



Independent Stock Idea

August 31, 2009

rating: buy
s&p 500: 1029

PetroChina (PTR) Growing Giant in Clean Energy

<i>Symbol</i>	PTR	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	36,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	113.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	84
<i>Pricing Date</i>	8/28/09	<i>Adjusted Reserves/Production NTM</i>	14.2
<i>Shares (mm)</i>	1830	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	207,000	<i>PV/Ebitda</i>	8.2
<i>Debt (US\$mm)</i>	19,000	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$mm)</i>	226,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.69
<i>Present Value (PV) (US\$mm)</i>	293,000	<i>Present Value Proven Reserves(US\$/boe)</i>	11.43
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcfe)</i>	1.91
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.80
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	3.5	<i>Indicated Annual Dividend (US\$/sh)</i>	4.00
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

Buy-recommended **PetroChina (PTR)** offers unlevered appreciation potential of 30% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$150 a share. First half results released on August 28 exceeded our estimate from a month ago for unlevered cash flow (Ebitda) and earnings on the highest cash flow in the industry for downstream operations. Relaxation of price controls on refined products drove a dramatic gain compared to a dramatic loss last year (see table [Half-Yearly Financial Results](#)). On the production side, natural gas volume was up 14% over the second quarter of 2008 and 46% a year in the eight years we have been covering the stock (see table [Quarterly Operations](#)). Latest results justify a boost in the relative contribution to NPV from downstream to 15% and from natural gas production to 15% (see table [Functional Cash Flow and Present Value](#)). Oil is the remaining 70% of NPV where the outlook is for growth outside China. Among international ventures in 2009, the company was a successful bidder to develop the super-giant Rumaila field in Iraq. New oil will likely find a home within PTR where sales of major refined oil products grew 3% in the latest six months over the previous year, despite the global recession. Considering that China burns more coal than any other country, there is a near boundless need for cleaner energy from natural gas and refined oil.

Kurt H. Wulff, CFA



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PetroChina Company Limited								
Half-Yearly Financial Results								
	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Twelve</i>
	<i>6/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>6/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>6/30/10</i>	<i>Months E</i>
								<i>6/30/10</i>
NY Harbor 3-2-1 (\$/bbl)	11.26	8.47	9.86	9.33	7.87	8.60	8.57	8.22
Revenue (RMB)								
Upstream (from quarterly table)	308,642	264,629	573,271	144,760	196,322	341,082	210,785	407,107
Downstream Value Added	240,880	240,880	481,760	270,517	270,517	541,033	270,517	541,033
Total	549,522	521,624	1,071,146	415,277	466,838	882,115	481,302	948,140
Expense	420,216	381,876	802,092	298,044	348,677	646,721	355,909	704,587
Ebitda (RMB)								
Exploration and Production	153,726	156,717	310,443	69,304	98,161	167,465	105,393	203,553
Other	(24,420)	(16,969)	(41,389)	47,929	20,000	67,929	20,000	40,000
Total	129,306	139,748	269,054	117,233	118,161	235,394	125,393	243,553
Exploration	12,848	9,031	21,879	11,107	11,107	22,214	11,107	22,214
Deprec., Deplet., & Amort.	42,754	51,849	94,603	42,859	42,859	85,718	42,859	85,718
Other non cash								
Ebit	73,704	78,868	152,572	63,267	64,195	127,462	71,427	135,621
Interest	231	2,732	2,963	2,047	2,732	4,779	2,047	4,779
Ebt	73,473	76,136	149,609	61,220	61,463	122,683	69,380	130,842
Income Tax	19,858	15,320	35,178	11,810	21,512	33,322	24,283	45,795
Net Income (RMB)								
Exploration and Production	130,231	109,967	240,198	37,640				
Other	(43,905)	(36,993)	(80,898)	34,352				
Unallocated	(32,711)	(12,158)	(44,869)	(22,582)				
Total	53,615	60,816	114,431	49,410	39,951	89,361	45,097	85,048
Shares (millions)	1,830	1,830	1,830	1,830	1,830	1,830	1,830	1,830
Earnings per share (RMB)	29.30	33.23	62.53	27.00	21.83	48.83	24.64	46.47
Ebitda Margin (E&P)	50%	59%	54%	48%	50%	49%	50%	50%
Tax Rate	27%	20%	24%	19%	35%	27%	35%	35%



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PetroChina Company Limited									
Quarterly Operations									
									<i>Twelve</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months E</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
Volume									
Natural gas (bcf)	438	523	498	490	546	2,056	575	548	2,158
Natural Gas (mmcf)	4,816	5,811	5,473	5,321	5,930	5,633	6,392	6,020	5,913
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	219	206	211	213	213	844	209	211	846
Oil (mbd)	2,401	2,289	2,319	2,319	2,319	2,311	2,319	2,319	2,319
Total gas & oil (mmb)	292	293	294	295	304	1,186	305	302	1,206
Total gas & oil (mbd)	3,204	3,257	3,231	3,205	3,307	3,250	3,384	3,322	3,304
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.42	4.26	4.02	5.46	5.52	4.66
Company	3.68	3.28	3.53	3.71	3.90	3.61	4.09	4.30	4.01
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	69.87	75.07	61.85	76.94	78.43	75.08
Company	98.91	37.10	47.69	55.99	60.15	50.35	61.65	62.84	60.14
Total gas & oil (\$/bbl)	79.66	31.92	40.21	46.66	49.16	42.06	49.97	51.65	49.38
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.58	6.17	8.60	6.72	10.42	8.22
Revenue (\$mm)									
Natural Gas	1,614	1,715	1,760	1,816	2,126	7,417	2,353	2,353	8,648
Oil	21,611	7,643	10,063	11,944	12,831	42,481	12,866	13,260	50,901
Total	23,225	9,358	11,823	13,760	14,957	49,898	15,220	15,613	59,549
RMB/\$US	6.96	6.84	6.83	6.84	6.84	6.84	6.84	6.84	6.84
Total Upstream (RMB)	161,645	64,009	80,751	94,069	102,253	341,082	104,048	106,737	407,107



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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	4,300	20.4	10.5	45,000	15%
Oil	25,400	11.5	8.0	204,000	69%
Downstream	5,900		7.6	45,000	15%
	35,600	14.2	8.3	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)					165

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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