国泰君安证券 GUOTAI JUNAN SECURITIES

Company Report: CNOOC (00883 HK)

公司报告：中国海洋石油 (00883 HK)

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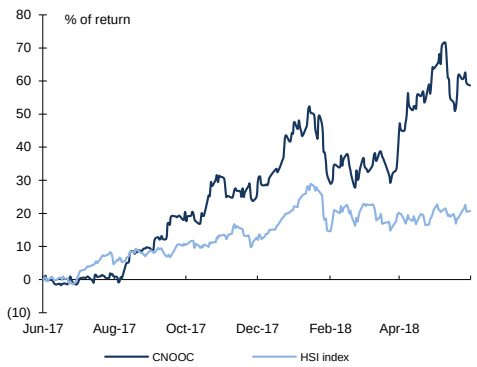
Higher Oil Prices to Increase Earnings, "Buy"

油价上涨将改善盈利，“买入”

- **The average Brent oil price in May was up 49.8% YoY to US$ 77.0/bbl due to geopolitical risks.** The U.S.'s withdrawal from the Iran nuclear deal alongside Venezuelan production reduction pushed oil prices to near US$ 80/bbl during mid-May. We think that oil market supply and demand dynamics are likely to remain balanced for 2018 in spite of such risks. We revise our 2018-2020 Brent crude oil price assumptions upward to US$ 70/bbl, US$ 75/bbl, and US$ 78/bbl, respectively.
- **We revise our earnings estimates for CNOOC for 2018F-2020F up by 15.6%/14.6%/6.6% to RMB51,651 mn / RMB61,451 mn / RMB66,353 mn, respectively.** Our new 2018E-2020E estimates reflect an increase in average realized oil prices of US$ 68.0/bbl, US$ 72.9/bbl, and US$ 75.8/bbl, respectively, as a result of the revision to our Brent oil price assumptions.
- **Revise target price up from HK$15.00 to HK$16.50 and maintain investment rating, "Buy".** The target price corresponds to 11.55x/9.71x/8.99x 2018E-2020E PER, equivalent to 1.46x/1.34x/1.23x 2018E-2020E PBR, and is also equivalent to a 13.4% discount on our DCF valuation.
- **由于地缘政治风险，5 月份布伦特原油平均价同比上涨 49.8%至 77.0 美元/桶。**美国退出伊朗核协议以及委内瑞拉油产量下降在五月中旬将油价推高至每桶 80 美元左右。尽管存在地缘政治的风险，我们认为 2018 年石油市场供需动态可能保持整体平衡。我们分别上调 2018-2020 年的布伦特原油假设至 70 美元/桶，75 美元/桶和 78 美元/桶。
- **分别上调公司的 2018-2020 年盈利预测 15.6%/14.6%/6.6%至人民币 516.51 亿元/人民币 614.51 亿元/人民币 663.53 亿元。**我们新的 2018-2020 盈利预测反映了更高的油价假设，我们对公司的平均实现油价假设上调，分别至 68.0 美元/桶，72.9 美元/桶和 75.8 美元/桶。
- **上调目标价从 15.00 港元至 16.50 港元和维持投资评级为"买入"。**目标价相当于 11.55 倍/9.71 倍/8.99 倍 2018-2020 财年市盈率，与 1.46 倍/1.34 倍/1.23 倍 2018-2020 财年市净率，对我们做出的 DCF 估值分析有 13.4%的折让。

Rating:	**Buy** Maintained
评级：	买入 (维持)
6-18m TP 目标价:	**HK$16.50**
Revised from 原目标价:	HK$15.00
Share price 股价:	HK$13.200

Stock performance
股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(5.2)	16.5	51.7
Rel. % to HS Index 相对恒指变动 %	(4.9)	16.4	32.5
Avg. Share price(HK$) 平均股价（港元）	13.3	12.4	10.5

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (Δ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2016A	146,490	637	0.014	(96.9)	844.4	8.564	1.4	0.317	2.7	0.2
2017A	186,390	24,677	0.553	3,850.0	19.3	8.511	1.3	0.368	3.4	6.5
2018F	230,929	51,651	1.157	109.2	9.2	9.169	1.2	0.498	4.7	13.1
2019F	253,085	61,451	1.376	18.9	7.8	9.987	1.1	0.559	5.2	14.4
2020F	271,852	66,353	1.486	8.0	7.2	10.865	1.0	0.608	5.7	14.3

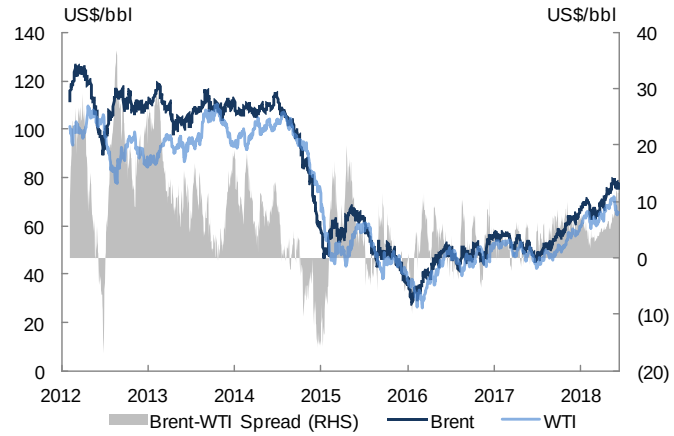
Shares in issue (m) 总股数 (m)	44,647.5	Major shareholder 大股东	CNOOC 64.4%
Market cap. (HK$ m) 市值 (HK$ m)	589,347.0	Free float (%) 自由流通比率 (%)	35.6
3 month average vol. 3 个月平均成交股数 ('000)	79,163.1	FY18 Net gearing (%) FY18 净负债/股东资金 (%)	31.9
52 Weeks high/low (HK$) 52 周高/低 (HK$)	14.640 / 8.450	FY18 Est. NAV (HK$) FY18 每股估值（港元）	19.0

Source: the Company, Guotai Junan International.

INDUSTRY REVIEW

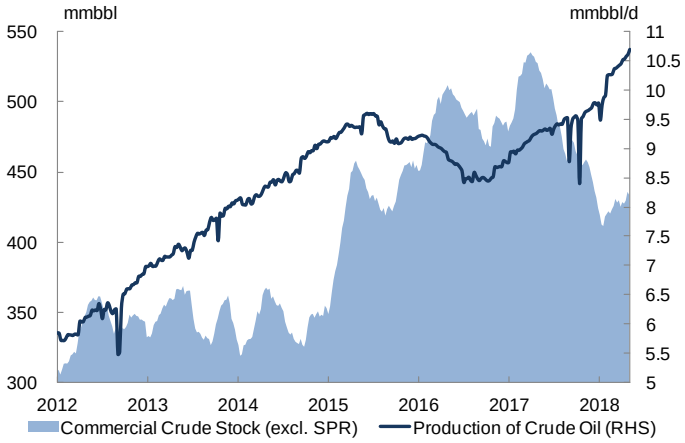
Recent geopolitical events have increased risks to global oil supply into the market, driving up oil prices. Due to the U.S. Administration announcing its withdrawal from the Iran nuclear deal alongside continued deterioration of Venezuela's economy, Brent oil price in May averaged US$ 77.0/bbl, up 49.8% YoY from US$ 51.4/bbl. Brent oil price YTD averaged US$ 70.5/bbl, up 31.7% YoY. The International Energy Agency (IEA) in its May Oil Market Report ("OMR") revised downwards its projection for global oil demand for 2018 from 1.5 mmbbl/d to 1.4 mmbbl/d as a result of higher oil prices which would likely reduce demand. The IEA reported OECD commercial stocks in March amounted to 2,819 mmbbl, down 7.0% YoY and 1 mmbbl below the 5-year average. U.S. oil production and commercial stocks for the week ending June 1st, 2018 reached 10.8 mmbbl/d and 437.6 mmbbl, up 15.6% YoY and down 14.4% YoY, respectively. Active U.S. oil rigs stood at 862 for the week ending June 8th, 2018, up 16.3% YoY. Compliance to the OPEC production cut through April averaged 110%. When sanctions were lifted in January 2016, Iran's oil exports amounted to 1.3 mmbbl/d. In 2018, Iran's exports January-May averaged 2.2 mmbbl/d, up 0.5% YoY. Once sanctions are reimposed on November 5th, 2018, approximately 200 kb/d - 500 kb/d of oil supply could be removed from the global oil market. Venezuela's oil production in April was estimated to be 1.4 mmbbl/d, down 26.6% YoY, and marks the 10th consecutive monthly decline. We revise our Brent oil price assumptions for 2018-2020 upward to US$ 70/bbl, US$ 75/bbl, and US$ 78/bbl, respectively.

Figure-1: Brent vs. WTI Prices and Spread



Source: Bloomberg.

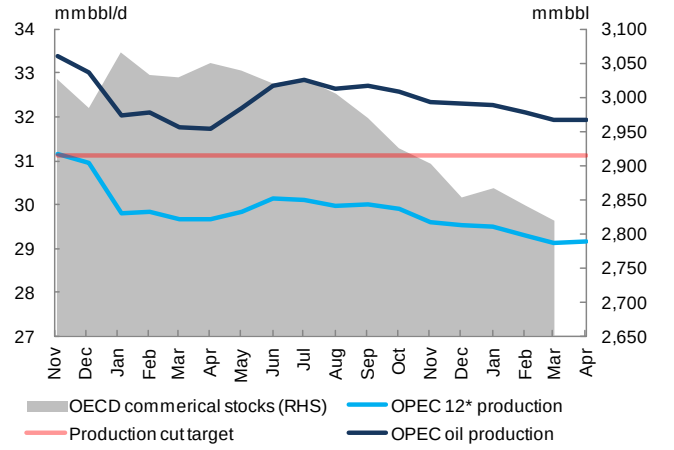
Figure-2: U.S. Crude Oil Production and Stocks



Source: Energy Information Association.

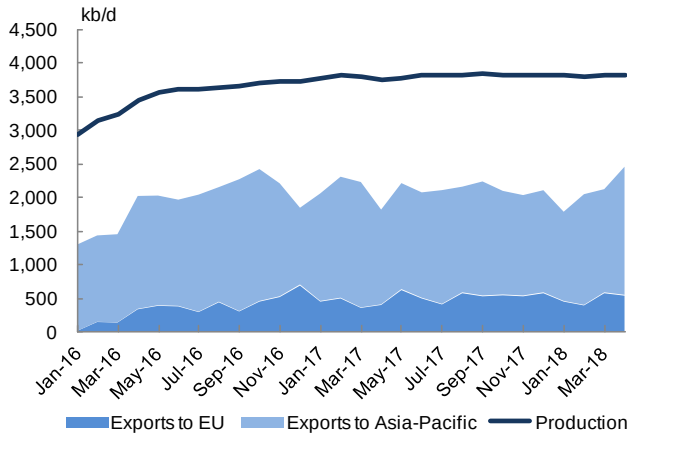
The global oil market in 2018 will most likely remain balanced. The IEA estimates global oil demand and supply to average 99.2 mmbbl/d and 99.3 mmbbl/d in 2018, respectively. OECD commercial stocks is rebalanced and compliance to the OPEC production cut remains high. We think global oil supply shocks from Iran and Venezuela could be mitigated by increased U.S., Saudi Arabian, and Russian production.

Figure-3: OPEC Oil Production and OECD Commercial Stocks



Source: IEA, OPEC.
**Note: OPEC 12 production excludes Libya and Nigeria.*

Figure-4: Iran Oil Production and Exports



Source: OPEC, Bloomberg.

COMPANY ANALYSIS

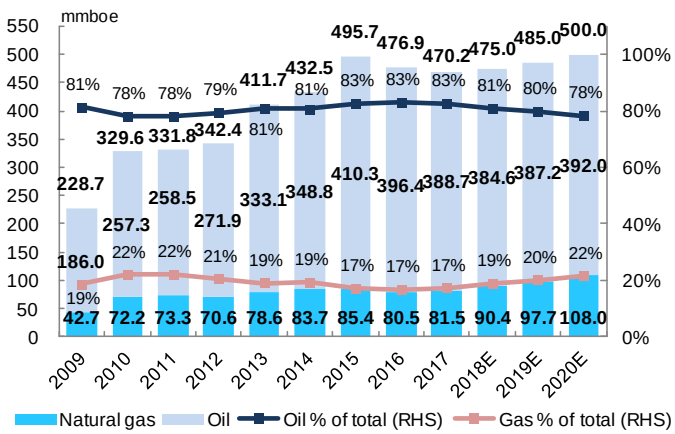
CNOOC's oil and gas production targets for 2018-2020 are 470-480 mmboe, 485 mmboe, and 500 mmboe, up YoY by 0.2%-2.3%, 2.1%, and 3.1%, respectively. Oil and gas production in 2017 was 470.2 mmboe, down 1.4% YoY. 1Q2018 oil and gas production was 120.1 mmboe, up 0.8% YoY and in line with the Company's target range for the year. We expect higher natural gas production to offset declines in its domestic offshore oil production as overseas oil production will help the Company realize some growth over our forecast period.

Table-1: CNOOC 1Q2018 Operational Statistics

	1Q2018	1Q2017	ΔYoY
Oil and gas production (mmboe)	**120.1**	**119.1**	**0.8%**
Crude and liquids (mmbbl)	98.6	100.2	(1.6%)
Natural gas (bcf)	125.7	110.6	13.7%
Oil and gas sales (RMB mn)	**42,536**	**38,393**	**10.8%**
Capital expenditure (RMB mn)	9,655	8,669	11.4%

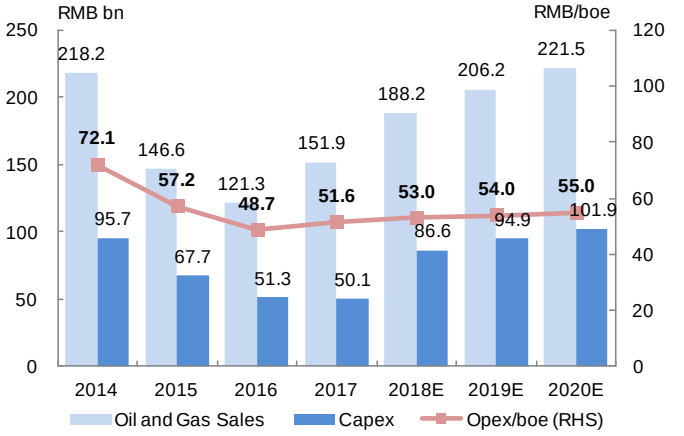
Source: the Company.

Figure-5: CNOOC's Total Oil & Gas Production



Source: the Company, Guotai Junan International.

Figure-6: CNOOC Oil and Gas Sales, CAPEX, and Operating Expenses per Barrel



Source: the Company, Guotai Junan International.

CNOOC's remaining development projects in 2018 are likely to come online towards the end of the year. Regarding the Penglai 19-3 project, installation of oil platform jackets commenced in May. Regarding the Dongfang 13-2 project, according to Hainan Maritime Safety Administration of the PRC ("HNMSA"), work has commenced on jacket installation and some equipment commissioning. Finally, according to HNMSA regarding the Wenchang 9-2/9-3/10-3 project, as of December 8th, 2017, the platforms for 9-2 and 9-3 CEP, as well as certain subsea pipelines, were completed.

Table-2: CNOOC's Development Projects in 2017-2018

	Project	Location	Expected Startup	Peak Production (boe/d)	Working Interests
2017					
1	Penglai 19-9	Bohai	Jan. 12, 2017	13,000	51%
2	Enping 23-1	Eastern South China Sea	Jan. 17, 2017	24,800	100%
3	Weizhou 12-2 Phase II	Western South China Sea	Nov. 28, 2017	11,800	100%
4	BD gas field	Indonesia	Aug. 1, 2017	25,500	40%
5	Hangingstone	Canada	Aug. 8, 2017	18,100	25%
2018					
1	Stampede Oil Field	United States	Feb. 6, 2018	80,000	25%
2	Weizhou 6-13	Western South China Sea	Mar. 20, 2018	9,400	100%
3	Penglai 19-3 Oil Field 1/3/8/9 comprehensive adjustment project	Bohai	2H2018	36,200	51%
4	Dongfang 13-2 Gas Fields	Western South China Sea	2H2018	43,400	100%
5	Wenchang 9-2/9-3/10-3 Gas Fields	Western South China Sea	2H2018	14,300	100%

Source: the Company.

We revise up our earnings estimates for CNOOC for 2018F-2020F by 15.6%/14.6%/6.6% to RMB51,651 mn / RMB61,451 mn / RMB66,353 mn, respectively. Our new 2018E-2020E estimates reflect the increase in our Brent oil price assumptions resulting in average realized oil prices for CNOOC of US$ 68.0/bbl,US$ 72.9/bbl, and US$ 75.8/bbl, respectively. While CNOOC will remain predominantly sensitive to oil price fluctuations, the recent announcement from China's National Development and Reform Commission ("NDRC") to reform residential gas prices will have a minor but positive impact on CNOOC's gas sales and supports our view for CNOOC's gas production to gradually increase over time in order to accommodate growing gas demand in China.

Revise target price up from HK$15.00 to HK$16.50 and maintain investment rating, "Buy". The target price corresponds to 11.55x/9.71x/8.99x 2018E-2020E PER, equivalent to 1.46x/1.34x/1.23x 2018E-2020E PBR, and is also equivalent to a 13.4% discount on our DCF valuation.

Table-3: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
				17A	18F	19F	20F	17A	18F	19F	20F	18F	18F	18F
HK-listed Peers														
Cnooc Ltd	883 HK	HKD	13.40	21.1	9.2	9.5	9.5	1.3	1.2	1.1	1.1	12.8	5.2	4.5
Kunlun Energy Co Ltd	135 HK	HKD	7.21	10.6	10.0	8.6	8.0	1.2	1.1	1.0	0.9	11.7	3.5	5.5
Petrochina Co Ltd-H	857 HK	HKD	6.53	47.1	17.0	14.9	14.1	0.8	0.8	0.8	0.8	4.8	3.2	5.6
China Petroleum & Chemical-H	386 HK	HKD	7.44	15.2	9.9	9.8	10.0	1.0	1.0	1.0	0.9	10.2	7.5	3.9
Simple Average				23.5	11.5	10.7	10.4	1.1	1.0	1.0	0.9	9.9	4.9	4.9
Weighted Average				32.6	13.4	12.4	12.0	1.0	0.9	0.9	0.9	7.9	4.8	4.9
International Peers														
Occidental Petroleum Corp	OXY US	USD	85.47	50.0	18.2	17.9	19.6	3.2	3.1	3.1	3.0	15.0	3.6	7.7
Encana Corp	ECA CN	CAD	16.07	14.6	19.0	13.8	10.0	1.9	1.7	1.5	1.3	7.8	0.5	6.8
Eog Resources Inc	EOG US	USD	117.67	26.2	23.1	18.7	15.9	4.2	3.6	3.1	2.6	16.6	0.6	9.3
Repsol Sa	REP SM	EUR	17.04	12.6	10.8	10.7	10.5	0.9	0.9	0.8	0.8	7.5	5.3	4.5
Canadian Natural Resources	CNQ CN	CAD	43.66	21.4	14.1	15.2	13.6	1.7	1.6	1.5	1.4	9.7	3.0	6.2
Murphy Oil Corp	MUR US	USD	33.74	n.a.	19.8	18.3	25.6	1.3	1.2	1.2	1.1	6.5	3.0	4.7
Conocophillips	COP US	USD	69.43	n.a.	18.0	17.7	17.6	2.7	2.6	2.6	2.3	15.1	1.7	6.5
Anadarko Petroleum Corp	APC US	USD	71.40	n.a.	25.4	21.7	21.7	3.5	2.6	2.3	2.1	13.3	1.0	6.9
Oil & Natural Gas Corp Ltd	ONGC IN	INR	173.15	10.8	10.0	7.3	7.2	1.0	1.0	0.9	0.8	10.9	4.3	5.9
Pioneer Natural Resources Co	PXD US	USD	193.24	39.8	28.2	19.5	16.0	2.9	2.7	2.4	2.1	10.6	0.1	10.1
Devon Energy Corp	DVN US	USD	42.16	24.7	27.6	18.1	13.7	2.4	2.6	2.6	2.5	6.9	0.7	9.0
Apache Corp	APA US	USD	42.24	12.4	23.8	24.5	26.5	2.2	2.1	2.2	2.3	7.0	2.4	5.7
Woodside Petroleum Ltd	WPL AU	AUD	33.48	21.3	15.1	13.7	14.2	1.5	1.3	1.3	1.3	9.3	5.4	7.2
Hess Corp	HES US	USD	61.84	n.a.	n.a.	174.7	43.9	1.9	1.9	2.0	1.9	(0.9)	1.7	10.6
Noble Energy Inc	NBL US	USD	34.06	n.a.	30.7	22.8	13.4	1.7	1.4	1.4	1.3	5.9	1.2	7.4
Tatneft Pjsc	TATN RM	RUB	656.35	12.0	8.6	8.7	8.0	2.0	1.7	1.5	1.4	21.2	6.5	5.8
Inpex Corp	1605 JP	JPY	1,202.00	38.0	43.5	19.8	10.8	0.6	0.6	0.5	0.5	1.4	1.4	5.7
Simple Average				23.6	21.0	26.0	17.0	2.1	1.9	1.8	1.7	9.6	2.5	7.1
Weighted Average				26.7	19.8	22.1	16.5	2.5	2.3	2.1	2.0	11.8	2.4	7.3

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement

Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Oil & Gas sales	121,325	151,888	188,182	206,237	221,530
Marketing & other revenues	25,165	34,502	42,746	46,848	50,322
Total Revenue	146,490	186,390	230,929	253,085	271,852
Operating expenses	(23,211)	(24,282)	(25,175)	(26,188)	(27,502)
Selling and administrative expenses	(6,493)	(6,861)	(7,685)	(8,422)	(9,047)
Exploration expenses	(7,359)	(6,881)	(11,316)	(11,763)	(12,823)
Depreciation, depletion and amortisation	(68,907)	(61,257)	(65,038)	(68,621)	(72,913)
Impairment and provision	(12,171)	(9,130)	(3,433)	(515)	(489)
Crude oil and product purchases	(19,018)	(27,643)	(33,873)	(37,123)	(39,875)
Special oil gain levy	0	(55)	(1,039)	(2,987)	(4,312)
Taxes other than income tax	(6,941)	(7,210)	(11,546)	(12,654)	(13,593)
Others	(4,802)	(6,021)	(2,309)	(2,531)	(2,719)
Operating Profit	(2,412)	37,050	69,515	82,280	88,580
Interest income	901	653	922	924	1,139
Finance income / (cost)	(6,246)	(5,044)	(5,737)	(6,472)	(6,254)
Exchange (losses)/gains, net	(790)	356	269	148	(32)
Investment income	2,774	2,409	2,944	4,077	4,037
Share of profit of associates	(609)	302	311	320	330
Share of profit of JV	533	553	564	575	587
Non-operating income, net	574	78	80	81	83
Profit Before Tax	(5,275)	36,357	68,868	81,934	88,470
Income Tax	5,912	(11,680)	(17,217)	(20,484)	(22,118)
Profit After Tax	637	24,677	51,651	61,451	66,353
Non-controlling Interest	0	0	0	0	0
Shareholders' Profit / Loss	637	24,677	51,651	61,451	66,353
Basic EPS	0.014	0.553	1.157	1.376	1.486
Diluted EPS	0.014	0.553	1.156	1.375	1.485

Balance Sheet

Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
PPE	432,465	395,868	418,849	446,691	477,394
Investments in JV/A	29,995	29,146	30,817	32,525	34,268
Intangibles	16,644	15,070	15,141	15,821	16,834
Other Non-Current Assets	36,532	38,297	36,259	35,916	35,601
Total Non-current Assets	515,636	478,381	501,066	530,953	564,097
Cash & Cash Equivalents	13,735	12,572	17,440	15,750	17,834
Other Investments (net)	53,332	74,358	73,897	73,395	73,400
Inventory	8,709	7,354	8,083	12,654	13,593
Trade Receivables	23,289	20,787	27,711	30,370	32,622
Other Current Assets	22,980	23,767	33,484	36,697	39,418
Total Current Assets	122,045	138,838	160,615	168,865	176,867
Total Assets	637,681	617,219	661,681	699,818	740,964
Short-Term Debt	19,678	13,892	18,060	18,421	18,789
Trade and Accrued Payables	25,345	26,713	27,692	28,807	30,252
Other Current Liabilities	22,067	20,807	20,103	22,032	23,666
Total Current Liabilities	67,090	61,412	65,855	69,259	72,707
Long-Term Debt	130,798	118,358	125,459	120,441	115,623
Other Non-Current Liabilities	57,422	57,474	60,972	64,208	67,527
Total Non-current Liabilities	188,220	175,832	186,431	184,650	183,151
Total Liabilities	255,310	237,244	252,286	253,909	255,858
Share capital	43,081	43,081	43,081	43,081	43,081
Reserves	339,290	336,894	366,313	402,828	442,025
Total Shareholders' Equity	382,371	379,975	409,394	445,909	485,106
Minority Interest	0	0	0	0	0
Total Equity	382,371	379,975	409,394	445,909	485,106

Cash Flow Statement

Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Profit before tax	(5,275)	36,357	68,868	81,934	88,470
Adjustments for:					
Depreciation	68,303	60,802	63,618	67,065	71,241
Amortization	1,020	854	1,420	1,556	1,672
Tax Paid	5,912	(11,680)	(17,217)	(20,484)	(22,118)
JV/A Income/(loss) - net	76	(855)	(875)	(896)	(917)
Change in Working Capital	(13,113)	2,513	(15,819)	(6,915)	(2,357)
Other Operating Cash Flows	15,940	6,743	3,498	3,237	3,319
Cash from Operating Activities	72,863	94,734	103,492	125,497	139,310
Capital Expenditure	(51,347)	(47,734)	(86,598)	(94,907)	(101,944)
Investments in financial assets - net	25,541	(14,356)	461	503	(5)
Investments in JV/A	(1,865)	(1,000)	(1,020)	(1,040)	(1,061)
Other investments	(282)	(1,321)	(505)	(2,150)	(2,610)
Cash from Investing Activities	(27,953)	(64,411)	(87,662)	(97,594)	(105,621)
Dividends Paid	(14,153)	(16,448)	(22,232)	(24,936)	(27,155)
Change in Gross Debt	(14,169)	(18,226)	11,269	(4,657)	(4,449)
Other Financing Cash Flow	(14,720)	3,188	0	0	0
Cash from Financing Activities	(43,042)	(31,486)	(10,962)	(29,593)	(31,605)
Cash at Beg of Year	11,867	13,735	12,572	17,440	15,750
Net Changes in Cash	1,868	(1,163)	4,868	(1,690)	2,085
Cash at End of Year	13,735	12,572	17,440	15,750	17,834

Financial Ratios

	2016A	2017A	2018F	2019F	2020F
Growth:					
Oil & gas revenue	(17.2)%	25.2%	23.9%	9.6%	7.4%
Operating profit	(113.8)%	(1,636.1)%	87.6%	18.4%	7.7%
Net profit	(96.9)%	3,773.9%	109.3%	19.0%	8.0%
Margins:					
Operating margin	(1.6)%	19.9%	30.1%	32.5%	32.6%
Net profit margin	0.4%	13.2%	22.4%	24.3%	24.4%
Debt management:					
Net gearing	35.6%	32.7%	31.9%	28.8%	25.0%
Total debt to equity	39.4%	36.1%	34.2%	30.4%	27.1%
Valuation:					
BVPS (RMB)	8.564	8.511	9.169	9.987	10.865
P/E	824.8	19.3	9.2	7.7	7.2
P/B	1.4	1.3	1.2	1.1	1.0
P/CF	6.6	5.0	4.6	3.8	3.4
Assumptions & others:					
Payout ratio	2,113.0%	74.7%	44.1%	42.4%	42.8%
Brent oil price (US$/bbl)	45.1	54.7	70.0	75.0	78.0
Realised oil price(US$/bbl)	41.4	52.7	68.0	72.9	75.8
Production(mmboe)	476.9	470.2	475.0	485.0	500.0
Production growth	(3.8)%	(1.4)%	1.0%	2.1%	3.1%
P/reserves(US$/boe)	19.5	15.6			
RRR %	145%*	305.0%			

Source: the Company, Guotai Junan International.

**Note: adjusted for economic revisions (impairment).*

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance>15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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