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December 03, 2014 – Investing In China's Energy Boom With PetroChina – By Jeffrey Hagenmeier



PetroChina

China has recently taken monetary and fiscal steps, that will provide stimulus to the Chinese stock market. Along with the plunge in international oil prices, an opportunity has now arrived to invest in the development of Chinese energy. The economy in China even as it grows more slowly, will still advance at least 6% to 7% in 2015. This will maintain a strong demand for energy with oil and gas in particular, because of expanding transportation needs. In addition, more of the middle class and young up-worldly mobile Chinese will be purchasing automobiles and other private means of conveyance.

PetroChina offers investors the chance to profit from the growing demand in the Chinese market. The company sells oil and gas in Mainland China. The corporate structure is divided into 4 segments. They are Exploration and Production, Refining and Chemicals, Marketing, and Natural Gas and Pipeline.

An investment in PetroChina is a good move at this time based on the prospect of revenue growth in 2015. The company is already providing a steady cash flow from operations and has a strong financial position. The company is not saddled with excessive debt and has so far provided a reasonable return on existing equity. The only weakness in the past year has been the lagging net income, which will need to be addressed in 2015. Numerous companies will need to become more efficient as the era of rapid growth ends in China. Moderate growth will enhance the need for restructuring and will provide more focus, on cutting costs at the corporate level. This should help with company net income levels.



PetroChina was founded in 1999 and is headquartered in Beijing, the capital city of China. The company is the biggest oil producer in China. It became a public traded stock in 2007, as part of a corporate restructuring.



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PetroChina has become the **most profitable company in Asia** with more than 500,000 employees.

The success of the company is based on sound management and the monopoly it shares with Sinopec in China. This oil and gas duopoly covers both the wholesale and retail business, within the country.



In 2007, the company made a major find of oil in Bohai Bay and in 2009 signed a multi-billion deal with Exxon-Mobil in Australia. This would be the largest contract ever signed between China and Australia. It calls for the sale to China, of LNG (liquefied natural gas) for the next 20 years. This allows the company a steady clean energy supply that can be profitably sold within China.

Also in 2009, the company Dushanzi District refinery came on line. It is the largest refinery in China, with an annual capacity of 10 million tons of oil and 1 million tons of ethylene. It will allow China to process some of the oil the country wishes to import from Kazakhstan. An article on that country was posted on the global investing blog this week.

In 2011, PetroChina paid a total of \$5.4 billion USD (United States Dollar) for a 49% share in Duvernay shale assets. This site is owned by Encana, a Canadian based company. It is the company's and therefore China's biggest investment in shale gas. In Canada, the subsidiary is known as Phoenix Energy Holdings or Brion Energy.

Other company projects include the *Western Gas to the East Pipeline* Project. PetroChina is presently constructing a gas pipeline from Tibet to Gansu Province. A future link will bring the gas line all the way to Shanghai. Another project is the \$5.5 billion USD petrochemical plant being constructed in Chengdu. When completed the plant will process 10 million tons





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of oil and 800,000 tons of ethylene on an annual basis.

The share price for the company stock ended yesterday at **\$106.03 USD**. The low for the day was \$105.51 and the high was \$107.09. The stock had opened at \$105.76, after a previous close of \$105.38. The share price had increased \$0.65 or 0.62% at the close of business yesterday. As recently at November 26th the stock was still at \$113.23. By December 01, the share price had dropped to a low of \$104.26.

On November 04th the share price was still listed for a high of \$123.12 USD. On September 4th the stock traded for **\$149.48 USD**. The share price has since declined a total of \$43.45, which is near a 30% decline in value. So this is definitely the time, to make an investment in the company. The 52 week high for the stock is \$150.80 USD and the low was \$94.75 USD.

The 5 year high was achieved in April 2011, when a share in the company sold for **\$154.74 USD**. The low for the same period was reached on January 31st of this year, when it dipped to **\$95.91 USD**. So the present price is not far from the lowest point in share value.

Market capitalization at present is listed for \$237.32 billion USD.

The P/E (price to earnings) ratio is 8.55 and the EPS (earnings per share) is 11.50.

The dividend is listed at \$4.85 and the yield registers for 4.50%

Volume on shares traded yesterday was 122,370, with an average 3 month volume of 150,459.

Medium term investors should set their price target at **\$125.03 USD**. This would permit a \$19.00 increase in price, for a more than 15% advance in share value at the current price. **Long term investors** can expect higher earnings, by setting the target at **\$144.03 USD**. At a \$38.00 increase, it would permit a more than 30% return on your original investment.

An even **more prudent investment strategy** at this point, would be to **wait for a small pullback**, perhaps **\$3.00 or so**, before buying shares in PetroChina.



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