



Rating
Hold

Asia
China

Energy
Oil & Gas

Company
PetroChina

| | | | |
|--------------------|----------------------|-----------------|----------------|
| Reuters 0857.HK | Bloomberg 857 HK | Exchange HKG | Ticker 0857 |
| ADR Ticker PTR | ISIN US71646E1001 | | |

Date
27 March 2015

Results

| | |
|----------------------------|--------------|
| Price at 26 Mar 2015 (HKD) | 8.35 |
| Price target - 12mth (HKD) | 8.94 |
| 52-week range (HKD) | 11.62 - 7.94 |
| HANG SENG INDEX | 24,528 |

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Solid 2014 results - not so sure how we got there

E&P surprises

PetroChina (PTR) reported solid 2014 net income of Rmb 107.2bn (0.59/ share) vs. our Rmb 113.2bn (0.62/ shr). Op income was Rmb 169.8bn vs. our 172.6bn with revenues of Rmb 2.28tr vs. our 2.27tr. The dividend payout remained 45%; capex fell -8.5% to Rmb 297.7bn; the capex target for 2016e of Rmb 250bn remains; the tax rate was high at 24% vs. our 21% est. E&P revenue fell -3.3% 4Q/3Q while (adjusted) oil price fell -17.6%; E&P op profit fell -6.4% Q/Q. We maintain our Hold on PTR given the prospect of a difficult 2015e.

Operating Income by Segment (2014)

Operating income by segment was: 1) E&P Rmb 186.8bn vs. our 177bn; 2) Refining & Chemicals Rmb -23.5bn vs. our -18.4bn: refining lost -9.7bn in 4Q14 and -7.1bn for the full year; 3) Marketing Rmb 5.4bn vs. our 13.4bn: marketing lost -5.1bn 4Q14; 4) Natural Gas Pipeline Rmb 13.1bn vs. our 13.1bn. E&P surprised to the upside; Marketing to the downside. We have added to our E&P margins / estimates 2015-20; we have taken away from Gas & Pipeline.

Investment thesis – remain optimistically cautious

We continue to “wait out this storm” in PTR. Although we were surprised to the upside with 4Q & FY14 results, we suspect 1Q15 / 1H15 will be difficult. How 4Q/ 3Q revenues dropped by only -3.3% while the (adjusted) Brent oil price fell -17.7% and oil production growth (4Q14/ 3Q14) +4.5% (1.4% y/y). The gas and pipeline business did well although import losses (Rmb -35bn) were high relative to our estimate (Rmb 28bn) with domestic gas making more.

Valuation and risks

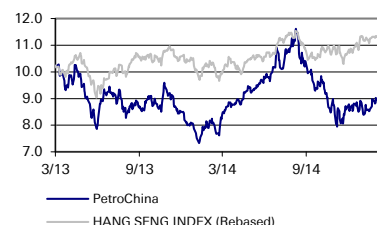
We value PTR from a DCF. Our WACC is 7.6% with a CoE of 9.5%, an after tax CoD of 2.9% and 29.5% debt-to-capital. We use a DB standard China Rfr of 3.9% and ErP of 5.6%. Our TG rate of 1.5% reflects our view of PTR's LT sustainable BOE production growth. Risks include 1) higher / lower oil prices; and 2) higher / lower natural gas prices.

Key changes

| | | | |
|----------------------|------------------------|---|------|
| Price target | 8.39 to 8.94 | ↑ | 6.6% |
| Sales (FYE) | 2,049,187 to 2,097,470 | ↑ | 2.4% |
| Op prof margin (FYE) | 6.5 to 6.6 | ↑ | 1.6% |
| Net profit (FYE) | 80,401.6 to 83,463.4 | ↑ | 3.8% |

Source: Deutsche Bank

Price/price relative



| | | | |
|-----------------|------|------|------|
| Performance (%) | 1m | 3m | 12m |
| Absolute | -7.4 | -3.2 | -0.1 |
| HANG SENG INDEX | -1.5 | 5.0 | 12.1 |

Source: Deutsche Bank

Forecasts And Ratios

| Year End Dec 31 | 2013A | 2014A | 2015E | 2016E | 2017E |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Sales (CNYm) | 2,258,124.0 | 2,282,962.0 | 2,097,469.8 | 2,385,958.6 | 2,720,691.8 |
| EBITDA (CNYm) | 352,007.2 | 347,296.0 | 319,818.5 | 370,003.5 | 390,218.4 |
| DB Net Profit (CNY) | 129,598.8 | 107,172.0 | 83,463.4 | 114,524.0 | 124,097.8 |
| DB EPS FD(CNY) | 0.71 | 0.59 | 0.46 | 0.63 | 0.68 |
| OLD DB EPS FD(CNY) | 0.71 | 0.62 | 0.44 | 0.53 | - |
| % Change | 0.0% | -5.4% | 3.8% | 19.1% | - |
| DB EPS growth (%) | 12.4 | -17.3 | -22.1 | 37.2 | 8.4 |
| PER (x) | 10.6 | 12.4 | 14.7 | 10.7 | 9.9 |
| EV/EBITDA (x) | 5.2 | 5.2 | 5.5 | 4.6 | 4.2 |
| DPS (net) (CNY) | 0.32 | 0.26 | 0.21 | 0.28 | 0.31 |
| Yield (net) (%) | 4.3 | 3.6 | 3.1 | 4.2 | 4.6 |

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: 26 March 2015

Running the numbers

Asia

China

Oil & Gas

PetroChina

Reuters: 0857.HK

Bloomberg: 857 HK

Hold

Price (26 Mar 15) HKD 8.35

Target Price HKD 8.94

52 Week range HKD 7.94 - 11.62

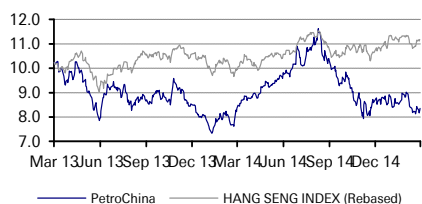
Market Cap (m) HKDm 1,528,225

USDm 197,068

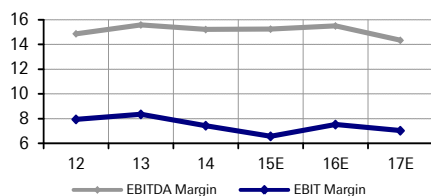
Company Profile

PetroChina Company Limited explores, develops, and produces crude oil and natural gas. The Company also refines, transports, and distributes crude oil and petroleum products, produces and sells chemicals, and transmits, markets and sells natural gas.

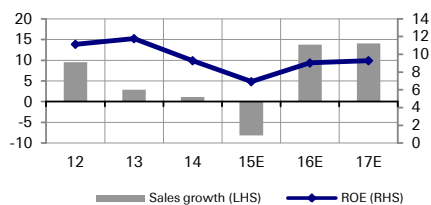
Price Performance



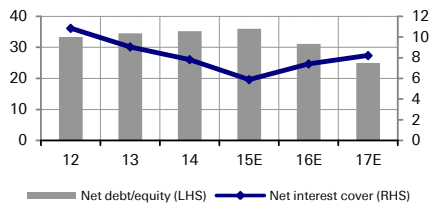
Margin Trends



Growth & Profitability



Solvency

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Fiscal year end 31-Dec

| | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| DB EPS (CNY) | 0.63 | 0.71 | 0.59 | 0.46 | 0.63 | 0.68 |
| Reported EPS (CNY) | 0.63 | 0.71 | 0.59 | 0.46 | 0.63 | 0.68 |
| DPS (CNY) | 0.28 | 0.32 | 0.26 | 0.21 | 0.28 | 0.31 |
| BVPS (CNY) | 5.8 | 6.2 | 6.4 | 6.8 | 7.1 | 7.5 |
| Weighted average shares (m) | 183,021 | 183,021 | 183,021 | 183,021 | 183,021 | 183,021 |
| Average market cap (CNYm) | 1,563,509 | 1,370,261 | 1,332,926 | 1,224,730 | 1,224,730 | 1,224,730 |
| Enterprise value (CNYm) | 1,995,311 | 1,829,141 | 1,821,274 | 1,749,791 | 1,708,261 | 1,639,450 |

Valuation Metrics

| | | | | | | |
|--------------------|------|------|------|------|------|------|
| P/E (DB) (x) | 13.6 | 10.6 | 12.4 | 14.7 | 10.7 | 9.9 |
| P/E (Reported) (x) | 13.6 | 10.6 | 12.4 | 14.7 | 10.7 | 9.9 |
| P/BV (x) | 1.53 | 1.09 | 1.06 | 0.99 | 0.94 | 0.89 |
| FCF Yield (%) | nm | 1.1 | 1.0 | 1.1 | 7.3 | 9.8 |
| Dividend Yield (%) | 3.3 | 4.3 | 3.6 | 3.1 | 4.2 | 4.6 |
| EV/Sales (x) | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 0.6 |
| EV/EBITDA (x) | 6.1 | 5.2 | 5.2 | 5.5 | 4.6 | 4.2 |
| EV/EBIT (x) | 11.4 | 9.7 | 10.7 | 12.7 | 9.5 | 8.6 |

Income Statement (CNYm)

| | | | | | | |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Sales revenue | 2,195,296 | 2,258,124 | 2,282,962 | 2,097,470 | 2,385,959 | 2,720,692 |
| Gross profit | 654,099 | 651,597 | 653,851 | 570,608 | 629,477 | 661,455 |
| EBITDA | 326,494 | 352,007 | 347,296 | 319,819 | 370,003 | 390,218 |
| Depreciation | 151,975 | 163,365 | 177,463 | 181,845 | 190,314 | 198,865 |
| Amortisation | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT | 174,519 | 188,642 | 169,833 | 137,973 | 179,690 | 191,353 |
| Net interest income/(expense) | -16,101 | -20,859 | -21,723 | -23,452 | -24,262 | -23,317 |
| Associates/affiliates | 8,262 | 10,228 | 10,962 | 10,962 | 10,962 | 10,962 |
| Exceptionals/extraordinary | 0 | 0 | 0 | 0 | 0 | 0 |
| Other pre-tax income/(expense) | 131 | 52 | -2,313 | 52 | 52 | 52 |
| Profit before tax | 166,811 | 178,063 | 156,759 | 125,535 | 166,442 | 179,050 |
| Income tax expense | 36,191 | 35,789 | 37,731 | 30,216 | 40,062 | 43,096 |
| Minorities | 15,280 | 12,675 | 11,856 | 11,856 | 11,856 | 11,856 |
| Other post-tax income/(expense) | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 115,340 | 129,599 | 107,172 | 83,463 | 114,524 | 124,098 |
| DB adjustments (including dilution) | 0 | 0 | 0 | 0 | 0 | 0 |
| DB Net profit | 115,340 | 129,599 | 107,172 | 83,463 | 114,524 | 124,098 |

Cash Flow (CNYm)

| | | | | | | |
|--------------------------------------|----------|----------|----------|----------|----------|----------|
| Cash flow from operations | 256,015 | 334,038 | 309,317 | 279,075 | 339,403 | 369,670 |
| Net Capex | -324,249 | -318,696 | -295,622 | -265,473 | -250,000 | -250,000 |
| Free cash flow | -68,234 | 15,342 | 13,695 | 13,601 | 89,403 | 119,670 |
| Equity raised/(bought back) | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | -49,420 | -55,529 | -45,920 | -35,761 | -49,070 | -53,172 |
| Net inc/(dec) in borrowings | 126,648 | 50,608 | 43,800 | 50,000 | 0 | 0 |
| Other investing/financing cash flows | 1,989 | -6,080 | 10,796 | -13,658 | 2,091 | 3,207 |
| Net cash flow | 10,983 | 4,341 | 22,371 | 14,182 | 42,424 | 69,705 |
| Change in working capital | -48,237 | 20,612 | 19,995 | 1,910 | 22,709 | 34,851 |

Balance Sheet (CNYm)

| | | | | | | |
|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash and other liquid assets | 49,915 | 57,249 | 76,021 | 90,202 | 132,626 | 202,331 |
| Tangible fixed assets | 1,571,007 | 1,648,823 | 1,747,691 | 1,831,319 | 1,891,006 | 1,942,140 |
| Goodwill/intangible assets | 104,634 | 145,634 | 149,527 | 149,527 | 149,527 | 149,527 |
| Associates/investments | 80,042 | 116,700 | 116,947 | 127,909 | 138,871 | 149,833 |
| Other assets | 368,087 | 373,703 | 315,287 | 279,246 | 313,876 | 354,242 |
| Total assets | 2,173,685 | 2,342,109 | 2,405,473 | 2,478,204 | 2,625,906 | 2,798,074 |
| Interest bearing debt | 445,021 | 495,629 | 539,429 | 589,429 | 589,429 | 589,429 |
| Other liabilities | 543,127 | 576,546 | 548,263 | 499,195 | 568,937 | 657,915 |
| Total liabilities | 988,148 | 1,072,175 | 1,087,692 | 1,088,624 | 1,158,366 | 1,247,344 |
| Shareholders' equity | 1,068,799 | 1,132,734 | 1,175,894 | 1,235,618 | 1,301,072 | 1,371,998 |
| Minorities | 116,738 | 137,200 | 141,887 | 153,743 | 165,599 | 177,455 |
| Total shareholders' equity | 1,185,537 | 1,269,934 | 1,317,781 | 1,389,361 | 1,466,671 | 1,549,453 |
| Net debt | 395,106 | 438,380 | 463,408 | 499,227 | 456,803 | 387,098 |

Key Company Metrics

| | | | | | | |
|------------------------|-------|------|-------|-------|------|------|
| Sales growth (%) | 9.6 | 2.9 | 1.1 | -8.1 | 13.8 | 14.0 |
| DB EPS growth (%) | -13.3 | 12.4 | -17.3 | -22.1 | 37.2 | 8.4 |
| EBITDA Margin (%) | 14.9 | 15.6 | 15.2 | 15.2 | 15.5 | 14.3 |
| EBIT Margin (%) | 7.9 | 8.4 | 7.4 | 6.6 | 7.5 | 7.0 |
| Payout ratio (%) | 45.0 | 45.0 | 45.0 | 45.0 | 45.0 | 45.0 |
| ROE (%) | 11.1 | 11.8 | 9.3 | 6.9 | 9.0 | 9.3 |
| Capex/sales (%) | 14.8 | 14.1 | 12.9 | 12.7 | 10.5 | 9.2 |
| Capex/depreciation (x) | 2.1 | 2.0 | 1.7 | 1.5 | 1.3 | 1.3 |
| Net debt/equity (%) | 33.3 | 34.5 | 35.2 | 35.9 | 31.1 | 25.0 |
| Net interest cover (x) | 10.8 | 9.0 | 7.8 | 5.9 | 7.4 | 8.2 |

Source: Company data, Deutsche Bank estimates



Various and sundry

The E&P business in particular

China, including PetroChina prices its oil on a 1-month lag to the international markets. The average Brent oil price Sept-Nov 2014 (US\$ 87.9/ bbl) fell -17.6% relative to the average Brent price June-August (US\$ 106.9/ bbl). PTR's E&P operating income fell -6.4% (4Q14 / 3Q14) to Rmb 40.9bn from 43.7bn. Management suggested that the work they had done in 2013 on two heavy oil fields had lead to significant improvements in profitability on the fields. In addition, management suggested that by changing around PTR's incentive program for both workers and management that more attention was now being paid to profitability (and returns) throughout the organization.

Now how does that work?

This is all very commendable and we wrote about PTR's new focus on profitability in our note dated 06-October 2014, "On the road with PetroChina". However, efficiency gains address an improving operating margin and maybe why PTR's operating income fell only -6.4% Q/y (4Q14/ 3Q14) but it does not explain why Q/q revenues fell only -3.3% on the back of a -17.6% drop in the (adjusted) Brent price and a crude oil production growth rate 4Q/ 3Q14 of +4.5%. According to PTR's YE14 Results announcement filed with the HK Stock Exchange, PTR "Average Realized Sales Price" (ASP) fell only -13.1% Y/y 2014 / 2013. Looking at PTR's ASP as presented in its YE14 Presentation, PTR notes that the company's ASP for crude oil in 2014 was US\$ 94.83/ bbl. Comparing this to the average (adjusted) Brent price (Nov13/ Nov 14) of US\$ 102.8/ bbl we note a PTR ASP (US\$ 94.8/ bbl) discount to the adjusted price of Brent equal to 7%. PTR's longer term ASP discount to Brent has been 8.0-8.5% traditionally. A penny here; a penny there, but we are still having problems fully explaining the meager -3.3% drop in PTR E&P revenues 4Q14/ 3Q14. We recall the times in 2007-2009, when PTR periodically changed its ASP marker in order to minimize its Windfall Profit Tax (WPT) liability. Now that the decline in oil price, as well as government policy, has done away with the WPT, why not maximize the ASP.

Getting warmer

We suspect that PTR may be playing around with its ASP benchmark now that it no longer needs to pay a WPT in China. This could very well persist over the coming years. It may also explain the horrible 4Q14 result in the marketing business (Rmb -5.1bn loss). This was the first time, we have seen a Marketing division loss at PTR. If PTR's ASP remains high, this would also suggest to us a low Marketing and / or Refining result over the coming years, as well - things to think about when forecasting 2015 and beyond.

Bingo – but it hurts the downstream margins

On the refining side, PTR reported a full year 2014 Operating Income loss of Rmb -7.1bn and a 4Q14 loss of Rmb -9.7bn. How to think about the 4Q14 and what are the implications for our 2015 estimates? The average price of Brent oil fell US\$ 26/ bbl in 4Q14 relative to 3Q14. This suggests that for every US\$ 1/ bbl decline in the average price of Brent PTR books Rmb -373 mln in refining losses. This compares to Sinopec's average refining loss per US\$1 fall in the price of oil of Rmb -500/ mln, which we find interesting given Sinopec has the better refining assets. Maybe Sinopec was cleaning house 4Q14? Maybe there were some 4Q trading losses at Sinopec relative to PetroChina?

Trading losses at Sinopec?



Looking at the average Brent price for 1Q15 (US\$ 53/ bbl) and comparing it to the average Brent price 4Q14 (US\$ 76/ bbl), we can estimate a 1Q15 refining loss for PTR of something like Rmb 8.57bn. And scanning back to 1H14, when oil prices were not so volatile, we see that PTR was made close to Rmb 2.2bn/ quarter in refining Operating Income. You can do the math – and then take a peek at our PTR quarterly segment forecasts for 2015-16 (Figure 2)

Refining losses for 1Q15?

Finally, we have tried to trim back our Gas & Pipeline expectations. We are aware of the lag in the pricing of the JCC (1-month) and we are also aware of the lag in the way China prices its oil in general – with a 1-month lag to international oil prices. And then we suspect that the contract PTR has signed with Central Asian countries for the purchase of gas, may have additional delays in the adjustment process – just because. Anyway, we have delayed the downward cost adjustment to the Turkmenistan gas imports by six months, which serves only to take gas profits out of 2015e and pushes them back into 2016 and 17e. It does not impact our DCF, but it did moderate our 2015 estimates and added to our 2016-17 estimates.

Turning around the losses – Rmb -35bn in 2014. It's a big number.

The Gas and Pipeline business at PTR remains an enigma for most – including many inside of PTR. We have asked frequently for disclosure on the gas purchase contracts with Central Asia suppliers, and we have been denied the information just as many times. We use Wood Mac to help guide us on contract prices, but we suspect they do not have the full picture either. And then there is the NDRC and where to with China domestic natural gas prices.

After all these years, its still an enigma.

The question was again asked this evening in the analyst meeting: where to with China's natural gas price? The answer was just as ambiguous as years before. We believe the problem here is quite simple: PTR cannot answer this question because neither can the NDRC, at this point in time. We suspect that the NDRC would like to rid itself of the gas price setting mechanism and that at some point in the not-to-distant future, the NDRC will indeed roll-out a national formula linking the price of domestic natural gas to ... maybe, even Fuel Oil (60%) and LPG (40%). However, the issue to us (at least) is not IF the government will introduce the Guangdong-Guangxi formula nationwide, but rather where might the NDRC set the "K-factor" adjustment within the formula. Will the K-factor adjustment be left at 0.85x as it is today or might the "arbitrary" K-factor adjustment be reset to 1.2x? There was also a question about the future growth of natural gas demand in China, which similarly was by-passed by PTR's management.

Where to with natural gas prices?

There was a question tonight about PTR's previously announced intention to sell part (the eastern half) of its natural gas and petroleum pipeline systems. The answer was cryptic, but we think we may have caught it. Some of the more interesting, translated, catch phrases were: i) "not to follow suit", and ii) "in line with maximizing company profitability", and iii) "west and east, will take different routs". This is what we find so fascinating about China – it is a big puzzle. Actually, we suspect that PTR cannot say what it wants to say about the government's SOE reform plans. "Cryptic" is better than disagreeing with the government on what is best for the SOEs. In our opinion, do not hold your breath for any Sinopec-like, SOE restructuring at PetroChina.

Pipeline sale 2015- we don't think so -

PTR's guidance for 2015: 1) oil production growth -1.6%; 2) gas production growth +6.1% (this is a step back from earlier guidance of 6-8% pa; 3) BOE production growth of 1%; 4) Capex -8.8% 2015 on 2014; and 5) reserve replacement ratio > 0.7 (which is a step back from historical 1x)

2015 guidance



Valuation and risk

We value PTR from a DCF model (Figure 1). Our WACC is 7.6% consisting of a cost of equity (CoE) of 9.5%, an after tax cost of debt (CoD) of 2.9% and a 29.5% debt-to-capital ratio. We use a DB standard China risk free rate (Rfr) of 3.9% and an equity risk premium (ErP) of 5.6%. Our TG rate of 1.5% reflects our opinion of PTR's LT sustainable BOE production growth. We have lowered out PTR terminal growth forecast to 1.5% from 2% in order to reflect a slowdown in PTR's long-term BOE production growth. PTR's guidance on LT production growth was reduced Aug-2014 to 0.5-1.0% pa for oil and 6-8% pa for natural gas. Previous guidance was 1.5-2.0% pa oil and 10-12% growth pa for domestic gas.

Looking at PTR's current PE valuations relative to global peers (Figure 2) we show PTR trading at 14.7x our 2015e earnings vs. 21.7x for a subset of global peers. PTR is trading cheap relative to global peers. Notwithstanding, PTR's average 5-year forward PE multiple is 12.2x relative to its current 2015, 14.7x PE valuation. On this PE metric, PTR valuations look a bit rich. Looking at PTR's current 2015e PE (14.7x) relative to Asian peers (13.1x), PTR looks fairly valued. We suspect PTR is trading spot on target to where it should be valued given all the information we have at hand.

The principal risks to our Hold rating on PTR include: 1) higher / lower than anticipated oil prices; 2) higher / lower than anticipated natural gas prices; 3) a sudden and dramatic decline in production rates at PTR's Daqing oil field; and 4) any unanticipated and material change for the better / worse to China's oil and gas fiscal terms.



Figure 1: PetroChina – DCF model

| | | 6.20 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 |
|--------------------------|-----------|-----------------|-----------------|-------------------|------------------------|-------------------|------------------|------------------|
| | | 7.79 | 7.79 | 7.79 | 7.79 | 7.79 | 7.79 | 7.79 |
| RMB = US\$1 | | | | | | | | |
| HK\$ = US\$1 | | | | | | | | |
| PetroChina | | | | | | | | Terminal |
| DCF - RMB mm | | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
| Operating Income | | 137,973 | 179,690 | 191,353 | 213,788 | 213,993 | 215,092 | 214,049 |
| Depreciation | | 181,845 | 190,314 | 198,865 | 207,651 | 216,614 | 225,736 | 235,168 |
| Other | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income Tax | -25% | (34,562) | (45,012) | (47,934) | (53,554) | (53,605) | (53,881) | (53,619) |
| (Capex) | | (265,473) | (250,000) | (250,000) | (250,000) | (250,000) | (250,000) | (250,000) |
| (Decrease) / Increase WC | | 1,910 | 22,709 | 34,851 | 18,760 | 19,467 | 20,825 | 0 |
| Free CF | | 21,693 | 97,701 | 127,135 | 136,645 | 146,469 | 157,773 | 145,598 |
| Fiscal Credits | | | | | | | | |
| Free CF (ex Tax) | | 21,693 | 97,701 | 127,135 | 136,645 | 146,469 | 157,773 | 145,598 |
| Terminal Growth | | | | | | | 1.5% | Terminal As % PV |
| | 6.0% | 20,465 | 86,953 | 106,745 | 108,236 | 109,450 | 111,224 | 2,128,153 |
| | 7.0% | 20,274 | 85,335 | 103,780 | 104,246 | 104,430 | 105,131 | 1,633,714 |
| | 7.6% | 20,168 | 84,448 | 102,166 | 102,089 | 101,736 | 101,885 | 1,430,486 |
| | 9.0% | 19,902 | 82,233 | 98,172 | 96,803 | 95,194 | 94,075 | 1,054,928 |
| | 10.0% | 19,721 | 80,744 | 95,519 | 93,331 | 90,945 | 89,059 | 873,857 |
| | 11.0% | 19,543 | 79,296 | 92,960 | 90,012 | 86,922 | 84,352 | 734,330 |
| | 12.0% | 19,369 | 77,886 | 90,492 | 86,841 | 83,110 | 79,933 | 624,276 |
| | 13.0% | 19,197 | 76,514 | 88,111 | 83,807 | 79,497 | 75,781 | 535,827 |
| | 14.0% | 19,029 | 75,177 | 85,813 | 80,905 | 76,071 | 71,879 | 463,637 |
| | 15.0% | 18,863 | 73,876 | 83,593 | 78,127 | 72,821 | 68,210 | 403,953 |
| | 16.0% | 18,701 | 72,607 | 81,450 | 75,468 | 69,736 | 64,757 | 354,068 |
| | | Total PV | Net Debt | Minorities | Net Pres. Value | Shrs Outst | NPV / Shr | WACC |
| 3 Yr Beta x HSI | 100.0% | 2,671,226 | 486,400 | 153,743 | 2,031,083 | 183,021 | 11.10 | 6.0% |
| Rf Rate China Local | 3.90% | 2,156,910 | 486,400 | 153,743 | 1,516,767 | 183,021 | 8.29 | 7.0% |
| Equity Premium | 5.60% | 1,942,978 | 486,400 | 153,743 | 1,302,835 | 183,021 | 7.12 | 7.6% |
| Country Risk Premium | 0.00% | 1,541,306 | 486,400 | 153,743 | 901,164 | 183,021 | 4.92 | 9.0% |
| Cost Equity | 9.50% | 1,343,175 | 486,400 | 153,743 | 703,033 | 183,021 | 3.84 | 10.0% |
| Cost Debt | 3.90% | 1,187,415 | 486,400 | 153,743 | 547,273 | 183,021 | 2.99 | 11.0% |
| Debt Risk Premium | 0.00% | 1,061,907 | 486,400 | 153,743 | 421,764 | 183,021 | 2.30 | 12.0% |
| After Tax Cost Debt | 2.9% | 958,734 | 486,400 | 153,743 | 318,592 | 183,021 | 1.74 | 13.0% |
| Debt / Capital | 29.5% | 872,511 | 486,400 | 153,743 | 232,368 | 183,021 | 1.27 | 14.0% |
| Avg. Cost Capital | 7.6% | 799,443 | 486,400 | 153,743 | 159,301 | 183,021 | 0.87 | 15.0% |
| | | 736,786 | 486,400 | 153,743 | 96,644 | 183,021 | 0.53 | 16.0% |
| RMB | | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
| Total PV | 1,942,978 | 20,168 | 84,448 | 102,166 | 102,089 | 101,736 | 101,885 | 1,430,486 |
| Net Debt | 486,400 | | | | | | | |
| Net Minorities | 153,743 | | | | | | | |
| NPV Equity | 1,302,835 | | | | | | | |
| Shrs Outst | 183,021 | | | | | | | |
| NPV / Share (Rmb) | 7.12 | | | | | | | |
| WACC | 7.6% | | | | | | | |
| Price ADR | 106.21 | Price HK\$ | 8.35 | | | | | |
| Price A-Shr | 11.99 | DCF HK\$ | 8.94 | | | | | |
| Prem A to H | 43.6% | Upside | 7.1% | | | | | |

Source: Deutsche Bank

Figure 2: PetroChina – quarterly estimates of operating income by business segment

| PETROCHINA (Rmb mlns) | 2014 | | | | | 2015 | | | | | 2016e | | | | |
|--|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 2014 | 1Qe | 2Qe | 3Qe | 4Qe | 2015e | 1Qe | 2Qe | 3Qe | 4Qe | 2016e |
| E&P | 52,710 | 49,528 | 43,716 | 40,943 | 186,897 | 27,615 | 28,766 | 28,766 | 29,916 | 115,062 | 32,813 | 32,813 | 32,813 | 32,813 | 131,251 |
| - 1H / 2H | | 102,238 | | 84,659 | | | 56,380 | | 58,682 | | | 65,626 | | 65,626 | |
| Refining | 1,959 | 2,396 | (1,788) | (9,722) | (7,155) | (8,579) | 2,300 | 2,400 | 2,529 | (1,350) | 2,616 | 2,616 | 2,616 | 2,616 | 10,465 |
| - 1H / 2H | | 4,355 | | (11,510) | | | (6,279) | | 4,929 | | | 5,232 | | 5,232 | |
| Chemicals | (4,176) | (3,614) | (3,532) | (5,083) | (16,405) | (2,717) | (2,717) | (2,717) | (5,434) | (13,586) | (2,591) | (2,591) | (2,591) | (2,591) | (10,362) |
| - 1H / 2H | | (7,790) | | (8,615) | | | (5,434) | | (8,152) | | | (5,181) | | (5,181) | |
| Marketing | 3,324 | 4,822 | 2,421 | (5,146) | 5,421 | 1,489 | 1,489 | 1,489 | 1,489 | 5,958 | 1,579 | 1,579 | 1,579 | 1,579 | 6,315 |
| - 1H / 2H | | 8,146 | | (2,725) | | | 2,979 | | 2,979 | | | 3,157 | | 3,157 | |
| Gas Pipeline | 1,392 | 2,691 | 5,151 | 3,892 | 13,126 | 4,500 | 12,287 | 12,287 | 14,808 | 43,882 | 13,453 | 13,453 | 13,453 | 13,453 | 53,813 |
| - 1H / 2H | | 4,083 | | 9,043 | | | 16,787 | | 27,095 | | | 26,906 | | 26,906 | |
| Others - (Corp Overhead) | (3,013) | (3,013) | (3,013) | (3,013) | (12,051) | (3,013) | (3,013) | (3,013) | (3,013) | (12,051) | (3,013) | (3,013) | (3,013) | (3,013) | (12,051) |
| - Qtly Op Income | 52,196 | 52,810 | 42,955 | 21,872 | 169,833 | 19,295 | 39,112 | 39,212 | 40,296 | 137,915 | 44,857 | 44,857 | 44,857 | 44,857 | 179,430 |
| DB Brent forecasts (US\$ / bbl) | 107.9 | 109.8 | 102.2 | 76.1 | 99.0 | 54 | 57.5 | 60 | 62.5 | 58.5 | 65 | 68 | 72 | 75 | 70.0 |

Source: Company specific data; Deutsche Bank



Figure 3: PetroChina – traditional valuations relative to global peers

| Priced on | | 27-Mar-15 | | | | | | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | RoE % | | Net Debt / Equity |
|----------------------------|----------------|------------|------------|-------------|--------------|------------|-----------------|-------------|-------------|---------------|------------|------------|------------|------------|------------|-------------------|
| Company | Ticker | Fx | Price | Rating | Price Target | % to TP | Mkt. Cap US\$bn | 14F | 15F | 14F | 15F | 14F | 15F | 14F | 15F | 2015F |
| Integrated Global : | | | | | | | | | | | | | | | | |
| ExxonMobil | XOM.N | USD | 84.9 | Hold | 91 | 7.2 | 353.6 | 12.0 | 24.5 | 7.0 | 10.0 | 2.1 | 2.0 | 18.7 | 8.2 | 15.3 |
| Occidental Petroleum | OXY.N | USD | 73.7 | Hold | 81 | 9.9 | 56.9 | 12.6 | 48.4 | 4.4 | 9.8 | 1.2 | 1.2 | 1.3 | 2.6 | 8.2 |
| Chevron | CVX.N | USD | 105.7 | Buy | 120 | 13.6 | 198.2 | 11.5 | 29.5 | 5.3 | 8.4 | 1.3 | 1.3 | 12.7 | 4.4 | 17.2 |
| Royal Dutch Shell plc | RDSA.L | GBP | 2,069 | Hold | 2,425 | 17.2 | 198.2 | 10.5 | 16.2 | 4.4 | 3.9 | 1.2 | 1.1 | 8.5 | 7.1 | 21.4 |
| BP | BP.L | GBP | 446.1 | Buy | 470 | 5.4 | 120.8 | 11.9 | 20.3 | 3.9 | 3.4 | 1.1 | 1.1 | 6.7 | 6.7 | 20.7 |
| ENI | ENI.MI | EUR | 16.0 | Hold | 16 | 0.1 | 63.2 | 17.4 | 25.5 | 4.2 | 4.5 | 0.9 | 1.0 | 4.0 | 3.8 | 37.1 |
| Total SA | TOTF.PA | EUR | 46.6 | Buy | 48 | 3.0 | 120.9 | 11.3 | 14.7 | 7.7 | 5.5 | 1.4 | 1.5 | 4.5 | 12.0 | 38.2 |
| Repsol | REP.MC | EUR | 17.5 | Hold | 20 | 14.6 | 26.1 | 14.5 | 21.7 | 12.4 | 8.4 | 0.8 | 0.9 | 3.7 | 4.0 | 17.0 |
| Statoil | STL.OL | NOK | 142.9 | Hold | 135 | (5.5) | 57.6 | 14.9 | 18.1 | 2.6 | 3.1 | 1.1 | 1.2 | 6.0 | 6.6 | 47.9 |
| ONGC | ONGC.BO | INR | 302.4 | Buy | 412 | 36.2 | 57.2 | 9.5 | 8.8 | 4.6 | 3.8 | 1.4 | 1.3 | 13.7 | 14.9 | (3.3) |
| PTT | PTT.BK | THB | 326.0 | Hold | 350 | 7.4 | 28.6 | 18.8 | 10.6 | 5.5 | 4.6 | 1.3 | 1.3 | 7.1 | 12.3 | 28.2 |
| PetroChina | 0857.HK | HKD | 8.4 | Hold | 8.39 | 0.5 | 335.4 | 12.4 | 14.7 | 5.2 | 5.5 | 1.1 | 1.0 | 9.3 | 6.9 | 36.2 |
| Sinopec | 0386.HK | HKD | 6.1 | Hold | 5.87 | (3.0) | 119.0 | 13.6 | 19.8 | 5.9 | 6.0 | 1.0 | 1.0 | 8.0 | 4.9 | 53.6 |
| Mean | | | | | | | | 13.2 | 21.7 | 5.6 | 5.9 | 1.2 | 1.3 | 7.9 | 7.5 | 22.5 |
| Median | | | | | | | | 12.0 | 20.3 | 4.6 | 4.6 | 1.2 | 1.2 | 6.7 | 6.7 | 20.7 |
| Europe Mean | | | | | | | | 13.4 | 19.4 | 5.9 | 4.8 | 1.1 | 1.1 | 5.6 | 6.7 | 30.4 |
| N. America Mean | | | | | | | | 12.0 | 34.2 | 5.6 | 9.4 | 1.5 | 1.5 | 10.9 | 5.1 | 13.6 |
| Asia Mean | | | | | | | | 14.0 | 13.1 | 5.3 | 4.8 | 1.2 | 1.2 | 9.6 | 10.7 | 12.5 |

Source: Deutsche Bank







Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

| Company | Ticker | Recent price* | Disclosure |
|------------|---------|----------------------|------------|
| PetroChina | 0857.HK | 8.35 (HKD) 26 Mar 15 | 1,7,14,17 |

*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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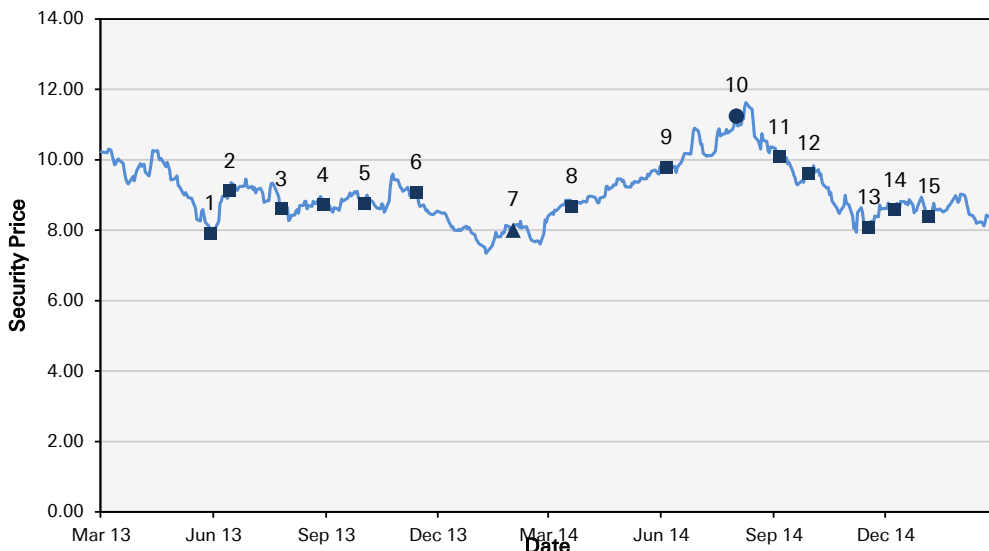
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Historical recommendations and target price: PetroChina (0857.HK)

(as of 3/26/2015)



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. | 25/06/2013: | Hold, Target Price Change HKD9.06 | 9. | 02/07/2014: | Buy, Target Price Change HKD11.10 |
| 2. | 11/07/2013: | Hold, Target Price Change HKD9.33 | 10. | 28/08/2014: | Downgrade to Hold, Target Price Change HKD11.53 |
| 3. | 22/08/2013: | Hold, Target Price Change HKD9.10 | 11. | 02/10/2014: | Hold, Target Price Change HKD10.80 |
| 4. | 25/09/2013: | Hold, Target Price Change HKD9.05 | 12. | 26/10/2014: | Hold, Target Price Change HKD10.10 |
| 5. | 29/10/2013: | Hold, Target Price Change HKD9.42 | 13. | 14/12/2014: | Hold, Target Price Change HKD8.47 |
| 6. | 10/12/2013: | Hold, Target Price Change HKD9.00 | 14. | 04/01/2015: | Hold, Target Price Change HKD8.57 |
| 7. | 27/02/2014: | Upgrade to Buy, Target Price Change HKD9.61 | 15. | 01/02/2015: | Hold, Target Price Change HKD8.39 |
| 8. | 16/04/2014: | Buy, Target Price Change HKD9.72 | | | |

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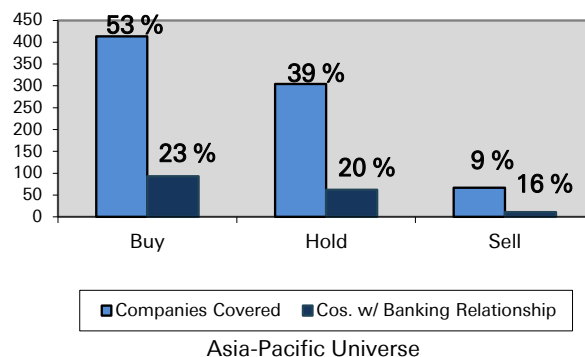
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Equity rating dispersion and banking relationships





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