

PetroChina (0857.HK)



Performance Falls Behind Expectation, But Future Growth Has Much Potential

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0857 HK | 0857.HK | 0857.HK

Industry: Oil & Gas

Phillip Securities (Hong Kong)

Phillip Securities Research

26 March 2013

Annual report review

Rating: Buy Closing price:10.14 Target price:12.57

Company profile

PetroChina is the largest oil/gas producer and supplier in Chinese oil/gas industry, specializing in prospecting, developing and producing of crude oil and natural gas, refining of crude oil, petroleum and chemical products as well as transmission and selling of crude oil, finished oil and natural gas.

Investment summary

In 2012, the Company recorded a total business income of RMB 2.195296 trillion, 9.6% up as compared with the amount of RMB 2.003843 trillion in 2011; the net profit attributable to shareholders of the parent company dropped from RMB 132.961 billion in 2011 to RMB 115.326 billion, 13.3% down on YoY basis.

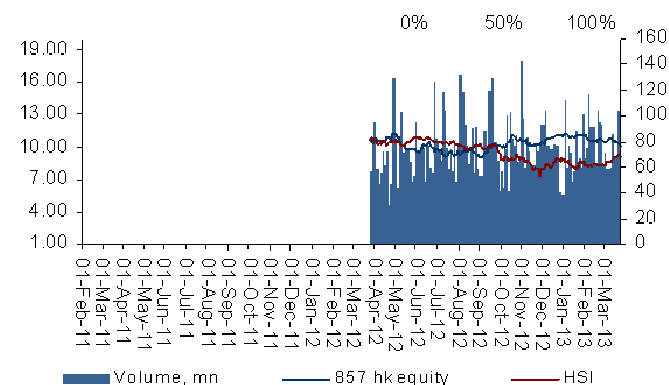
In 2012, the performance of Company was lower than our expectation. Growth of business income benefited from growth of key product sales of oil and natural gas and increase of sales price. However, increase of natural gas import, price inversion of import sales and lagging of domestic finished oil price adjustment were still key reasons of net profits falling.

We believe that with continuous recovery of global economy, crude oil demand will keep continuous growth. Additional issuance of currency globally and geopolitical issues will also drive up international crude oil price and benefit upstream business of the Company. For domestic finished oil market, price adjustment period of finished oil is gradually narrowing, and refining business of the Company has achieved significant loss reduction as compared with 2011 and will keep improving. For natural gas and pipeline business, the Company is still firmly holding majority of the shares of the domestic natural gas market. The 12th Five-Year Plan also clearly promises to keep encouraging use of natural gas. Therefore, favorable effect of the Company's earlier input will gradually appear. It is expected that the price inversion of import sales will also achieve constant improvement.

Generally, affected by declining performance, short-term market performance of the Company falls behind the expectation. However, for a mid/long run, prospect of the Company's main business is still favorable with large potential of future growth. In conclusion, we will continue to raise 6-month target price of the Company to HKD 12.67, equivalent to 14 times of PE ratio in 2013 and the 6-month overall yield rate may reach 27.2%, so we give the rating of "buy".

Petrol China

Rating	1.00	Buy
- Previous Rating	2.00	Accumulate
Target Price (HKD)	12.57	
- Previous Target Price (HKD)	11.67	
Closing Price (HKD)	10.14	
Expected Capital Gains (%)	24.0%	
Expected Dividend Yield (%)	3.2%	
Expected Total Return (%)	27.2%	
Raw Beta (Past 2yrs weekly data)	0.92	
Market Cap. (HKD mn)	2,021,264	
52 week range (HKD)	9.03 - 11.86	
Closing Price in 52 week range		



Key Financial Summary

FYE	2010	2011	2012F	2013F
Revenue (HKD mn)	1,682,222	2,413,837	2,744,120	3,012,975
Net Profit, adj. (HKD mn)	160,704	182,508	130,618	170,271
EPS, adj. (HKD)	0.87	0.93	0.79	0.89
P/E (X), adj.	13.1	11.0	13.3	14.0
BVPS (HKD)	6.51	7.29	8.65	9.42
P/B (X)	1.8	1.3	1.2	1.3
DPS (HKD)	0.40	0.39	0.37	0.40
Div. Yield (%)	3.7%	3.7%	3.6%	3.2%

Source: Bloomberg.

*All multiples & yields based on current market price

Valuation Method

EV

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Financial Predications

Project (HKD mn)	Annually (As of December 31)			
	2010	2011	2012F	2013F
Revenue	1,682,222	2,413,837	2,744,120	3,012,975
Operating Profit & Loss	218,609	223,207	208,513	264,738
Profit Before Tax	217,313	221,906	166,810	259,381
Profit Before Unusual Project	173,102	192,385	166,810	187,945
Net Profit	160,704	182,508	130,618	170,271
Basic EPS Before Unusual Project	0.8922	0.9317	0.8612	0.9103
Basic EPS	0.8724	0.9125	0.7875	0.8927
Dilluted EPS Before Unusual Project	0.8865	0.8953	0.8671	0.8958
Dilluted EPS	0.8724	0.9312	0.7875	0.8927
Dividend Per Share	0.3951	0.3938	0.3671	0.4032
Total Current Asset	337,810	471,826	517,915	632,189
Total Fixed Asset	1,616,079	1,892,274	2,193,205	2,403,817
Total Asset	1,953,889	2,364,100	2,711,120	3,036,006
Total Current Liability	506,890	690,444	718,435	810,275
Total Fixed Liability	255,514	339,037	516,750	501,283
Total Liability	762,404	1,029,481	1,235,185	1,311,558
Total Shareholder's Equity	1,191,485	1,334,619	1,475,935	1,724,448
Book Value Per Share	6.51	7.29	8.65	9.42
P/E Ratio	13.13	10.35	13.07	14.08
P/B Ratio	1.76	1.32	1.19	1.33

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

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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