



Independent Stock Idea

August 4, 2008

rating: buy
s&p 500: 1260

PetroChina (PTR) Price Controls and Punitive Taxes

<i>Symbol</i>	PTR	<i>Ebitda Twelve Months ending 6/30/09 (US\$mm)</i>	62,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	133.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	8/1/08	<i>Adjusted Reserves/Production NTM</i>	14.4
<i>Shares (mm)</i>	1830	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (US\$mm)</i>	245,000	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$mm)</i>	17,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	262,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	44.31
<i>Present Value (PV) (US\$mm)</i>	420,000	<i>Present Value Proven Reserves(US\$/boe)</i>	16.94
<i>Net Present Value (US\$/share)</i>	220	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.82
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	17.19
<i>McDep Ratio - EV/PV</i>	0.62	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.9	<i>Indicated Annual Dividend (US\$/sh)</i>	5.25
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of PTR since 2001 see www.mcdep.com/3ptr.htm			

Summary and Recommendation

Buy-recommended **PetroChina (PTR)**, with estimated net present value (NPV) of \$220 a share, offers portfolio representation mainly in crude oil production and non-U.S. domicile at a low McDep Ratio. On May 13 we raised NPV from \$190 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. Down 50% from its high price last fall, the stock has been stable for the past four months. First half results to be reported at the end of August are widely anticipated to show the adverse effect of price controls on refined products, causing a downstream margin squeeze, and a “windfall profits” tax, which takes some 40% of incremental crude oil price (see table [Half-Yearly Financial Results](#)). We also await production volume, which normally would have been reported by now (see table [Quarterly Operations](#)). Allowing for reduced tax on crude oil, continuing price controls on natural gas and diminished price controls on refined products, 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](#)). Driven in large part by increased taxation in consuming and producing countries, crude oil price trends upward with the latest quote of \$123 a barrel for delivery over the next six years above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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PetroChina Company Limited								
Half-Yearly Financial Results								
	H1	H2	Year	H1E	H2E	Year	H1E	Twelve Months E
	6/30/07	12/31/07	2007	6/30/08	12/31/08	2008E	6/30/09	6/30/09
NY Harbor 3-2-1 (\$/bbl)	18.32	10.42	14.37	11.26	10.75	11.00	13.40	12.08
Revenue (RMB)								
Upstream (from quarterly table)	202,406	244,800	447,206	325,360	361,073	686,433	354,581	715,654
Downstream Value Added	190,320	197,511	387,831	197,511	197,511	395,022	197,511	395,022
Total	392,726	442,311	835,037	522,872	558,584	1,081,456	552,093	1,110,677
Expense	243,804	305,588	549,392	400,556	372,626	773,183	312,274	684,900
Ebitda (RMB)								
Exploration and Production	121,852	102,416	224,268	152,315	151,651	303,966	212,749	364,399
Other	27,070	34,307	61,377	(30,000)	34,307	4,307	27,070	61,377
Total	148,922	136,723	285,645	122,315	185,958	308,273	239,819	425,776
Exploration	10,607	10,041	20,648	10,041	10,041	20,082	10,041	20,082
Deprec., Deplet., & Amort.	31,228	35,397	66,625	35,397	35,397	70,794	35,397	70,794
Other non cash								
Ebit	107,087	91,285	198,372	76,877	140,520	217,397	194,381	334,900
Interest	1,231	2,364	3,595	1,231	2,364	3,595	1,231	3,595
Ebt	105,856	88,921	194,777	75,646	138,156	213,802	193,150	331,305
Income Tax	24,026	25,126	49,152	26,476	48,355	74,831	67,602	115,957
Net Income (RMB)								
Exploration and Production	96,436	127,440	223,876					
Other	15,451	39,009	54,460					
Unallocated	(30,057)	(102,654)	(132,711)					
Total	81,830	63,795	145,625	49,170	89,801	138,971	125,547	215,348
Shares (millions)	1,779	1,823	1,798	1,830	1,830	1,830	1,830	1,830
Earnings per share (RMB)	46.00	35.00	81.00	26.87	49.07	75.94	68.61	117.68
Ebitda Margin (E&P)	60%	42%	50%	47%	42%	44%	60%	51%
Tax Rate	23%	28%	25%	35%	35%	35%	35%	35%

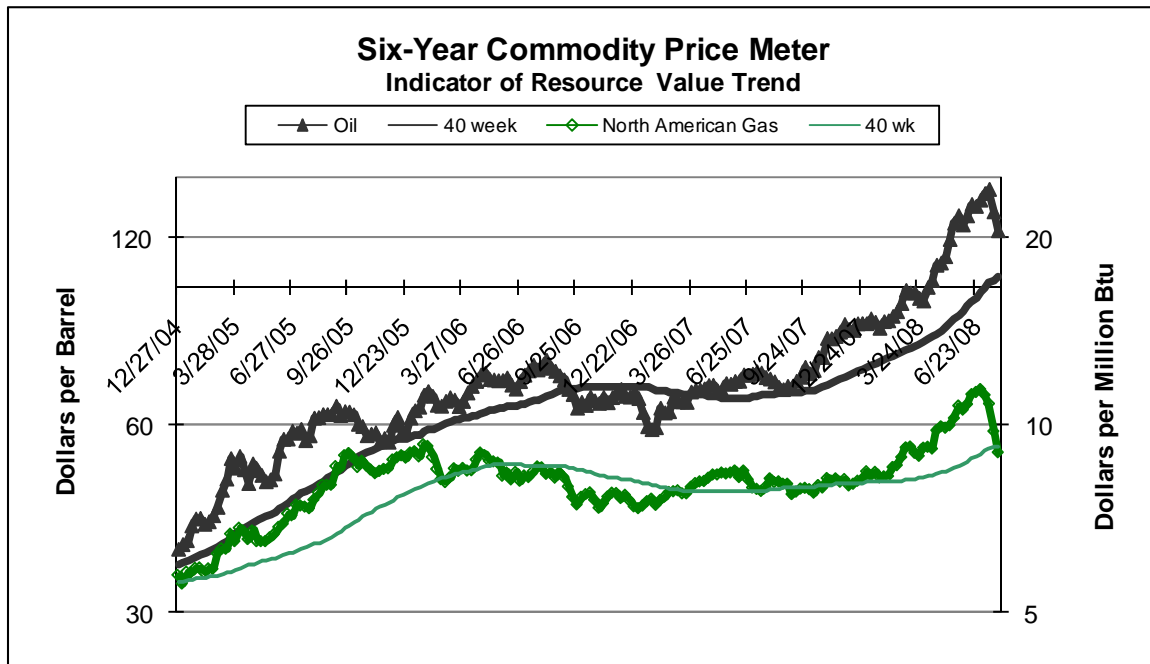
PetroChina Company Limited									
Quarterly Operations									
	Q1	Q2	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve Months E
	3/31/07	6/30/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008E	6/30/09
Volume									
Natural gas (bcf)	411	387	1,627	485	457	446	532	1,920	2,008
Natural Gas (mmcf)	4,562	4,257	4,458	5,326	5,023	4,850	5,783	5,246	5,502
Days	90	91	365	91	91	92	92	366	365
Oil (mmb)	209	211	839	216	216	218	218	869	866
Oil (mbd)	2,324	2,313	2,298	2,374	2,374	2,374	2,374	2,374	2,374
Total gas & oil (mmb)	278	275	1,110	297	292	293	307	1,189	1,201
Total gas & oil (mbd)	3,085	3,023	3,041	3,261	3,211	3,182	3,338	3,248	3,291
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	7.56	6.87	8.02	10.93	10.51	9.66	9.78	9.94
Company	2.52	2.56	2.56	3.15	3.15	3.15	3.15	3.15	3.15
Oil (\$/bbl)									
WTI Cushing	58.08	64.91	72.28	97.94	123.97	127.56	125.71	118.80	126.25
Company	53.84	61.46	65.27	87.93	111.30	114.52	112.86	106.69	113.34
Total gas & oil (\$/bbl)	44.30	50.64	53.07	69.14	87.21	90.23	85.72	83.06	87.02
Revenue (\$mm)									
Natural Gas	1,035	992	4,158	1,527	1,440	1,405	1,676	6,048	6,326
Oil	11,263	12,937	54,748	18,993	24,041	25,008	24,645	92,686	98,194
Total	12,298	13,929	58,907	20,520	25,481	26,413	26,321	98,735	104,521
Total(RMB)	95,433	106,973	447,206	146,997	178,364	180,852	180,221	686,433	715,654
RMB/SUS	7.76	7.68	7.59	7.16	7.00	6.85	6.85	6.95	6.85



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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	3,200	20.7	11.3	36,000	9%
Oil	50,000	12.0	6.7	334,000	80%
Downstream	9,000		5.6	50,000	12%
	62,200	14.4	6.8	420,000	100%
Debt (US\$mm)					17,000
Net Present Value (US\$mm)					403,000
Shares (mm)					1,830
Net Present Value - Standard Estimate (US\$/sh)					220
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					220





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