



Rating
Hold

Asia
China

Energy
Oil & Gas

Company
CNOOC Ltd

Reuters 0883.HK	Bloomberg 883 HK	Exchange HKG	Ticker 0883
ADR Ticker CEO	ISIN US1261321095		

Date
30 March 2015

Results

Price at 27 Mar 2015 (HKD)	10.50
Price target - 12mth (HKD)	11.30
52-week range (HKD)	15.68 - 9.80
HANG SENG INDEX	24,486

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Key changes

Price target	11.03 to 11.30	↑	2.4%
Sales (FYE)	181,391 to 194,642	↑	7.3%
Op prof margin (FYE)	11.6 to 17.5	↑	50.4%
Net profit (FYE)	15,072.7 to 23,512.1	↑	56.0%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.7	-0.6	-13.8
HANG SENG INDEX	-1.4	4.9	12.1

Source: Deutsche Bank

Credit due

Strong 2014 results - preparing for US\$60 / bbl oil

CNOOC Ltd reported strong FY14 results of Rmb 60.2bn (Rmb 1.35/ shr) vs our 50.7bn (1.14/ shr) and Bbrg consensus of 1.16/ shr. Op income was Rmb 80.9bn vs. our 70.3bn with revenues of Rmb 274bn vs. our 264bn. Revenues from oil and gas sales was Rmb 218.2bn vs. our 218.7bn. Better than consensus performance came from lower operating costs, a good part of which was tax related. We tip our hat to management, yet retain Hold rating given the prospect of US\$ 60/ bbl oil in 2015e.

Adjustments

Production tax 2H was half 1H, yet production rose 2H/1H. This was a surprise. The windfall profit tax (WPT) fell 40% 2H/1H – not a surprise. Exploration costs rose 2H/1H, but not as much as we had expected. SG&A fell 20% y/ y beating our +5% estimate. We lifted our capex growth to equal our oil price increases (2016-18). We adjusted our Beta from a 2-year (100) to a 3-year (110) Beta. We have been dragged back into the realm of consensus estimates 2015-16e

Investment thesis

Management seems to be getting its mojo back after 2-3 years of peddling backwards. We were surprised by the deep cuts to op costs glad to see management delivering production growth. We were hoping for a Nexen write down which may continue to weigh on the stock price. Goodwill as of YE14 was Rmb 16.5bn (US\$ 2.6bn); management paid a 62% premium for Nexen (01-March 2013), when the oil price was north of US\$ 100/ bbl

Valuation and risks

We value CNOOC from a DCF model. Our WACC is 8.1% with a CoE of 10.1% a China Rfr of 3.9% and an Erp of 5.6%. Our Rfr and Erp are set by a DB Strategy Group. We use 3% TG rate to reflect what we believe is CNOOC's LT sustainable BOE production growth rate. Risks include 1) higher / lower oil prices; and 2) potentially large asset impairment charges 2015e.

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	284,684.6	274,634.0	194,641.8	233,525.6	255,454.7
EBITDA (CNYm)	133,786.6	139,201.0	100,236.4	125,407.0	136,807.0
DB Net Profit (CNY)	55,288.6	60,199.0	23,512.1	39,621.2	46,498.4
DB EPS FD(CNY)	1.24	1.35	0.53	0.89	1.04
OLD DB EPS FD(CNY)	1.24	1.13	0.34	0.68	-
% Change	0.1%	19.1%	56.0%	30.3%	-
PER (x)	9.5	7.6	16.0	9.5	8.1
EV/EBITDA (x)	4.2	3.6	4.2	3.2	2.9
DPS (net) (CNY)	0.44	0.45	0.16	0.26	0.31
Yield (net) (%)	3.7	4.4	1.9	3.1	3.7

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples & yld calculations use avg historical prices for past years & spot prices for current & future years.

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Model updated: 29 March 2015

Running the numbers

Asia

China

Oil & Gas

CNOOC Ltd

Reuters: 0883.HK

Bloomberg: 883 HK

Hold

Price (27 Mar 15) HKD 10.50

Target Price HKD 11.30

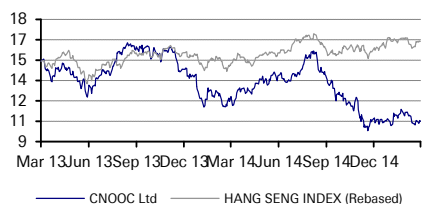
52 Week range HKD 9.80 - 15.68

Market Cap (m) HKDm 468,550
USDm 60,427

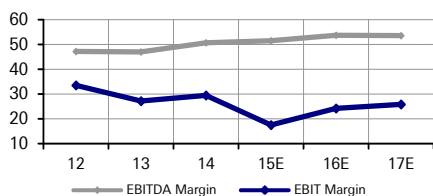
Company Profile

CNOOC Limited, through its subsidiaries, explores, develops, produces, and sells crude oil and natural gas.

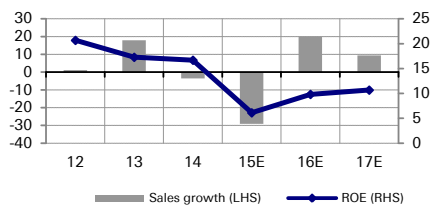
Price Performance



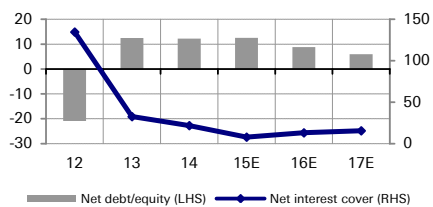
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	1.29	1.24	1.35	0.53	0.89	1.04
Reported EPS (CNY)	1.29	1.24	1.35	0.53	0.89	1.04
DPS (CNY)	0.34	0.44	0.45	0.16	0.26	0.31
BVPS (CNY)	6.7	7.7	8.5	8.7	9.4	10.1
Weighted average shares (m)	44,647	44,647	44,647	44,647	44,647	44,647
Average market cap (CNYm)	573,250	527,658	458,615	375,484	375,484	375,484
Enterprise value (CNYm)	507,133	566,163	501,041	419,289	406,778	395,723

Valuation Metrics

P/E (DB) (x)	10.0	9.5	7.6	16.0	9.5	8.1
P/E (Reported) (x)	10.0	9.5	7.6	16.0	9.5	8.1
P/BV (x)	2.04	1.49	0.98	0.97	0.90	0.83
FCF Yield (%)	6.3	11.2	0.1	0.0	1.6	1.4
Dividend Yield (%)	2.7	3.7	4.4	1.9	3.1	3.7
EV/Sales (x)	2.1	2.0	1.8	2.2	1.7	1.5
EV/EBITDA (x)	4.5	4.2	3.6	4.2	3.2	2.9
EV/EBIT (x)	6.3	7.3	6.2	12.3	7.2	6.0

Income Statement (CNYm)

Sales revenue	241,441	284,685	274,634	194,642	233,526	255,455
Gross profit	118,496	144,807	153,103	110,823	136,432	148,360
EBITDA	113,858	133,787	139,201	100,236	125,407	136,807
Depreciation	32,903	56,456	58,286	66,174	68,870	70,787
Amortisation	0	0	0	0	0	0
EBIT	80,955	77,331	80,915	34,062	56,537	66,020
Net interest income/(expense)	-601	-2,365	-3,701	-4,284	-4,297	-4,226
Associates/affiliates	284	133	1,006	713	855	936
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	3,348	4,580	4,293	3,348	3,807	4,066
Profit before tax	83,986	79,679	82,513	33,839	56,903	66,796
Income tax expense	26,481	24,390	22,314	10,327	17,281	20,298
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	57,505	55,289	60,199	23,512	39,621	46,498
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	57,505	55,289	60,199	23,512	39,621	46,498

Cash Flow (CNYm)

Cash flow from operations	95,874	149,164	102,636	76,326	96,473	102,025
Net Capex	-59,931	-90,298	-102,406	-76,173	-90,284	-96,661
Free cash flow	35,943	58,866	230	153	6,189	5,364
Equity raised/(bought back)	0	6,896	0	0	0	0
Dividends paid	-17,122	-18,958	-19,956	-14,774	-9,311	-12,695
Net inc/(dec) in borrowings	10,304	53,353	22,732	0	0	0
Other investing/financing cash flows	0	-129,287	-847	0	0	0
Net cash flow	29,125	-29,131	2,159	-14,621	-3,121	-7,332
Change in working capital	6,500	37,414	-16,002	-12,795	-11,046	-14,205

Balance Sheet (CNYm)

Cash and other liquid assets	122,134	91,639	91,783	89,690	101,347	111,466
Tangible fixed assets	251,879	419,102	463,222	473,786	495,897	522,543
Goodwill/intangible assets	1,173	37,303	37,641	38,017	38,804	39,753
Associates/investments	3,857	4,094	4,100	4,813	5,668	6,604
Other assets	65,399	69,335	66,113	46,856	56,217	61,496
Total assets	444,442	621,473	662,859	653,163	697,933	741,862
Interest bearing debt	59,874	134,238	138,309	138,309	138,309	138,309
Other liabilities	86,416	145,615	144,940	126,506	141,240	151,650
Total liabilities	146,290	279,853	283,249	264,815	279,549	289,959
Shareholders' equity	298,152	341,620	379,610	388,348	418,384	451,903
Minorities	0	0	0	0	0	0
Total shareholders' equity	298,152	341,620	379,610	388,348	418,384	451,903
Net debt	-62,260	42,599	46,526	48,619	36,962	26,843

Key Company Metrics

Sales growth (%)	1.2	17.9	-3.5	-29.1	20.0	9.4
DB EPS growth (%)	-15.4	-3.9	8.9	-60.9	68.5	17.4
EBITDA Margin (%)	47.2	47.0	50.7	51.5	53.7	53.6
EBIT Margin (%)	33.5	27.2	29.5	17.5	24.2	25.8
Payout ratio (%)	26.5	35.7	33.5	29.7	29.5	29.5
ROE (%)	20.7	17.3	16.7	6.1	9.8	10.7
Capex/sales (%)	24.8	32.5	37.3	39.4	39.0	38.1
Capex/depreciation (x)	1.8	1.6	1.8	1.2	1.3	1.4
Net debt/equity (%)	-20.9	12.5	12.3	12.5	8.8	5.9
Net interest cover (x)	134.7	32.7	21.9	8.0	13.2	15.6

Source: Company data, Deutsche Bank estimates

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Looking at Op Costs

Production taxes; Exploration costs; Iran

Our CNOOC YE14 estimates vs. reported YE14 as well as 2013 and our 2015 and 2016 estimates can see in Figure 1 below.

Figure 1: Follow the operating costs – HK trades on PE basis

CNOOC Ltd Rmb Mlns	2013	1H14a	2H14A	2H14e	2014a	2014e	2015e	2016e
Total production volume (mmboe) - CNOOC Ltd	411.4	211.6		217.4 1.9%	434.2	432.5 5.1%	486.5 12.5%	509.0 4.6%
Brent ASPs - CNOOC Ltd	109.0	108.9	89.2	91.2	98.2	100.0	59.4	70.0
CNOOC ASP to Brent (discount)	96.0%	97.6%			98%		97.1%	97.1%
Revenues	284,685	138,800	135,834	121,455	274,634	264,307	194,642	233,526
Oil & Gas Sales	184,062	117,095	101,115	101,591	218,210	218,686	158,299	191,796
Marketing revenue	55,495	19,673	30,590	21,948	50,263	41,621	30,182	35,568
Other income	2,339	2,032	4,129	1,968	6,161	4,000	6,161	6,161
Total revenue	284,685	138,800	135,834	121,455	274,634	264,307	194,642	233,526
Operating expenses	(30,014)	(14,685)	(16,495)	(17,945)	(31,180)	(32,630)	(35,067)	(38,530)
Production taxes	(15,937)	(7,793)	(4,049)	(8,608)	(11,842)	(16,401)	(8,591)	(10,409)
Exploration costs	(17,120)	(4,742)	(6,783)	(12,919)	(11,525)	(17,661)	(11,390)	(13,504)
DD&A	(56,456)	(27,966)	(30,320)	(31,566)	(58,286)	(59,532)	(66,174)	(68,870)
Dismantlement and site restoration cost	0						0	0
Windfall Profit Tax	(23,421)	(11,971)	(7,101)	(4,585)	(19,072)	(16,556)	0	(747)
Crude and product purchases	(53,386)	(18,481)	(29,431)	(21,559)	(47,912)	(40,040)	(28,770)	(33,905)
SG&A	(7,859)	(3,424)	(3,189)	(4,828)	(6,613)	(8,252)	(8,518)	(8,793)
Others	(3,161)	(1,289)	(6,000)	(1,569)	(7,289)	(2,858)	(2,069)	(2,506)
Total expenses	(207,354)	(90,351)	(103,368)	(103,579)	(193,719)	(193,930)	(160,580)	(177,264)
EBIT	77,331	48,449	32,466	17,876	80,915	70,377	34,062	56,262
EBITDA	134,029	76,415	62,786	49,443	139,201	129,910	100,236	125,132
EBITDE								
- EBIT Margin	27.2%	34.9%	23.9%	14.7%	29.5%	26.6%	17.5%	24.1%
- EBITDA Margin	47.1%	55.1%	46.2%	40.7%	50.7%	49.2%	51.5%	53.6%
Interest income	1,092	577	496	706	1,073	1,283	561	548
Interest expense	(3,457)	(2,302)	(2,472)	(1,457)	(4,774)	(3,759)	(4,845)	(4,845)
F/X gain/(loss)	873	(163)	1,212	1,036	1,049	873	1,049	1,049
Investment income	2,611	1,253	1,431	1,600	2,684	2,853	1,902	2,282
Share of profit from associate	133	85	921	60	1,006	145	713	855
Others	1,096	748	(188)	450	560	1,198	397	476
Non-operating profit/(loss)	2,348	198	1,400	2,395	1,598	2,593	(223)	366
Profit before tax	79,679	48,647	33,866	20,271	82,513	72,970	33,839	56,628
Income tax	(24,390)	(15,054)	(7,260)	(10,076)	(22,314)	(22,256)	(10,327)	(17,281)
Net income	55,531	33,593	26,606	10,195	60,199	50,714	23,512	39,346
Shares Out	44,647	44,647	44,647	44,647	44,647	44,647	44,647	44,647
EPS (RMB\$)	1.24	0.75	0.60	0.23	1.35	1.14	0.53	0.88
- EPS (HK\$)		0.95	0.75	0.29	1.69	1.43		
DPS (RMB \$)	0.37	0.20	0.26	0.07	0.45	0.34	0.16	0.26
- DPS (HK\$)		0.25	0.32	0.09	0.57	0.43		
Payout (RMB \$)	30%				34%	30%	30%	30%

Source: Company specific data; Deutsche Bank



We call them "Production taxes" but they are actually a mix of Royalty (5%) tax on old Production Sharing Contracts (PSCs) and the new Resource Tax (3-5%) assessed against new PSCs and CNOOC's 100% owned off shore China projects. It is an ugly mix which was adjusted up (Resource Tax) at YE12 and then again in Dec 2014 from 5% to 6%. Who knows what is in there, but every time it gets adjusted it seems to have been to the upside and not to the downside, which is why were very surprised to see the annual 2014 rate (vs. Revenues) dip to 5.4% vs. 8.7% for FY 2013 and 8.3% in 2012. Looking at this same tax 1H14 and 2H14, the assessment 1H was Rmb 7.79bn vs. 2H of only Rmb 4.0bn. We are still not sure what happened here, but CFO Zhong Hua answered that the Resource Tax had affected this line item – evidently for the better and not in 1H14 but mostly in 2H14. Looking forward we have adjusted our "Production tax" line item down to 5.4% (2014 effective) from previous 7.5% pa. This one took us by surprise.

"Production taxes" surprised to the downside

Exploration costs are managed down when oil prices decline. The more expensive "wild-cat" exploration is reduced while appraisal "exploration" continues forward. The hit rate on true wild-cat exploration is 30-40%, (improving with new technologies) where as the hit rate on appraisal "exploration" is 80-85%. "Exploration expenses" on the P&L represent the write of "dry hole" exploration expenses. We wrote about this concept in detail in our 03-February CNOOC Ltd report titled "Poor little sister".

Falling oil prices – falling "exploration costs"

More to the point, we went back and analyzed the CNOOC's Exploration Expenses relative to its total Exploration Capex since 2002. Our findings are interesting and noted below.

Figure 2: Since 2002, CNOOC has written off ~64.3% of its exploration capex as "Exploration Expense"

CNOOC Ltd Rmb mlns	2002	2003	2004	2005	2006	2007	2008
Capex	8,128	10,585	13,959	17,898	26,141	26,737	35,755
Exploration Capex	1,523	1,317	1,944	2,038	3,279	5,447	6,519
Exploration Expense (P&L)	(1,318)	(848)	(1,316)	(1,294)	(1,705)	(3,432)	(3,410)
Exp Expense / Exploration Capex	86.6%	64.4%	67.7%	63.5%	52.0%	63.0%	52.3%
- Average write off of Exploration Capex (2002-08)							64.2%
	2009	2010	2011	2012	2013	2014	2015e
Capex	42,674	34,052	41,435	59,931	92,416	107,097	76,738
Exploration Capex	7,288	7,460	9,398	13,200	18,200	23,200	16,624
Exploration Expense (P&L)	(3,234)	(5,580)	(5,220)	(9,043)	(17,120)	(11,525)	(11,390)
Exp Expense / Exploration Capex	44.4%	74.8%	55.5%	68.5%	94.1%	49.7%	68.5%
- Average write off of Exploration Capex (2009-14)						64.5%	
- Average write off of Exploration Capex (2010-14)						68.5%	

Source: Deutsche Bank



We were intrigued by the 2009 to 2010 sequence above. Granted oil prices recovered quickly in 2010, which is something we do not expect in 2015e. We see two takeaway points for the above data:

- It should not surprise us to see low dry well write offs during periods of low oil prices (ie – less “wild cat” and more “appraisal” exploration); and
- Might there be a bounce back in these expenses 2015e, assuming oil prices stabilize at current US\$ 50-55/ bbl and start to rise 2H15e, as forecasted – by most, including DB?

We also think that some of these costs can be time-managed, which is why we need to analyze this data over long periods of time.

CNOOC’s 2015 effective Income Tax rate was 27% vs. a China statutory rate of 25% and a CNOOC effective tax rate (2012-13) of 31.5% and 30.5% respectively. CNOOC’s effective tax rate increased substantially in 2012 and 2013. Earlier discussions with CNOOC’s CFO suggested that CNOOC’s business in Nigeria (OML-130) and UK (Nexen) were supporting the higher effective tax rate vs. China statutory. The significant decline in CNOOC’s 2014 tax rate had much to do with a tax deferral on one of Nexen’s assets in Canada. We suspect the deferral in Canada won’t last, but we are curious to see the impact of shifting tax rates in the UK North Sea (Nexen).

Income tax rates

At the YE14 results presentation, CNOOC made no changes to its estimated 2015e capex of Rmb 70-80bn. Similarly, there were no changes made to management’s production guidance for 2015-2016-2017 and in terms of mmBoe: 475 to 495 in 2015; 509 in 2016 and 513 in 2017. Management reiterated its opinion that these estimates are a “rolling target” and as a result are subject to change. We suspect production guidance will be raised at the very least for 2017e as we get closer to the end of 2015e.

Guidance unchanged

Figure 3: CNOOC Production – Estimates 20115-17 in Mln Boe

CNOOC - Production Mln Boe	2013	2014	2015e	2016e	2017e
Management Guidance	411.4	432.5	475-495	509.0	513.0
- Growth		5.1%	10-15%	4.9%	0.8%
DB Estimates	411.4	432.5	486.5	509.0	530.7
- Growth		5.1%	12.5%	4.6%	4.3%

Source: Company data; Deutsche Bank

Oil prices seem to be looking for a US\$ 50-55/ Brent bottom. We remain concerned that the UN Security Council +1 discussions with Iran may be coming to a head end-1H15e with the possibility of another 400k to 500k bpd of oil to be dumped into global markets. DB Oil seems confident that N. American oil production will start to slow 2H15 as the declining rig-count starts to impact production. Group think tells us that the reason shale gas has continued to grow despite the 2008 (and beyond) collapse in rig count is the result of associated gas in the tight oil patch. As per the IEA, we should be finding out quite soon.

Iran and ST oil prices



Risks and valuation

We value CNOOC Ltd from a DCF model (Figure 4). Our WACC is 8.1% with a CoE of 10.1% a China Rfr of 3.9% and an Erp of 5.6%. Our China Rfr and Erp are standardized and set by DB Strategy Group. We use a 3% TG rate (unchanged) for CNOOC Ltd. to reflect what we believe is the company's LT sustainable BOE production growth rate.

We have separated our global E&P peer (Figure 6) into companies that are more-oil prone vs. those that are more-gas prone. The natural gas prone E&P companies used to trade at premiums (2010-13) to the oil based E&P companies given faster natural gas production growth relative to oil production growth. However, the reality of comparatively low Henry Hub natural gas prices to Brent oil prices has helped to erase these gas premiums (2014-15e).

Commodity shares should trade at high PEs when commodity prices collapse and share prices attempt to trade through to subsequent years. Markets work – even in China. We are starting to see this picture in the global E&P companies. CNOOC Ltd is currently trading at 16x forward 2015 estimates vs. 43x global “more oil than gas” peers (Figure 6). On our 1-year forward 2016 estimates we show the stock trading at 9.5x PE. Looking at CNOOC's long-term mean PE valuation of 10.2x forward estimates (Figure 5), it seems to us as if the market is looking through 2015 estimates and into 2016e. The stock is currently trading at a 7% discount to LT average valuation. Considering that we are skipping 1-year (2015) and that CNOOC's WACC in our DCF model is 8.1%, CNOOC Ltd currently looks to be trading near to its LT mean valuation. We believe the stock is fairly valued.

We believe that CNOOC's upper valuation range should be PE parity to global peers given:

- Government control / ownership of the company;
- Too much black box (how to account for Iraq / where has Argentina gone / what is going on with Nexen and deep water S. China Sea);
- Higher than peer exposure to falling / rising oil prices;
- Concerns surrounding China's economic prospects; and
- A new management team trying to find its way;

The principal risks to our Hold rating on CNOOC Ltd include: 1) materially higher / lower than anticipated oil prices; 2) the potential 3) a boatload of cash still to deploy. Although management seems to be pivoting away from M&A, we continue to see on-going M&A risks given the company's large cash position.



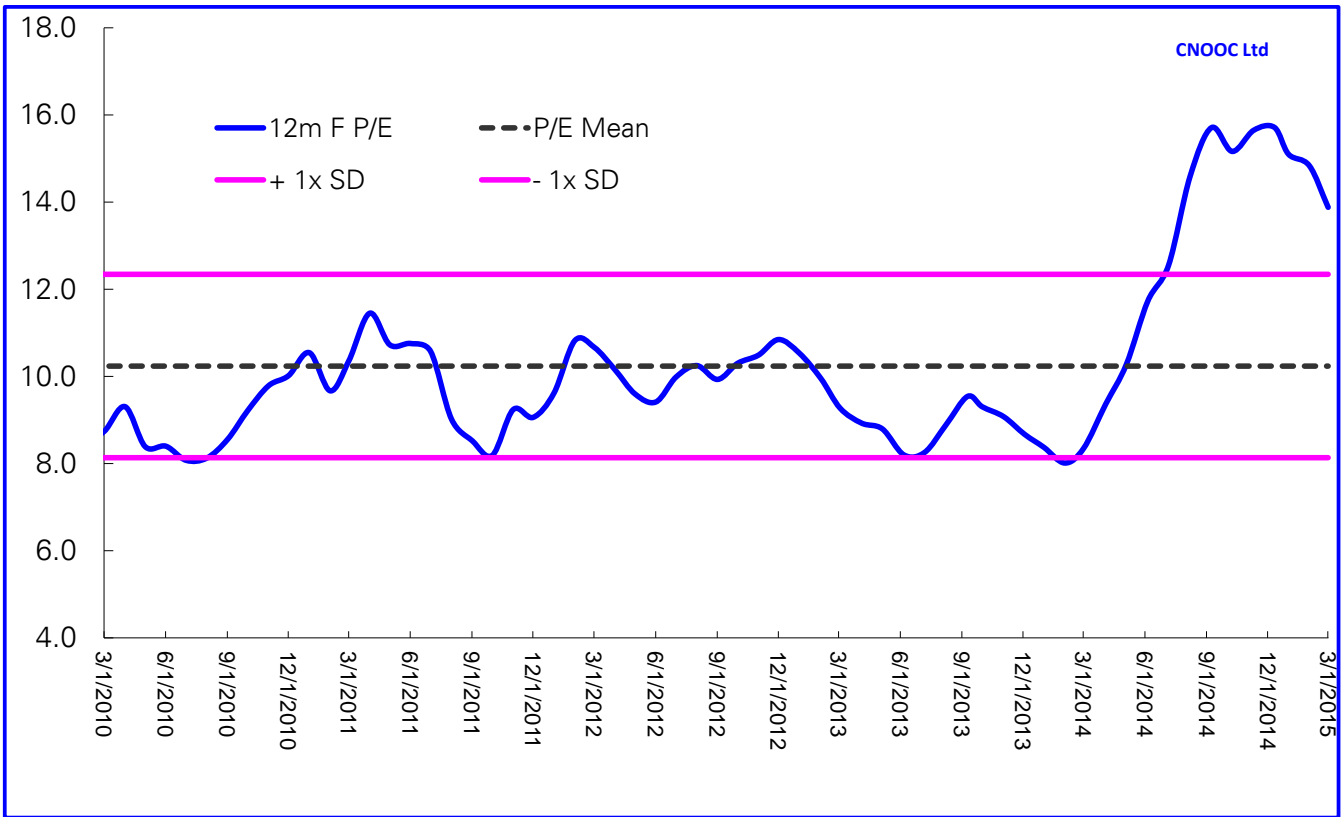
Figure 4: CNOOC Ltd – DCF Model

	RMB = US\$ 1 HK\$ = US\$1	6.16 7.79	6.23 7.79	6.25 7.79	6.25 7.79	6.25 7.79	6.25 7.79	6.25 7.79	
CNOOC DCF								Terminal	
		2015F	2016F	2017F	2018F	2019F	2020F	2021F	
Operating Income		34,062	56,262	65,736	77,100	78,099	76,821	64,836	
Depreciation		66,174	68,870	70,787	74,855	81,103	87,845	90,888	
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Income Tax	-30%	-10,219	-16,879	-19,721	-23,130	-23,430	-23,046	-19,451	
(Capex)		-76,173	-90,284	-96,661	-103,117	-103,086	-103,066	-103,097	
(Decrease) / Increase WC		-12,795	-11,046	-14,205	-16,770	-21,765	-26,890	0	
Free CF		1,050	6,924	5,936	8,939	10,921	11,664	33,176	
Fiscal Credits		0	0	0	0	0	0	0	
Free CF (ex Tax)		1,050	6,924	5,936	8,939	10,921	11,664	33,176	
Terminal Growth								3.0%	
								Terminal	
								As % PV	
6.1%		989	6,526	5,273	7,484	8,618	8,675	750,180	95.2%
7.0%		981	6,471	5,185	7,297	8,332	8,316	552,659	93.8%
8.0%		972	6,411	5,089	7,096	8,027	7,938	418,126	92.2%
8.1%		971	6,407	5,083	7,081	8,006	7,911	410,465	92.0%
10.0%		954	6,294	4,906	6,716	7,459	7,242	267,526	88.9%
11.0%		946	6,238	4,818	6,536	7,194	6,922	221,713	87.2%
12.0%		937	6,182	4,732	6,362	6,940	6,618	186,754	85.5%
13.0%		929	6,127	4,649	6,195	6,698	6,331	159,349	83.7%
14.0%		921	6,074	4,568	6,033	6,466	6,058	137,404	82.0%
15.0%		913	6,021	4,489	5,877	6,244	5,799	119,523	80.3%
16.0%		905	5,969	4,412	5,727	6,032	5,553	104,744	78.6%
		Total PV	Net Debt	Minorities	Net Pres. Value	Shrs Outst	NPV / Shr	WACC	
		787,745	46,526	0	741,219	44,647	16.60	6.1%	
2-Yr Beta x HSI	110.0%	589,240	46,526	0	542,714	44,647	12.16	7.0%	
Rf Rate Local	3.90%	453,659	46,526	0	407,133	44,647	9.12	8.0%	
Equity Risk Premium	5.60%	445,924	46,526	0	399,397	44,647	8.95	8.1%	
Country Risk Premium	0.00%	301,097	46,526	0	254,571	44,647	5.70	10.0%	
Cost Equity	10.1%	254,366	46,526	0	207,840	44,647	4.66	11.0%	
Cost Debt	3.9%	218,526	46,526	0	172,000	44,647	3.85	12.0%	
Debt Risk Premium	0.0%	190,278	46,526	0	143,751	44,647	3.22	13.0%	
After Tax Cost Debt	2.7%	167,523	46,526	0	120,997	44,647	2.71	14.0%	
Debt / Capital	27.1%	148,865	46,526	0	102,339	44,647	2.29	15.0%	
Avg. Cost Capital	8.1%	133,340	46,526	0	86,814	44,647	1.94	16.0%	
RMB m		2015F	2016F	2017F	2018F	2019F	2020F	2021F	
Total PV	445,924	971	6,407	5,083	7,081	8,006	7,911	410,465	
Net Debt	46,526								
Net Minorities	0								
NPV Equity	399,397								
Shrs Outs	44,647								
NPV / Share	8.95								
WACC	8.1%								
DCF Rmb									
Upside									
					NA Price HK\$			10.46	
					8.95 DCF HK\$			11.30	
					NA Upside			8.1%	

Source: Deutsche Bank



Figure 5: CNOOC Ltd – 5-Year PE valuation (2010-15)



Source: Company specific information; Deutsche Bank

Figure 6: CNOOC Ltd vs. traditional valuations

Prices close on		29-Mar-15						P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE %		Net Debt / Equity
Company	Ticker	Fx	Price	Rating	Price Target	% to target	Mkt. Cap US\$bn	14F	15F	14F	15F	14F	15F	14F	15F	2015F
E&P Global :																
CNOOC Ltd	0883.HK	HKD	10.5	Hold	11.03	5.0	60.5	7.6	16.0	3.6	4.2	1.0	1.0	16.7	6.1	21.4
Cairn India	CAIL.BO	INR	216.0	Hold	226	4.6	6.5	4.8	6.2	3.9	4.0	1.1	0.6	23.6	11.0	(5.0)
ONGC	ONGC.BO	INR	304	Buy	412	35.5	41.7	10.6	8.9	4.6	3.8	1.4	1.3	13.7	14.9	(3.3)
Anadarko Petroleum	APC.N	USD	82.2	Buy	96	16.8	42.4	17.7	88.9	4.5	9.0	2.0	2.0	11.0	2.3	56.1
Marathon Oil	MRO.N	USD	25.9	Buy	34	31.3	17.5	11.4	NM	5.0	11.3	0.9	0.9	15.6	(2.7)	34.6
ConocoPhillips	COP.N	USD	62.9	Buy	73	16.0	77.5	11.8	67.8	4.1	6.5	1.4	1.5	12.8	2.2	41.0
PTTEP	PTTE.BK	THB	164.0	Buy	132	(19.5)	13.3	25.2	12.4	3.4	3.4	1.1	1.0	5.6	8.3	10.1
Noble Energy	NBL.N	USD	48.0	Hold	56	16.7	18.6	28.0	74.4	8.0	9.6	1.7	1.7	8.4	2.3	54.9
Devon Energy	DVN.N	USD	59.2	Buy	70	18.3	24.3	13.7	33.3	5.3	7.5	1.2	1.1	9.4	3.4	41.9
Apache	APA.N	USD	59.4	Hold	69	16.1	22.4	14.5	NM	6.6	6.8	0.9	0.9	(18.8)	(1.0)	27.8
Encana	ECA.TO	CAD	13.8	Hold	16	16.2	9.1	13.1	192.9	5.1	6.2	1.1	0.8	11.8	0.5	40.0
Chesapeake Energy	CHK.N	USD	14.0	Hold	20	42.6	9.3	17.5	65.7	4.0	6.3	0.9	0.7	9.1	1.5	63.0
Oil Search	OSH.AX	USD	7.5	Buy	9	24.7	8.9	23.6	36.4	13.1	13.3	2.2	1.8	10.7	5.0	62.6
Woodside Petroleum	WPL.AX	AUD	35.0	Hold	36	1.6	22.4	11.3	16.8	5.6	8.0	1.8	1.5	16.9	8.7	27.3
INPEX	1605.T	Yen	1,360.5	Buy	1,600	17.6	16.7	9.3	16.3	1.5	2.6	0.7	0.7	7.0	4.3	26.3
Mean								15.2	30.0	4.7	6.5	1.3	1.2	9.8	4.3	34.1
Median								13.4	34.8	4.8	6.7	1.1	1.1	10.8	2.8	37.3
More Oil than Gas (Mean)								11.3	42.9	4.4	6.9	1.4	1.3	15.4	5.5	24.7
More Gas than Oil (Mean)								17.4	36.5	4.9	6.3	1.3	1.1	6.7	3.7	39.3
More Shale Gas than Oil (Mean)								14.7	49.5	5.2	6.7	1.0	0.9	2.9	1.1	43.2

NOTES:

"More Oil than Gas" = CNOOC Ltd through Canadian Natural

"More Gas than Oil" = PTTEP through Woodside

"More Shale Gas than Oil" = Devon; Apache; Encana & Chesapeake

Red outliers are not included in averages

Source: Deutsche Bank





Appendix 1

Important Disclosures

Additional information available upon request

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Company	Ticker	Recent price*	Disclosure
CNOOC Ltd	0883.HK	10.52 (HKD) 27 Mar 15	1,7,14

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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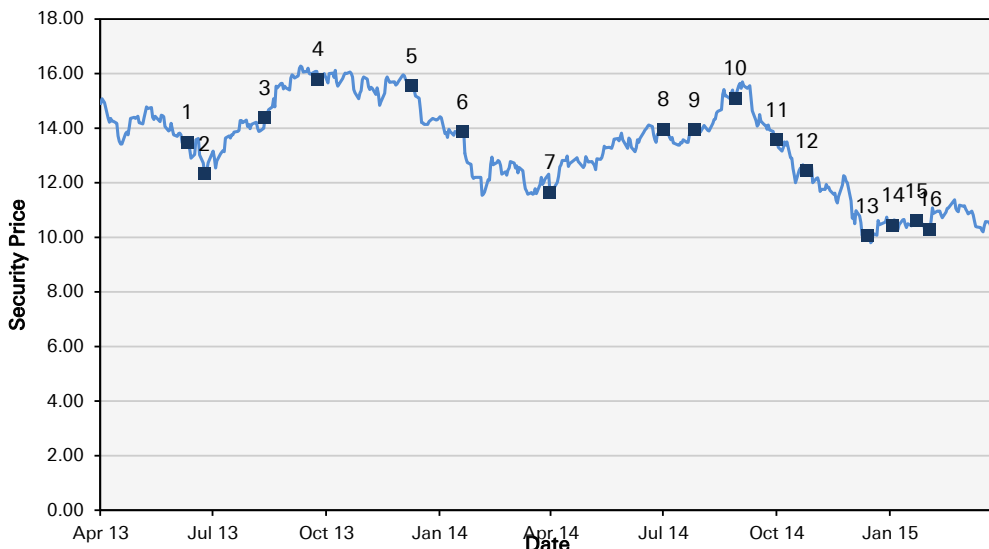
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Historical recommendations and target price: CNOOC Ltd (0883.HK)

(as of 3/27/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	11/06/2013:	Hold, Target Price Change HKD15.67	9.	27/07/2014:	Hold, Target Price Change HKD13.87
2.	25/06/2013:	Hold, Target Price Change HKD13.70	10.	29/08/2014:	Hold, Target Price Change HKD14.26
3.	13/08/2013:	Hold, Target Price Change HKD14.32	11.	02/10/2014:	Hold, Target Price Change HKD14.40
4.	25/09/2013:	Hold, Target Price Change HKD14.57	12.	26/10/2014:	Hold, Target Price Change HKD13.17
5.	10/12/2013:	Hold, Target Price Change HKD15.23	13.	14/12/2014:	Hold, Target Price Change HKD10.42
6.	20/01/2014:	Hold, Target Price Change HKD13.85	14.	04/01/2015:	Hold, Target Price Change HKD11.42
7.	01/04/2014:	Hold, Target Price Change HKD12.41	15.	23/01/2015:	Hold, Target Price Change HKD10.37
8.	02/07/2014:	Hold, Target Price Change HKD13.65	16.	03/02/2015:	Hold, Target Price Change HKD11.03

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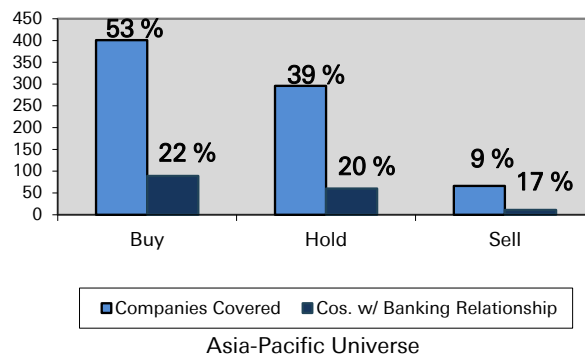
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Equity rating dispersion and banking relationships





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