	70,320	141,700	130,689	131,059	130,146
EBITDA	157,735	260,669	246,171	249,128	255,136
Growth					
Revenue Gth (%)	58.4	71.6	(11.1)	(0.4)	2.3
EBITDA Gth (%)	71.6	65.3	(5.6)	1.2	2.4
Opg Profit Gth (%)	163.8	101.4	(8.8)	(0.5)	(1.6)
Net Profit Gth (%)	181.8	101.5	(7.8)	0.3	(0.7)
Margins & Ratio					
Gross Margins (%)	45.0	50.4	52.0	51.9	50.1
Opg Profit Margin (%)	39.0	45.8	47.0	46.9	45.1
Net Profit Margin (%)	28.6	33.6	34.8	35.1	34.0
ROAE (%)	15.4	26.3	21.0	19.0	16.9
ROA (%)	9.3	16.5	13.8	13.2	12.2
ROCE (%)	9.6	17.9	15.1	14.5	13.5
Div Payout Ratio (%)	78.3	39.7	40.0	40.0	40.0
Net Interest Cover (x)	20.5	63.4	115.3	1,128.6	NM

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	110,233	135,878	202,355	219,875	192,064
Cost of Goods Sold	(58,174)	(77,130)	(96,452)	(113,065)	(98,089)
Gross Profit	52,059	58,748	105,903	106,810	93,975
Other Oper. (Exp)/Inc	(6,610)	(8,218)	(8,839)	(10,549)	(9,702)
Operating Profit	45,449	50,530	97,064	96,261	84,273
Other Non Opg (Exp)/Inc	1,351	2,823	1,959	622	2,002
Associates & JV Inc	469	(123)	865	1,046	847
Net Interest (Exp)/Inc	(2,296)	(2,382)	(1,990)	(1,057)	(500)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	44,973	50,848	97,898	96,872	86,622
Tax	(11,647)	(13,867)	(26,015)	(27,078)	(22,874)
Minority Interest	0	0	0	0	0
Net Profit	33,326	36,981	71,883	69,794	63,748
Net profit bef Except.	33,326	36,981	71,883	69,794	63,748
Growth					
Revenue Gth (%)	47.8	68.1	83.6	61.8	(5.1)
Opg Profit Gth (%)	191.7	142.8	113.6	90.5	(13.2)
Net Profit Gth (%)	221.0	153.8	115.7	88.7	(11.3)
Margins					
Gross Margins (%)	47.2	43.2	52.3	48.6	48.9
Opg Profit Margins (%)	41.2	37.2	48.0	43.8	43.9
Net Profit Margins (%)	30.2	27.2	35.5	31.7	33.2

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	465,451	532,719	535,886	578,108	603,095
Invt in Associates & JVs	41,540	48,927	50,775	52,723	54,771
Other LT Assets	71,596	82,706	79,970	79,470	78,970
Cash & ST Invt	79,730	121,387	142,573	169,807	217,968
Inventory	5,703	6,239	8,733	8,455	9,314
Debtors	27,048	37,992	41,286	41,127	42,058
Other Current Assets	95,501	99,061	99,031	99,031	99,031
Total Assets	786,569	929,031	958,253	1,028,720	1,105,205
ST Debt	15,329	22,817	11,217	11,217	11,217
Creditors	48,990	59,789	59,540	58,431	62,167
Other Current Liab	29,632	30,785	30,785	30,785	30,785
LT Debt	112,893	103,145	92,199	77,433	64,308
Other LT Liabilities	97,749	114,112	116,723	119,413	122,183
Shareholder's Equity	480,912	597,182	646,572	730,207	813,296
Minority Interests	1,064	1,201	1,217	1,233	1,250
Total Cap. & Liab.	786,569	929,031	958,253	1,028,720	1,105,205
Non-Cash Wkg. Capital	49,630	52,718	58,725	59,397	57,452
Net Cash/(Debt)	(48,492)	(4,575)	39,156	81,156	142,443
Debtors Turn (avg days)	34.1	28.1	38.5	40.2	39.7
Creditors Turn (avg days)	210.8	135.4	188.8	193.8	194.4
Inventory Turn (avg days)	26.5	14.9	23.7	28.2	28.6
Asset Turnover (x)	0.3	0.5	0.4	0.4	0.4
Current Ratio (x)	2.2	2.3	2.9	3.2	3.5
Quick Ratio (x)	1.1	1.4	1.8	2.1	2.5
Net Debt/Equity (X)	0.1	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	0.0	CASH	CASH	CASH
Capex to Debt (%)	69.2	81.4	123.8	146.6	158.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

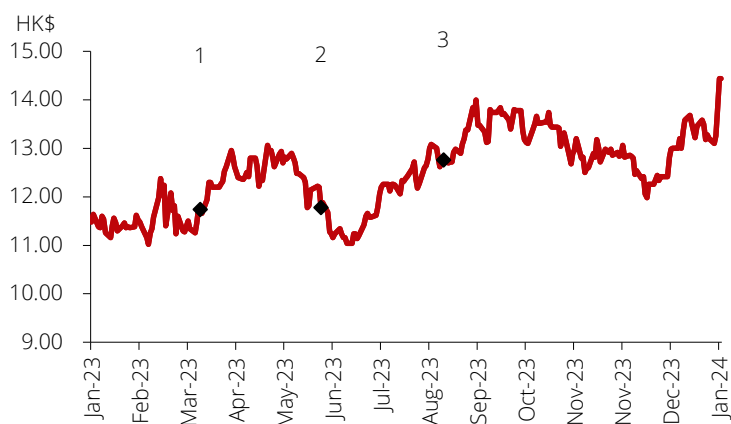
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	95,821	194,770	179,687	180,196	178,940
Dep. & Amort.	57,236	62,852	64,957	68,779	77,517
Tax Paid	(25,514)	(53,093)	(48,981)	(49,120)	(48,778)
Assoc. & JV Inc/(loss)	(346)	(1,911)	(1,948)	(2,048)	(2,148)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	7,532	4,538	(6,037)	(672)	1,945
Other Operating CF	13,164	(1,582)	6,140	4,845	3,453
Net Operating CF	147,893	205,574	193,817	201,980	210,929
Capital Exp.(net)	(88,700)	(102,500)	(128,000)	(130,000)	(120,000)
Other Invt.(net)	(21,624)	(4,169)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	100	100	100	100	100
Other Investing CF	13,989	8,096	25,842	26,777	26,094
Net Investing CF	(96,235)	(98,473)	(102,058)	(103,123)	(93,806)
Div Paid	(55,065)	(77,378)	(52,276)	(52,424)	(52,058)
Chg in Gross Debt	(9,844)	(11,890)	(13,125)	(14,766)	(13,125)
Capital Issues	0	0	0	0	0
Other Financing CF	31,576	24,306	(5,171)	(4,433)	(3,776)
Net Financing CF	(33,333)	(64,962)	(70,572)	(71,622)	(68,960)
Currency Adjustments	(912)	2,062	0	0	0
Chg in Cash	17,413	44,201	21,187	27,235	48,164
Opg CFPS (RMB)	3.14	4.50	4.20	4.26	4.39
Free CFPS (RMB)	1.33	2.31	1.38	1.51	1.91

Source: Company, DBS HK

CNOOC Ltd

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-23	HK\$11.74	HK\$13.00	Buy
2:	8-Jun-23	HK\$12.20	HK\$14.50	Buy
3:	18-Aug-23	HK\$12.74	HK\$14.50	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

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

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