

# CNOOC (883 HK)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 20 Sep 2022

- We expect CNOOC's credit profile to remain strong in 2H22 thanks to elevated oil and gas prices, strong cost control and rising production volume.
- We believe CNOOC is well positioned in terms of cost management, and we expect the company to continue to post strong operating profits in 2H22 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.
- The O&G industry recovery is credit positive to CNOOC but there are rising geopolitical risk and the spillover risk of Russian sanctions, though still manageable as of now.

## RISKS & CATALYSTS

As of 20 Sep 2022

- Vulnerability and exposure to global/domestic oil benchmarks, 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 increase capex spending on acquisitions/JVs, exploration and development once it depletes 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) <sup>2</sup>

As of 20 Feb 2023

### CURRENT CQS

70

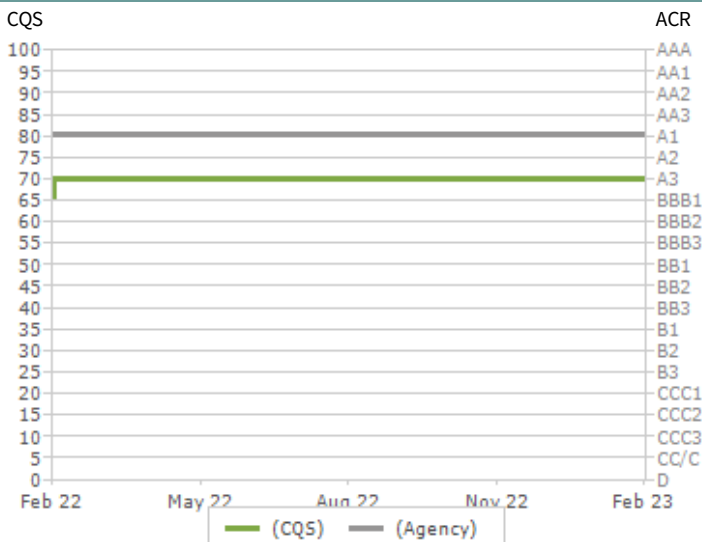
### CQS OUTLOOK <sup>3</sup>

NEGATIVE

STABLE

POSITIVE

### HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) <sup>4</sup> VS CQS



## KEY METRICS

As of 20 Sep 2022

RMB BN	LTM 2Q22	FY21	FY20	FY19	FY18
Debt to Book Cap	19.1%	21.9%	24.9%	26.1%	25.3%
Net Debt/Capitalization	(4.6%)	9.0%	13.5%	17.8%	23.2%
Debt to Equity	23.7%	28.1%	33.1%	35.4%	33.9%
Total Debt/Total Assets	14.1%	17.2%	19.9%	20.9%	20.8%
Total Debt/EBITDA	0.6x	0.8x	1.5x	1.1x	1.1x
Net Debt/EBITDA	-0.1x	0.3x	0.8x	0.7x	1.0x
EBITDA/Gross Interest	49.5x	31.1x	15.9x	24.3x	23.8x
EBITDA Margin	64.4%	66.7%	61.8%	63.7%	56.8%

Note: Total debt includes lease liabilities.

## BUSINESS DESCRIPTION

As of 20 Sep 2022

- CNOOC is an upstream oil and gas (O&G) company, and is one of the three Chinese major 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 30 June 2022, 71% of CNOOC's revenue is derived from customers in China. Globally, CNOOC has exposure to Canada, the United States of America, the United Kingdom, Nigeria, Argentina, Indonesia, Uganda, Iraq, Brazil, Guyana, Russia and Australia. In terms of foreign exchange risk, CNOOC is primarily exposed to \$ and RMB.
- CNOOC produced 304.8 mboe of O&G output in 1H22. As of FY21, the company had a net proved reserves of about 5.73 bn BOE, of which, around 48.2% of its net proved reserves are currently undeveloped.

## GLOSSARY

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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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