

NEWS FLASH

PETROCHINA 857 HK

CHINA / OIL & GAS

HOLD

TARGET PRICE HKD8.60
UP/DOWNSIDE -4.4%
CLOSE HKD9.00

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	(0.1)	POSITIVE	12
EPS 2014 (%)	(4.5)	NEUTRAL	13
EPS 2015 (%)	(30.0)	NEGATIVE	8

Gas reform completed

■ Existing and incremental categories merged

On 28 Feb, the NDRC announced that incremental gas prices would be cut RMB0.44/cm while existing gas prices would be raised by RMB0.04/cm. This is effective from 1 April and ends the current two-tier pricing mechanism, signalling the completion of the gas price reform process. This price cut is earlier than our expectation of a mid-year adjustment, although the hike to existing gas prices is higher than our expectation of a RMB0.2/cm cut.

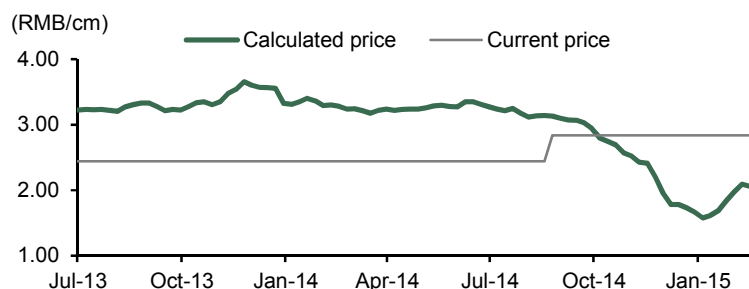
■ Improving visibility; demand growth a concern

This move simplifies the pricing structure and provides certainty on medium-term gas prices. However, it does not provide details on the pricing mechanism, while this price adjustment may not sufficiently boost gas demand (+6% in 2014). Based on the NDRC's formula, the new gas price approximates to an average of the past 12 month prices of LPG and fuel oil, indicating there is more downside potential to gas prices when the next adjustment takes place.

■ Minor positive for PetroChina

As this price adjustment was more favourable than we had expected, there could be a near-term positive for PetroChina, but we remain cautious on the outlook given the prospect of downward adjustments to gas prices, still weak oil prices, and likely weak upcoming earnings. Our TP of HKD8.6 is based on SOTP. Key upside risk is an oil price spike and vice-versa.

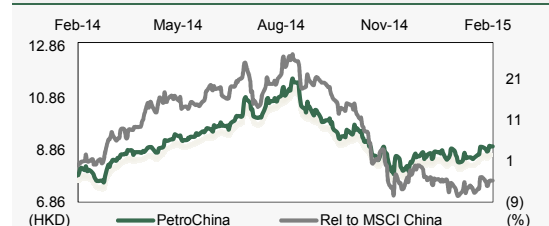
Natural gas price in Shanghai



Source: NDRC; Bloomberg; BNP Paribas

KEY STOCK DATA

YE Dec (RMB m)	2013A	2014E	2015E	2016E
Revenue	2,258,124	2,532,244	2,498,258	2,663,277
Rec. net profit	113,465	107,122	44,071	91,730
Recurring EPS (RMB)	0.62	0.59	0.24	0.50
EPS growth (%)	(1.6)	(5.6)	(58.9)	108.1
Recurring P/E (x)	11.7	12.4	30.2	14.5
Dividend yield (%)	4.4	3.6	1.5	3.1
EV/EBITDA (x)	5.6	5.3	6.8	5.5
Price/book (x)	1.2	1.1	1.1	1.1
Net debt/Equity (%)	34.5	36.3	35.1	34.5
ROE (%)	10.3	9.2	3.7	7.5



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	3.5	3.5	10.4
Relative to country (%)	2.1	(3.8)	(4.9)
Mkt cap (USD m)	212,049		
3m avg daily turnover (USD m)	121.8		
Free float (%)	14		
Major shareholder	CNPC (86%)		
12m high/low (HKD)	11.62/7.62		
3m historic vol. (%)	29.5		
ADR ticker	PTR US		
ADR closing price (USD; 27 Feb 2015)	116.37		
Issued shares (m)	183,021		

Sources: Bloomberg consensus; BNP Paribas estimates



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EXHIBIT 1: City-gate natural gas prices

(RMB/cm)	1-Apr-15	----- Current -----	
		Existing	Incremental
Beijing	2.70	2.66	3.14
Tianjin	2.70	2.66	3.14
Hebei	2.68	2.64	3.12
Shanxi	2.61	2.57	3.05
Inner Mongolia	2.04	2.00	2.48
Liaoning	2.68	2.64	3.12
Jilin	2.46	2.42	2.90
Heilongjiang	2.46	2.42	2.90
Shanghai	2.88	2.84	3.32
Jiangsu	2.86	2.82	3.30
Zhejiang	2.87	2.83	3.31
Anhui	2.79	2.75	3.23
Jiangxi	2.66	2.62	3.10
Shandong	2.68	2.64	3.12
Henan	2.71	2.67	3.15
Hubei	2.66	2.62	3.10
Hunan	2.66	2.62	3.10
Guangdong	2.88	2.86	3.32
Guangxi	2.71	2.69	3.15
Hainan	2.34	2.32	2.78
Chongqing	2.34	2.32	2.78
Sichuan	2.35	2.33	2.79
Guilin	2.41	2.37	2.85
Yunnan	2.41	2.37	2.85
Shaanxi	2.04	2.00	2.48
Gansu	2.13	2.09	2.57
Ningxia	2.21	2.17	2.65
Qinghai	1.97	1.93	2.41
Xinjiang	1.85	1.81	2.29
Average	2.51	2.47	2.95

Source: NDRC

Financial statements

PetroChina

Profit and Loss (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Revenue	2,195,296	2,258,124	2,532,244	2,498,258	2,663,277
Cost of sales ex depreciation	(1,794,110)	(1,851,918)	(2,060,975)	(2,100,252)	(2,189,583)
Gross profit ex depreciation	401,186	406,206	471,270	398,006	473,694
Other operating income	0	0	0	0	0
Operating costs	(74,692)	(79,021)	(114,102)	(116,277)	(121,223)
Operating EBITDA	326,494	327,185	357,167	281,729	352,471
Depreciation	(151,975)	(163,365)	(202,056)	(205,907)	(214,665)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	174,519	163,820	155,111	75,822	137,806
Net financing costs	(15,970)	(20,807)	(21,472)	(22,480)	(23,000)
Associates	8,262	10,228	10,299	4,985	5,592
Recurring non operating income	0	0	0	0	0
Non recurring items	0	24,822	0	0	0
Profit before tax	166,811	178,063	143,938	58,327	120,399
Tax	(36,191)	(35,789)	(28,788)	(11,665)	(24,080)
Profit after tax	130,620	142,274	115,150	46,661	96,319
Minority interests	(15,294)	(12,675)	(8,028)	(2,591)	(4,589)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	115,326	129,599	107,122	44,071	91,730
Non recurring items & goodwill (net)	0	(16,134)	0	0	0
Recurring net profit	115,326	113,465	107,122	44,071	91,730
Per share (RMB)					
Recurring EPS *	0.63	0.62	0.59	0.24	0.50
Reported EPS	0.63	0.71	0.59	0.24	0.50
DPS	0.28	0.32	0.26	0.11	0.23
Growth					
Revenue (%)	9.6	2.9	12.1	(1.3)	6.6
Operating EBITDA (%)	1.9	0.2	9.2	(21.1)	25.1
Operating EBIT (%)	(4.4)	(6.1)	(5.3)	(51.1)	81.7
Recurring EPS (%)	(13.3)	(1.6)	(5.6)	(58.9)	108.1
Reported EPS (%)	(13.3)	12.4	(17.3)	(58.9)	108.1
Operating performance					
Gross margin inc depreciation (%)	11.4	10.8	10.6	7.7	9.7
Operating EBITDA margin (%)	14.9	14.5	14.1	11.3	13.2
Operating EBIT margin (%)	7.9	7.3	6.1	3.0	5.2
Net margin (%)	5.3	5.0	4.2	1.8	3.4
Effective tax rate (%)	21.7	20.1	20.0	20.0	20.0
Dividend payout on recurring profit (%)	45.0	51.4	45.0	45.0	45.0
Interest cover (x)	11.4	8.4	7.7	3.6	6.2
Inventory days	40.3	43.5	43.1	40.9	40.9
Debtor days	11.7	12.4	10.1	10.1	10.1
Creditor days	66.5	72.4	68.2	67.6	65.5
Operating ROIC (%)	12.5	10.6	9.5	4.5	8.0
ROIC (%)	11.6	9.8	8.7	4.2	7.2
ROE (%)	11.2	10.3	9.2	3.7	7.5
ROA (%)	7.2	6.5	5.7	2.8	4.7

*Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (RMB m)	2012A	2013A	2014E	2015E	2016E
E&P	789,818	783,694	799,513	561,124	636,817
Refining & Chemicals	883,218	871,815	892,543	748,906	828,534
Marketing	1,890,558	1,946,806	2,060,110	2,097,522	2,181,423
Natural Gas Pipeline	202,196	232,751	307,280	319,908	379,501
Other	2,530	2,687	2,687	2,687	2,687
Intersegment sales	(1,573,024)	(1,579,629)	(1,529,888)	(1,231,888)	(1,365,685)

Sources: PetroChina; BNP Paribas estimates

Financial statements

PetroChina

Cash Flow (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Recurring net profit	115,326	113,465	107,122	44,071	91,730
Depreciation	151,975	163,365	202,056	205,907	214,665
Associates & minorities	(8,262)	(10,228)	(10,299)	(4,985)	(5,592)
Other non-cash items	(21,641)	(15,007)	27,823	15,028	18,799
Recurring cash flow	237,398	251,595	326,703	260,020	319,602
Change in working capital	1,890	25,932	(29,949)	36,232	(63,664)
Capex - maintenance	(330,861)	(310,223)	(288,708)	(250,469)	(240,802)
Capex - new investment	0	0	0	0	0
Free cash flow to equity	(91,573)	(32,696)	8,046	45,783	15,136
Net acquisitions & disposals	(26,310)	(8,111)	0	0	0
Dividends paid	(58,041)	(53,470)	(53,206)	(33,860)	(30,675)
Non recurring cash flows	24,945	51,824	0	0	0
Net cash flow	(150,979)	(42,453)	(45,160)	11,923	(15,539)
Equity finance	0	0	0	0	0
Debt finance	135,829	53,458	19,825	23,195	24,239
Movement in cash	(15,150)	11,005	(25,335)	35,118	8,700
Per share (RMB)					
Recurring cash flow per share	1.30	1.37	1.79	1.42	1.75
FCF to equity per share	(0.50)	(0.18)	0.04	0.25	0.08
Balance Sheet (RMB m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Working capital assets	368,087	373,703	407,482	375,118	442,689
Working capital liabilities	(423,501)	(452,722)	(456,552)	(460,420)	(464,327)
Net working capital	(55,414)	(79,019)	(49,070)	(85,302)	(21,639)
Tangible fixed assets	1,569,888	1,660,165	1,732,864	1,764,989	1,776,916
Operating invested capital	1,514,474	1,581,146	1,683,794	1,679,687	1,755,278
Goodwill	0	0	0	0	0
Other intangible assets	46,672	81,544	78,823	81,790	73,266
Investments	81,842	118,341	128,640	133,625	139,217
Other assets	56,162	51,107	47,985	45,018	53,542
Invested capital	1,699,150	1,832,138	1,939,242	1,940,120	2,021,303
Cash & equivalents	(46,245)	(57,250)	(31,915)	(67,034)	(75,734)
Short term debt	151,247	192,767	200,478	209,499	218,927
Long term debt *	293,774	302,862	314,976	329,150	343,962
Net debt	398,776	438,379	483,539	471,616	487,155
Deferred tax	22,286	15,166	15,166	15,166	15,166
Other liabilities	97,340	108,658	108,658	108,658	108,658
Total equity	1,064,010	1,132,735	1,186,651	1,196,861	1,257,916
Minority interests	116,738	137,200	145,228	147,819	152,408
Invested capital	1,699,150	1,832,138	1,939,242	1,940,120	2,021,303
* includes convertibles and preferred stock which is being treated as debt					
Per share (RMB)					
Book value per share	5.81	6.19	6.48	6.54	6.87
Tangible book value per share	5.56	5.74	6.05	6.09	6.47
Financial strength					
Net debt/equity (%)	33.8	34.5	36.3	35.1	34.5
Net debt/total assets (%)	18.4	18.7	19.9	19.1	19.0
Current ratio (x)	0.7	0.7	0.7	0.7	0.8
CF interest cover (x)	(4.7)	(0.6)	1.4	3.0	1.7
Valuation	2012A	2013A	2014E	2015E	2016E
Recurring P/E (x) *	11.5	11.7	12.4	30.2	14.5
Recurring P/E @ target price (x) *	11.0	11.2	11.9	28.8	13.8
Reported P/E (x)	11.5	10.3	12.4	30.2	14.5
Dividend yield (%)	3.9	4.4	3.6	1.5	3.1
P/CF (x)	5.6	5.3	4.1	5.1	4.2
P/FCF (x)	(14.5)	(40.7)	165.2	29.0	87.8
Price/book (x)	1.2	1.2	1.1	1.1	1.1
Price/tangible book (x)	1.3	1.3	1.2	1.2	1.1
EV/EBITDA (x) **	5.2	5.6	5.3	6.8	5.5
EV/EBITDA @ target price (x) **	5.1	5.4	5.1	6.6	5.3
EV/invested capital (x)	1.1	1.0	1.0	1.0	1.0
* Pre exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income					

Sources: PetroChina; BNP Paribas estimates

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APPENDIX

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Company	Ticker	Disclosure (as applicable)
PetroChina	857 HK	6

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History of change in investment rating and/or target price

PetroChina (857 HK)



Yong Liang Por started covering this stock from 17-Jun-2013
Price and TP are in local currency

Valuation and risks: Our target price is based on sum-of-the-parts. Upside risk: A strong rebound in oil prices. Key downside risks are 1) natural gas and oil product pricing reform delay; 2) mixed ownership implementation delay

Source: Bloomberg, BNP Paribas

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