Impact of Oil Prices on Chinese NOC Spending
PetroChina is vulnerable to low oil prices because its E&P segment contributes to more than 100% of operating profits, given the fact that other segments suffered from losses.

Sinopec can weather a low crude price environment better: upstream profit suffer, but refining and chemical sectors will profit from cheaper feedstock.
How Did Chinese NOC’s E&P Revenue Grow?

70% of PetroChina E&P revenue growth was from price increase since 2007

63% of Sinopec’s E&P revenue growth derived from price increase

Source: SIA Energy
CNPC & Sinopec Domestic Oil & Gas Fields
NOCs’ domestic assets are mature and declining, and both of their largest oil fields have water cut above 90%. Lifting costs are high and increasing. Overall cost will hit $49/b and $39/b by 2015 for Sinopec and CNPC, respectively.
As per SIA’s estimates, PetroChina’s E&P gross profit will decreased more than 60% at $60/b Brent from the 2013 level.

Sinopec’s E&P gross profit is much thinner due to higher costs and lower realized oil prices compared to CNPC. It will lose most of upstream profit at $60/b Brent.
Crude Price Influence on NOC E&P Spending Cut

### CNPC

**E&P – Domestic Oil**
12% cut – CNPC has lowered Daqing’s production target from 800 mb/d in 2014 to 640 mb/d by 2019. CNPC will import more ESPO blend from Russia to meet refinery need in northeast China.

**Refining**
18% cut - After a hasty refining capacity additions (695 mb/d) between 2009-2012, CNPC’s refineries are facing regional over-supply challenges. The company will delay some new projects.

### Sinopec

**E&P – Domestic Oil**
15% cut – Like Daqing, Sinopec might lower Shengli’s production target. Given its high cost of $47-49/b, it could be cheaper for the company to import crudes from overseas to meet refinery need.

**Refining**
14% cut - Sinopec will freeze the green-field refining proposals and only move forward with brown-field expansion and upgrade projects to grow capacity. The NOC focuses on keeping high utilization and improving efficiency.
Short-term: mild decline as a result of production cuts in the onshore mature fields such as Daqing and Shengli

Long term: oil production plateau through 2020, afterwards steady decline

China will not aggressively cut production due to complicated reasons: 1) crude viscosity and API requires continued EOR efforts; 2) employment consideration; 3) refining configuration not easy to change; 4) control on import dependency.
Compared to CNPC, Sinopec refineries have better location, higher efficiency and petchem integration, higher realized product prices and lower feedstock costs. Sinopec imported 82% of crude feedstock from 36 countries (99 grades) in 2013.
US$123.5 bn spent on overseas M&As by three Chinese NOCs between 2005 and 2013
Will the NOCs Be Opportunistic Buyers?

The low crude price may bring the best acquisition opportunities for North American unconventional oil and gas assets, but the NOCs do not have the appetite—cash flow or bank credit is not the real issue, the problems are: 1) they have not digested the unconventional assets acquired in the previous years, and 2) the top managers are afraid of taking on more risks at this sensitive moment. Small to mid-scale M&As are more likely, especially by Sinopec, but they tend to be de-risked oil assets that contribute to overseas equity production. CNPC, instead, has to prioritize their overseas gas asset monetization plans before make new offers.
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