



Rating
Hold

Asia
China

Energy
Oil & Gas

Company
**China Oilfield
Services Alert**

Reuters 2883.HK	Bloomberg 2883 HK	Exchange HKG	Ticker 2883
ADR Ticker CHOLY	ISIN US1689091098		

Date
17 March 2015

Industry Update

Price at 16 Mar 2015 (HKD)	11.52
Price target - 12mth (HKD)	14.25
52-week range (HKD)	23.25 - 11.52
HANG SENG INDEX	23,950

It's a mess out there

A stroll through Upstream

"Upstream" is a weekly publication out of Singapore that publishes about the international oil and gas markets. We recently took a stroll through the 06-March and 27-February 2015 publications just to get a feel for markets in the region. What we read, led us to conclude that the global drilling market is in complete disarray – it is a mess out there.

06-March 2015 publication

In the above dated "Upstream" publication we read about 1) "Jack-up operators are in negotiations with Saudi Aramco to reduce day-rates as they look to safeguard ongoing contracts with the world's largest oil company"; 2) "Pemex has already been cutting outsourced work, pushing contractors to renegotiate day-rates and exercising cancellation clauses; 3) "Drilling companies including US drillers Transocean, Vantage Drilling, Norway's Seadrill and Dryships' subsidiary Ocean Rig of Greece are amending contracts and deferring payments and delivery times for their new-build rigs"; and 4) "Leading executives from the seismic sector have warned that they are braced for a tough 2015 amid predictions of accelerated declines in data acquisition as oil companies slash spending" – COSL has a seismic business.

And if that was not enough doom and gloom:

In the 27-February 2015 publication of Upstream, we read about how the crises at Petrobras had forced the company to "rationalize rig contracts". One particular article stated, "Petrobras was using procedural technicalities to renegotiate rig deals and significantly cut the number of deep-water rigs in its fleet as it looks to rationalize drilling costs". In a separate article, we read how "Petrobras has cancelled the charter agreement with Teekay Offshore for the Remora HiLoad dynamic positioning off take vessel even before the unit started its 10-year contract". Then there was a separate article on how Petrobras was trying to sort out its Sete Brasil crises by off loading new rig delivery contracts back to the rig builders.

And we thought the rig market was a contract market:

When push comes to shove in the oil and gas market, it is rather naive of us to think that COSL's "contracts" are any firmer than the above contracts. More interesting is the contract breaking seems to be coming mostly from state-owned companies. We find it ironic that two state owned companies (CNOOC Ltd and COSL) contracting between themselves is a comfortable contract in the eyes of most of us in the Asia market – or maybe we just do not hear about the legal complexities. It's a mess out there in the rig-markets.

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Stock data

Market cap (HKDm)	51,786
Market cap (USDm)	6,670
Shares outstanding (m)	4,495.3
Major shareholders	CNOOC (54%)
Free float (%)	46
Avg daily value traded (USDm)	24.8

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	27,364	30,984	29,565
Net Profit (CNYm)	6,726.4	8,006.4	6,791.2
DB EPS (CNY)	1.50	1.69	1.43
PER (x)	9.6	5.5	6.5
Yield (net) (%)	3.2	5.5	4.7

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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