

## CNOOC LTD 883 HK

**HOLD**

UNCHANGED

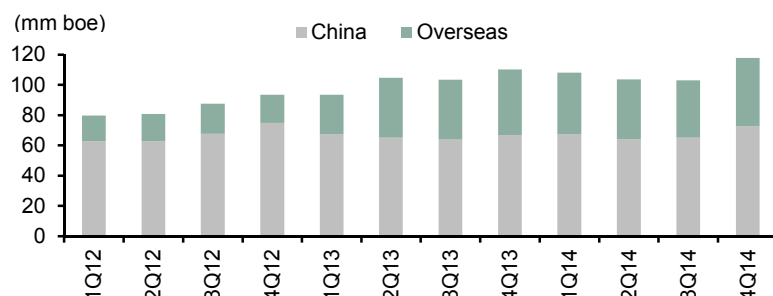
TARGET PRICE	HKD11.00
CLOSE	HKD10.50
UP/DOWNSIDE	+4.8%
PRIOR TP	HKD10.50
CHANGE IN TP	+4.8%

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	(0.7)	POSITIVE	9
EPS 2015 (%)	(0.4)	NEUTRAL	14
EPS 2016 (%)	3.0	NEGATIVE	6

## Against the tide

- 2014 net profit of RMB60b beats consensus by 16%**  
 2014 net profit of RMB60b (+7%) was 16% above BBG consensus, an unexpected positive surprise following the three previous consecutive years of earnings declines. The earnings beat was due to sharp cost cuts and a lower tax rate, and was impressive given that an asset impairment charge of RMB4b was recognised.
- Raising 2015-16E earnings by 5-12%**  
 In recognition of management's successful cost efforts, we lower our 2015-16 cost assumptions, resulting in an increase in our 2015-16 net profit forecast of 5-12%. As a result, we hike our DCF-based TP to HKD11.00 and maintain our HOLD rating. The key risks to our view are stronger- or weaker-than-expected oil prices.
- The eye of the storm**  
 We caution that CNOOC's earnings are still likely to face significant earnings compression in 2015 as we calculate that the netback is likely to fall to USD13/b in 2015 from USD38/b in 2014.
- First off the block; how long can the lead last?**  
 Amongst Chinese Oil majors, we credit CNOOC for cutting capex and costs the most, while also increasing 2015 production the most. We believe that a strong rebound in oil prices would see CNOOC outperforming its peers, but an extended period of weaker oil prices is likely to benefit PetroChina and Sinopec more.

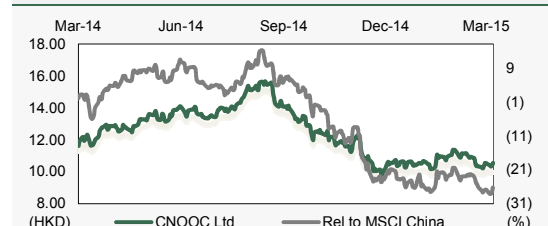
## CNOOC production trend



Source: Company

## KEY STOCK DATA

YE Dec (RMB m)	2014A	2015E	2016E	2017E
Revenue	274,634	215,299	254,709	278,547
Rec. net profit	60,199	23,041	39,879	50,351
Recurring EPS (RMB)	1.35	0.52	0.89	1.13
Prior rec. EPS (RMB)	1.13	0.46	0.85	-
Chg. In EPS est. (%)	18.9	12.4	4.7	nm
EPS growth (%)	6.6	(61.7)	73.1	26.3
Recurring P/E (x)	6.2	16.3	9.4	7.5
Dividend yield (%)	5.4	2.1	3.7	4.7
EV/EBITDA (x)	2.9	4.5	3.5	3.0
Price/book (x)	1.0	1.0	0.9	0.8
Net debt/Equity (%)	11.8	19.4	13.6	7.1
ROE (%)	16.7	6.0	9.9	11.6



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(5.8)	(0.6)	(13.8)
Relative to country (%)	(4.0)	(7.2)	(30.8)
Next results	August 2015		
Mkt cap (USD m)	60,483		
3m avg daily turnover (USD m)	87.6		
Free float (%)	36		
Major shareholder	CNOOC Group (64%)		
12m high/low (HKD)	15.68/9.80		
3m historic vol. (%)	31.0		
ADR ticker	CEO		
ADR closing price (USD; 26 March)	134.81		
Issued shares (m)	44,669		

Sources: Bloomberg consensus; BNP Paribas estimates



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Our research is available on Thomson One, Bloomberg, TheMarkets.com, Factset and on <http://eqresearch.bnpparibas.com/index>. Please contact your salesperson for authorisation. Please see the important notice on the back page.



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### Investment thesis

We rate CNOOC a HOLD with a DCF-based TP of HKD11.0 based on WACC of 9.7% and a long-term growth rate of 1%. CNOOC's 2014 earnings were unexpectedly strong, highlighting the success of management's cost-cutting efforts. However, the full impact of lower oil prices may only be fully felt in 2015, while the share price is already factoring in long-term oil prices of more than USD80/b. Maintain HOLD.

### Catalyst

The share price could react positively to this earnings beat, but we believe further upside is capped as we do not believe that earnings have troughed yet.

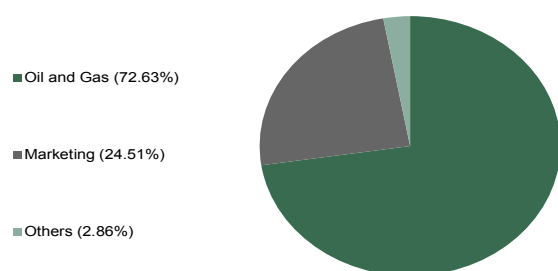
### Risks to our call

Upside/downside risks to our HOLD rating are higher-/lower-than-expected oil prices.

### Company background

CNOOC is China's only pure E&P company with production of 935kboed/d and proven reserves of 3.2b boe in 2012. In early-2013, CNOOC completed the acquisition of Nexen, a Canadian oil company with significant interests in the North Sea and Canadian Oil Sands. CNOOC was formed in 1982 as an offshore E&P company and was listed on the Hong Kong Stock Exchange in 2001.

### Principal activities (2015 revenue split on our estimates)



### Key executives

	Age	Since	Title
Wang Yilin	57	1982	Chairman
Yang Hua	52	1982	Vice Chairman
Li Fanrong	50	1984	CEO
Wu Guangqi	56	1982	Executive Director

<http://www.cnooc Ltd.com>

### Key assumptions

	2012	2013	2014	2015E	2016E
Brent crude (USD/bbl)	112	109	99	60	75
Realised price (USD/bbl)	110	105	96	60	74
Oil production (m bbl)	272	333	349	401	405
Gas production (bcf)	406	455	486	521	534
Total production (m boe)	342	412	433	488	493

Source: BNP Paribas estimates

### Earnings sensitivity

	Worst case		Base case		Best case	
YE 31 Dec	2015E	2016E	2015E	2016E	2015E	2016E
Brent (USD/b)	55	65	60	75	65	85
Change (%)	(8.3)	(13.3)	-	-	8.3	13.3
Net profit (RMB b)	15.0	26.1	23.0	39.9	31.1	52.3
Change (%)	(35.1)	(34.5)	-	-	35.1	31.1

Source: BNP Paribas estimates

- Key earnings drivers are oil & gas prices and production volume.
- We estimate that a USD5/b change in oil prices would impact net profit by 31-35% in 2015-16.

## 2014 results review

2014 net profit of RMB60b (+7% y-y) significantly beat the BBG consensus estimate by 16% and BNPP estimate by 19%, primarily due to a significant reduction in costs (RMB6b lower than our estimates) and lower income tax (RMB3b lower than our estimates).

The reserve replacement ratio (RRR) of 112% in 2014 was the lowest since 2008. Due to increased production, CNOOC's reserve life was 10.4 years at end-14 compared to 10.8 years at end-13.

Oil & gas revenues fell 4% y-y to RMB218b, as a 5% increase in production volumes and 11% increase in gas prices was offset by an 8% decline in oil prices.

The average realised oil price declined 8% to USD96/b, implying a lower oil realisation in 2H14 vs 1H14. We estimate that the realised oil price was at a 3% discount to Brent in 1H14 but increased to 4% in 2H14. The realised gas price rose 11% to USD6.4/mcf, implying a stronger 2H14 price of USD6.9/mcf (+17% y-y).

Operating profit at RMB81b was an increase of 3% y-y due to a sharp decline in costs. The big reductions came from:

- Exploration expenses of RMB11.5b, which declined 33% y-y due to more favourable drilling results while there were no more write-downs of US shale gas and oil projects in 2014.
- SG&A expenses of RMB6.6b, which declined 16% y-y due to lower commission and consulting payments connected with the Nexen acquisition.
- DD&A rose by only 3% vs our expectation of a 6% increase due to reduced dismantlement-related DD&A costs, arising from the effect of discounting factor on the present value of asset retirement obligations.
- Production taxes of RMB11.8b declined by 26% due to the cancellation of mineral resources tax, although we note that the increase in royalties tax to 6% from 5% (which affects revenue) mainly mitigated this impact.

During 2014, an impairment of RMB4.1b was recognised on assets located in North America and the UK North Sea.

Production volume of 433mm boe rose 5%, with 4Q14 production of 113mm boe representing the highest quarterly production level in 2014. This was at the high-end of its production target for the year of 422-435mm boe.

Capex rose to RMB107b in 2014 from RMB91b in 2013, with all three categories experiencing significant increases.

Operating free cash flow rose to RMB20b in 2014 from negative RMB59b in 2013 as 2013 cash flows were impacted by the acquisition of Nexen (RMB88b) and payment for participation in the Libra PSC (RMB4b).

DPS of HKD0.57 for 2014 was flat y-y, representing a payout ratio of 33%, slightly lower than the payout ratio of 36% in 2013.

A total of 20 discoveries were made in 2014, 15 in China and 5 overseas. This compares with 10 discoveries in 2013.

### Raising estimates and TP; HOLD

We believe that these results highlight CNOOC's nimble actions to reduce costs, which have borne fruit earlier than we had expected. We credit management for taking the decisive measures that has allowed CNOOC to be one of the few E&P companies to have registered rising earnings in 2014.

While we had already made significant lower cost assumptions for 2015, we now further lower our 2015 operating expense assumption from USD13.5/b to USD12.3/b to factor in CNOOC's successful efforts. This is the key reason for our earnings upgrades, as detailed in the table below. This results in an increase to our DCF-based valuation to HKD11.0 (from HKD10.5), which is based on an unchanged WACC of 9.7% (risk free rate of 4% and beta of 1.1x) and g of 1%.

#### EXHIBIT 1: Key changes to earnings estimates

	Unit	----- New -----		----- Old -----		----- Change (%) -----	
		2015E	2016E	2015E	2016E	2015E	2016E
Revenue	RMB m	215,299	254,709	221,462	259,468	(3)	(2)
Operating profit	RMB m	33,034	55,646	28,390	51,091	16	9
PBT	RMB m	32,001	55,387	27,710	51,493	15	8
Rep. net profit	RMB m	23,041	39,879	20,505	38,105	12	5

Source: BNP Paribas estimates

#### EXHIBIT 2: CNOOC DCF valuation

	2015E	2016E	2017E	2018E	2019E	2020E	Terminal
	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)	(RMB m)
Operating income	33,034	55,646	69,974	68,874	66,783	64,847	
+ DD&A	62,872	66,706	67,269	64,028	62,081	60,272	
- Tax	(8,258)	(13,911)	(17,494)	(17,218)	(16,696)	(16,212)	
- Capex	(73,676)	(73,676)	(71,834)	(71,834)	(71,834)	(71,834)	
Free cash flow	13,971	34,764	47,916	43,849	40,334	37,074	429,021
NPV	378,724						
Uplift	75,745						
EV	454,468						
Net (debt)/cash at 2014	(44,780)						
Equity Value	409,688						
NPV (HKD)	11.00						

Source: BNP Paribas estimates

Despite the better-than-expected results, we remain cautious on the outlook for CNOOC, as we believe that the current share price is factoring in long-term oil prices of USD82/b, and we still expect a significant earnings decline of 62% in 2015.

Amongst the three Chinese oil majors, CNOOC has demonstrated the most resilience in 2014, by achieving the highest RRR, the biggest cost cuts and consequently, the strongest earnings trend.

However, we note that CNOOC's 2014 earnings are likely to have been buffered by the one-month lag in realised crude prices, while Sinopec and PetroChina suffered significant inventory writedowns at their downstream divisions. Therefore, we do not expect CNOOC to maintain this relative earnings strength over 2015, as we expect Sinopec and PetroChina's cost-cutting efforts to rise while lower oil prices should eventually benefit Sinopec and PetroChina's downstream divisions.

#### EXHIBIT 3: Key comparisons (2014 vs 2013)

(%)	PetroChina	Sinopec	CNOOC
RRR	105	91	112
<b>Cost change (y-y %)</b>			
Operating	0	(2)	(5)
Exploration	(13)	(13)	(33)
DD&A	9	11	3
SG&A	(7)	(2)	(16)
<b>Earnings change (y-y %)</b>			
Operating profit	4	(24)	3
Net profit	(17)	(30)	7

Source: Companies

## EXHIBIT 4: 2014 operational summary

	Unit	1H13	2H13	1H14	2H14	2013	2014	Change (y-y %)
Oil Price (Brent)	USD/b	107.9	109.5	108.9	89.9	108.7	99.0	(9)
Discount to Brent	%	(3.4)	(4.1)	(2.5)	(4.4)	(3.7)	(3.0)	
<b>Realised Oil Price</b>	<b>USD/b</b>	<b>104.2</b>	<b>105.0</b>	<b>106.1</b>	<b>86.0</b>	<b>104.6</b>	<b>96.0</b>	<b>(8)</b>
<b>Average Gas Price</b>	<b>USD/mcf</b>	<b>5.68</b>	<b>5.9</b>	<b>6.0</b>	<b>6.9</b>	<b>5.78</b>	<b>6.44</b>	<b>11</b>
Average RMB/USD Exchange Rate		6.18	6.11	6.20	6.09	6.15	6.14	
China oil	mm bbl	113	111	113	116	223	229	3
Overseas oil	mm bbl	53	57	53	67	110	120	9
Total oil production	mm bbl	166	168	166	183	333	349	5
China gas	bcf	116	118	120	117	234	237	1
Overseas gas	bcf	125	96	113	135	221	248	12
Total gas production	bcf	241	214	233	253	455	486	7
<b>Total oil and gas production</b>	<b>mm boe</b>	<b>206</b>	<b>206</b>	<b>205</b>	<b>228</b>	<b>412</b>	<b>433</b>	<b>5</b>
Lifting cost/Operating Expenses	USD/boe	11.0	13.5	11.8	12.7	12.3	12.2	(0)
DD&A	USD/boe	20.9	21.2	20.8	21.8	21.0	21.3	1
SG&A	USD/boe	2.8	3.7	2.8	2.4	3.2	2.6	(19)
Taxes other than income tax	USD/boe	6.3	6.7	6.3	3.0	6.5	4.6	(29)
Dismantlement	USD/boe	1.4	2.7	1.6	1.5	2.0	1.6	(23)
<b>All-in production cost</b>	<b>USD/boe</b>	<b>42.4</b>	<b>47.7</b>	<b>46.8</b>	<b>37.8</b>	<b>45.0</b>	<b>42.3</b>	<b>(6)</b>

Source: CNOOC Ltd

## EXHIBIT 5: 2014 financials

	Unit	1H13	2H13	1H14	2H14	2013	2014	Change (y-y %)
Oil and Gas Revenues	RMB m	110,799	115,646	117,095	101,115	226,445	218,210	(4)
Marketing Revenues	RMB m	26,586	28,909	19,673	30,590	55,495	50,263	(9)
Other Revenues	RMB m	1,642	2,275	2,032	4,129	3,917	6,161	57
<b>Total Revenues</b>	<b>RMB m</b>	<b>139,027</b>	<b>146,830</b>	<b>138,800</b>	<b>135,834</b>	<b>285,857</b>	<b>274,634</b>	<b>(4)</b>
Operating Costs	RMB m	(13,060)	(16,954)	(14,685)	(16,495)	(30,014)	(31,180)	4
Production Taxes	RMB m	(7,486)	(8,451)	(7,793)	(4,049)	(15,937)	(11,842)	(26)
Exploration Expense	RMB m	(4,360)	(12,760)	(4,742)	(6,783)	(17,120)	(11,525)	(33)
DD&A	RMB m	(26,440)	(30,016)	(27,966)	(30,320)	(56,456)	(58,286)	3
Oil purchases	RMB m	(25,614)	(27,772)	(18,481)	(29,431)	(53,386)	(47,912)	(10)
G&A	RMB m	(3,276)	(4,583)	(3,424)	(3,189)	(7,859)	(6,613)	(16)
Windfall Tax	RMB m	(11,871)	(11,550)	(11,971)	(7,101)	(23,421)	(19,072)	(19)
Impairment losses related to PPE	RMB m		45		(4,120)	45	(4,120)	na
Others	RMB m	(1,284)	(1,922)	(1,289)	(1,880)	(3,206)	(3,169)	(1)
Total operating cost	RMB m	(93,391)	(113,963)	(90,351)	(103,368)	(207,354)	(193,719)	(7)
<b>Operating Profit</b>	<b>RMB m</b>	<b>45,636</b>	<b>32,867</b>	<b>48,449</b>	<b>32,466</b>	<b>78,503</b>	<b>80,915</b>	<b>3</b>
OP Margin %	%	32.8	22.4	34.9	23.9	27.5	29.5	
Net Interest	RMB m	(905)	(1,460)	(1,725)	(1,976)	(2,365)	(3,701)	56
FX gain/(loss)	RMB m	787	86	(163)	1,212	873	1,049	20
Other - Investment Income	RMB m	1,224	1,387	1,253	1,431	2,611	2,684	3
Associates	RMB m	761	134	618	388	895	1,006	12
Non-operating income/(expenses)	RMB m	264	70	215	345	334	560	68
<b>Profit before tax</b>	<b>RMB m</b>	<b>47,767</b>	<b>33,084</b>	<b>48,647</b>	<b>33,866</b>	<b>80,851</b>	<b>82,513</b>	<b>2</b>
Tax	RMB m	(13,384)	(11,006)	(15,054)	(7,260)	(24,390)	(22,314)	(9)
Tax Rate	%	28.0	33.3	30.9	21.4	30.2	27.0	
<b>Net Income</b>	<b>RMB m</b>	<b>34,383</b>	<b>22,078</b>	<b>33,593</b>	<b>26,606</b>	<b>56,461</b>	<b>60,199</b>	<b>7</b>
Net profit margin	%	24.7	15.0	24.2	19.6	19.8	21.9	
EPS	RMB/sh	0.77	0.49	0.75	0.60	1.26	1.35	7
DPS	RMB/sh	0.20	0.25	0.20	0.25	0.45	0.45	0
DPS	HKD/sh	0.25	0.32	0.25	0.32	0.57	0.57	0
Payout ratio	%	25.9	50.7	26.5	42.1	35.6	33.4	

Source: CNOOC Ltd

## Financial statements

## CNOOC Ltd

Profit and Loss (RMB m) Year Ending Dec	2013A	2014A	2015E	2016E	2017E
Revenue	285,857	274,634	215,299	254,709	278,547
Cost of sales ex depreciation	(143,039)	(128,820)	(114,209)	(126,224)	(134,597)
<b>Gross profit ex depreciation</b>	<b>142,818</b>	<b>145,814</b>	<b>101,090</b>	<b>128,484</b>	<b>143,950</b>
Other operating income	0	0	0	0	0
Operating costs	(7,859)	(6,613)	(5,184)	(6,133)	(6,707)
<b>Operating EBITDA</b>	<b>134,959</b>	<b>139,201</b>	<b>95,906</b>	<b>122,351</b>	<b>137,243</b>
Depreciation	(56,456)	(58,286)	(62,872)	(66,706)	(67,269)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>78,503</b>	<b>80,915</b>	<b>33,034</b>	<b>55,646</b>	<b>69,974</b>
Net financing costs	(1,492)	(2,652)	(2,596)	(2,904)	(3,373)
Associates	133	232	132	223	280
Recurring non operating income	3,707	4,018	1,432	2,423	3,051
Non recurring items	0	0	0	0	0
<b>Profit before tax</b>	<b>80,851</b>	<b>82,513</b>	<b>32,001</b>	<b>55,387</b>	<b>69,932</b>
Tax	(24,390)	(22,314)	(8,960)	(15,508)	(19,581)
<b>Profit after tax</b>	<b>56,461</b>	<b>60,199</b>	<b>23,041</b>	<b>39,879</b>	<b>50,351</b>
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
<b>Reported net profit</b>	<b>56,461</b>	<b>60,199</b>	<b>23,041</b>	<b>39,879</b>	<b>50,351</b>
Non recurring items & goodwill (net)	0	0	0	0	0
<b>Recurring net profit</b>	<b>56,461</b>	<b>60,199</b>	<b>23,041</b>	<b>39,879</b>	<b>50,351</b>
<b>Per share (RMB)</b>					
Recurring EPS *	1.26	1.35	0.52	0.89	1.13
Reported EPS	1.26	1.35	0.52	0.89	1.13
DPS	0.45	0.45	0.18	0.31	0.39
<b>Growth</b>					
Revenue (%)	15.4	(3.9)	(21.6)	18.3	9.4
Operating EBITDA (%)	12.4	3.1	(31.1)	27.6	12.2
Operating EBIT (%)	(9.9)	3.1	(59.2)	68.5	25.7
Recurring EPS (%)	(11.4)	6.6	(61.7)	73.1	26.3
Reported EPS (%)	(11.4)	6.6	(61.7)	73.1	26.3
<b>Operating performance</b>					
Gross margin inc depreciation (%)	30.2	31.9	17.8	24.3	27.5
Operating EBITDA margin (%)	47.2	50.7	44.5	48.0	49.3
Operating EBIT margin (%)	27.5	29.5	15.3	21.8	25.1
Net margin (%)	19.8	21.9	10.7	15.7	18.1
Effective tax rate (%)	30.2	27.0	28.0	28.0	28.0
Dividend payout on recurring profit (%)	35.6	33.5	35.0	35.0	35.0
Interest cover (x)	55.2	32.1	13.3	20.1	21.7
Inventory days	18.4	28.0	27.3	20.4	21.7
Debtor days	36.9	42.2	45.0	37.0	38.4
Creditor days	92.6	142.7	109.2	51.0	54.2
Operating ROIC (%)	24.8	19.3	7.1	11.3	13.9
ROIC (%)	22.8	17.9	6.6	10.5	13.0
ROE (%)	17.3	16.7	6.0	9.9	11.6
ROA (%)	10.8	9.8	3.9	6.4	7.7
*Pre exceptional, pre-goodwill and fully diluted					
<b>Revenue By Division (RMB m)</b>					
Oil and Gas	226,445	218,210	156,362	193,133	214,201
Marketing	55,495	50,263	52,776	55,415	58,186
Others	3,917	6,161	6,161	6,161	6,161

Sources: CNOOC Ltd; BNP Paribas estimates

## Financial statements

## CNOOC Ltd

Cash Flow (RMB m) Year Ending Dec	2013A	2014A	2015E	2016E	2017E
Recurring net profit	56,461	60,199	23,041	39,879	50,351
Depreciation	56,456	58,286	62,872	66,706	67,269
Associates & minorities	0	0	0	0	0
Other non-cash items	(2,413)	(6,386)	(264)	(445)	(560)
<b>Recurring cash flow</b>	<b>110,504</b>	<b>112,099</b>	<b>85,649</b>	<b>106,139</b>	<b>117,060</b>
Change in working capital	6,540	4,303	(26,137)	(2,562)	(1,550)
Capex - maintenance	(91,431)	(107,155)	(73,677)	(75,149)	(75,755)
Capex - new investment	0	0	0	0	0
<b>Free cash flow to equity</b>	<b>25,613</b>	<b>9,246</b>	<b>(14,166)</b>	<b>28,428</b>	<b>39,755</b>
Net acquisitions & disposals	(92,110)	0	0	0	0
Dividends paid	(17,190)	(20,123)	(15,953)	(10,116)	(15,234)
Non recurring cash flows	13,509	3,383	0	0	0
<b>Net cash flow</b>	<b>(70,178)</b>	<b>(7,494)</b>	<b>(30,118)</b>	<b>18,312</b>	<b>24,521</b>
Equity finance	0	0	0	0	0
Debt finance	38,966	4,711	20,000	0	(20,000)
<b>Movement in cash</b>	<b>(31,212)</b>	<b>(2,783)</b>	<b>(10,118)</b>	<b>18,312</b>	<b>4,521</b>
<b>Per share (RMB)</b>					
Recurring cash flow per share	2.47	2.51	1.92	2.38	2.62
FCF to equity per share	0.57	0.21	(0.32)	0.64	0.89
Balance Sheet (RMB m) Year Ending Dec	2013A	2014A	2015E	2016E	2017E
Working capital assets	54,913	48,925	39,018	44,535	47,873
Working capital liabilities	(79,107)	(72,318)	(36,273)	(39,229)	(41,017)
<b>Net working capital</b>	<b>(24,194)</b>	<b>(23,393)</b>	<b>2,744</b>	<b>5,306</b>	<b>6,856</b>
Tangible fixed assets	419,102	463,222	474,027	482,471	490,957
<b>Operating invested capital</b>	<b>394,908</b>	<b>439,829</b>	<b>476,771</b>	<b>487,777</b>	<b>497,813</b>
Goodwill	0	0	0	0	0
Other intangible assets	17,000	16,491	16,491	16,491	16,491
Investments	24,397	25,250	25,514	25,959	26,519
Other assets	14,422	17,188	17,188	17,188	17,188
<b>Invested capital</b>	<b>450,727</b>	<b>498,758</b>	<b>535,965</b>	<b>547,415</b>	<b>558,011</b>
Cash & equivalents	(91,639)	(91,783)	(81,665)	(99,977)	(104,498)
Short term debt	49,841	31,180	31,180	31,180	31,180
Long term debt *	82,011	105,383	125,383	125,383	105,383
<b>Net debt</b>	<b>40,213</b>	<b>44,780</b>	<b>74,898</b>	<b>56,586</b>	<b>32,065</b>
Deferred tax	25,362	20,189	20,189	20,189	20,189
Other liabilities	2,386	1,746	1,746	1,746	1,746
Total equity	341,620	379,610	386,698	416,461	451,578
Minority interests	0	0	0	0	0
<b>Invested capital</b>	<b>450,727</b>	<b>498,758</b>	<b>535,965</b>	<b>547,415</b>	<b>558,011</b>
* includes convertibles and preferred stock which is being treated as debt					
<b>Per share (RMB)</b>					
Book value per share	7.65	8.50	8.66	9.32	10.11
Tangible book value per share	7.27	8.13	8.29	8.95	9.74
<b>Financial strength</b>					
Net debt/equity (%)	11.8	11.8	19.4	13.6	7.1
Net debt/total assets (%)	6.5	6.8	11.5	8.2	4.6
Current ratio (x)	1.1	1.4	1.8	2.1	2.1
CF interest cover (x)	18.2	4.5	(4.5)	10.8	12.8
Valuation	2013A	2014A	2015E	2016E	2017E
Recurring P/E (x) *	6.7	6.2	16.3	9.4	7.5
Recurring P/E @ target price (x) *	7.0	6.5	17.1	9.9	7.8
Reported P/E (x)	6.7	6.2	16.3	9.4	7.5
Dividend yield (%)	5.4	5.4	2.1	3.7	4.7
P/CF (x)	3.4	3.4	4.4	3.5	3.2
P/FCF (x)	14.7	40.6	(26.5)	13.2	9.4
Price/book (x)	1.1	1.0	1.0	0.9	0.8
Price/tangible book (x)	1.2	1.0	1.0	0.9	0.9
EV/EBITDA (x) **	2.6	2.9	4.5	3.5	3.0
EV/EBITDA @ target price (x) **	2.7	3.0	4.7	3.7	3.1
EV/invested capital (x)	0.9	0.8	0.8	0.8	0.7
* Pre exceptional, pre-goodwill and fully diluted      ** EBITDA includes associate income and recurring non-operating income					

Sources: CNOOC Ltd; BNP Paribas estimates



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Company	Ticker	Disclosure (as applicable)
CNOOC Ltd	883 HK	6

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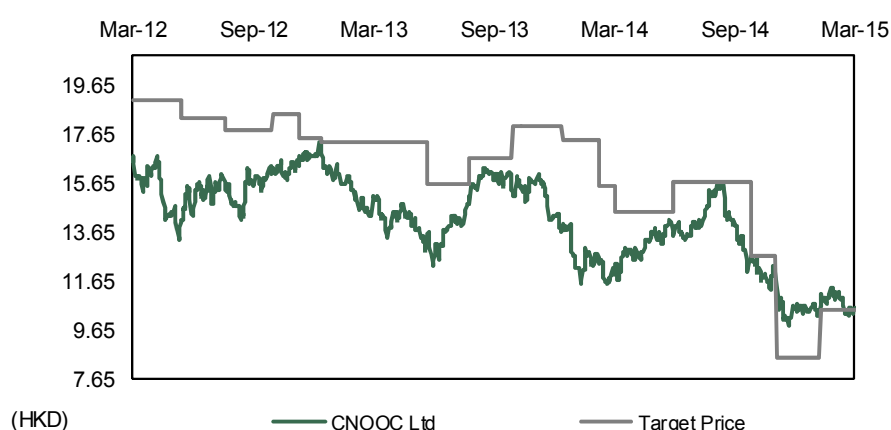
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N/A	N/A	N/A	N/A

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## History of change in investment rating and/or target price

## CNOOC Ltd (883 HK)



Date	Reco	TP
26-Mar-12	BUY	19.00
4-Dec-12	HOLD	17.50
17-Jun-13	BUY	15.60
21-Oct-14	HOLD	12.70
28-Nov-14	REDUCE	8.50
3-Feb-15	HOLD	10.50

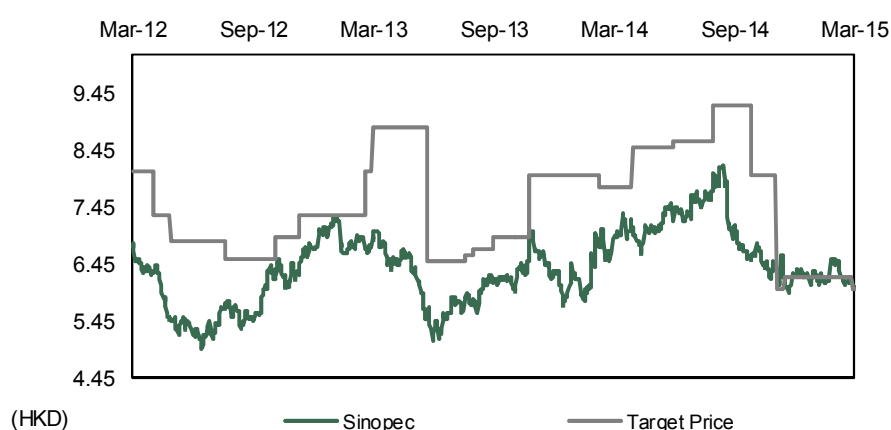
Yong Liang Por started covering this stock from 17-Jun-2013

Price and TP are in local currency

**Valuation and risks:** Our target price is based on DCF. Upside risk: stronger-than-expected crude prices and vice versa

Sources: Bloomberg; BNP Paribas

## Sinopec (386 HK)



Date	Reco	TP
26-Mar-12	BUY	8.08
28-Nov-14	HOLD	6.00

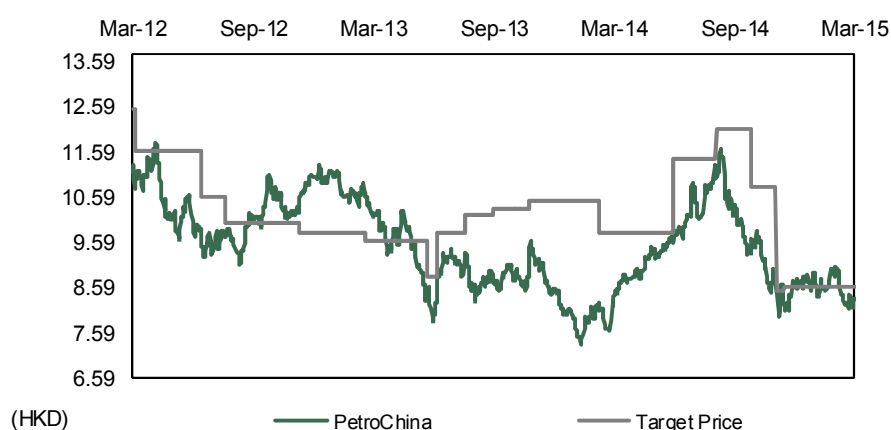
Yong Liang Por started covering this stock from 17-Jun-2013

Price and TP are in local currency

**Valuation and risks:** We have a SOTP-based TP. Sustained low crude prices would dampen earnings of the E&P segment and slow the impetus for shale gas development and vice versa.

Sources: Bloomberg; BNP Paribas

## PetroChina (857 HK)



Date	Reco	TP
26-Mar-12	HOLD	12.50
1-Jul-13	BUY	9.80
28-Nov-14	HOLD	8.50

Yong Liang Por started covering this stock from 17-Jun-2013

Price and TP are in local currency

**Valuation and risks:** Upside/downside risks to our SOTP-based TP are higher-/lower-than-expected oil prices.

Sources: Bloomberg; BNP Paribas

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**REDUCE (R).** The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.*

### Industry Recommendations

**Improving (↑):** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Stable (previously known as Neutral) (↔):** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Deteriorating (↓):** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

## RATING DISTRIBUTION (as at 27 March 2015)

Total BNP Paribas coverage universe	708	Investment Banking Relationship	(%)
Buy	359	Buy	7.80
Hold	250	Hold	4.00
Reduce	99	Reduce	0.00

Should you require additional information concerning this report please contact the relevant BNP Paribas research team or the author(s) of this report.

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