

Rating: Buy
S&P 500: 1562

PetroChina Company Ltd.

Steep Stock Price Advance Carries Higher Risk

<i>Symbol</i>	PTR	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$mm)</i>	43,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	216.13	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	10/12/07	<i>Adjusted Reserves/Production NTM</i>	15.0
<i>Shares (mm)</i>	1779	<i>EV/Ebitda</i>	9.3
<i>Market Capitalization (US\$mm)</i>	384,000	<i>PV/Ebitda</i>	7.3
<i>Debt (US\$mm)</i>	17,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	402,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.65
<i>Present Value (PV) (US\$mm)</i>	313,000	<i>Present Value Proven Reserves(US\$/boe)</i>	13.67
<i>Net Present Value (US\$/share)</i>	166	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.28
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.55
<i>McDep Ratio - EV/PV</i>	1.29	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	2.2	<i>Indicated Annual Dividend (US\$/sh)</i>	4.76

Note: Estimated cash flow and earnings tied to one-year futures prices for oil.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

The Peoples Republic of China holds 90% of the outstanding shares.

Estimated present value presumes a long-term price for oil of US\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of PTR since 2001 see www.mcdep.com/3ptr.htm

Summary and Recommendation

As our buy recommendation of **PetroChina Company Ltd. (PTR)** has become too speculative for new commitments by conservative investors because of price, we emphasize restricting the weight of the stock among energy holdings to near 3% unlevered as in the illustrative McDep Portfolio. Third quarter 2007 production volume reported today confirms a stable trend for oil and a rising trend for natural gas (see table [Quarterly Operations](#)). Exploration news continues to be favorable with a large natural gas discovery in western China to complement the Jidong Nanpu oil find that caused us to raise estimated Net Present Value (NPV) earlier. Though stock price has exceeded NPV of \$166 a share, there is open-ended upside to NPV from oil price, natural gas price and refined product price on top of volume growth. Higher stock prices in China than outside China may be driving up PTR stock price in advance of an issue of new shares in the mainland Chinese market in a few weeks. Eventually Chinese stock prices and world stock prices may come closer together at a level higher than current world levels, but the road to that point could be bumpy.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

PetroChina Company Limited
Half-Yearly Financial Results

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Twelve</i>
	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>	<i>12/31/08</i>	<i>Months</i>
									<i>12/31/08</i>
NY Harbor 3-2-1 (\$/bbl)	11.39	9.61	10.50	18.32	10.07	14.20	12.60	10.96	11.78
Revenue (RMB)									
Upstream (from quarterly table)	215,275	210,804	426,079	202,406	239,776	442,182	241,026	241,026	482,051
Downstream Value Added	111,270	151,629	262,899	190,320	190,320	380,640	190,320	190,320	380,640
Total	326,545	362,433	688,978	392,726	430,096	822,822	431,346	431,346	862,692
Expense	175,640	237,908	413,548	243,804	279,519	523,323	259,252	280,019	539,271
Ebitda (RMB)									
Exploration and Production	148,156	118,222	266,378	121,852	144,274	266,127	145,024	145,024	290,048
Other	2,749	6,303	9,052	27,070	6,303	33,372	27,070	6,303	33,372
Total	150,905	124,525	275,430	148,922	150,577	299,499	172,094	151,327	323,421
Exploration	8,750	10,072	18,822	10,607	10,607	21,214	10,607	10,607	21,214
Deprec., Deplet., & Amort.	29,910	31,478	61,388	31,228	31,228	62,456	31,228	31,228	62,456
Other non cash									
Ebit	112,245	82,975	195,220	107,087	108,742	215,829	130,259	109,492	239,751
Interest	889	2,331	3,220	1,231	1,231	2,462	1,231	1,231	2,462
Ebt	111,356	80,644	192,000	105,856	107,511	213,367	129,028	108,261	237,289
Income Tax	30,675	19,101	49,776	24,026	37,629	61,655	45,160	37,891	83,051
Net Income (RMB)									
Exploration and Production	124,452	95,408	219,860	96,436					
Other	(9,159)	(5,961)	(15,120)	15,451					
Unallocated	(34,612)	(27,904)	(62,516)	(30,057)					
Total	80,681	61,543	142,224	81,830	69,882	151,712	83,868	70,370	154,238
Shares (millions)	1,793	1,810	1,800	1,779	1,779	1,779	1,779	1,779	1,779
Earnings per share (RMB)	45.00	34.00	79.00	46.00	39.28	85.28	47.15	39.56	86.70
Ebitda Margin (E&P)	69%	56%	63%	60%	60%	60%	60%	60%	60%
Tax Rate	28%	24%	26%	23%	35%	29%	35%	35%	35%

PetroChina
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	2,500	23.5	8.4	21,000	7%
Oil	36,200	12.3	7.4	268,000	86%
Downstream	4,400		5.2	23,000	7%
	43,100	15.0	7.2	312,000	100%
Debt (US\$mm)					17,000
Net Present Value (US\$mm)					295,000
Shares (mm)					1,779
Net Present Value - Standard Estimate (US\$/sh)					166
Net Present Value - Approximation by Correlation (US\$/sh)					179

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PetroChina Company Limited
Quarterly Operations

	Q3 9/30/06	Q2 6/30/07	Q3 9/30/07	Q4E 12/31/07	Year 2007E	Q1E 3/31/08	Q2E 6/30/08	Q3E 9/30/08	Twelve Months E 12/31/08
Volume									
Natural gas (bcf)	322	387	378	440	1,616	415	387	378	1,621
Natural Gas (mmcf)	3,504	4,257	4,110	4,784	4,428	4,562	4,257	4,110	4,428
Days	92	91	92	92	365	91	91	92	366
Oil (mmb)	207	211	212	212	844	210	210	212	845
Oil (mbd)	2,250	2,313	2,308	2,308	2,313	2,308	2,308	2,308	2,308
Total gas & oil (mmb)	261	275	275	286	1,114	279	275	275	1,115
Total gas & oil (mbd)	2,834	3,023	2,993	3,105	3,051	3,068	3,017	2,993	3,046
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	6.98	6.88	8.00	7.59	7.79	7.91
Company	2.49	2.56	2.57	2.57	2.56	2.57	2.57	2.57	2.57
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	81.78	70.06	80.83	79.25	78.12	78.86
Company	66.64	61.46	67.42	73.06	63.99	72.21	70.80	69.78	70.44
Total gas & oil (\$/bbl)	55.99	50.64	55.52	58.26	52.22	58.14	57.78	57.34	57.11
Revenue (\$mm)									
Natural Gas	804	992	972	1,132	4,131	1,067	996	972	4,167
Oil	13,795	12,937	14,314	15,510	54,024	15,163	14,867	14,815	59,496
Total	14,598	13,929	15,286	16,641	58,154	16,231	15,863	15,787	63,664
Total(RMB)	116,349	106,973	114,800	124,976	442,182	121,894	119,132	118,560	478,115
RMB/\$US	7.97	7.68	7.51	7.51	7.60	7.51	7.51	7.51	7.51

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