

Rating: Buy
S&P 500: 1205

PetroChina Company Ltd.

Income Stock

<i>Symbol</i>	PTR	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	36,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	82.35	<i>Natural Gas and Oil Production/Ebitda (%)</i>	92
<i>Pricing Date</i>	8/26/05	<i>Adjusted Reserves/Production NTM</i>	13.9
<i>Shares (mm)</i>	1758	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (US\$mm)</i>	145,000	<i>PV/Ebitda</i>	5.9
<i>Debt (US\$mm)</i>	2,000	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$mm)</i>	147,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.21
<i>Present Value (PV) (US\$mm)</i>	213,000	<i>Present Value Proven Reserves(US\$/boe)</i>	12.50
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.08
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.16
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	4.6	<i>Indicated Annual Dividend (US\$/sh)</i>	3.77

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

Reporting first half 2005 financial results, buy-recommended **PetroChina Company Ltd. (PTR)** boosts its indicated dividend 16% to yield 4.6% per year. At the same 45% payout of earnings, the projected next twelve months dividend would be 5.6%. The declared dividend is just 22% of pre-tax cash flow and the company has practically no debt. U.S. investors pay no withholding tax to China and the dividend qualifies for the maximum income tax rate of 15%. Cash flow is understated for refined products and natural gas as a result of government policy to smooth the impact of world prices for Chinese consumers thereby stimulating demand. The stock has 46% appreciation potential to net present value with the main risk political.

Small Steps to Expand Internationally

A \$2.5 billion acquisition of international oil and gas resources approved by PTR shareholders on August 16 has not yet been reflected in our projections. Since then PetroChina's parent, China National Petroleum Company, bid about \$4 billion for independent producer, PetroKazakhstan (PKZ). If the PKZ deal is concluded, some or all of the assets may be transferred to PTR. Acquisitions of independents by majors are usually money well spent despite the near-term impact of potentially lower stock price for the acquirer temporarily. Of course, investors might prefer to own the target, but not every target gets acquired and targets are generally smaller in market cap.

Those observations appear more valid during periods of rising prices and could be contradicted at the top of the price cycle. The fact that rapidly growing consuming countries, China and India, have had little success in acquiring overseas energy assets is an indication, we believe, that we are not near a cyclical peak for energy assets.

Please see disclosures on the final page.

Hidden Value in Natural Gas (repeated from analysis dated August 21, 2005)

Profits from crude oil production have been the primary driver of the company's success as a publicly held stock. Natural gas seems likely to gain in importance as it becomes more widely used and appreciated for its cleanliness and convenience. Our arbitrarily limited adjusted reserve life of 20 years suggests unrecognized potential. Current cash flow generation of an estimated \$1.5 billion for the next twelve months is held back by a low price of less than \$2 a million btu. The current quote for natural gas delivered over the next six years in the U.S. is about four times that at \$8. We think that quote is moving to \$12 if oil stays at \$60 a barrel.

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	13.3	20,000	9%
Oil	31,000	12.5	4.9	151,000	71%
Downstream	3,800		11.1	42,000	20%
	36,300	13.9	5.9	213,000	100%
Debt (US\$mm)					2,000
Net Present Value (US\$mm)					211,000
Shares (mm)					1,758
Net Present Value (US\$/sh)					120

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>Q2</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	245	267	285	1,058	288	300	1,140
Natural Gas (mmcf)	2,545	2,293	2,899	2,697	2,900	3,100	2,899	3,200	3,300	3,124
Days	92	366	90	91	92	92	365	90	91	365
Oil (mmb)	193	778	200	197	199	199	794	195	197	789
Oil (mbd)	2,093	2,126	2,221	2,162	2,162	2,162	2,176	2,162	2,162	2,162
Total gas & oil (mmb)	232	918	243	238	243	246	971	243	247	979
Total gas & oil (mbd)	2,518	2,508	2,704	2,611	2,645	2,678	2,659	2,695	2,712	2,682
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.85	9.77	7.66	10.30	8.51	9.11
Company	1.96	2.00	1.98	1.92	1.92	1.92	1.93	1.92	1.92	1.92
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	61.76	64.40	57.22	65.29	65.08	64.13
Company	40.97	33.88	37.63	49.30	57.39	59.85	51.03	60.68	60.48	59.59
Total gas & oil (\$/bbl)	36.05	30.54	33.03	42.80	49.01	50.53	43.87	50.95	50.55	50.26
Revenue (\$mm)										
Natural Gas	459	1,675	517	471	512	547	2,046	552	576	2,187
Oil	7,891	26,362	7,522	9,698	11,413	11,902	40,536	11,804	11,897	47,016
Total	8,350	28,037	8,039	10,169	11,925	12,449	42,582	12,356	12,473	49,204
Total(RMB)	69,011	231,710	66,437	84,040	98,553	102,887	351,916	102,118	103,084	406,642

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PetroChina Company Limited
Next Twelve Months Financial Results

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Next</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>Twelve</i>
								<i>Months</i>
								<i>6/30/06</i>
NY Harbor 3-2-1 (\$/bbl)	8.74	6.75	7.74	8.38	11.84	10.11	11.03	11.43
Revenue (RMB)								
Natural Gas								
Oil								
Upstream (from quarterly table)	102,266	129,444	231,710	150,477	201,440	351,916	205,202	406,642
Downstream Value Added	77,286	79,637	156,923	102,012	102,012	204,025	102,012	204,025
Total	179,552	209,081	388,633	252,489	303,452	555,941	307,215	610,667
Expense								
Production								
Other								
Total	85,013	97,693	182,706	132,115	157,597	289,712	159,478	317,075
Ebitda (RMB)								
Exploration and Production	73,124	92,060	165,183	109,165	134,647	243,812	136,528	271,175
Other	21,415	19,328	40,744	11,209	15,827	27,035	14,750	30,577
Total	94,539	111,388	205,927	120,374	145,856	266,230	147,737	293,593
Exploration	5,630	6,093	11,723	8,528	8,528	17,056	8,528	17,056
Deprec., Deplet., & Amort.	24,673	21,738	46,411	25,791	25,791	51,582	25,791	51,582
Other non cash								
Ebit	64,236	83,557	147,793	86,055	111,537	197,592	113,418	224,955
Interest	925	1,378	2,303	1,185	1,185	2,370	1,185	2,370
Ebt	63,311	82,179	145,490	84,870	110,352	195,222	112,233	222,585
Income Tax	18,019	24,544	42,563	23,246	38,623	61,869	39,282	77,905
Net Income (RMB)								
Exploration and Production	52,701	72,870	125,571	84,693				
Other	11,549	10,622	22,171	844				
Unallocated	(18,958)	(25,857)	(44,815)	(23,913)				
Total	45,292	57,635	102,927	61,624	71,729	133,353	72,951	144,680
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	35.05	40.80	75.85	41.50	82.30
Ebitda Margin (E&P)	72%	71%	71%	73%	67%	69%	67%	67%
Tax Rate	28%	30%	29%	27%	35%	32%	35%	35%

Stock Price Lags Oil Price

How high can it go? The historical parallel with the late 1970s suggests oil price could be higher. The trend seems well-defined and there is no obvious limit. The summer peak consumption period may be well along, but the northern hemisphere winter peak is not far away. Today Hurricane Katrina threatens Gulf of Mexico production.

In any event there is a cushion in our analysis. The futures market is above \$60 a barrel. Our present value calculations use \$50. PetroChina's McDep Ratio of 0.69 implies that PTR stock may be priced for just \$34 a barrel.

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

	<i>Symbol/</i>	<i>Price</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>		
	<i>Rating</i>	<i>(\$/sh)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>		
		<i>26-Aug</i>	<i>Shares</i>	<i>Value</i>	<i>Value</i>			
		<i>2005</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/sh)</i>			
Mega Cap								
BP plc	BP	B	66.12	3,545	234,000	82.00	0.10	0.83
Total S.A.	TOT	B	125.84	1,182	149,000	160.00	0.12	0.81
Exxon Mobil Corporation	XOM	B	58.41	6,370	372,000	74.00	0.04	0.80
Royal Dutch Shell plc	RDS-A	B	63.25	3,372	213,000	84.00	0.11	0.78
Chevron Corporation	CVX	B	59.38	2,256	134,000	90.00	0.12	0.70
	<i>Total or Median</i>				<i>1,102,000</i>		<i>0.11</i>	<i>0.80</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	92.60	123	11,400	20.00	0.76	1.88
Imperial Oil Limited (30%)	IMO	B	96.12	104	9,950	84.00	0.09	1.13
Marathon Oil Corporation	MRO	B	59.20	367	21,730	65.00	0.27	0.94
Petro-Canada	PCZ	B	76.65	263	20,160	84.00	0.18	0.93
Suncor Energy	SU	B	55.71	461	25,690	68.00	0.10	0.84
Norsk Hydro ASA	NHY	B	102.05	251	25,620	130.00	0.13	0.81
Lukoil Oil Company	LUKOY	B	47.20	830	39,000	65.00	0.02	0.73
PetroChina Company Ltd (10%)	PTR	B	82.35	176	14,480	120.00	0.01	0.69
ConocoPhillips	COP	B	61.88	1,419	87,800	100.00	0.15	0.68
	<i>Total or Median</i>				<i>256,000</i>		<i>0.13</i>	<i>0.84</i>

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