



Independent Stock Idea

March 26, 2010

rating: contrarian buy
s&p 500: 1166

PetroChina (PTR) Gas Growth – Natural Gas and Gasoline

<i>Symbol</i>	PTR	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	43,000
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	111.78	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	3/25/10	<i>Adjusted Reserves/Production NTM</i>	14.0
<i>Shares (mm)</i>	1830	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (US\$mm)</i>	205,000	<i>PV/Ebitda</i>	7.6
<i>Debt (US\$mm)</i>	49,000	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$mm)</i>	253,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.45
<i>Present Value (PV) (US\$mm)</i>	323,000	<i>Present Value Proven Reserves(US\$/boe)</i>	12.78
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.13
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.85
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	3.6	<i>Indicated Annual Dividend (US\$/sh)</i>	4.01
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, \$8 a million btu.			
For historical analysis of PTR since 2001 see www.mcdep.com/3ptr.htm			

Summary and Recommendation

Contrarian Buy-recommended **PetroChina (PTR)** offers unlevered appreciation potential of 34% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$150 a share. Second half 2009 results released on March 25 exceeded our estimate from six months ago for unlevered cash flow (Ebitda) and earnings. Exploration and production gained with recovery in oil price while downstream (other) remained positive (see table [Half-Yearly Financial Results](#)). Natural gas growth is strong at 18% for the fourth quarter, but controlled price is too low as China promotes coal too much in its primitive, last century, energy economy (see table [Quarterly Operations](#)). Domestic oil production is mature, but profitable as a source of cash for reinvestment overseas. Controlled prices for refined products allow a modest positive margin, but it should be higher for the company to serve the world's largest growth market for oil. Gasoline sales grew 12% in the global recession last year and may have accelerated in 2010 with all those new cars streaming from China's assembly lines. Considering the volume growth and margin potential, natural gas and downstream values may be understated in estimated NPV (see table [Functional Cash Flow and Present Value](#)). We believe PTR stock is attractive value at the current McDep Ratio. While current quote is below the 200-day average of \$118, the stock may be timelier for patient, contrarian investors.

Kurt H. Wulff, CFA



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PetroChina Company Limited									
Half-Yearly Financial Results									
	H2	H1	H2	Year	H1E	H2E	Year	H1E	Twelve Months E
	12/31/08	6/30/09	12/31/09	2009	6/30/10	12/31/10	2010E	6/30/11	6/30/11
NY Harbor 3-2-1 (\$/bbl)	8.47	9.33	7.34	8.34	9.01	8.00	8.51	8.93	8.47
Revenue (RMB)									
Upstream (from quarterly table)	264,629	144,760	217,742	362,503	237,813	251,053	488,866	250,369	501,422
Downstream Value Added	240,880	270,517	386,256	656,772	386,256	386,256	772,511	386,256	772,511
Total	521,624	415,277	603,998	1,019,275	624,069	637,308	1,261,377	636,624	1,273,933
Expense	381,876	298,044	468,349	766,393	485,162	491,782	976,944	491,440	983,222
Ebitda (RMB)									
Exploration and Production	156,717	69,304	110,615	179,920	118,906	125,526	244,433	125,184	250,711
Other	(16,969)	47,929	25,034	72,962	20,000	20,000	40,000	20,000	40,000
Total	139,748	117,233	135,649	252,882	138,906	145,526	284,433	145,184	290,711
Exploration	9,031	11,107	8,291	19,398	8,291	8,291	16,582	8,291	16,582
Deprec., Deplet., & Amort.	51,849	42,859	49,400	92,259	49,400	49,400	98,800	49,400	98,800
Other non cash									
Ebit	78,868	63,267	77,958	141,225	81,215	87,835	169,051	87,493	175,329
Interest	2,732	2,047	3,225	5,272	2,047	3,225	5,272	2,047	5,272
Ebt	76,136	61,220	74,733	135,953	79,168	84,610	163,779	85,446	170,057
Income Tax	15,320	11,810	21,663	33,473	27,709	29,614	57,323	29,906	59,520
Net Income (RMB)									
Exploration and Production	109,967	37,640	67,379	105,019					
Other	(36,993)	34,352	4,073	38,425					
Unallocated	(12,158)	(22,582)	(18,382)	(40,964)					
Total	60,816	49,410	53,070	102,480	51,460	54,997	106,456	55,540	110,537
Shares (millions)	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830
Earnings per share (RMB)	33.23	27.00	29.00	56.00	28.12	30.05	58.17	30.35	60.40
Ebitda Margin (E&P)	59%	48%	51%	50%	50%	50%	50%	50%	50%
Tax Rate	20%	19%	29%	25%	35%	35%	35%	35%	35%



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PetroChina Company Limited									
Quarterly Operations									
									<i>Twelve</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Months E</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/09</i>	<i>2010E</i>	<i>6/30/11</i>
Volume									
Natural gas (bcf)	496	504	587	2,112	575	548	554	2,323	2,436
Natural Gas (mmcf)	5,391	5,478	6,380	5,786	6,392	6,020	6,026	6,365	6,673
Days	92	92	92	365	90	91	92	365	365
Oil (mmb)	218	214	212	843	207	210	212	841	841
Oil (mbd)	2,370	2,326	2,304	2,310	2,304	2,304	2,304	2,304	2,304
Total gas & oil (mmb)	301	298	310	1,195	303	301	304	1,228	1,247
Total gas & oil (mbd)	3,268	3,239	3,368	3,274	3,370	3,308	3,309	3,365	3,416
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.32	4.15	4.37	4.69	4.95
Company	2.97	3.39	3.31	3.38	3.38	3.38	3.38	3.38	3.38
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	78.63	81.64	82.74	81.62	83.51
Company	58.52	61.92	70.66	54.49	73.02	75.82	76.84	75.81	77.55
Total gas & oil (\$/bbl)	47.33	50.20	54.63	44.41	56.34	58.96	59.66	58.30	58.90
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	7.15	10.88	9.70	8.51	8.47
Revenue (\$mm)									
Natural Gas	1,471	1,710	1,946	7,131	1,942	1,849	1,872	7,844	8,223
Oil	12,758	13,251	14,979	45,936	15,143	15,898	16,290	63,763	65,223
Total	14,229	14,961	16,925	53,067	17,086	17,748	18,161	71,607	73,446
RMB/\$US	6.84	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83
Total Upstream (RMB)	97,329	102,197	115,545	362,503	116,646	121,167	123,990	488,866	501,422



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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	4,100	19.3	11.0	45,000	14%
Oil	32,600	11.4	7.2	234,000	72%
Downstream	5,900		7.6	45,000	14%
	42,600	14.0	7.6	324,000	100%
Debt (US\$mm)					49,000
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)					153

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.

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