

CNOOC (883 HK)

FUNDAMENTAL VIEW¹

As of 18 Apr 2023

- We expect CNOOC's revenue growth to decelerate in FY23 as crude and natural gas prices have started to ease in 4Q22. That said, we expect CNOOC to maintain its cost leadership and a stable EBITDA margin.
- We believe CNOOC is well positioned in terms of cost management, and we expect the company to continue to post strong operating profits in FY23 against the still elevated oil and gas prices.
- We expect CNOOC to continue to benefit from the implied government support due the company's critical role in China's offshore upstream value chain and safeguarding China's energy security.

RISKS & CATALYSTS

As of 18 Apr 2023

- Vulnerability and exposure to global/domestic oil benchmark, which may fluctuate in response to changes in supply and demand, market uncertainty and other exogenous factors beyond the company's control.
- CNOOC's business is capital intensive as it has to regularly incur capex spending on acquisitions/JVs, exploration and production, and oilfield development to maintain its proved O&G reserve in offshore China.
- Policy risk from strict regulations over O&G prices, E&P licensing, and import/export quotas. CNOOC is also exposed to geopolitical risk and it is included in the US DoD military and US Entity blacklists. The spillover risk of Russian sanctions and potential US secondary sanctions could affect its business operations.
- CNOOC's high reliance on crude oil sales may result in elevated energy transition risk and conflict with ESG mandates for its carbon-intensive nature.

CREDIT QUALITY SCORE (CQS)²

As of 26 Jun 2023

CURRENT CQS

75

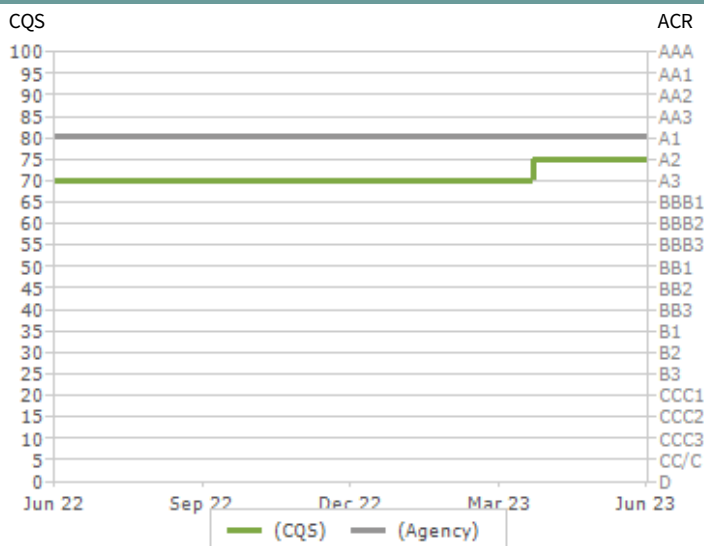
CQS OUTLOOK³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 21 Apr 2023

RMB BN	FY18	FY19	FY20	FY21	FY22
Debt to Book Cap	25.3%	26.1%	24.9%	21.9%	18.3%
Net Debt/Capitalization	23.2%	17.8%	13.5%	9.0%	1.8%
Debt to Equity	33.9%	35.4%	33.1%	28.1%	22.5%
Total Debt/Total Assets	20.8%	20.9%	19.9%	17.2%	14.5%
Total Debt/EBITDA	1.1x	1.1x	1.5x	0.8x	0.5x
Net Debt/EBITDA	1.0x	0.7x	0.8x	0.3x	0.0x
EBITDA/Gross Interest	23.8x	24.3x	15.9x	31.1x	51.1x
EBITDA Margin	56.8%	63.7%	61.8%	66.7%	61.9%

Note: Total debt includes lease liabilities.

BUSINESS DESCRIPTION

As of 18 Apr 2023

- CNOOC is an upstream oil and gas (O&G) company, and is one of the three Chinese national oil companies (NOCs). Globally, it is also among one of the largest exploration and production (E&P) firms in terms of assets/reserves and production. CNOOC engages in E&P independently or through production sharing contracts (PSCs) with foreign/domestic partners. CNOOC is also the largest liquefied natural gas (LNG) importer in China, where it accounted for ~44% of total domestic imports.
- As of 31 December 2022, 69% of CNOOC's revenue is derived from customers in China. Globally, CNOOC has exposure to Iraq, Russia, Canada, the United States of America, the United Kingdom, Nigeria, Uganda, Argentina, Brazil, Guyana and Australia. On foreign exchange risk, CNOOC is primarily exposed to the \$ and RMB currencies.
- CNOOC produced 623.9 mmbbl of O&G output in FY22. The company had a net proved reserves of about 6.24 bn BOE, of which, around 49.9% of its net proved reserves are currently undeveloped.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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