

Maintain 'Accumulate' Rating

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0883 HK | 0883.HK | 0883.HK

Industry: Oil and Gas



Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

8 March 2013

Review of annual report

Rating: Accumulate Closing price: 14.66 Target price: 16.7

Company profile

CNOOC is China's largest offshore oil and natural gas producer, and also one of the global largest independent oil and gas explorers and producers. Its main business covers exploration, development, production and sales of oil and natural gas.

Investment Summary

CNOOC announced it has completed its acquisition of Nexen Inc. ("Nexen") on 26 February 2013. The company will gain the benefits from the U.K. North Sea, the Gulf of Mexico, and offshore West Africa, control the oil sands project with rich oil and gas resources in Long Lake, Alberta, and own the production properties in the Middle East and Canada. The Company's output and proved reserves would go up 20% and 30% respectively after this acquisition in expectation, and cause its reserve-production ratio to increase from 9.6 to 10.3 years.

Recently, ConocoPhillips got the approve document for the report of overall development and environmental impacts in Penglai 19-3 oil field. State Oceanic Administration (SOA) approved ConocoPhillips China (COPC) to resume production step by step, which is a very good news for the Company to bring the profitability to return to rising channel.

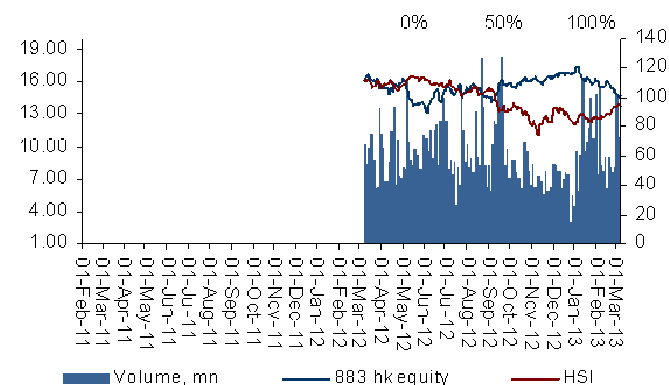
We still expect the international oil price would go up in the long term. The end of European debt crisis, increasing tense situation in the Middle East, and consistent depreciation of US dollar under quantitative easing (QE) would increase oil price. Different from Sinopec and PetroChina, the Company focuses on the exploration in upstream businesses benefiting from the increase of crude oil price, and does not take the risks from downstream businesses.

Currently China's explored area has less than 10% of total sea area. There is a bright future of offshore oil and gas exploration in the long turn. The Company owns absolute advantages in offshore oil and gas businesses compared to the peers due to the long-term focus on offshore oil and gas exploration and exploitation.

We still hold quite optimistic view on the Company's future performance, and the profitability would be improved step by step after the completed acquisition of Nexen, resumption of production in Penglai oil field and several early projects go in to production one after another. However, the performance of CNOOC is difficult to reach the target last year due to many bad factors, and the price therefore is hard to increase sharply in the short run. Overall, we cut the Company's 6-month target price to HK\$16.70, maintain Accumulate rating.

CNOOC

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (HKD)	16.70	
- Previous Target Price (HKD)	18.21	
Closing Price (HKD)	14.66	
Expected Capital Gains (%)	13.9%	
Expected Dividend Yield (%)	3.2%	
Expected Total Return (%)	17.1%	
Raw Beta (Past 2yrs weekly data)	1.41	
Market Cap. (HKD mn)	654,515	
52 week range (HKD)	13.18 - 17.54	
Closing Price in 52 week range		



Key Financial Summary

FYE	2010	2011	2012F	2013F
Revenue (HKD mn)	206,672	290,242	329,382	358,136
Net Profit, adj. (HKD mn)	62,459	84,629	86,744	88,281
EPS, adj. (HKD)	1.39	1.89	1.90	2.13
P/E (X), adj.	17.7	11.1	8.4	9.4
BVPS (HKD)	5.70	7.26	8.01	8.93
P/B (X)	3.0	2.8	2.1	2.2
DPS (HKD)	0.45	0.52	0.54	0.58
Div. Yield (%)	1.8%	2.5%	3.3%	2.9%

Source: Bloomberg.

*All multiples & yields based on current market price

Valuation Method

EV

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Financial Statement and Predictions

Project (HKD million)	Annually(As of December 31)				
	2009	2010	2011	2012F	2013F
Main business revenue	119,362	206,672	290,242	329,382	358,136
Transaction gain (loss)	45,761	81,776	106,635	118,327	127,413
Pre-tax profit	46,318	83,344	111,504	129,712	138,325
Profit before non-recurring project	33,456	62,459	84,629	86,744	89,013
Net profit	33,456	62,459	84,629	86,744	88,281
Basic EPS before unusual project	0.7454	1.3918	1.8520	1.9481	2.2953
Basic EPS	0.7489	1.4005	1.8912	1.9628	2.3187
Diluted EPS before unusual project	0.7453	1.3826	1.8487	1.9348	2.0481
Diluted EPS	0.7489	1.3890	1.8912	1.9793	2.1261
Dividend per share	0.3995	0.4513	0.5205	0.5449	0.5837
Dividend yield	6.56%	1.83%	2.47%	2.99%	2.78%
Current Asset	80,487	117,227	162,641	192,731	245,721
Fixed Asset	194,651	258,373	311,099	371,729	437,186
Total Asset	275,139	375,600	473,740	564,460	682,907
Current Liability	35,254	80,707	86,566	92,817	100,182
Fixed Liability	42,350	40,388	63,112	72,616	89,725
Total Liability	77,604	121,096	149,678	165,433	189,907
Total Shareholders' Equity	197,535	254,504	324,062	399,027	493,000
Book value per share	4.4222	5.6975	7.2563	8.0136	8.9305
P/E Ratio	8.13	17.73	11.13	8.44	9.41
P/B Ratio	2.24	3.01	2.81	2.08	2.24
Project (HKD million)	Annually(As of December 31)				

Source: Bloomberg, Phillip Securities

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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