



Independent Stock Idea

January 22, 2009

rating: buy
s&p 500: 840

PetroChina (PTR) Government Managed Pricing

<i>Symbol</i>	PTR	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	30,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	77.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	70
<i>Pricing Date</i>	1/21/09	<i>Adjusted Reserves/Production NTM</i>	14.3
<i>Shares (mm)</i>	1830	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$mm)</i>	141,000	<i>PV/Ebitda</i>	9.9
<i>Debt (US\$mm)</i>	19,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	160,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	16.98
<i>Present Value (PV) (US\$mm)</i>	293,000	<i>Present Value Proven Reserves(US\$/boe)</i>	9.62
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.60
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.60
<i>McDep Ratio - EV/PV</i>	0.55	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	5.5	<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)** ought to see less downward influence on profits in a lower price environment just as it saw less upward influence on profits in a higher price environment. A crude oil excise tax that siphoned off most of the benefit of high price should be disappearing at low price. Fixed ceilings on petroleum product prices should now allow a positive margin for refining as crude oil cost is lower. Gradual, or accelerated, increases in natural gas price can continue along with rapid volume growth as environmental demand for the clean fuel exceeds supply. The cushioning effect of managed pricing should start to show up in complete financial results for the second half of 2008, due by the end of March 2009. Despite dampened influence of energy price, PTR stock price reached a high McDep Ratio of 3.40 when it started trading in Shanghai in November 2007. Now the McDep Ratio in Shanghai is 1.02, still about twice the McDep Ratio for stock trading in New York. Currently estimated net present value (NPV) of \$150 a share is about double stock price for the low-debt company. 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](#)). Finally, PTR is one of two buy recommendations among five stocks in the Brazil/China/Russia, or emerging market, segment of our oil and gas coverage.

Kurt H. Wulff, CFA



Independent Stock Idea

January 22, 2009

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	4,000	19.9	12.5	50,000	17%
Oil	16,600	12.0	11.7	194,000	66%
Downstream	9,000		5.6	50,000	17%
	29,600	14.3	9.9	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)					161

PetroChina Company Limited									
Quarterly Operations									
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</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>9/30/09</i>	<i>12/31/09</i>	<i>Months E</i>
									<i>12/31/09</i>
Volume									
Natural gas (bcf)	451	445	532	1,900	527	482	490	585	2,084
Natural Gas (mmcf)	4,901	4,837	5,783	5,191	5,859	5,298	5,321	6,362	5,710
Days	92	92	92	366	90	91	92	92	365
Oil (mmb)	207	219	219	872	214	216	219	219	867
Oil (mbd)	2,248	2,375	2,375	2,381	2,375	2,375	2,375	2,375	2,375
Total gas & oil (mmb)	282	293	307	1,188	302	296	300	316	1,214
Total gas & oil (mbd)	3,065	3,181	3,339	3,246	3,352	3,258	3,262	3,435	3,327
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.25	4.97	5.29	6.01	5.38
Company	2.57	3.52	3.69	3.51	3.88	4.07	4.28	4.49	4.19
Oil (\$/bbl)									
WTI Cushing	90.75	117.99	58.45	99.59	38.53	49.29	53.81	56.66	49.57
Company	78.50	104.78	51.90	85.87	34.22	43.77	43.77	46.10	42.00
Total gas & oil (\$/bbl)	61.69	83.57	43.32	68.60	31.03	38.53	38.85	40.18	37.18
Revenue (\$mm)									
Natural Gas	1,159	1,565	1,965	6,671	2,045	1,963	2,093	2,628	8,729
Oil	16,234	22,894	11,341	74,838	7,314	9,461	9,565	10,072	36,411
Total	17,394	24,459	13,306	81,510	9,359	11,424	11,658	12,699	45,140
Total(RMB)	129,235	167,300	91,013	566,955	64,061	78,198	79,797	86,928	308,983
RMB/\$US	7.43	6.84	6.84	6.96	6.85	6.85	6.85	6.85	6.85



Independent Stock Idea

January 22, 2009

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	8.47	9.86	9.83	9.83	9.83
Revenue (RMB)									
Upstream (from quarterly table)	202,406	244,800	447,206	308,642	258,313	566,955	142,258	166,725	308,983
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	499,193	1,048,715	383,138	407,605	790,743
Expense	243,804	305,588	549,392	420,216	356,394	776,610	284,939	303,273	588,212
Ebitda (RMB)									
Exploration and Production	121,852	102,416	224,268	153,726	108,491	262,217	71,129	70,024	141,153
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	142,799	272,105	98,199	104,332	202,530
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	87,197	160,901	42,597	48,730	91,326
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	84,833	158,306	42,366	46,366	88,731
Income Tax	24,026	25,126	49,152	19,858	29,691	49,549	14,828	16,228	31,056
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	55,141	108,756	27,538	30,138	57,675
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	29.83	58.83	15.05	16.47	31.52
Ebitda Margin (E&P)	60%	42%	50%	50%	42%	46%	50%	42%	46%
Tax Rate	23%	28%	25%	27%	35%	31%	35%	35%	35%

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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 LLC 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.