

Rating: Buy
S&P 500: 1197

PetroChina Company Ltd.

News Pending

| | | | |
|---------------------------------------|---------|--|--------|
| <i>Symbol</i> | PTR | <i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i> | 30,000 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 0 |
| <i>Price (US\$/sh)</i> | 67.50 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 84 |
| <i>Pricing Date</i> | 6/7/05 | <i>Adjusted Reserves/Production NTM</i> | 13.7 |
| <i>Shares (mm)</i> | 1758 | <i>EV/Ebitda</i> | 4.3 |
| <i>Market Capitalization (US\$mm)</i> | 119,000 | <i>PV/Ebitda</i> | 5.9 |
| <i>Debt (US\$mm)</i> | 9,000 | <i>Undeveloped Reserves (%)</i> | 27 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 128,000 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 25.17 |
| <i>Present Value (PV) (US\$mm)</i> | 174,000 | <i>Present Value Proven Reserves(US\$/boe)</i> | 9.31 |
| <i>Net Present Value (US\$/share)</i> | 94 | <i>Present Value Proven Reserves(US\$/mcf)</i> | 1.55 |
| <i>Debt/Present Value</i> | 0.05 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 8.36 |
| <i>McDep Ratio - EV/PV</i> | 0.73 | <i>Price/Earnings Next Twelve Months</i> | 8 |
| <i>Dividend Yield (%/year)</i> | 4.7 | <i>Indicated Annual Dividend (US\$/sh)</i> | 3.18 |

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

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.

Summary and Recommendation

We continue to recommend current purchase of **PetroChina Company Ltd. (PTR)** for growth in natural gas and oil products along with cash flow from oil production that supports a rapidly increasing dividend. Press reports anticipate that the company will announce momentarily the purchase of oil and gas reserves outside China. We presume that such a transaction would be priced near today's market conditions and that it would be a reasonable reinvestment of the strong cash flow being generated from existing operations. That would support our expectation that the stock can appreciate 39% to net present value of \$94 a share subject to political risk and normal uncertainty.

Present Value Low Relative to Cash Flow

Estimated originally on a discounted cash flow basis assuming \$40 oil, present value looks low relative to next twelve months cash flow (see table [Functional Cash Flow and Present Value](#)). Cash flow multiple for the company compares closely to our current correlation with adjusted reserve life index for twenty-seven producers. Natural Gas is below the correlation multiple for Rest of World natural gas by 0.2. Oil is at the correlation multiple. The downstream multiple is 0.6 below the median of fourteen companies.

Cash Flow Rising with Commodity Price

A dynamic measure, projected revenue is updated frequently with latest futures quotes (see table [Next Twelve Months Operations](#)). Natural gas volumes are growing rapidly while price remains low. Ultimately we expect natural gas price to reflect world levels as oil price does.

Please see disclosures on the final page.

PetroChina
Functional Cash Flow and Present Value

| | <i>NTM Ebitda</i> <i>(US\$mm)</i> | <i>Adjusted</i> <i>R/P</i> | <i>PV/</i> <i>Ebitda</i> | <i>Present</i> <i>Value</i> <i>(US\$mm)</i> | |
|-----------------------------|--------------------------------------|-------------------------------|-----------------------------|---|---------|
| Natural Gas | 1,500 | 20.0 | 10.0 | 15,000 | 9% |
| Oil | 22,000 | 12.3 | 5.7 | 125,000 | 72% |
| Downstream | 6,200 | | 5.5 | 34,000 | 20% |
| | 29,700 | 13.7 | 5.9 | 174,000 | 100% |
| Debt (US\$mm) | | | | | 9,000 |
| Net Present Value (US\$mm) | | | | | 165,000 |
| Shares (mm) | | | | | 1,758 |
| Net Present Value (US\$/sh) | | | | | 94 |

PetroChina Company Limited
Next Twelve Months Operations

| | <i>Q4</i> <i>12/31/04</i> | <i>Year</i> <i>2004</i> | <i>Q1</i> <i>3/31/05</i> | <i>Q2E</i> <i>6/30/05</i> | <i>Q3E</i> <i>9/30/05</i> | <i>Q4E</i> <i>12/31/05</i> | <i>Year</i> <i>2005E</i> | <i>Q1E</i> <i>3/31/06</i> | <i>Q2E</i> <i>6/30/06</i> | <i>Next</i> <i>Twelve</i> <i>Months</i> <i>6/30/06</i> |
|--------------------------|------------------------------|----------------------------|-----------------------------|------------------------------|------------------------------|-------------------------------|-----------------------------|------------------------------|------------------------------|---|
| Volume | | | | | | | | | | |
| Natural gas (bcf) | 234 | 839 | 261 | 255 | 267 | 285 | 1,068 | 288 | 300 | 1,140 |
| Natural Gas (mmcf) | 2,545 | 2,293 | 2,899 | 2,800 | 2,900 | 3,100 | 2,925 | 3,200 | 3,300 | 3,124 |
| Days | 92 | 366 | 90 | 91 | 92 | 92 | 365 | 90 | 91 | 365 |
| Oil (mmb) | 193 | 778 | 200 | 200 | 202 | 202 | 805 | 198 | 200 | 803 |
| Oil (mbd) | 2,093 | 2,126 | 2,221 | 2,200 | 2,200 | 2,200 | 2,205 | 2,200 | 2,200 | 2,200 |
| Total gas & oil (mmb) | 232 | 918 | 243 | 243 | 247 | 250 | 983 | 246 | 250 | 993 |
| Total gas & oil (mbd) | 2,518 | 2,508 | 2,704 | 2,667 | 2,683 | 2,717 | 2,693 | 2,733 | 2,750 | 2,721 |
| Price | | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 7.10 | 6.15 | 6.27 | 7.08 | 7.17 | 7.74 | 7.06 | 8.44 | 7.18 | 7.63 |
| Company | 1.96 | 2.00 | 1.98 | 1.98 | 1.98 | 1.98 | 1.98 | 1.98 | 1.98 | 1.98 |
| Oil (\$/bbl) | | | | | | | | | | |
| WTI Cushing | 48.31 | 41.44 | 49.65 | 52.24 | 55.54 | 57.13 | 53.64 | 57.25 | 56.88 | 56.70 |
| Company | 40.97 | 33.88 | 37.63 | 39.59 | 42.09 | 43.30 | 40.67 | 43.39 | 43.11 | 42.97 |
| Total gas & oil (\$/bbl) | 36.05 | 30.54 | 33.03 | 34.74 | 36.65 | 37.33 | 35.45 | 37.24 | 36.86 | 37.02 |
| Revenue (\$mm) | | | | | | | | | | |
| Natural Gas | 459 | 1,675 | 517 | 505 | 528 | 565 | 2,114 | 570 | 595 | 2,258 |
| Oil | 7,891 | 26,362 | 7,522 | 7,927 | 8,520 | 8,764 | 32,733 | 8,591 | 8,631 | 34,506 |
| Total | 8,350 | 28,037 | 8,039 | 8,431 | 9,048 | 9,329 | 34,847 | 9,161 | 9,225 | 36,764 |
| Total(RMB) | 69,011 | 231,710 | 66,437 | 69,678 | 74,778 | 77,099 | 287,991 | 75,715 | 76,241 | 303,832 |

Revenues drive cash flow and earnings that are reported on a half-year basis (see table Next Twelve Months Financial Results). Projected unlevered cash flow (Ebitda) of some RMB245 billion translates to some \$30 billion. Cash flow (Ebitda) at 68% of revenue is typical for a producer. Projected gains in earnings would be translated directly into gains in dividends.

China Has Need for Long-Term Oil and Gas Supply

China appears to be consuming more incremental energy every year than any other country on the globe. Consumption of oil exceeds domestic production. Demand for natural gas exceeds growing domestic production. In fact, rising demand from China is making global natural gas

Please see disclosures on the final page.

and oil resources more valuable. It is only logical that China should try to capture more of the economic value that it is creating.

PetroChina is owned 90% by the state company China National Petroleum Corp (CNPC). CNPC has already been active in acquiring reserves outside China. Some of those properties may be transferred to PetroChina, but probably not the holdings in Sudan due to political controversy.

| PetroChina Company Limited | | | | | | | | |
|---|----------------|-----------------|-----------------|----------------|-----------------|----------------|----------------|-----------------------------------|
| Next Twelve Months Financial Results | | | | | | | | |
| | <i>H1</i> | <i>H2</i> | <i>Year</i> | <i>H1E</i> | <i>H2E</i> | <i>Year</i> | <i>H1E</i> | <i>Next Twelve Months</i> |
| | <i>6/30/04</i> | <i>12/31/04</i> | <i>2004</i> | <i>6/30/05</i> | <i>12/31/05</i> | <i>2005E</i> | <i>6/30/06</i> | <i>6/30/06</i> |
| NY Harbor 3-2-1 (\$/bbl) | 8.74 | 6.75 | 7.74 | 8.47 | 8.73 | 8.60 | 9.11 | 8.92 |
| Revenue (RMB) | | | | | | | | |
| Natural Gas | | | | | | | | |
| Oil | | | | | | | | |
| Upstream (from quarterly table) | 102,266 | 129,444 | 231,710 | 136,114 | 151,876 | 287,991 | 151,956 | 303,832 |
| Downstream Value Added | 77,286 | 79,637 | 156,923 | 79,637 | 79,637 | 159,274 | 79,637 | 159,274 |
| Total | 179,552 | 209,081 | 388,633 | 215,751 | 231,513 | 447,264 | 231,592 | 463,106 |
| Expense | | | | | | | | |
| Production | | | | | | | | |
| Other | | | | | | | | |
| Total | 85,013 | 97,693 | 182,706 | 101,028 | 108,909 | 209,937 | 108,949 | 217,858 |
| Ebitda (RMB) | | | | | | | | |
| Exploration and Production | 73,124 | 92,060 | 165,183 | 95,395 | 103,276 | 198,670 | 103,315 | 206,591 |
| Other | 21,415 | 19,328 | 40,744 | 24,264 | 25,004 | 49,269 | 26,078 | 51,083 |
| Total | 94,539 | 111,388 | 205,927 | 114,723 | 122,604 | 237,327 | 122,644 | 245,248 |
| Exploration | 5,630 | 6,093 | 11,723 | 6,093 | 6,093 | 12,186 | 6,093 | 12,186 |
| Deprec., Deplet., & Amort. | 24,673 | 21,738 | 46,411 | 21,738 | 21,738 | 43,476 | 21,738 | 43,476 |
| Other non cash | | | | | | | | |
| Ebit | 64,236 | 83,557 | 147,793 | 86,892 | 94,773 | 181,665 | 94,813 | 189,586 |
| Interest | 925 | 1,378 | 2,303 | 1,378 | 1,378 | 2,756 | 1,378 | 2,756 |
| Ebt | 63,311 | 82,179 | 145,490 | 85,514 | 93,395 | 178,909 | 93,435 | 186,830 |
| Income Tax | 18,019 | 24,544 | 42,563 | 29,930 | 32,688 | 62,618 | 32,702 | 65,390 |
| Net Income (RMB) | | | | | | | | |
| Exploration and Production | 52,701 | 72,870 | 125,571 | | | | | |
| Other | 11,549 | 10,622 | 22,171 | | | | | |
| Unallocated | (18,958) | (25,857) | (44,815) | | | | | |
| Total | 45,292 | 57,635 | 102,927 | 55,584 | 60,707 | 116,291 | 60,733 | 121,439 |
| Shares (millions) | 1,758 | 1,758 | 1,758 | 1,758 | 1,758 | 1,758 | 1,758 | 1,758 |
| Earnings per share (RMB) | 25.76 | 32.78 | 58.55 | 31.62 | 34.53 | 66.15 | 34.55 | 69.08 |
| Ebitda Margin (E&P) | 72% | 71% | 71% | 70% | 68% | 69% | 68% | 68% |
| Tax Rate | 28% | 30% | 29% | 35% | 35% | 35% | 35% | 35% |

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table [Rank by McDep Ratio](#)).

Kurt H. Wulff, CFA

Please see disclosures on the final page.

Rank by McDep Ratio: Market Cap and Debt to Present Value

| | Symbol/ Rating | | Price (\$/sh) 7-Jun 2005 | Shares (mm) | Market Cap (\$mm) | Net Present Value (\$/sh) | Debt/ Present Value | McDep Ratio |
|--|-------------------|----|-----------------------------------|----------------|-------------------------|------------------------------------|---------------------------|----------------|
| Mega Cap | | | | | | | | |
| BP plc | BP | B | 61.49 | 3,574 | 220,000 | 64.00 | 0.13 | 0.97 |
| Exxon Mobil Corporation | XOM | B | 57.45 | 6,421 | 369,000 | 60.00 | 0.06 | 0.96 |
| Shell Transport and Trading Co. plc | SC | B | 53.42 | 1,587 | 85,000 | 56.00 | 0.14 | 0.96 |
| Total S.A. | TOT | B | 112.97 | 1,192 | 135,000 | 126.00 | 0.15 | 0.91 |
| Royal Dutch Petroleum | RD | B | 59.41 | 2,018 | 120,000 | 66.00 | 0.14 | 0.91 |
| Chevron Corporation | CVX | B | 54.78 | 2,311 | 127,000 | 70.00 | 0.13 | 0.81 |
| <i>Total or Median</i> | | | | | <i>1,056,000</i> | | <i>0.13</i> | <i>0.94</i> |
| Producer/Refiners - Large Cap and Mid Cap | | | | | | | | |
| Kinder Morgan, Inc. | KMI | S2 | 78.62 | 125 | 9,830 | 20.00 | 0.74 | 1.77 |
| Marathon Oil Corporation | MRO | B | 49.79 | 349 | 17,360 | 42.00 | 0.30 | 1.13 |
| Imperial Oil Limited (30%) | IMO | B | 73.30 | 105 | 7,690 | 64.00 | 0.11 | 1.13 |
| Petro-Canada | PCZ | B | 57.35 | 263 | 15,110 | 70.00 | 0.19 | 0.85 |
| ConocoPhillips | COP | B | 54.64 | 1,420 | 77,600 | 70.00 | 0.21 | 0.83 |
| Norsk Hydro ASA | NHY | B | 83.27 | 251 | 20,890 | 110.00 | 0.13 | 0.79 |
| Suncor Energy | SU | B | 40.52 | 461 | 18,680 | 54.00 | 0.10 | 0.78 |
| PetroChina Company Ltd (10%) | PTR | B | 67.50 | 176 | 11,870 | 94.00 | 0.05 | 0.73 |
| Lukoil Oil Company | LUKOY | B | 35.00 | 834 | 29,000 | 52.00 | 0.03 | 0.68 |
| <i>Total or Median</i> | | | | | <i>208,000</i> | | <i>0.13</i> | <i>0.83</i> |

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.