

DBS Group Research . Equity

26 Mar 2020

**HOLD** (Downgrade from BUY)

Last Traded Price ( 25 Mar 2020): HK\$7.65 (HSI : 23,527)

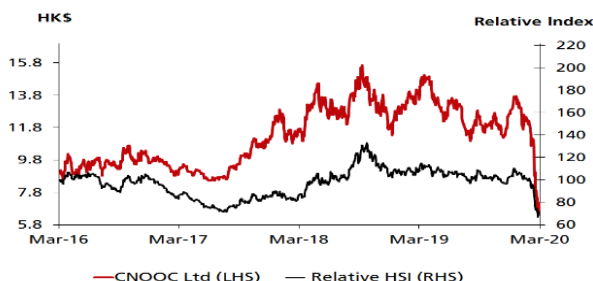
Price Target 12-mth: HK\$8.00 (4.6% upside) (Prev HK\$17.00)

**Analyst**

Pei Hwa HO+65 6682 3714, peihwa@db.com

**What's New**

- **FY19 earnings grew 16% to Rmb61bn, 4% ahead of market expectations**
- **Slashed FY20/21F earnings forecast by 84%/43% to reflect lower oil price assumptions**
- **Expect oil price volatility to persist with downside risks; concerns on power and gas asset injection plans by parent**
- **Maintain HOLD; TP cut to HK\$8.00**

**Price Relative****Forecasts and Valuation**

FY Dec (RMBm)	2018A	2019A	2020F	2021F
Turnover	226,963	233,199	131,189	178,190
EBITDA	130,058	148,146	67,636	97,300
Pre-tax Profit	75,177	85,649	7,796	34,146
Net Profit	52,688	61,045	5,557	24,337
Net Profit Gth (Pre-ex) (%)	113.5	15.9	(90.9)	338.0
EPS (RMB)	1.18	1.37	0.12	0.55
EPS (HK\$)	1.30	1.50	0.14	0.60
EPS Gth (%)	113.5	15.9	(90.9)	338.0
Diluted EPS (HK\$)	1.30	1.50	0.14	0.60
DPS (HK\$)	0.58	0.71	0.33	0.44
BV Per Share (HK\$)	10.32	11.02	10.83	10.99
PE (X)	5.9	5.1	56.0	12.8
P/Cash Flow (X)	2.5	2.5	5.3	3.6
P/Free CF (X)	5.0	7.1	nm	43.8
EV/EBITDA (X)	3.3	2.8	6.3	4.3
Net Div Yield (%)	7.6	9.3	4.3	5.7
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.3	0.2	0.3	0.2
ROAE (%)	13.2	14.1	1.3	5.5
Earnings Rev (%)			(84)	(43)
Consensus EPS (RMB)		0.73	0.96	1.33
Other Broker Recs:		B:9	S:2	H:6

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

**Overshadowed by bleak oil price outlook**

**Maintain HOLD; TP cut to HK\$ 8.00.** CNOOC's share performance tracks oil price sentiment closely and will likely remain volatile with downside risk in the near term. We expect oil prices to trend lower before recovering towards 2H20. Nevertheless, CNOOC will be our preferred proxy to ride on the oil price recovery, given its world-class execution and cost-control capabilities as well as acceleration of output growth to 6-7% compound annual growth rate (CAGR) between 2020 to 2025. Investors could Hold for decent dividend yield of 4% while waiting for oil price recovery and re-rating from current valuation of 0.7x P/Bv.

**Non-oil price drivers.** As a pure exploration & production (E&P) play, CNOOC is most sensitive to oil prices with every US\$1/bbl hike in average selling price (ASP) resulting in ~Rmb2bn or Rmb0.045/share increase in earnings. Nevertheless, CNOOC is more than just an oil price proxy as its management has demonstrated its first-in-class cost reductions vs its peers, superior project execution as well as sharpened focus on tapping lower-cost resources to drive long term growth. We believe that further re-rating catalysts could hinge on CNOOC's production/reserve growth outlook and accretive mergers and acquisitions (M&As).

**Where we differ:** We remain hopeful on CNOOC's reserve growth. Its management had previously implied that CNOOC's proven reserve life could be understated by ~40% under the Securities and Exchange Commission (SEC) reporting standards as opposed to the seemingly more comprehensive Society of Petroleum Engineers' (SPE) reporting.

**Valuation:**

We value CNOOC based on discounted cash flow (DCF) (10% weighted average cost of capital (WACC); 1% terminal growth; long-term oil price assumption of US\$50/bbl) to derive our HK\$8.00 target price (TP).

**Key Risks to Our View:**

**Oil price volatility is the key risk.** CNOOC's earnings is sensitive to oil prices, which would be dictated by output by the Organisation of the Petroleum Exporting Countries (OPEC) and the US in the near term.

**At A Glance**

Issued Capital (m shrs)	44,647
Mkt Cap (HK\$m/US\$m)	341,550 / 44,058
Major Shareholders (%)	
China National Offshore Oil Corp	64.4
Free Float (%)	35.6
3m Avg. Daily Val. (US\$m)	132.83
GICS Industry: Energy / Oil, Gas & Consumable Fuels	



Live more, Bank less

## CNOOC Ltd

**WHAT'S NEW****FY19 results above expectations; but FY20 will be ugly**

**FY19 net profit surpassed consensus estimates.** CNOOC reported net profit of RMB61bn (+16% y-o-y), the highest level since the 2013 oil crisis, representing 104% of the street's full-year projection. Outperformance during the period was mainly driven by the absence of RMB6.5bn impairment losses incurred in 2018, higher-than-expected output and sustained cost control.

**Injection of ailing natural gas assets into listco is still under discussion.** CNOOC's unlisted parent had plans to inject its LNG regasification terminals and power units into CNOOC, to augment CNOOC's clean image and enhance its ESG score. The entire situation is especially messy, as the LNG terminals were to be included in China's new national pipeline company. Nothing is definitive for now, and the management will have to seek approval from independent shareholders before the plan can be implemented. But shareholders would certainly not be in favour of the asset injection plans at this juncture. From equity investors' perspective, CNOOC has always been favoured as a pure upstream play and oil proxy as opposed to its other two larger Chinese peers – Petrochina and Sinopec - who are integrated players.

**Production:**

- CNOOC produced 506mmboe in 2019, comfortably exceeding its guidance of 480-490m announced early last year by 4-5%.
- However, the company is likely to miss its production target of 520-530mmboe and 555mmboe for 2020F and 2021F respectively.
- **CNOOC is currently revising its production and capital investment budgets, and will provide updates when they are available.**

**Capex and reserves:**

- CNOOC spent RMB79.6bn on capex in 2019, near the higher end of its initial RMB70-80bn guidance.
- The company initially had a capital budget of RMB85-95bn for 2020, but that will likely be marked down moderately following the plunge in crude oil prices.
- CNOOC is still committed to expand domestic oil & gas production and will likely rationalise its international capital investment budget.
- Hence, we are now projecting a lower RMB70bn of capital investments by CNOOC in 2020, before recovering to RMB80bn in 2021.
- The stronger exploration efforts in recent years have borne fruit. Its reserve replacement ratio (RRR) was notably higher at 144% in 2019, helping the company

to maintain its reserve life at above 10 years for the third consecutive year.

- However, we expect CNOOC's reserve life to trend downwards over the next two years, due to considerably lower exploratory spending (exploratory capex is the first to be cut in a downcycle).

**Cost control:**

- CNOOC's all-in breakeven cost per boe at US\$29.8/bbl in 2019 is at the best level in nearly ten years.
- It will continue to ensure that new oil and gas production is economically viable, with a hard threshold of US\$35/boe.
- Cost control remains one of CNOOC's top priorities, though we are uncertain if there is much room for improvement at this point – DD&A (Depreciation, Depletion, and Amortization)/boe will likely drift higher as a result of a lower reserve base, and further reductions in opex/bbl, though likely, is likely to be inadequate to compensate for markedly lower average realised prices.
- 2019's opex/boe was already at 60% of 2014's level. A 10-15% pricing concession will only translate into savings of around US\$0.80-1.00/boe.

**Dividend:**

- **Final dividend per share (DPS) of HK\$0.45 declared, bringing total DPS for the year to HK\$0.78**, representing a payout ratio of 47%.
- Management shared that they will consider the dividend yield of its peers when formulating shareholder dividends.
- However, we opine that FY20 DPS will be constrained not only by a significant decline in its operating cash flows, but also its elevated domestic capital spending obligations.
- We now expect DPS of HK\$0.33 in FY20, which implies a dividend yield of 4.0% based on current share price.

**Earnings revisions:**

- Our FY20/21F earnings are cut by 84/43% after lowering ASP by US\$10/bbl to US\$35/bbl and US\$45/bbl respectively. We also lowered our long-term oil price assumption from US\$60/bbl to US\$50/bbl
- Our TP is thus lowered to HK\$8.00.

**Interim Income Statement (RMBm)**

FY Dec	2H2018	1H2019	2H2019	% chg yoy	% chg hoh
Revenue	121,314	108,880	124,319	2.5	14.2
Cost of Goods Sold	(75,354)	(59,976)	(75,984)	0.8	26.7
<b>Gross Profit</b>	<b>45,960</b>	<b>48,904</b>	<b>48,335</b>	<b>5.2</b>	<b>(1.2)</b>
Other Oper. (Exp)/Inc	(6,959)	(5,594)	(7,450)	7.1	33.2
<b>Operating Profit</b>	<b>39,001</b>	<b>43,310</b>	<b>40,885</b>	<b>4.8</b>	<b>(5.6)</b>
Other Non Opg (Exp)/Inc	1,671	2,389	2,861	71.2	19.8
Associates & JV Inc	1,085	477	525	(51.6)	10.1
Net Interest (Exp)/Inc	(2,097)	(2,134)	(2,664)	(27.0)	(24.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>39,660</b>	<b>44,042</b>	<b>41,607</b>	<b>4.9</b>	<b>(5.5)</b>
Tax	(12,449)	(13,789)	(10,815)	(13.1)	(21.6)
Minority Interest	0.0	0.0	0.0	nm	nm
<b>Net Profit</b>	<b>27,211</b>	<b>30,253</b>	<b>30,792</b>	<b>13.2</b>	<b>1.8</b>
Net profit bef Except.	27,211	30,253	30,792	13.2	1.8
EBITDA	41,757	46,176	44,271	6.0	(4.1)
<b>Margins (%)</b>					
Gross Margins	37.9	44.9	38.9		
Opg Profit Margins	32.1	39.8	32.9		
Net Profit Margins	22.4	27.8	24.8		

Source: Company, DBS HK

## CNOOC Ltd

## CRITICAL FACTORS TO WATCH

## Critical Factors

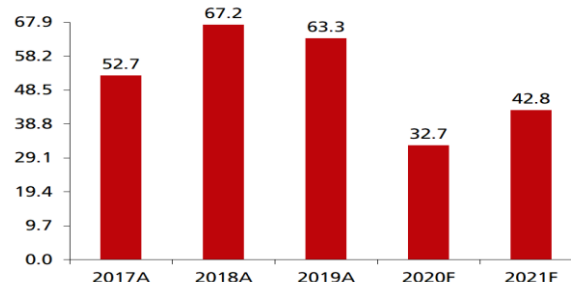
**Among the best proxies to oil prices.** CNOOC is engaged in the exploration and production of crude oil and natural gas, primarily within offshore China, with exclusive rights to engage in oil and gas exploration in offshore China. CNOOC is the best Chinese proxy to oil prices. Every US\$1 per barrel (bbl) increase in Brent crude oil price from our base case of US\$35/bbl could lift 2020 earnings by Rmb2bn or Rmb0.045/share; while every US\$1/bbl increase in long term oil price from our current assumption of US\$50/bbl could raise our TP by about 40 HKcents.

**Focus shifts towards non-oil price drivers.** CNOOC's sharpened focus on tapping lower-cost resources and its first-in-class cost reductions vs its peers (since the onset of the 2014 oil crisis) as well as oil price recovery have reversed the secular downtrend on return on equities (ROEs) and valuation. Given muted oil price prospects and cost inflationary pressures ahead, re-rating catalysts hinge on CNOOC's production/reserves growth outlook and accretive M&As.

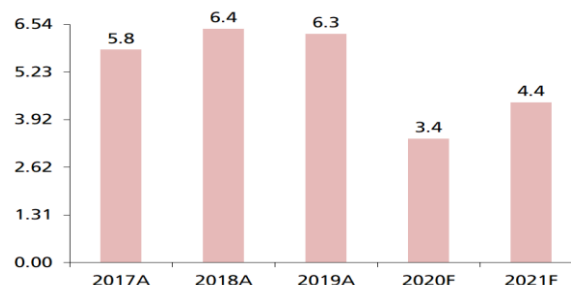
**Reserves life hovers around 10 years; but likely to decline in low oil price environment.** In 4Q17, CNOOC announced an increase in its reserves life from 8.1 years to 10.3 years owing to a booking of reserves from Liza Phase I and Libra (projects that received FID) as well as re-booking of reserves from the Long Lake oil sands project as costs had declined substantially. Reserve life has held up above 10 years marks since, 10.5 / 10.2 years in 2018/2019, but likely to be revised lower in end 2020 if oil prices remain low. Subsequent boosts to reserves (from FIDs, M&A, exploration) as oil price recovers would serve as a re-rating catalyst for CNOOC.

**Accretive M&As provide further uplift.** We believe its management should proactively explore acquisition opportunities, taking advantage of the relatively benign oil price environment. With a focus on "profitability-oriented production volume", reasonable valuations, low cost of production, and solid operational execution remain paramount to avoid a repeat disappointment of the Nexen case (where oil production levels were lower than desired, and operational issues such as ruptured pipelines that have also plagued the company).

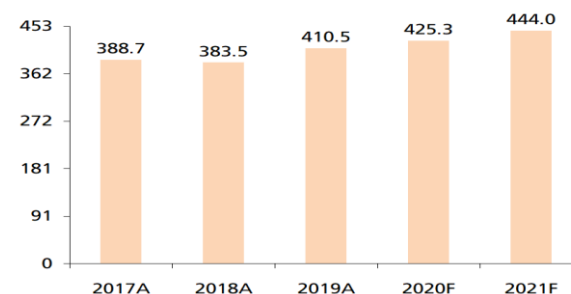
Realized oil price (US\$/bbl)



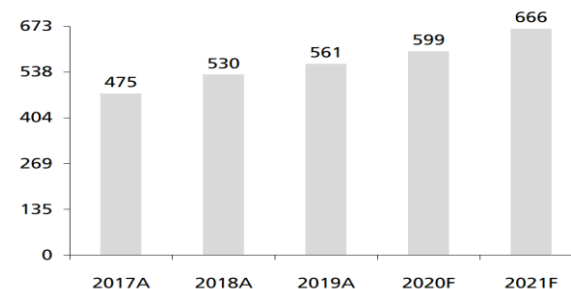
Realized gas price (US\$/mcf)



Oil production (mmbbls)



Gas production (bcf)

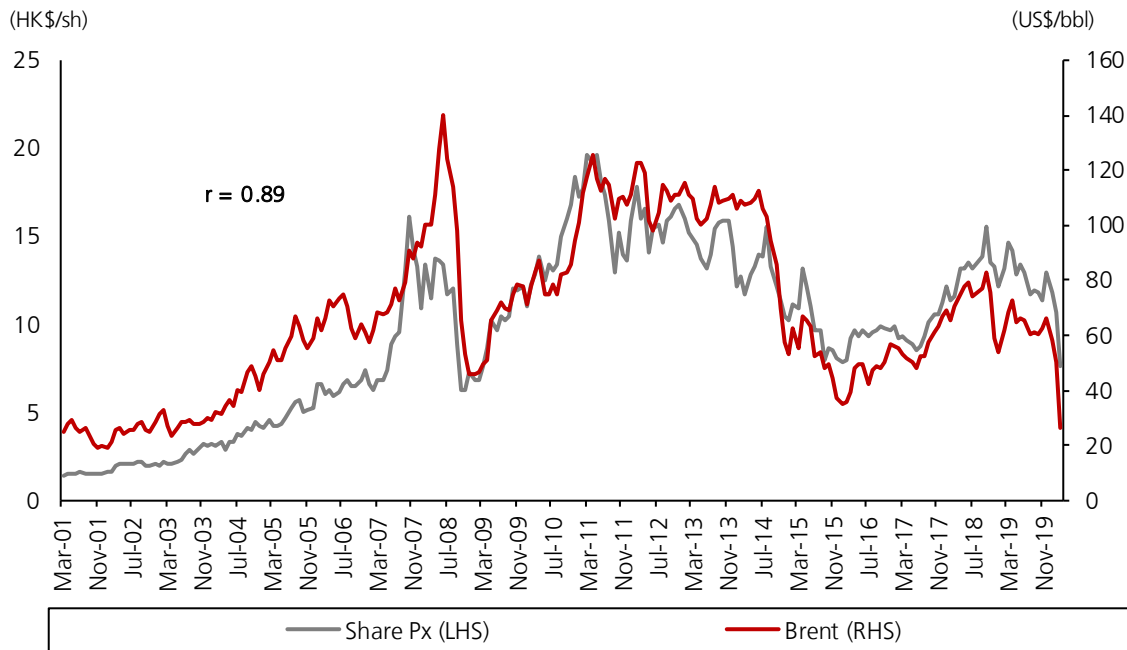


Source: Company, DBS HK

## CNOOC Ltd

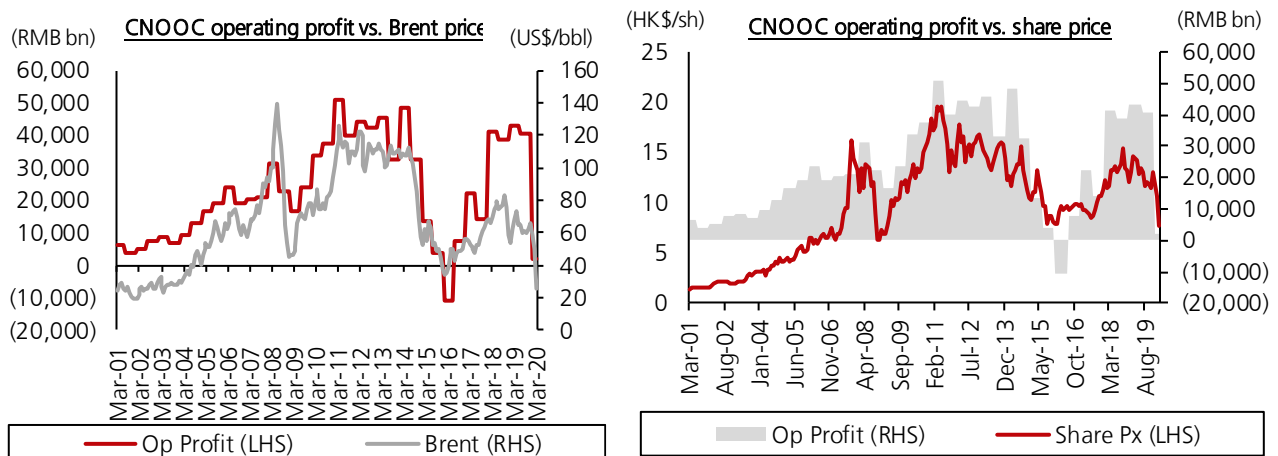
## Appendix 1: A look at CNOOC's listed history – what drives its share price?

Share price is highly correlated to oil prices, as CNOOC is a pure upstream player



Source: Bloomberg Finance L.P.

## Profits, crude oil price, and CNOOC's share price are closely correlated



Source: Bloomberg Finance L.P.

## CNOOC Ltd

**Balance Sheet:**

**Healthy balance sheet, ample headroom for M&As.** Net gearing declined modestly y-o-y from 0.31x as of end-Dec 2017 to 0.30x as of end-Dec 2018, and 0.26x as of end-Dec 2019. While operating cash flow is expected to fall from Rmb124bn in 2018/19 to Rmb60-90bn in 2020/21 due to lower oil prices, CNOOC should be able to rake in stronger operating cash flows of c.RMB100bn per year as oil price recovers to the US\$50/bbl level from 2022.

**Expect decent dividend payout despite weaker operating cash flows.** While CNOOC does not have an explicit dividend policy in terms of payout ratio or nominal payout per share, we find that full-year dividend per share (DPS) has displayed strong correlation to CNOOC's OCF per share, with c.90% correlation coefficient (whereas DPS correlation with EPS is lower at 66%). With expected OCF decline, we assume that DPS will decline from HK\$0.78 to HK\$0.33-0.44/share in the next two years.

**Share Price Drivers:**

**Higher oil prices.** CNOOC is among the best Chinese proxies to oil and gas prices. Empirically, CNOOC's share price performance is 90% positively correlated to oil prices.

**Production and reserve growth.** Stronger production growth and reserves replenishment could drive a re-rating.

**Key Risks:**

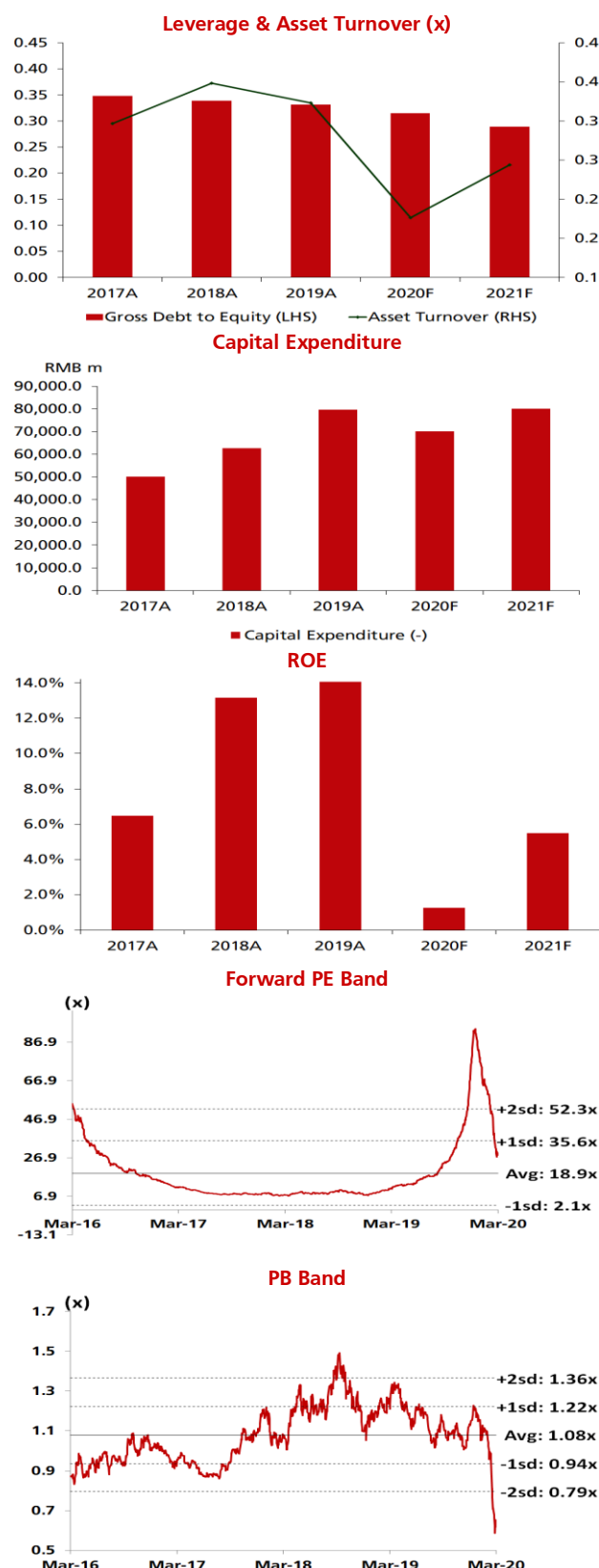
**Lower-than-expected oil prices is the key risk.** The most apparent near-term event for such a scenario would be prolonged COVID-19 impact, resilient US shale output, and/or OPEC+ continues market share strategy. Upside risk would arise from the reverse – if oil prices rise above expected levels.

**Environmental, Social, Governance:**

As a leading oil & gas producer, CNOOC has solid information disclosure and transparency in ESG and financial reports. In 2018, the company adhered to a high health, safety and environment (HSE) standard, and sustained a commendable occupational safety and health administration (OSHA) safety record. As testament to CNOOC's commitment to preserving the environment, the company maintained low emission of pollutants and made progress in water resource management and energy conservation.

**Company Background**

CNOOC is engaged in the exploration and production of crude oil and natural gas, primarily within offshore China, with exclusive rights to engage in oil and gas exploration in offshore China. It has also increased its overseas output levels significantly via inorganic growth over the last 6-7 years.



Source: Company, DBS HK

## CNOOC Ltd

## Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Realized oil price (US\$/bbl)	52.7	67.2	63.3	32.7	42.8
Realized gas price (US\$/mcf)	5.8	6.4	6.3	3.4	4.4
Oil production (mmbbls)	388.7	383.5	410.5	425.3	444.0
Gas production (bcf)	474.7	530.2	561.3	598.5	666.0

Source: Company, DBS HK

## Income Statement (RMB m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	186,390	226,963	233,199	131,189	178,190
Cost of Goods Sold	(136,458)	(133,666)	(135,960)	(115,537)	(133,247)
<b>Gross Profit</b>	<b>49,932</b>	<b>93,297</b>	<b>97,239</b>	<b>15,652</b>	<b>44,942</b>
Other Opng (Exp)/Inc	(12,882)	(13,058)	(13,044)	(7,609)	(10,335)
<b>Operating Profit</b>	<b>37,050</b>	<b>80,239</b>	<b>84,195</b>	<b>8,043</b>	<b>34,607</b>
Other Non Opg (Exp)/Inc	2,843	4,366	5,250	2,700	2,700
Associates & JV Inc	855	(5,187)	1,002	1,093	1,193
Net Interest (Exp)/Inc	(4,391)	(4,241)	(4,798)	(4,040)	(4,355)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>36,357</b>	<b>75,177</b>	<b>85,649</b>	<b>7,796</b>	<b>34,146</b>
Tax	(11,680)	(22,489)	(24,604)	(2,240)	(9,809)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>24,677</b>	<b>52,688</b>	<b>61,045</b>	<b>5,557</b>	<b>24,337</b>
Net Profit before Except.	24,677	52,688	61,045	5,557	24,337
EBITDA	102,005	130,058	148,146	67,636	97,300

## Growth

Revenue Gth (%)	27.2	21.8	2.7	(43.7)	35.8
EBITDA Gth (%)	47.9	27.5	13.9	(54.3)	43.9
Opg Profit Gth (%)	(1,636.1)	116.6	4.9	(90.4)	330.3
Net Profit Gth (%)	3,773.9	113.5	15.9	(90.9)	338.0

## Margins &amp; Ratio

Gross Margins (%)	26.8	41.1	41.7	11.9	25.2
Opg Profit Margin (%)	19.9	35.4	36.1	6.1	19.4
Net Profit Margin (%)	13.2	23.2	26.2	4.2	13.7
ROAE (%)	6.5	13.2	14.1	1.3	5.5
ROA (%)	3.9	8.1	8.5	0.7	3.3
ROCE (%)	3.5	8.1	8.7	0.2	3.0
Div Payout Ratio (%)	74.7	44.6	47.5	241.1	73.4
Net Interest Cover (x)	8.4	18.9	17.5	2.0	7.9

Source: Company, DBS HK



## CNOOC Ltd

## Interim Income Statement (RMB m)

FY Dec	2H2017	1H2018	2H2018	1H2019	2H2019
Revenue	94,028	105,649	121,314	108,880	124,319
Cost of Goods Sold	(73,067)	(58,312)	(75,354)	(59,976)	(75,984)
<b>Gross Profit</b>	<b>20,961</b>	<b>47,337</b>	<b>45,960</b>	<b>48,904</b>	<b>48,335</b>
Other Oper. (Exp)/Inc	(5,996)	(6,099)	(6,959)	(5,594)	(7,450)
<b>Operating Profit</b>	<b>14,965</b>	<b>41,238</b>	<b>39,001</b>	<b>43,310</b>	<b>40,885</b>
Other Non Opg (Exp)/Inc	1,458	2,695	1,671	2,389	2,861
Associates & JV Inc	414	(6,272)	1,085	477	525
Net Interest (Exp)/Inc	(1,996)	(2,144)	(2,097)	(2,134)	(2,664)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>14,841</b>	<b>35,517</b>	<b>39,660</b>	<b>44,042</b>	<b>41,607</b>
Tax	(6,414)	(10,040)	(12,449)	(13,789)	(10,815)
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>8,427</b>	<b>25,477</b>	<b>27,211</b>	<b>30,253</b>	<b>30,792</b>
Net profit bef Except.	8,427	25,477	27,211	30,253	30,792

## Growth

Revenue Gth (%)	18.0	14.4	29.0	3.1	2.5
Opg Profit Gth (%)	78.5	86.7	160.6	5.0	4.8
Net Profit Gth (%)	0.7	56.8	222.9	18.7	13.2

## Margins

Gross Margins (%)	22.3	44.8	37.9	44.9	38.9
Opg Profit Margins (%)	15.9	39.0	32.1	39.8	32.9
Net Profit Margins (%)	9.0	24.1	22.4	27.8	24.8

Source: Company, DBS HK

## Balance Sheet (RMB m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	395,868	413,383	440,554	448,185	457,185
Invts in Associates & JVs	29,146	24,701	45,490	46,483	47,576
Other LT Assets	53,367	57,146	65,742	60,306	58,906
Cash & ST Invts	27,952	28,755	50,534	26,920	18,359
Inventory	7,354	5,853	6,314	7,960	8,423
Debtors	20,787	21,979	24,794	13,119	17,819
Other Current Assets	82,745	134,564	124,303	124,303	124,303
<b>Total Assets</b>	<b>617,219</b>	<b>686,381</b>	<b>757,731</b>	<b>727,277</b>	<b>732,571</b>
ST Debt	13,892	8,991	12,590	12,590	12,590
Creditors	26,713	33,307	40,146	25,554	32,232
Other Current Liab	20,807	31,859	38,513	38,513	38,513
LT Debt	118,358	133,479	136,152	126,308	116,464
Other LT Liabilities	57,474	58,835	82,104	84,029	86,012
Shareholder's Equity	379,975	419,900	448,187	440,349	446,827
Minority Interests	0	10	39	39	39
<b>Total Cap. &amp; Liab.</b>	<b>617,219</b>	<b>686,381</b>	<b>757,731</b>	<b>727,382</b>	<b>732,676</b>
Non-Cash Wkg. Capital	63,366	97,230	76,752	81,316	79,800
Net Cash/(Debt)	(104,298)	(113,715)	(98,208)	(111,978)	(110,695)
Debtors Turn (avg days)	43.2	34.4	36.6	52.7	31.7
Creditors Turn (avg days)	126.3	131.9	171.3	200.7	141.7
Inventory Turn (avg days)	39.0	29.0	28.4	43.6	40.2
Asset Turnover (x)	0.3	0.3	0.3	0.2	0.2
Current Ratio (x)	2.3	2.6	2.3	2.2	2.0
Quick Ratio (x)	0.8	0.7	0.8	0.5	0.4
Net Debt/Equity (X)	0.3	0.3	0.2	0.3	0.2
Net Debt/Equity ex MI (X)	0.3	0.3	0.2	0.3	0.2
Capex to Debt (%)	37.9	43.9	53.5	50.4	62.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK



## CNOOC Ltd

## Cash Flow Statement (RMB m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	36,357	75,177	85,649	7,796	34,146
Dep. & Amort.	61,257	50,640	57,699	55,800	58,800
Tax Paid	(11,680)	(22,489)	(24,604)	(2,240)	(9,809)
Assoc. & JV Inc/(loss)	(855)	5,187	(1,002)	(1,093)	(1,193)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(3,178)	12,825	15,630	(4,564)	1,515
Other Operating CF	12,833	3,058	(9,851)	3,265	3,637
<b>Net Operating CF</b>	<b>94,734</b>	<b>124,398</b>	<b>123,521</b>	<b>58,965</b>	<b>87,097</b>
Capital Exp.(net)	(50,100)	(62,600)	(79,600)	(70,000)	(80,000)
Other Invt.(net)	(21,156)	(51,451)	11,900	0	0
Invt in Assoc. & JV	0	0	(7,707)	0	0
Div from Assoc & JV	100	100	100	100	100
Other Investing CF	6,745	18,499	7,850	16,116	17,108
<b>Net Investing CF</b>	<b>(64,411)</b>	<b>(95,452)</b>	<b>(67,457)</b>	<b>(53,784)</b>	<b>(62,792)</b>
Div Paid	(18,431)	(23,525)	(28,973)	(13,394)	(17,859)
Chg in Gross Debt	0	1,300	4,037	(9,844)	(9,844)
Capital Issues	0	0	0	0	0
Other Financing CF	(12,840)	(4,883)	(12,755)	(5,556)	(5,162)
<b>Net Financing CF</b>	<b>(31,271)</b>	<b>(27,108)</b>	<b>(37,691)</b>	<b>(28,794)</b>	<b>(32,865)</b>
Currency Adjustments	(215)	585	311	0	0
Chg in Cash	(1,163)	2,423	18,684	(23,614)	(8,561)
Opg CFPS (RMB)	2.19	2.50	2.42	1.42	1.92
Free CFPS (RMB)	1.00	1.38	0.98	(0.25)	0.16

Source: Company, DBS HK

## CNOOC Ltd

## Target Price &amp; Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Apr-19	HK\$14.42	HK\$16.00	Buy
2:	30-Aug-19	HK\$11.10	HK\$16.00	Buy
3:	17-Jan-20	HK\$13.44	HK\$17.00	Buy

Source: DBS HK

Analyst: Pei Hwa HO

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

Completed Date: 26 Mar 2020 12:29:38 (HKT)

Dissemination Date: 26 Mar 2020 15:10:43 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

#### GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank (Hong Kong) Limited ("DBS HK"). This report is solely intended for the clients of DBS Bank Ltd., DBS HK, DBS Vickers (Hong Kong) Limited ("DBSV HK"), and DBS Vickers Securities (Singapore) Pte Ltd. ("DBSVS"), its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS HK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., DBS HK, DBSV HK, DBSVS, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group")) have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

**ANALYST CERTIFICATION**

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate<sup>1</sup> does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests<sup>2</sup> in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

**COMPANY-SPECIFIC / REGULATORY DISCLOSURES**


1. DBS Bank Ltd, DBS HK, DBSVS or their subsidiaries and/or other affiliates have a proprietary position in CNOOC Ltd (883 HK) recommended in this report as of 23 Mar 2020.
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. **Compensation for investment banking services:**  
DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.
4. **Disclosure of previous investment recommendation produced:**  
DBS Bank Ltd, DBSVS, DBS HK, their subsidiaries and/or other affiliates of DBSVUSA may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA in the preceding 12 months.

---

<sup>1</sup> An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

<sup>2</sup> Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

## RESTRICTIONS ON DISTRIBUTION

<b>General</b>	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
<b>Australia</b>	<p>This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
<b>Hong Kong</b>	This report is being distributed in Hong Kong by DBS Bank Ltd, DBS Bank (Hong Kong) Limited and DBS Vickers (Hong Kong) Limited, all of which are registered with or licensed by the Hong Kong Securities and Futures Commission to carry out the regulated activity of advising on securities. DBS Bank Ltd., Hong Kong Branch is a limited liability company incorporated in Singapore.
<b>Indonesia</b>	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
<b>Malaysia</b>	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;">   Wong Ming Tek, Executive Director, ADBSR </p>
<b>Singapore</b>	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
<b>Thailand</b>	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
<b>United Kingdom</b>	<p>This report is produced by DBS HK which is regulated by the Hong Kong Monetary Authority</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>
<b>Dubai International Financial Centre</b>	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608-610, 6th Floor, Gate Precinct Building 5, PO Box 506538, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.

<b>United Arab Emirates</b>	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
<b>United States</b>	This report was prepared by DBS HK. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
<b>Other jurisdictions</b>	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

**DBS Bank (Hong Kong) Limited**13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

**DBS Regional Research Offices**

**HONG KONG**

**DBS Bank (Hong Kong) Ltd**

**Contact: Carol Wu**

13th Floor One Island East,

18 Westlands Road,

Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

**MALAYSIA**

**AllianceDBS Research Sdn Bhd**

**Contact: Wong Ming Tek (128540 U)**

19th Floor, Menara Multi-Purpose,

Capital Square,

8 Jalan Munshi Abdullah 50100

Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

**SINGAPORE**

**DBS Bank Ltd**

**Contact: Janice Chua**

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

Fax: 65 65353 418

e-mail: equityresearch@dbs.com

Company Regn. No. 196800306E

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**

**Contact: Maynard Priajaya Arif**

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**

**Contact: Chanpen Sirithanarattanakul**

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand