



Independent Stock Idea

October 29, 2008

rating: buy
s&p 500: 930

PetroChina (PTR) Chinese Major Oil Company

<i>Symbol</i>	PTR	<i>Ebitda Twelve Months ending 12/31/09 (US\$mm)</i>	36,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	67.85	<i>Natural Gas and Oil Production/Ebitda (%)</i>	75
<i>Pricing Date</i>	10/29/08	<i>Adjusted Reserves/Production NTM</i>	14.3
<i>Shares (mm)</i>	1830	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (US\$mm)</i>	124,000	<i>PV/Ebitda</i>	8.1
<i>Debt (US\$mm)</i>	19,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	143,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.43
<i>Present Value (PV) (US\$mm)</i>	293,000	<i>Present Value Proven Reserves(US\$/boe)</i>	10.39
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.73
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.96
<i>McDep Ratio - EV/PV</i>	0.49	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	6.2	<i>Indicated Annual Dividend (US\$/sh)</i>	4.22
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of PTR since 2001 see www.mcdep.com/3ptr.htm			

Summary and Recommendation

Buy-recommended **PetroChina (PTR)** offers unlevered appreciation potential of 100% to estimated net present value (NPV) of \$150 a share. On October 28, we reset NPV from \$220 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as PTR stock price remains below the 200-day average of \$129. Released today, third quarter results displayed strength in revenue, driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Quarterly Operations](#)). Partial financial results released for the quarter indicated gains in earnings and cash flow over the third quarter 2007 that support our estimate for the second half of 2008. As a result, cash flow (Ebitda) should continue at a high level particularly as downstream refining and marketing operations have become more profitable with lower crude oil price and less onerous price controls on refined products (see table [Half-Yearly Financial Results](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Oil production is approaching the volumes produced by **ExxonMobil (XOM)** and **BP plc (BP)**, the two volume leaders among the traditional major oil companies (see chart [Oil Equivalent Production](#)).

Kurt H. Wulff, CFA



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PetroChina Company Limited									
Quarterly Operations									
									Twelve
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Months E
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	12/31/09
Volume									
Natural gas (bcf)	378	438	445	532	1,900	527	482	490	2,084
Natural Gas (mmcf)	4,110	4,816	4,837	5,783	5,191	5,859	5,298	5,321	5,710
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)	212	219	219	219	872	214	216	219	867
Oil (mbd)	2,308	2,401	2,375	2,375	2,381	2,375	2,375	2,375	2,375
Total gas & oil (mmb)	275	292	293	307	1,188	302	296	300	1,214
Total gas & oil (mbd)	2,993	3,204	3,181	3,339	3,246	3,352	3,258	3,262	3,327
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.93
Company	2.57	3.68	3.52	3.69	3.51	3.88	4.07	4.28	4.19
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.48
Company	67.42	98.91	104.78	59.96	87.89	57.04	58.44	58.44	58.41
Total gas & oil (\$/bbl)	55.52	79.66	83.57	49.05	70.08	47.20	49.22	49.52	48.89
Revenue (\$mm)									
Natural Gas	972	1,614	1,565	1,965	6,671	2,045	1,963	2,093	8,729
Oil	14,314	21,611	22,894	13,101	76,598	12,192	12,629	12,768	50,635
Total	15,286	23,225	24,459	15,066	83,270	14,237	14,593	14,861	59,364
Total(RMB)	115,565	161,645	167,300	103,141	579,083	97,467	99,902	101,740	406,407
RMB/\$US	7.56	6.96	6.84	6.85	6.95	6.85	6.85	6.85	6.85

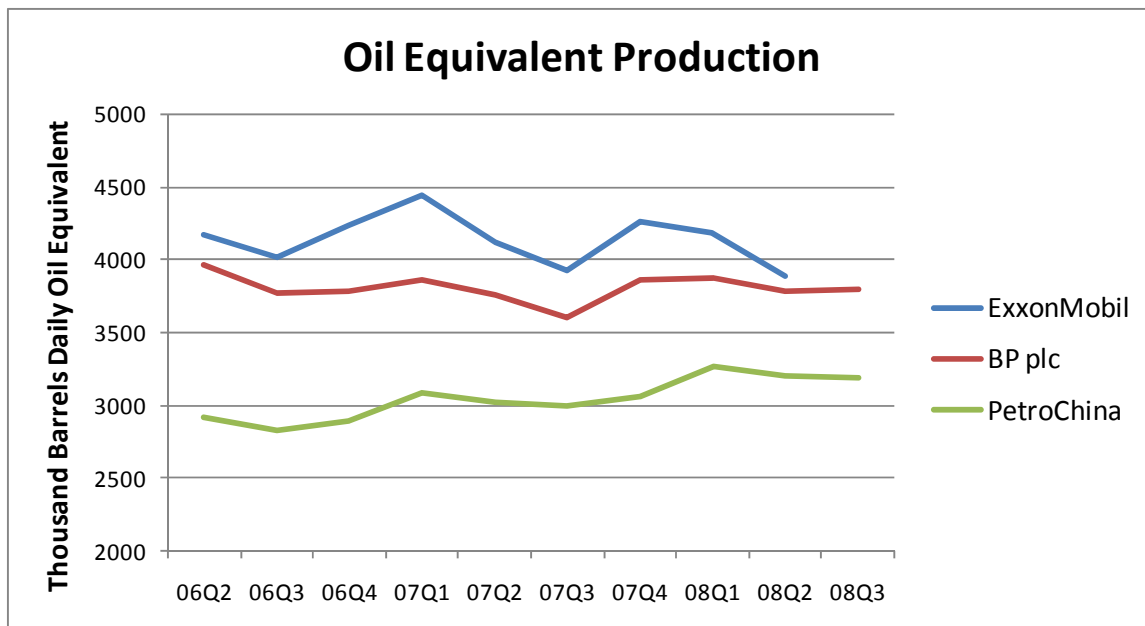
PetroChina Company Limited									
Half-Yearly Financial Results									
									Twelve
	H1	H2	Year	H1	H2E	Year	H1E	H2E	Months E
	6/30/07	12/31/07	2007	6/30/08	12/31/08	2008E	6/30/09	12/31/09	12/31/09
NY Harbor 3-2-1 (\$/bbl)	18.32	10.42	14.37	11.26	8.78	10.02	7.88	7.88	7.88
Revenue (RMB)									
Upstream (from quarterly table)	202,406	244,800	447,206	308,642	270,441	579,083	197,369	209,038	406,407
Downstream Value Added	190,320	197,511	387,831	240,880	240,880	481,760	240,880	240,880	481,760
Total	392,726	442,311	835,037	549,522	511,321	1,060,843	438,249	449,918	888,167
Expense	243,804	305,588	549,392	420,216	363,428	783,644	312,495	327,815	640,309
Ebitda (RMB)									
Exploration and Production	121,852	102,416	224,268	153,726	113,585	267,311	98,684	87,796	186,481
Other	27,070	34,307	61,377	(24,420)	34,307	9,888	27,070	34,307	61,377
Total	148,922	136,723	285,645	129,306	147,892	277,198	125,754	122,103	247,857
Exploration	10,607	10,041	20,648	12,848	12,848	25,696	12,848	12,848	25,696
Deprec., Deplet., & Amort.	31,228	35,397	66,625	42,754	42,754	85,508	42,754	42,754	85,508
Other non cash									
Ebit	107,087	91,285	198,372	73,704	92,290	165,994	70,152	66,501	136,653
Interest	1,231	2,364	3,595	231	2,364	2,595	231	2,364	2,595
Ebt	105,856	88,921	194,777	73,473	89,926	163,399	69,921	64,137	134,058
Income Tax	24,026	25,126	49,152	19,858	31,474	51,332	24,472	22,448	46,920
Net Income (RMB)									
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	58,452	112,067	45,449	41,689	87,138
Shares (millions)	1,779	1,823	1,798	1,849	1,849	1,849	1,830	1,830	1,830
Earnings per share (RMB)	46.00	35.00	81.00	29.00	31.62	60.62	24.84	22.78	47.62
Ebitda Margin (E&P)	60%	42%	50%	50%	42%	46%	50%	42%	46%
Tax Rate	23%	28%	25%	27%	35%	31%	35%	35%	35%



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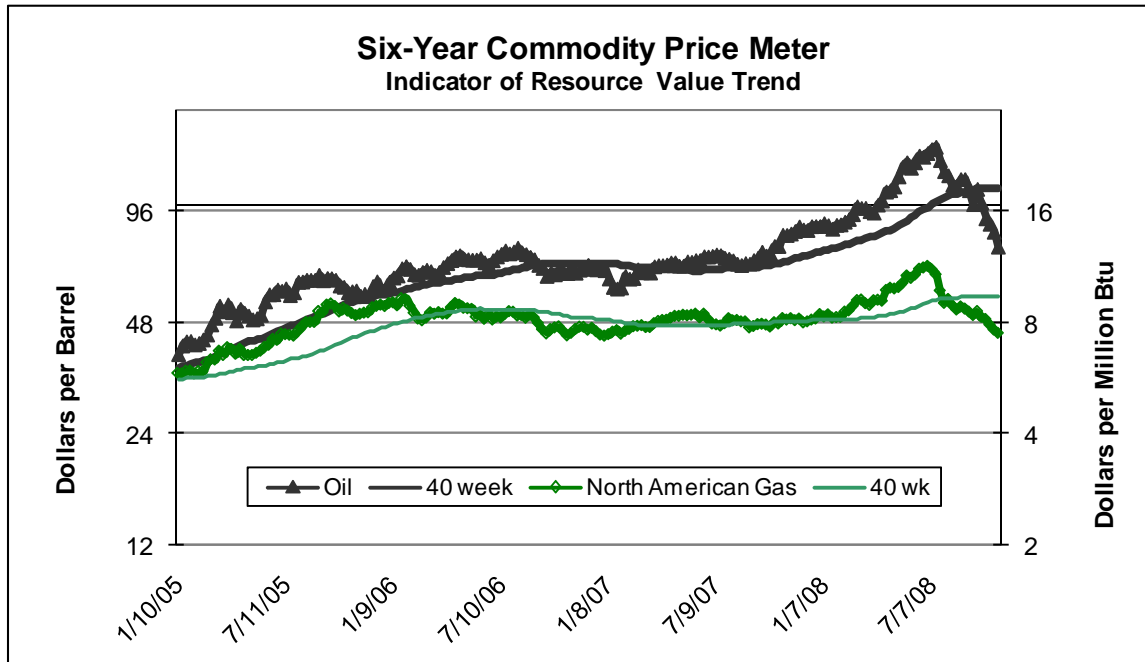
PetroChina					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	4,000	19.9	10.0	40,000	14%
Oil	23,200	12.0	8.8	204,000	69%
Downstream	9,000		5.6	50,000	17%
	36,200	14.3	8.1	294,000	100%
Debt (US\$mm)					19,000
Net Present Value (US\$mm)					275,000
Shares (mm)					1,830
Net Present Value - Standard Estimate (US\$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					149





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