



# Independent Stock Idea

August 27, 2008

rating: buy  
s&p 500: 1271

## PetroChina (PTR) Sacrifice Acknowledged

<i>Symbol</i>	PTR	<i>Ebitda Twelve Months ending 6/30/09 (US\$mm)</i>	54,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	128.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	84
<i>Pricing Date</i>	8/26/08	<i>Adjusted Reserves/Production NTM</i>	14.3
<i>Shares (mm)</i>	1838	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	236,000	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	19,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	255,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	37.64
<i>Present Value (PV) (US\$mm)</i>	423,000	<i>Present Value Proven Reserves(US\$/boe)</i>	16.65
<i>Net Present Value (US\$/share)</i>	220	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.77
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	13.37
<i>McDep Ratio - EV/PV</i>	0.60	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	4.21
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 86% of the outstanding shares.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of PTR since 2001 see <a href="http://www.mcdep.com/3ptr.htm">www.mcdep.com/3ptr.htm</a>			

### Summary and Recommendation

Buy-recommended **PetroChina (PTR)**, with estimated net present value (NPV) of \$220 a share, offers portfolio representation mainly in crude oil production and non-U.S. domicile at a low McDep Ratio. First half results reported today disclosed the effect of price controls on refined products that were not quite as adverse as anticipated (see table [Half-Yearly Financial Results](#)). Rising production volume was close to expectations (see table [Quarterly Operations](#)). The integrated company may also have been able to reduce the unfavorable impact of the Chinese “windfall profits tax” by charging itself a lower than expected crude oil price for volumes sent to its own refineries. Allowing for reduced tax on crude oil, continuing price controls on natural gas and diminished price controls on refined products, NPV is supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Sticking to its policy of paying out 45% of earnings in dividends, management reduced the declared dividend in line with lower reported earnings. The cost of sacrificing profits, hopefully only temporary, seems amply reflected in a decline in stock price of 52% from the high last year. Meanwhile, crude oil price trends upward with the latest quote of \$118 a barrel for delivery over the next six years above the 40-week average of \$107 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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PetroChina Company Limited								
Half-Yearly Financial Results								
								<i>Twelve</i>
	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Months E</i>
	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>6/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>6/30/09</i>	<i>6/30/09</i>
NY Harbor 3-2-1 (\$/bbl)	18.32	10.42	14.37	11.26	9.70	10.48	11.72	10.71
<b>Revenue (RMB)</b>								
Upstream (from quarterly table)	202,406	244,800	447,206	308,642	310,765	619,407	301,637	612,401
Downstream Value Added	190,320	197,511	387,831	240,880	240,880	481,760	240,880	481,760
Total	392,726	442,311	835,037	549,522	551,644	1,101,166	542,517	1,094,161
<b>Expense</b>								
	243,804	305,588	549,392	420,216	386,816	807,032	334,465	721,281
<b>Ebitda (RMB)</b>								
Exploration and Production	121,852	102,416	224,268	153,726	130,521	284,247	180,982	311,503
Other	27,070	34,307	61,377	(24,420)	34,307	9,888	27,070	61,377
Total	148,922	136,723	285,645	129,306	164,828	294,134	208,052	372,880
Exploration	10,607	10,041	20,648	12,848	12,848	25,696	12,848	25,696
Deprec., Deplet., & Amort.	31,228	35,397	66,625	42,754	42,754	85,508	42,754	85,508
Other non cash								
<b>Ebit</b>								
	107,087	91,285	198,372	73,704	109,226	182,930	152,450	261,676
Interest	1,231	2,364	3,595	231	2,364	2,595	231	2,595
<b>Ebt</b>								
	105,856	88,921	194,777	73,473	106,862	180,335	152,219	259,081
Income Tax	24,026	25,126	49,152	19,858	37,402	57,260	53,277	90,678
<b>Net Income (RMB)</b>								
Exploration and Production	96,436	127,440	223,876	130,231				
Other	15,451	39,009	54,460	(43,905)				
Unallocated	(30,057)	(102,654)	(132,711)	(32,711)				
Total	81,830	63,795	145,625	53,615	69,461	123,076	98,942	168,403
<b>Shares (millions)</b>								
	1,779	1,823	1,798	1,849	1,849	1,849	1,830	1,838
Earnings per share (RMB)	46.00	35.00	81.00	29.00	37.57	66.57	54.07	91.64
Ebitda Margin (E&P)	60%	42%	50%	50%	42%	46%	60%	51%
Tax Rate	23%	28%	25%	27%	35%	32%	35%	35%

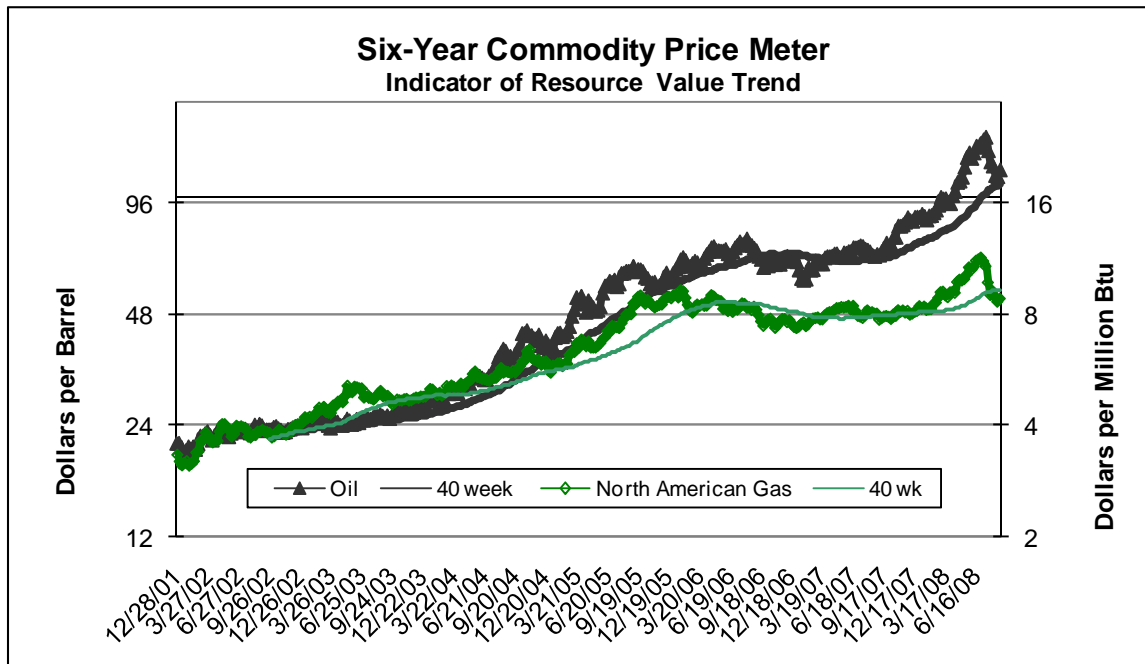
PetroChina Company Limited									
Quarterly Operations									
								<i>Twelve</i>	
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months E</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
<b>Volume</b>									
Natural gas (bcf)	387	485	438	446	532	1,901	527	482	1,988
Natural Gas (mmcf/d)	4,257	5,326	4,816	4,850	5,783	5,195	5,859	5,298	5,446
Days	91	91	91	92	92	366	90	91	365
Oil (mmb)	211	216	219	221	221	876	216	219	876
Oil (mbd)	2,313	2,374	2,401	2,401	2,401	2,394	2,401	2,401	2,401
Total gas & oil (mmb)	275	297	292	295	310	1,193	304	299	1,208
Total gas & oil (mbd)	3,023	3,261	3,204	3,209	3,365	3,260	3,378	3,284	3,309
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.06	8.33	9.33	8.94	8.03	8.84
Company	2.56	3.15	3.68	3.68	3.68	3.55	3.68	3.68	3.68
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	121.20	115.71	114.71	117.19	115.31	117.35
Company	61.46	87.93	98.91	96.69	92.31	93.98	93.50	92.00	93.63
Total gas & oil (\$/bbl)	50.64	69.14	79.66	77.91	72.20	74.67	72.85	73.20	74.01
<b>Revenue (\$mm)</b>									
Natural Gas	992	1,527	1,614	1,643	1,959	6,742	1,941	1,775	7,318
Oil	12,937	18,993	21,611	21,360	20,392	82,356	20,204	20,101	82,057
Total	13,929	20,520	23,225	23,003	22,351	89,098	22,146	21,876	89,376
Total(RMB)	106,973	146,997	161,645	157,613	153,151	619,407	151,742	149,895	612,401
RMB/\$US	7.68	7.16	6.96	6.85	6.85	6.95	6.85	6.85	6.85



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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	3,700	20.9	9.7	36,000	9%
Oil	41,700	11.8	8.1	337,000	80%
Downstream	9,000		5.6	50,000	12%
	54,400	14.3	7.8	423,000	100%
Debt (US\$mm)					19,000
Net Present Value (US\$mm)					404,000
Shares (mm)					1,838
Net Present Value - Standard Estimate (US\$/sh)					220
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					207





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