

26 July 2018

Hong Kong

## EQUITIES

883 HK Outperform  
Price (at 06:50, 26 Jul 2018 GMT) HK\$12.88

Valuation	HK\$	10.90-16.00
- 2P NPV10 (\$60-80)		
12-month target	HK\$	14.60
Upside/Downside	%	+13.4
12-month TSR	%	+17.9
GICS sector		Energy
Market cap	HK\$m	575,059
Market cap	US\$m	73,296
Free float	%	36
30-day avg turnover	US\$m	99.6
Number shares on issue	m	44,647

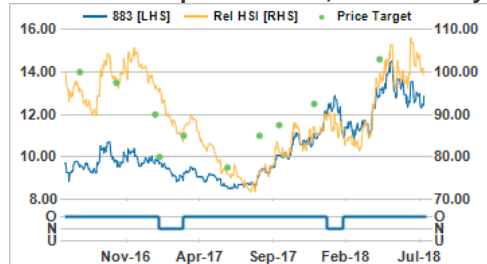
## Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	bn	186.4	227.9	199.0	233.8
EBITDA	bn	98.3	134.2	106.5	134.1
EBITDA growth	%	47.8	36.5	-20.6	26.0
EBIT	bn	37.1	69.9	40.2	64.9
EBIT growth	%	nmf	88.6	-42.5	61.4
Reported profit	bn	24.7	50.2	31.0	49.5
Adjusted profit	bn	33.1	50.2	31.0	49.5
PGCFPS	x	5.3	3.8	4.7	3.7
EPS rep	Rmb	0.55	1.12	0.69	1.11
EPS adj	Rmb	0.74	1.12	0.69	1.11
PER adj	x	15.0	9.9	16.0	10.0
Total DPS	Rmb	0.41	0.45	0.45	0.45
Total div yield	%	3.7	4.0	4.0	4.0
ROA	%	5.9	11.0	6.2	9.6
ROE	%	8.7	12.7	7.5	11.4
EV/EBITDA	x	5.2	3.8	4.8	3.8
Net debt/equity	%	5.7	-2.1	-3.5	-8.9
P/BV	x	1.3	1.2	1.2	1.1

Source: FactSet, Macquarie Research, July 2018

(all figures in Rmb unless noted, TP in HKD)

## 883 HK rel HSI performance, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2018

(all figures in Rmb unless noted, TP in HKD)

New EPS Rmb1.12/0.69/1.11, prior 1.16/0.73/1.12 for 2018/19/20e.

## Analysts

Macquarie Capital Limited



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## CNOOC

## \$48 EBITDA per boe, +50% EPS in 1H

## Key points

- ▶ We forecast CNOOC 1H18 EPS of Rmb55c, c.+50% y/y; DPS of Rmb19c.
- ▶ For every \$1 per barrel change in Brent, CNOOC's group EBITDA changes by 70 cents per boe, we estimate.
- ▶ CNOOC's FCF yield at today's share price is 9% on our estimates.

## CNOOC metrics quicklook, refer fig 1-6 for underlying trends

		2016A	1H17A	2H17A	2017A	1H18E	2H18E	2018E
<b>Production &amp; Realizations</b>								
Brent Oil Price	\$/bbl	43	52	57	55	71	69	70
CNOOC Oil Realization	\$/bbl	41	50	55	53	68	66	67
CNOOC Gas Realization	\$/mcf	5.5	5.7	5.6	5.8	5.7	5.7	5.7
<b>Total O&amp;G Production</b>								
Total O&G Production	mmboe	477	238	231	470	235	241	476
Y-o-Y change		-4%	-2%	-2%	-1%	-1%	4%	1%
% Gas		16%	17%	17%	17%	19%	19%	19%
% China		66%	66%	63%	65%	65%	65%	65%
<b>Per Boe Metrics</b>								
O&G Realization	\$/boe	39	46	50	48	60	58	59
Opex	\$/boe	-7	-7	-8	-8	-7	-7	-7
Production taxes	\$/boe	-2	-2	-2	-2	-3	-3	-3
Exploration	\$/boe	-2	-2	-3	-2	-2	-2	-2
DD&A	\$/boe	-22	-19	-19	-19	-20	-21	-20
Accretion expense	\$/boe	-4	0	-6	-3	-2	-2	-2
Special oil gain levy	\$/boe	0	0	0	0	0	0	0
EBIT per bbl	\$/boe	1	15	12	14	26	24	25
<b>EBITDA per bbl</b>	<b>\$/boe</b>	<b>27</b>	<b>35</b>	<b>37</b>	<b>36</b>	<b>48</b>	<b>46</b>	<b>47</b>
<b>Financials</b>								
EBITDA	Rmb, bn	66	54	44	98	65	69	134
DACF	Rmb, bn	69	49	38	86	55	59	114
EBIT	Rmb, bn	-2	22	15	37	35	35	70
Net Income, reported	Rmb, bn	1	16	8	25	25	26	50
EPS, reported	Rmb/sh	0.01	0.36	0.19	0.55	0.55	0.57	1.12
DPS	Rmb/sh	0.31	0.18	0.24	0.41	0.19	0.26	0.45

Source: Company data, Macquarie Research, July 2018

- **EBITDA leverage.** Following the \$18/b Y/Y change in Brent, we estimate CNOOC's EBITDA per boe to increase by \$13 to \$48/boe in 1H18. The impact of the special oil gain levy – kicks-in above \$65/bbl – is a mere 20c/boe in 1H18, on our estimates. Higher non-cash accretion expenses (volatile) may dampen our forecast EBITDA improvement, but won't derail the strong underlying cashflow growth.
- **Guyana upside optionality.** Hess and Exxon recently revised up the recoverable resource estimate at the Stabroek block by 25% to 4.0 billion boe, and noted that estimates have increased 4x since 2016. First production of 120kb/d (gross) is expected in 2020, with scope for 750kb/d from five FPSOs by 2025. We carry CNOOC's 25% interest at US\$2.3bn or HK\$0.4/sh based on 1.5bn boe 2P (gross) and \$6.3 EV/2P, and note upside risk.
- While CNOOC has ample capacity to positively surprise on **dividends**, we model only a stable absolute payout and caution on the company's historic preference to allocate excess cashflow towards domestic financial products.
- We like CNOOC, but the stock falls behind Sinopec and PetroChina in our pecking order due to Macquarie's tepid oil price assumption. For perspective our 2P NAV10 for CNOOC at **\$60/b LT is HK\$10.9** and at **\$80/b is HK\$16.0**.

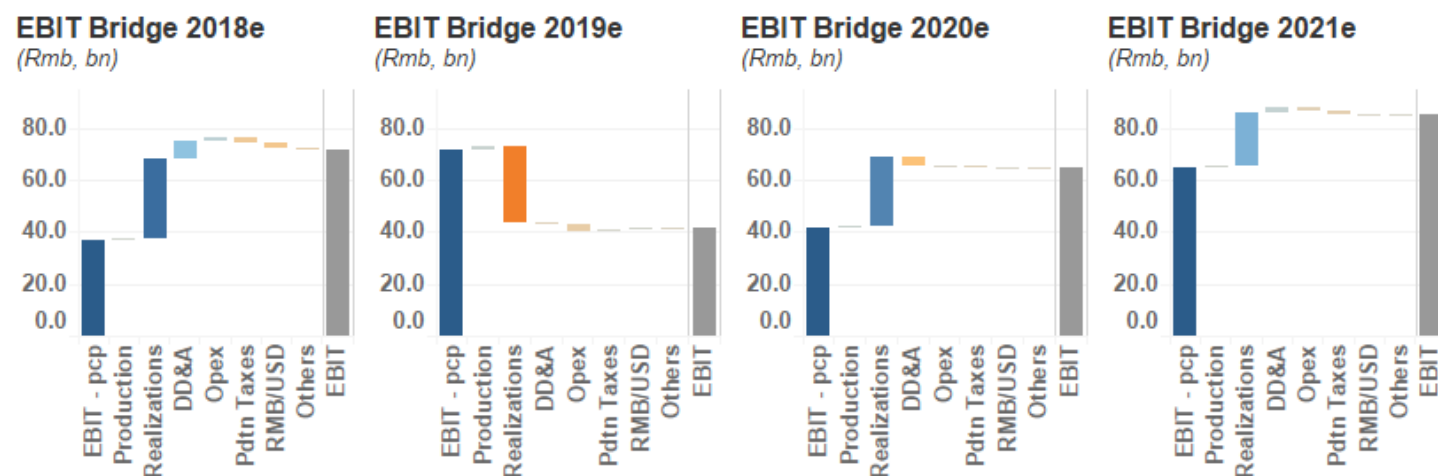
Please refer to page 9 for important disclosures and analyst certification, or on our website

[www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures)

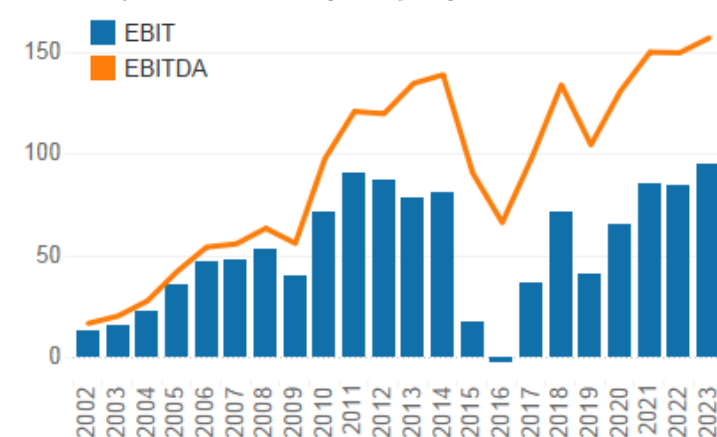
CNOOC in charts

Fig 1 CNOOC Earnings Bridge – Δ Realizations >> Δ Production

Macquarie Brent Oil Price Assumption: US\$70 / 57 / 69 / 80 for 2018 / 19 / 20 / 21e



EBITDA, EBIT Outlook (Rmb, bn)



EPS Outlook (Rmb/sh)

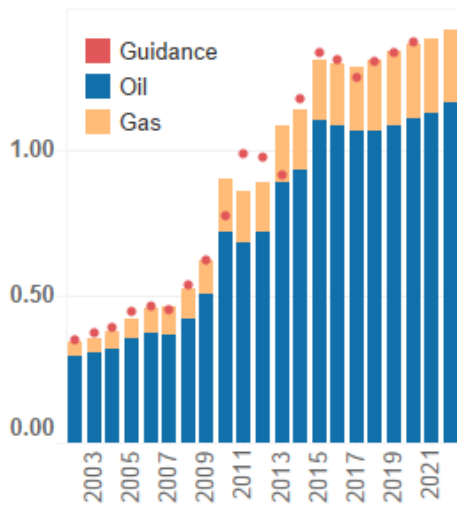


		2012A	2013A	2014A	2015A	2016A	1H17A	2H17A	2017A	1H18E	2H18E	2018E	2019E	2020E	2021E
<b>Production &amp; Realizations</b>															
Brent Oil Price	\$/bbl	112	109	99	53	43	52	57	55	71	69	70	57	69	80
CNOOC Oil Realization	\$/bbl	110	105	96	51	41	50	55	53	68	66	67	54	66	77
CNOOC Gas Realization	\$/mscf	5.8	5.8	6.4	6.4	5.5	5.7	5.6	5.8	5.7	5.7	5.7	6.1	6.3	6.3
<b>Total O&amp;G Production</b>	<b>mmbobe</b>	<b>342</b>	<b>412</b>	<b>433</b>	<b>496</b>	<b>477</b>	<b>238</b>	<b>231</b>	<b>470</b>	<b>235</b>	<b>241</b>	<b>476</b>	<b>487</b>	<b>497</b>	<b>503</b>
Y-o-Y change		3%	20%	5%	15%	-4%	-2%	-2%	-1%	-1%	4%	1%	2%	2%	1%
% Gas		18%	17%	17%	15%	16%	17%	17%	17%	19%	19%	19%	19%	18%	18%
% China		78%	64%	62%	65%	66%	66%	63%	65%	65%	65%	65%	63%	60%	59%
<b>Per Boe Metrics</b>															
O&G Realization	\$/boe	90	89	82	47	39	46	50	48	60	58	59	49	56	62
Opex	\$/boe	-10	-12	-12	-9	-7	-7	-8	-8	-7	-7	-7	-8	-8	-8
Production taxes	\$/boe	-7	-6	-4	-3	-2	-2	-2	-2	-3	-3	-3	-3	-3	-3
Exploration	\$/boe	-4	-7	-4	-3	-2	-2	-3	-2	-2	-2	-2	-2	-2	-2
DD&A	\$/boe	-15	-22	-22	-24	-22	-19	-19	-19	-20	-21	-20	-20	-21	-20
Accretion expense	\$/boe	0	0	-2	-1	-4	0	-6	-3	-2	-2	-2	-2	-2	-2
Special oil gain levy	\$/boe	-12	-9	-7	0	0	0	0	0	0	0	0	0	0	-1
EBIT per bbl	\$/boe	41	33	31	7	1	15	12	14	26	24	25	14	21	27
<b>EBITDA per bbl</b>	<b>\$/boe</b>	<b>57</b>	<b>55</b>	<b>54</b>	<b>31</b>	<b>27</b>	<b>35</b>	<b>37</b>	<b>36</b>	<b>48</b>	<b>46</b>	<b>47</b>	<b>36</b>	<b>43</b>	<b>49</b>
<b>Financials</b>															
EBITDA	Rmb, bn	120	135	139	91	66	54	44	98	65	69	134	106	134	154
DACF	Rmb, bn	94	111	117	94	69	49	38	86	55	59	114	96	117	131
EBIT	Rmb, bn	87	79	81	17	-2	22	15	37	35	35	70	40	65	86
Net Income, reported	Rmb, bn	64	56	60	20	1	16	8	25	25	26	50	31	49	66
EPS, reported	Rmb/sh	1.43	1.26	1.35	0.45	0.01	0.36	0.19	0.55	0.55	0.57	1.12	0.69	1.11	1.49
DPS	Rmb/sh	0.35	0.45	0.45	0.42	0.31	0.18	0.24	0.41	0.19	0.26	0.45	0.45	0.45	0.45

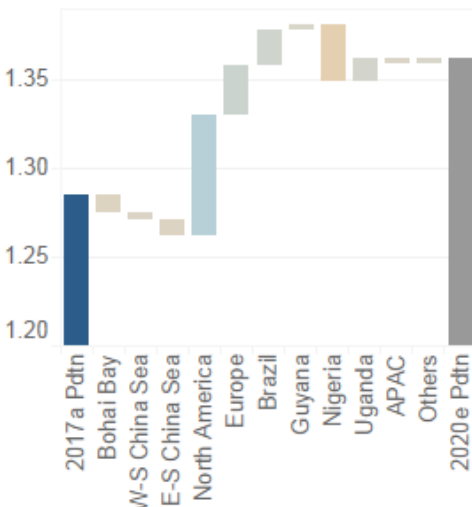
Source: Company data, Macquarie Research, July 2018

Fig 2 CNOOC production outlook – stable near-term outlook; upside risk to estimates from 2020 as Stabroek (Guyana) ramps-up

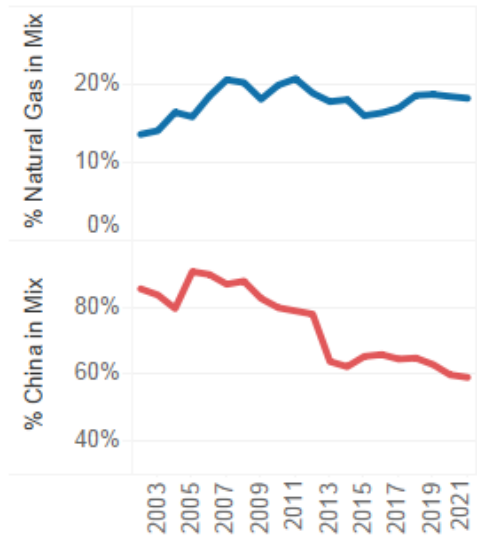
**CNOOC Oil & Gas Production (mboe/d)**



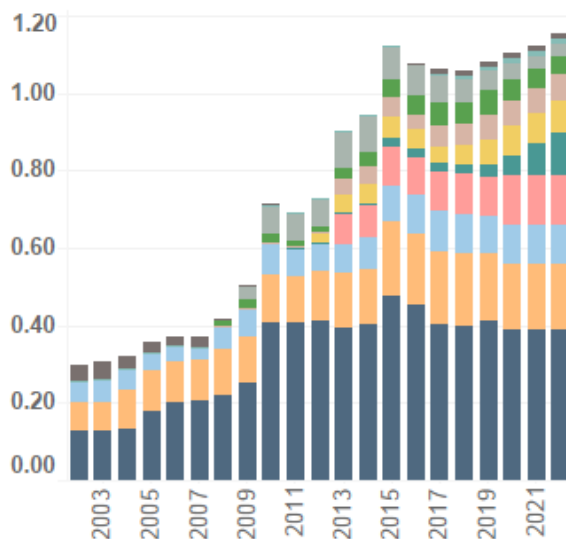
**2020e vs '17 Production Bridge (mboe/d)**



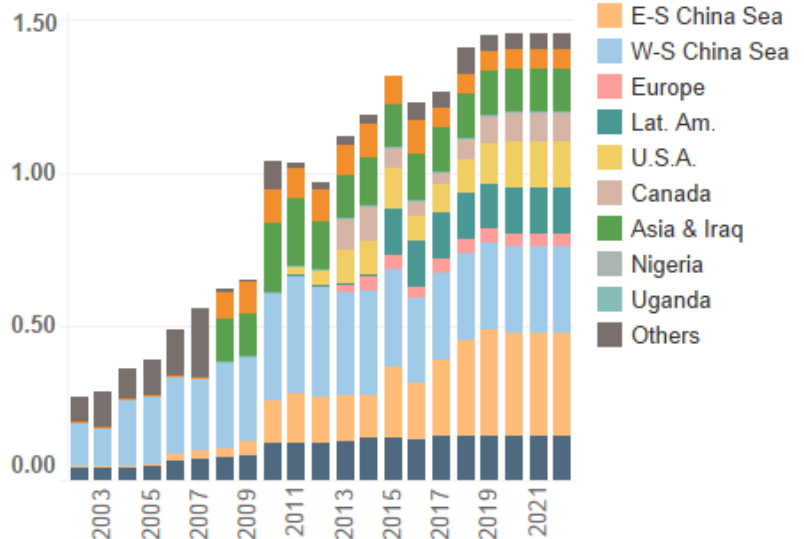
**% of Production Mix**



**CNOOC Oil Production (mb/d)**

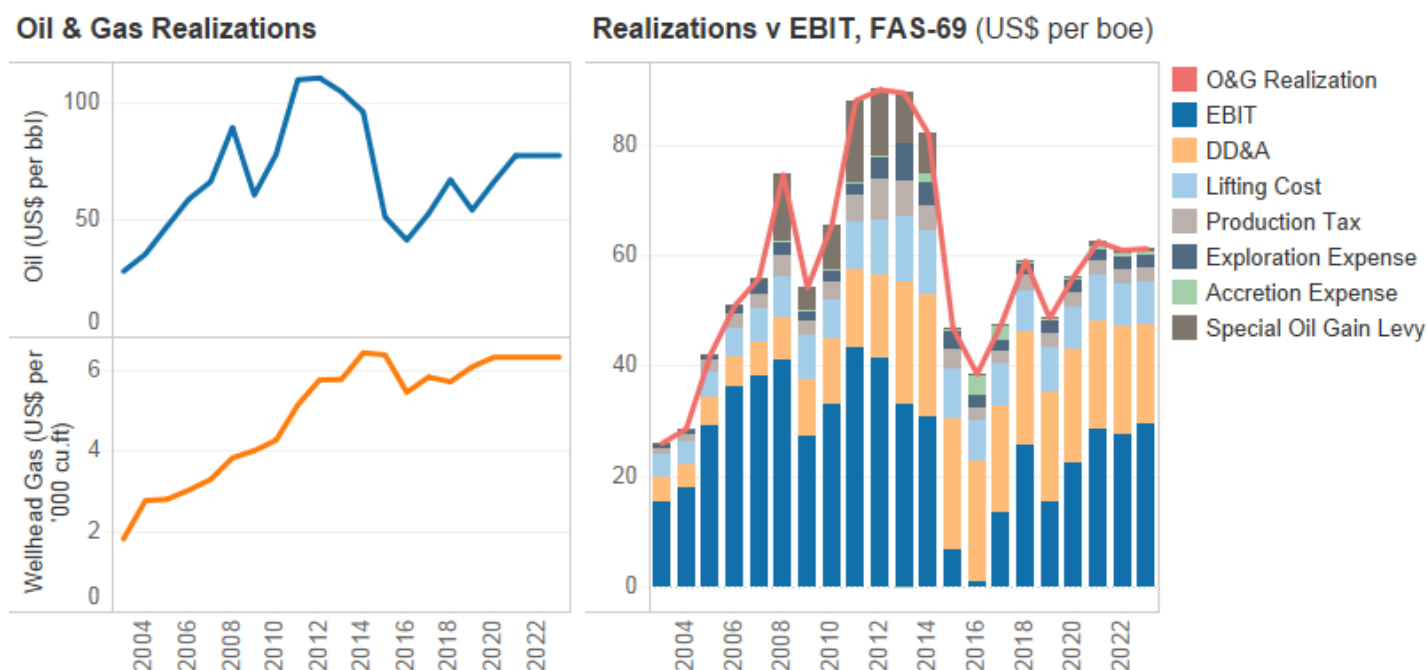


**CNOOC Gas Production (bcf/d)**



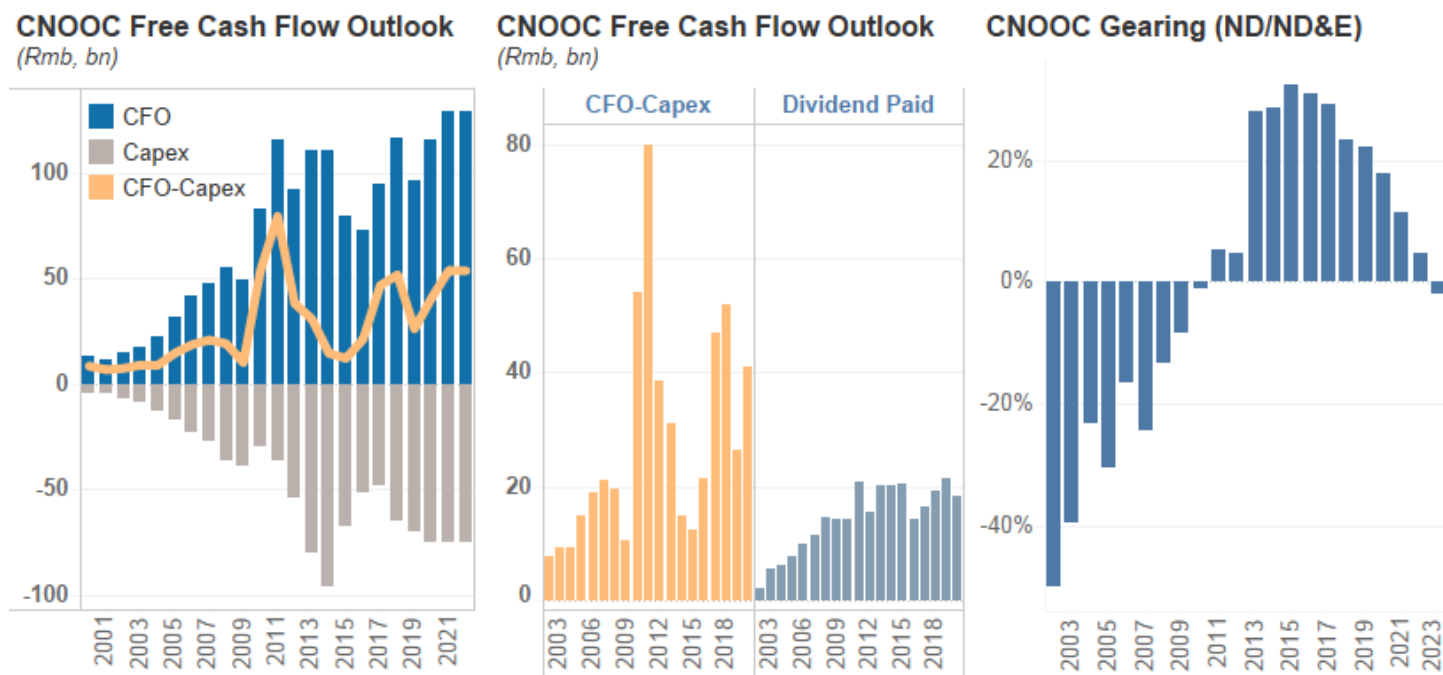
Source: Company data, Macquarie Research, July 2018

Fig 3 CNOOC Realizations and Per Barrel Metrics



Source: Company data, Macquarie Research, July 2018

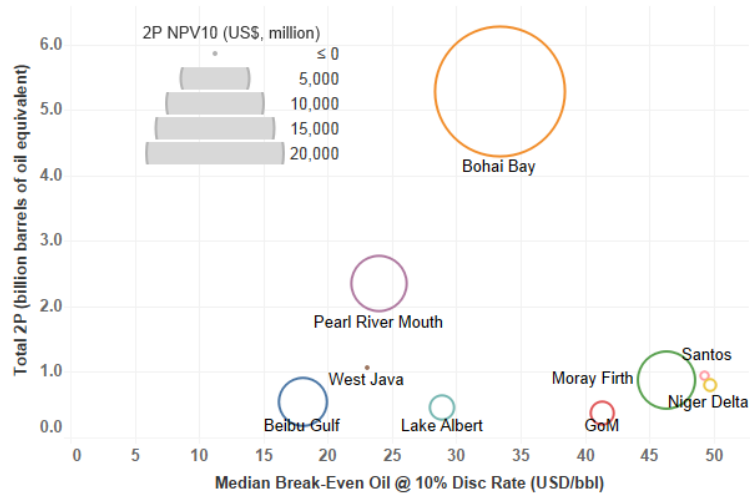
Fig 4 CNOOC FCF versus Dividends – ample capacity to pay a materially higher absolute dividend... but will they? In 2017 CNOOC disappointingly allocated the excess cash flow towards local financial products



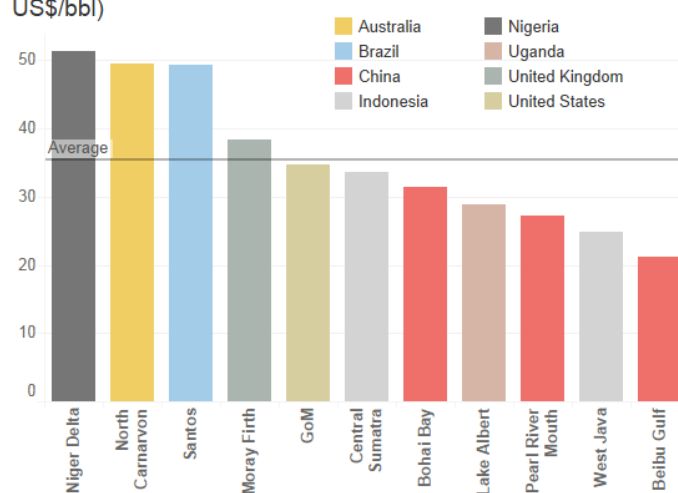
Source: Company data, Macquarie Research, July 2018

Fig 5 CNOOC reserves and breakeven oil price

2P Oil & Gas Reserves versus Breakeven Oil Price



CNOOC Basin Average Breakeven Oil Price (2P NPV10, US\$/bbl)



Source: Rystad, Company data, Macquarie Research, July 2018

Fig 6 CNOOC financial summary

CNOOC (883 HK)					One-year Price Target HK\$14.60				
Outperform									
<b>Profit &amp; Loss (Rmb mn)</b>					<b>Assumptions</b>				
<b>Net Revenues</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	Rmb/US\$	2017A	2018E	2019E	2020E
COGS	-27,643	-36,981	-32,163	-37,962	Brent (US\$/bbl)	54.7	69.6	56.8	68.8
SG&A	-6,861	-7,067	-7,279	-7,497	<b>Group Realisations</b>				
Other operating costs	-46,698	-43,732	-46,557	-47,153	Oil (US\$/bbl)	2017A	2018E	2019E	2020E
<b>EBITDAX</b>	<b>105,188</b>	<b>140,106</b>	<b>112,981</b>	<b>141,159</b>	Gas (US\$/mscf)	5.8	5.7	6.1	6.3
Exploration expense	-6,881	-5,942	-6,517	-7,028	<b>Production</b>				
<b>EBITDA</b>	<b>98,307</b>	<b>134,163</b>	<b>106,464</b>	<b>134,131</b>	Oil (kb/d)	2017A	2018E	2019E	2020E
DD&A	-61,257	-64,271	-66,268	-69,261	Gas (kboe/d)	1,066	1,062	1,085	1,110
<b>EBIT</b>	<b>37,050</b>	<b>69,893</b>	<b>40,196</b>	<b>64,870</b>	<b>Group Production (kboe/d)</b>	<b>1,285</b>	<b>1,305</b>	<b>1,335</b>	<b>1,361</b>
Total finance costs	4,391	3,215	1,323	688	Production Growth Y/Y %	-1%	1%	2%	2%
Other income/(expense)	3,698	3,498	3,297	3,485	<b>CNOOC Oil &amp; Gas Production Outlook</b>				
<b>Pretax Profit</b>	<b>36,357</b>	<b>70,175</b>	<b>42,170</b>	<b>67,667</b>					
Tax Expense	-11,680	-19,973	-11,146	-18,202					
<b>Reported Net Income</b>	<b>24,677</b>	<b>50,203</b>	<b>31,024</b>	<b>49,466</b>					
<b>Clean Net Income</b>	<b>33,088</b>	<b>50,203</b>	<b>31,024</b>	<b>49,466</b>					
<b>Reported EPS (Rmb/sh)</b>									
	<b>0.55</b>	<b>1.12</b>	<b>0.69</b>	<b>1.11</b>					
<b>Clean EPS (Rmb/sh)</b>									
	<b>0.74</b>	<b>1.12</b>	<b>0.69</b>	<b>1.11</b>					
<b>DPS (Rmb/sh)</b>									
	<b>0.41</b>	<b>0.45</b>	<b>0.45</b>	<b>0.45</b>					
<b>Cashflows (Rmb mn)</b>					<b>Reserves</b>				
<b>EBITDA</b>	<b>98,307</b>	<b>134,163</b>	<b>106,464</b>	<b>134,131</b>	2017A	2018E	2019E	2020E	
less Tax Paid	15,891	19,973	11,146	18,202	1P Reserves (mboe)	3,902	3,723	3,602	3,452
less Chgs in Working Cap	-14,038	0	0	0	1P Reserve Life (yrs)	8.3	7.8	7.4	6.9
add Other	-1,720	2,409	2,409	2,409	EV / 1P reserves (US\$/boe)	24.6	24.7	25.1	25.1
<b>Operating Cashflow</b>	<b>94,734</b>	<b>116,600</b>	<b>97,728</b>	<b>118,338</b>	<b>Per barrel statistics (US\$/bo)</b>				
Acquisitions	0	0	0	0	2017A	2018E	2019E	2020E	
Capex	-47,734	-65,000	-70,000	-75,000	<b>Realizations</b>	<b>47.6</b>	<b>59.0</b>	<b>48.5</b>	<b>56.2</b>
Asset Sales	-203	0	0	0	Opex	-7.6	-7.4	-8.0	-7.8
Other	-16,474	2,502	4,194	5,017	Production Tax	-2.3	-2.9	-2.7	-2.6
<b>Investing Cashflow</b>	<b>-64,411</b>	<b>-62,498</b>	<b>-65,806</b>	<b>-69,983</b>	Exploration Expense	-2.2	-1.9	-2.0	-2.1
Dividends Paid	-16,448	-19,145	-21,300	-18,219	DD&A	-19.2	-20.5	-20.0	-20.5
Debt Raised	12,252	0	0	0	Accretion expense	-2.9	-1.6	-1.6	-1.6
Other	-27,075	-4,629	-4,629	-4,629	Special oil gain levy	0.0	-0.1	0.0	-0.2
<b>Financial Cashflow</b>	<b>-31,271</b>	<b>-23,773</b>	<b>-25,928</b>	<b>-22,848</b>	<b>EBIT</b>	<b>13.5</b>	<b>24.5</b>	<b>14.3</b>	<b>21.4</b>
<b>FCF: CFO - Capex</b>					Income Tax	-3.7	-6.4	-3.4	-5.4
	<b>47,000</b>	<b>51,600</b>	<b>27,728</b>	<b>43,338</b>	<b>Net Income</b>	<b>9.8</b>	<b>18.2</b>	<b>11.0</b>	<b>16.0</b>
<b>CFO - Capex - Dividends</b>					<b>EBITDA</b>	<b>35.6</b>	<b>46.7</b>	<b>35.9</b>	<b>43.5</b>
	<b>30,552</b>	<b>32,455</b>	<b>6,428</b>	<b>25,119</b>	<b>DACF</b>	<b>31.9</b>	<b>40.3</b>	<b>32.5</b>	<b>38.1</b>
<b>Balance Sheet (Rmb mn)</b>					<b>Valuation</b>				
2017A	2018E	2019E	2020E	2017A	2018E	2019E	2020E		
Cash & Cash eqv.	12,572	42,901	48,894	74,402	<b>EV/EBITDA</b>	<b>6.6x</b>	<b>4.5x</b>	<b>5.8x</b>	<b>4.4x</b>
Current assets	138,838	169,167	175,160	200,668	<b>EV/DACF</b>	<b>6.4x</b>	<b>4.9x</b>	<b>5.9x</b>	<b>4.7x</b>
Fixed assets	478,381	479,110	482,842	488,581	P/E	20.0x	9.5x	15.9x	10.0x
<b>Total Assets</b>	<b>617,219</b>	<b>648,277</b>	<b>658,002</b>	<b>689,249</b>	P/B	1.3x	1.2x	1.2x	1.1x
Current Liabilities	61,412	61,412	61,412	61,412	<b>2P Oil &amp; Gas Reserves versus Breakeven Oil Price</b>				
Non-Current Liabilities	175,832	176,779	175,571	177,443					
Shareholder Equity	379,975	410,086	421,019	450,394					
<b>Net debt/(cash)</b>	<b>157,191</b>	<b>126,862</b>	<b>120,869</b>	<b>95,361</b>					
<b>Ratios</b>									
2017A	2018E	2019E	2020E						
Gearing (ND/ND&E)	29%	24%	22%	17%					
Interest Cover	19x	29x	23x	29x					
Effective Tax Rate	32%	28%	26%	27%					
ROE	6%	12%	7%	11%					
<b>ROACE</b>	<b>5%</b>	<b>10%</b>	<b>6%</b>	<b>10%</b>					
<b>CROCE</b>	<b>10%</b>	<b>12%</b>	<b>10%</b>	<b>11%</b>					
<b>FCF yield</b>	<b>7.2%</b>	<b>8.5%</b>	<b>4.5%</b>	<b>7.3%</b>					
<b>Dividend yield</b>	<b>3.7%</b>	<b>4.2%</b>	<b>4.1%</b>	<b>4.1%</b>					

Source: Company data, Macquarie Research, July 2018

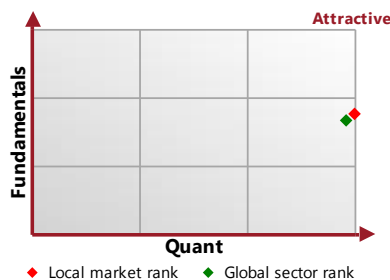
## Macquarie Quant View

The quant model currently holds a strong positive view on CNOOC. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Profitability, indicating this stock is not efficiently converting investments to earnings; proxied by ratios like ROE or ROA.

**18/606**

Global rank in Energy

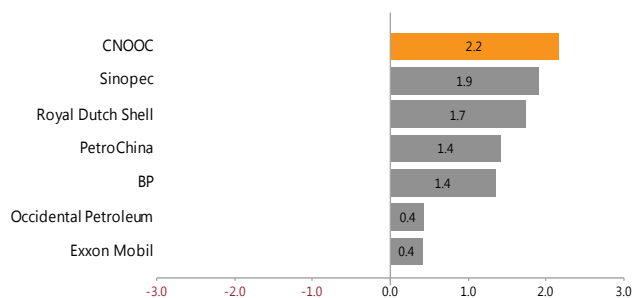
**% of BUY recommendations** 83% (19/23)  
**Number of Price Target downgrades** 0  
**Number of Price Target upgrades** 9



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.  
 Two rankings: Local market (Hong Kong) and Global sector (Energy)

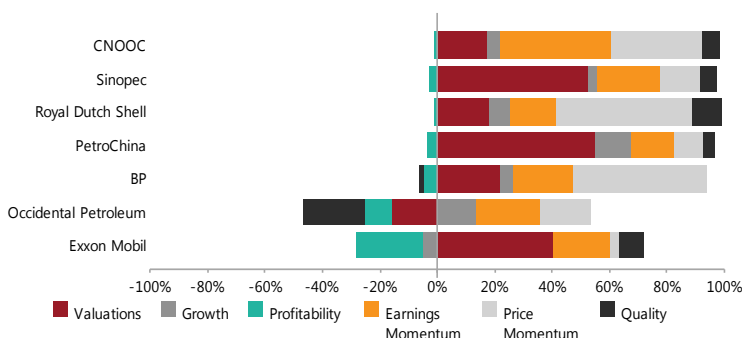
## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



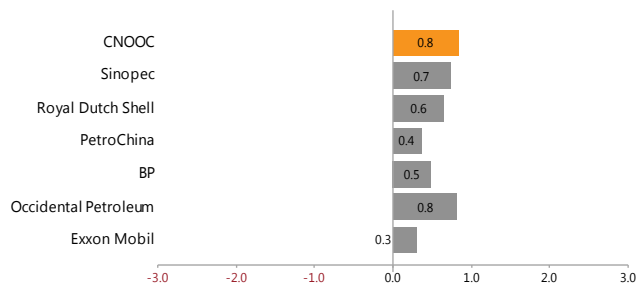
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



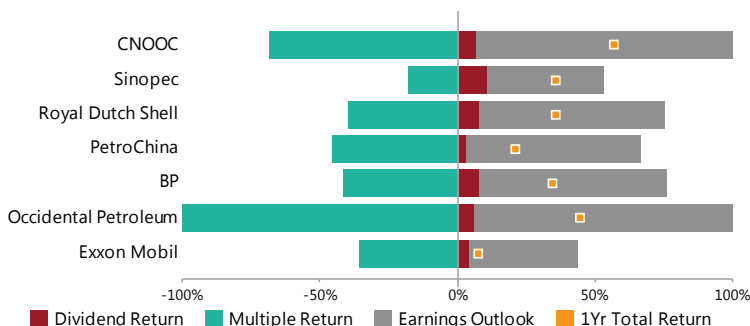
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



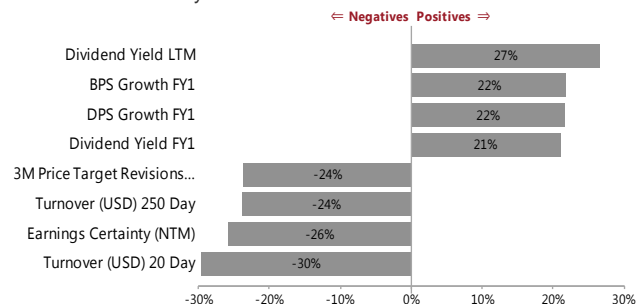
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



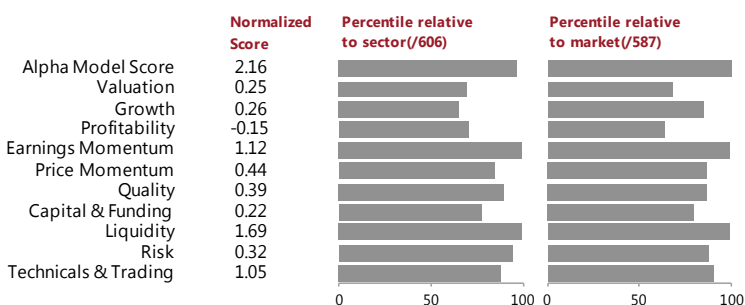
## What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpq@macquarie.com](mailto:cpq@macquarie.com))

**CNOOC (883 HK, Outperform, Target Price: HK\$14.60)**

Interim Results		2H/17A	1H/18E	2H/18E	1H/19E	Profit & Loss		2017A	2018E	2019E	2020E
Revenue	m	94,028	110,630	117,255	98,025	Revenue	m	186,390	227,885	198,981	233,771
Gross Profit	m	59,274	74,442	78,246	61,470	Gross Profit	m	120,374	152,688	124,899	153,565
Cost of Goods Sold	m	34,754	36,188	39,010	36,555	Cost of Goods Sold	m	66,016	75,197	74,081	80,206
EBITDA	m	44,398	65,149	69,015	52,272	EBITDA	m	98,307	134,163	106,464	134,131
Depreciation	m	29,433	30,476	33,795	32,538	Depreciation	m	61,257	64,271	66,268	69,261
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	14,965	34,673	35,219	19,734	EBIT	m	37,050	69,893	40,196	64,870
Net Interest Income	m	-1,996	-1,837	-1,378	-686	Net Interest Income	m	-4,391	-3,215	-1,323	-688
Associates	m	414	544	544	444	Associates	m	855	1,089	888	1,076
Exceptionals	m	-8,400	0	0	0	Exceptionals	m	-8,411	0	0	0
Forex Gains / Losses	m	62	0	0	0	Forex Gains / Losses	m	356	0	0	0
Other Pre-Tax Income	m	9,796	1,205	1,205	1,205	Other Pre-Tax Income	m	10,898	2,409	2,409	2,409
Pre-Tax Profit	m	14,841	34,585	35,590	20,696	Pre-Tax Profit	m	36,357	70,175	42,170	67,667
Tax Expense	m	-6,414	-9,959	-10,014	-5,496	Tax Expense	m	-11,680	-19,973	-11,146	-18,202
Net Profit	m	8,427	24,626	25,577	15,201	Net Profit	m	24,677	50,203	31,024	49,466
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	8,427	24,626	25,577	15,201	Reported Earnings	m	24,677	50,203	31,024	49,466
Adjusted Earnings	m	16,827	24,626	25,577	15,201	Adjusted Earnings	m	33,088	50,203	31,024	49,466
EPS (rep)		0.19	0.55	0.57	0.34	EPS (rep)		0.55	1.12	0.69	1.11
EPS (adj)		0.38	0.55	0.57	0.34	EPS (adj)		0.74	1.12	0.69	1.11
EPS Growth yoy (adj)	%	164.1	51.4	52.0	-38.3	EPS Growth (adj)	%	550.8	51.7	-38.2	59.4
						PE (rep)	x	20.1	9.9	16.0	10.0
						PE (adj)	x	15.0	9.9	16.0	10.0
EBITDA Margin	%	47.2	58.9	58.9	53.3	Total DPS		0.41	0.45	0.45	0.45
EBIT Margin	%	15.9	31.3	30.0	20.1	Total Div Yield	%	3.7	4.0	4.0	4.0
Earnings Split	%	50.9	49.1	50.9	49.0	Basic Shares Outstanding	m	44,647	44,647	44,647	44,647
Revenue Growth	%	18.0	19.8	24.7	-11.4	Diluted Shares Outstanding	m	44,647	44,647	44,647	44,647
EBIT Growth	%	78.5	57.0	135.3	-43.1						
<b>Profit and Loss Ratios</b>		<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>Cashflow Analysis</b>		<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Revenue Growth	%	27.2	22.3	-12.7	17.5	EBITDA	m	98,307	134,163	106,464	134,131
EBITDA Growth	%	47.8	36.5	-20.6	26.0	Tax Paid	m	0	-19,973	-11,146	-18,202
EBIT Growth	%	nmf	88.6	-42.5	61.4	Chgs in Working Cap	m	0	0	0	0
Gross Profit Margin	%	64.6	67.0	62.8	65.7	Net Interest Paid	m	0	3,215	1,323	688
EBITDA Margin	%	52.7	58.9	53.5	57.4	Other	m	-3,573	-806	1,086	1,721
EBIT Margin	%	19.9	30.7	20.2	27.7	Operating Cashflow	m	94,734	116,600	97,728	118,338
Net Profit Margin	%	17.8	22.0	15.6	21.2	Acquisitions	m	0	0	0	0
Payout Ratio	%	55.7	40.0	64.8	40.6	Capex	m	-47,734	-65,000	-70,000	-75,000
EV/EBITDA	x	5.2	3.8	4.8	3.8	Asset Sales	m	0	0	0	0
EV/EBIT	x	13.7	7.3	12.6	7.9	Other	m	-16,677	2,502	4,194	5,017
<b>Balance Sheet Ratios</b>						Investing Cashflow	m	-64,411	-62,498	-65,806	-69,983
ROE	%	8.7	12.7	7.5	11.4	Dividend (Ordinary)	m	0	-19,145	-21,300	-18,219
ROA	%	5.9	11.0	6.2	9.6	Equity Raised	m	0	0	0	0
ROIC	%	5.7	12.5	7.4	11.7	Debt Movements	m	0	0	0	0
Net Debt/Equity	%	5.7	-2.1	-3.5	-8.9	Other	m	-31,271	-4,629	-4,629	-4,629
Interest Cover	x	8.4	21.7	30.4	94.3	Financing Cashflow	m	-31,271	-23,773	-25,928	-22,848
Price/Book	x	1.3	1.2	1.2	1.1	Net Chg in Cash/Debt	m	-948	30,329	5,993	25,507
Book Value per Share		8.5	9.2	9.4	10.1	Free Cashflow	m	47,000	51,600	27,728	43,338
						<b>Balance Sheet</b>		<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
						Cash	m	110,683	141,012	147,005	172,513
						Receivables	m	20,787	20,787	20,787	20,787
						Inventories	m	7,354	7,354	7,354	7,354
						Investments	m	28,633	28,633	28,633	28,633
						Fixed Assets	m	395,868	396,597	400,329	406,068
						Intangibles	m	15,070	15,070	15,070	15,070
						Other Assets	m	38,824	38,824	38,824	38,824
						Total Assets	m	617,219	648,277	658,002	689,249
						Payables	m	40,819	40,819	40,819	40,819
						Short Term Debt	m	13,892	13,892	13,892	13,892
						Long Term Debt	m	118,358	118,358	118,358	118,358
						Provisions	m	52,893	52,893	52,893	52,893
						Other Liabilities	m	11,282	12,229	11,021	12,893
						Total Liabilities	m	237,244	238,191	236,983	238,855
						Shareholders' Funds	m	379,975	410,086	421,019	450,394
						Minority Interests	m	0	0	0	0
						Other	m	0	0	0	0
						Total S/H Equity	m	379,975	410,086	421,019	450,394
						Total Liab & S/H Funds	m	617,219	648,277	658,002	689,249

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, July 2018



## Important disclosures:

## Recommendation definitions

## Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

## Macquarie – Asia/Europe

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie – South Africa

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie - Canada

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

## Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa\*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

## 883 HK vs HSI, &amp; rec history



(all figures in HKD currency unless noted)

## 2386 HK vs HSI, &amp; rec history



(all figures in HKD currency unless noted)

## 857 HK vs HSI, &amp; rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  
 Source: FactSet, Macquarie Research, July 2018

## 12-month target price methodology

883 HK: HK\$14.60 based on a 2P NPV10 methodology

2386 HK: HK\$9.70 based on a EV/EBITDA methodology

857 HK: HK\$7.70 based on a Sum of Parts methodology

## Company-specific disclosures:

**883 HK:** Macquarie Capital Limited makes a market in the securities of CNOOC Ltd. **2386 HK:** Macquarie Capital Limited makes a market in the securities of SINOPEC Engineering Group Co Ltd. **857 HK:** Macquarie Capital Limited makes a market in the securities of PetroChina Co Ltd.

Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures).

Date	Stock Code (BBG code)	Recommendation	Target Price
26-Apr-2018	883 HK	Outperform	HK\$14.60
12-Feb-2018	883 HK	Outperform	HK\$12.50
09-Jan-2018	883 HK	Neutral	HK\$12.50
14-Dec-2017	883 HK	Outperform	HK\$12.50
04-Oct-2017	883 HK	Outperform	HK\$11.50
25-Aug-2017	883 HK	Outperform	HK\$11.00
21-Jun-2017	883 HK	Outperform	HK\$9.50
24-Mar-2017	883 HK	Outperform	HK\$11.00
03-Feb-2017	883 HK	Neutral	HK\$10.00
25-Jan-2017	883 HK	Outperform	HK\$12.00
07-Nov-2016	883 HK	Outperform	HK\$13.50
25-Aug-2016	883 HK	Outperform	HK\$14.00
25-Jul-2016	883 HK	Outperform	HK\$13.50
14-Mar-2016	883 HK	Outperform	HK\$13.00
08-Jan-2016	883 HK	Outperform	HK\$11.00
12-Nov-2015	883 HK	Outperform	HK\$12.00
09-Sep-2015	883 HK	Outperform	HK\$13.00

**Target price risk disclosures:****883 HK:** Oil price volatility.

**2386 HK:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures. In particular for SEG, it is exposed to SOE political risks, unexpected changes in parent (and key client) Sinopec's strategy, changes in regulations that alter clients refining, petchems and new coal investment plans, anti-corruption investigation disrupting operations and the inherent operational and HSE risks from designing and building very large oilfield projects.

**857 HK:** Oil price volatility. Potential cut to China's gas price and pipeline tariffs.

**Analyst certification:**

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The Analysts responsible for preparing this report receive compensation from Macquarie that is based upon various factors including Macquarie Group Ltd total revenues, a portion of which are generated by Macquarie Group's Investment Banking activities.

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