

# China Oil & Gas

# OVERWEIGHT (Unchanged)

## VW scandal ≠ Short refiners

- Emissions-test scandal is not going to affect profitability of refiners. Global diesel demand is predominately driven by the commercial sector, not passenger vehicles.
- Cost advantage is the key factor for determining choice of fuel, in our view, unless you are an environmentalist.
- Investor feedback since our sector upgrade has been constructive; most believe sector has limited downside, however without imminent investment catalyst.

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### Will the tree huggers please stand up?

Diesel vehicles account for less than 0.5% of the passenger fleet in China, whereas it's over 55% in Europe, but less than 5% in the US. Unless we assume diesel passenger car owners will walk from their impacted vehicles, there will be no immediate impact on demand.

In the long run, we believe economic benefit is the key factor for consumers when choosing between diesel passenger vehicles and those that run on gasoline or other alternatives, rather than based on emissions standards alone. As for commercial vehicles, there are only a handful of options other than diesel, besides gasoline. Remaining alternatives are only in their infancy.

Diesel and gasoline account for roughly 35% and 21% of the aggregate refined product output, respectively, in China. Even if there is a shift in consumption from diesel to alternative energy sources, these changes will be subtle while taking place along with the auto replacement cycle, and will be met with adjustment in future capex by refiners.

Diesel passenger vehicles got no love from Chinese consumers even before the scandal, and probably never will. Government promotes natural gas, elective and hybrid vehicles over diesel passenger vehicles, which in aggregate account for close to 0.9% of the total fleet.

### A long-term BUY without near-term catalyst

Investor feedback since our sector upgrade has been constructive. Most agreed that the sector has limited downside, as fundamentals and sentiment are near cyclical lows. However despite the long-term value, there is no immediate catalyst in the near term. Risk-reward doesn't justify an immediate shift in positioning.

Amid the uncertainty in commodity outlook, we continue to recommend Sinopec (386 HK, BUY) for its integrated energy model as well as NewOcean Energy (342 HK, BUY), an energy distributor with strong organic growth, high asset turnover and being immune from volatility in energy prices.

## Asia oil and gas valuations

Company	Ticker	Maybank KE Rating	Price 25-Sep	Target Price	Mkt Cap (USDb)	90D T/O (USDm)	PER (x)		EV/EBITDA (x)		ROE %	P/BV (x)	Yield (%)
							2015E	2016E	2015E	2016E	2015E	2015E	2015E
China													
PetroChina - H	857 HK	Sell	5.55	4.80	229.4	98.5	24.3	42.6	6.4	7.1	2.9	0.7	1.8
Sinopec - H	386 HK	Buy	4.83	6.00	88.4	77.0	11.7	12.8	5.4	5.7	6.5	0.8	4.2
CNOOC LTD	883 HK	Buy	8.06	11.70	46.4	88.7	14.8	17.5	3.9	4.0	5.1	0.7	0.9
New Ocean Energy	342 HK	Buy	3.22	7.70	0.6	1.0	4.5	3.7	4.3	3.0	19.0	0.8	2.2
India													
ONGC	ONGC IN	NR	225.1	NR	29.0	17.8	8.1	8.0	4.2	4.0	13.3	1.0	4.4
Reliance Industries	RIL IN	NR	834.3	NR	40.7	54.7	11.2	10.5	9.8	8.7	11.2	1.2	1.2
Cairn India	CAIR IN	Hold	147.6	198.00	4.2	6.4	4.1	7.1	1.2	2.1	11.7	0.4	6.2
BPCL	BPCL IN	NR	883.5	NR	9.6	25.2	20.3	11.2	10.8	7.4	15.2	3.0	1.7
HPCL	HPCL IN	NR	777.0	NR	4.0	25.5	19.9	9.2	10.0	7.2	8.8	1.8	2.2
Japan													
INPEX	1605 JT	NR	1,081	NR	13.2	55.6	18.2	25.1	2.9	3.6	3.2	0.6	1.6
JAPEX	1662 JT	NR	3,235	NR	1.5	8.1	5.3	15.1	4.7	8.1	7.7	0.4	1.5
JX Holding	5020 JT	NR	445	NR	9.3	50.5	N/A	8.7	-251.3	10.3	-15.1	0.6	3.6
Showa Shell	5002 JT	NR	956	NR	3.0	16.4	16.8	11.1	7.8	6.2	6.3	1.3	4.0
TonenGeneral	5012 JT	NR	1,146	NR	5.4	20.1	23.0	12.2	17.6	11.5	4.5	1.6	3.3
Idemitsu	5019 JT	NR	1,865	NR	2.5	13.7	N/A	7.5	-32.5	8.4	-15.9	0.5	2.7
Cosmo	5007 JT	NR	164	NR	1.2	5.8	N/A	6.6	-177.8	10.2	-36.6	0.8	0.0
Malaysia													
Gas Malaysia	GMB MK	Buy	2.39	2.65	0.7	0.1	24.9	24.8	13.9	13.4	12.2	3.0	4.0
Petronas Gas	PTG MK	Hold	21.86	24.00	9.7	6.6	23.9	23.7	14.3	14.0	16.7	3.9	2.9
Philippines													
Petron Corp	PCOR PM	Buy	7.05	11.25	1.4	0.5	16.1	9.5	7.9	7.0	4.4	0.7	0.7
Phoenix Petro	PNX PM	Buy	3.34	4.75	0.1	0.0	5.7	5.0	7.6	6.9	11.6	0.6	3.0
Taiwan													
Formosa Petrochemical	6505 TT	NR	75.70	NR	21.8	7.2	19.4	20.2	12.2	12.7	14.4	2.7	3.6
South Korea													
S-Oil	010950 KS	NR	61,600	NR	5.8	18.4	8.1	8.3	6.1	6.5	16.3	1.3	3.3
SK Innovation	096770 KS	NR	96,000	NR	7.4	35.7	6.9	7.5	5.9	6.4	8.3	0.6	2.9
GS Holdings	078930 KS	NR	44,950	NR	3.5	9.3	8.2	7.6	8.5	8.2	8.0	0.7	2.8
Thailand													
PTT Global Chemical PCL	PTTGC TB	Buy	54.8	87.00	6.8	22.5	9.0	8.0	6.0	5.5	11.3	1.0	5.1
PTT PCL	PTT TB	Buy	245.0	395.00	19.2	59.4	8.4	7.6	6.0	5.7	11.0	0.9	4.7
Thai Oil PCL	TOP TB	Sell	52.3	65.00	2.9	8.1	8.7	9.0	6.3	6.1	13.3	1.2	4.8
Vietnam													
PetroVietnam Gas	GAS VN	Buy	46,300	92,000	3.9	1.1	10.1	10.6	4.8	4.8	23.6	2.3	7.2
<b>Asian Oil &amp; Gas average</b>							<b>17.2</b>	<b>24.9</b>	<b>1.8</b>	<b>6.8</b>	<b>6.0</b>	<b>1.0</b>	<b>2.5</b>
CNOOC LTD	883 HK	Buy	8.06	11.70	46.4	88.7	14.8	17.5	3.9	4.0	5.1	0.7	0.9
Cairn India	CAIR IN	Hold	147.6	198.00	4.2	6.4	4.0	9.4	1.1	1.9	10.0	0.4	6.3
INPEX	1605 JT	NR	1,081	NR	13.2	55.6	18.2	25.1	2.9	3.6	3.2	0.6	1.6
JAPEX	1662 JT	NR	3,235	NR	1.5	8.1	5.3	15.1	4.7	8.1	7.7	0.4	1.5
Gas Malaysia	GMB MK	Buy	2.39	2.65	0.7	0.1	24.9	24.8	13.9	13.4	12.2	3.0	4.0
Petronas Gas	PTG MK	Hold	21.86	24.00	9.7	6.6	23.9	23.7	14.3	14.0	16.7	3.9	2.9
PTT E&P	PTTEP TB	Buy	71.50	188	7.8	21.7	13.0	11.0	2.3	2.2	4.8	0.7	3.3
PetroVietnam Gas	GAS VN	Buy	46,300	92,000	3.9	1.1	10.1	10.6	4.8	4.8	23.6	2.3	7.2
<b>Asian E&amp;P average</b>							<b>15.4</b>	<b>18.1</b>	<b>4.8</b>	<b>5.0</b>	<b>7.2</b>	<b>1.1</b>	<b>2.0</b>
JX Holding	5020 JT	NR	445	NR	9.3	50.5	N/A	8.7	-251.3	10.3	-15.1	0.6	3.6
Showa Shell	5002 JT	NR	956	NR	3.0	16.4	16.8	11.1	7.8	6.2	6.3	1.3	4.0
TonenGeneral	5012 JT	NR	1,146	NR	5.4	20.1	23.0	12.2	17.6	11.5	4.5	1.6	3.3
Idemitsu	5019 JT	NR	1,865	NR	2.5	13.7	N/A	7.5	-32.5	8.4	-15.9	0.5	2.7
Cosmo	5007 JT	NR	164	NR	1.2	5.8	N/A	6.6	-177.8	10.2	-36.6	0.8	0.0
BPCL	BPCL IN	NR	884	NR	9.6	25.2	20.3	11.2	10.8	7.4	15.2	3.0	1.7
HPCL	HPCL IN	NR	777	NR	4.0	25.5	19.9	9.2	10.0	7.2	8.8	1.8	2.2
Petron Corp	PCOR PM	NR	7.05	NR	1.4	0.5	15.2	9.0	8.6	6.9	5.3	1.1	0.7
Phoenix Petroleum Philippines	PNX PM	Buy	3.34	4.75	0.1	0.0	5.7	5.0	7.6	6.9	11.6	0.6	3.0
S-Oil	010950 KS	NR	61,600	NR	5.8	18.4	8.1	8.3	6.1	6.5	16.3	1.3	3.3
SK Innovation	096770 KS	NR	96,000	NR	7.4	35.7	6.9	7.5	5.9	6.4	8.3	0.6	2.9
GS Holdings	078930 KS	NR	44,950	NR	3.5	9.3	8.2	7.6	8.5	8.2	8.0	0.7	2.8
Formosa Petrochemical	6505 TT	NR	75.70	NR	21.8	7.2	19.4	20.2	12.2	12.7	14.4	2.7	3.6
Bangchak Petroleum	BCP TB	Buy	34.50	41.00	1.3	3.0	8.3	8.1	5.8	5.8	15.4	1.3	4.3
IRPC PCL	IRPC TB	Hold	3.80	3.74	2.1	10.6	10.5	9.3	8.9	8.1	11.7	1.0	4.1
PTT Global Chemical PCL	PTTGC TB	Buy	54.75	87.00	6.8	22.5	9.0	8.0	6.0	5.5	11.3	1.0	5.1
Thai Oil PCL	TOP TB	Sell	52.25	65.00	2.9	8.1	8.7	9.0	6.3	6.1	13.3	1.2	4.8
<b>Asian Refiners average</b>							<b>12.9</b>	<b>11.9</b>	<b>-21.3</b>	<b>9.0</b>	<b>7.6</b>	<b>1.6</b>	<b>3.3</b>
Exxon Mobil	XOM US	NR	72.60	NR	302.7	1,167.4	18.6	16.8	7.6	6.9	9.3	1.7	4.0
Chevron	CVX US	NR	75.77	NR	142.6	924.4	22.3	16.4	5.7	5.0	4.1	0.9	5.7
ConocoPhillips	COP US	NR	45.85	NR	56.6	514.6	N/A	42.2	8.0	6.0	-0.4	1.2	6.4
Shell	RDSA LN	NR	1,509	NR	146.2	17,626	11.4	10.7	4.4	4.0	7.4	0.8	8.2
BP plc	BP/ LN	NR	323.05	NR	89.7	21,683	14.5	12.6	4.9	4.3	4.8	0.9	8.2
Gazprom	GAZP RX	NR	130.90	NR	46.9	59.3	2.5	2.3	2.2	2.2	9.4	0.2	5.7
Rosneft Oil	ROSN LI	NR	3.65	NR	38.7	22.6	5.8	5.1	N/A	N/A	13.6	0.8	4.1
LUKOIL	LKOH RX	NR	2,242	NR	28.8	39.9	5.6	4.9	2.5	2.5	5.4	0.3	8.3
MOL Hungarian O&G	MOL HB	NR	12,030	NR	4.5	5.7	6.7	7.1	3.8	3.9	10.5	0.7	4.2
PetroleoBrasileiro	PETR3 BZ	NR	7.67	NR	22.7	46.4	7.8	6.1	5.4	4.8	4.6	0.3	7.7
Total	FP FP	NR	38.77	NR	105.2	348.7	11.0	11.2	5.3	5.0	9.8	1.1	6.3
Eni S.p.A.	ENI IM	NR	13.57	NR	55.4	361.8	27.3	18.5	4.3	3.7	3.0	0.8	6.1
Repsol S.A.	REP SM	NR	10.05	NR	15.8	208.5	8.7	10.2	6.4	5.5	5.8	0.5	9.9
Stateoil ASA	STL NO	NR	119.10	NR	44.5	67.8	16.3	13.7	2.5	2.5	1.7	1.1	6.0
OMV AG	OMV AV	NR	21.01	NR	7.7	11.8	8.6	10.7	4.6	4.4	5.8	0.5	5.5
GalpEnergia, SGPS, S.A.	GALP PL	NR	8.50	NR	7.9	15.5	14.2	16.4	7.0	6.5	8.3	1.3	4.6
<b>Global Oil Major average</b>							<b>14.5</b>	<b>14.6</b>	<b>5.4</b>	<b>4.9</b>	<b>6.8</b>	<b>1.1</b>	<b>6.0</b>

Source: Bloomberg, Maybank KE

\*UR = Under Review

\*NR = Not Rated

\*All forward-looking estimates and multiples for companies not under MayBank Kim Eng's coverage, including companies currently under review, are from Bloomberg consensus.

\*Average multiples and yields are weighted by market capitalization.

## Asia oil-service valuations

Company	Ticker	Maybank KE Rating	Price 25-Sep	Target Price	Mkt Cap (USD\$b)	90D T/O (USDm)	PER (x)		EV/EBITDA (x)		ROE %	P/BV (x)	Yield (%)
							2015E	2016E	2015E	2016E	2015E	2015E	2015E
China													
COSL	2883 HK	NR	8.10	NR	9.4	17.3	12.8	10.3	11.6	10.4	5.3	0.7	2.1
Anton Oil	3337 HK	NR	1.03	NR	0.3	0.8	N/A	94.1	11.9	8.7	-3.7	1.0	0.0
SPT Energy	1251 HK	NR	0.68	NR	0.1	0.5	N/A	62.1	-10.0	5.6	-13.7	0.6	0.0
Hilong	1623 HK	NR	1.55	NR	0.3	0.6	7.0	6.1	6.3	5.7	10.5	0.7	2.7
Honghua	196 HK	NR	0.61	NR	0.3	0.5	N/A	33.4	12.4	9.1	-2.9	0.3	0.4
Petro King	2178 HK	NR	0.73	NR	0.1	0.1	N/A	365.0	13.4	9.2	-1.9	0.4	0.0
Jutal Offshore	3303 HK	NR	0.69	NR	0.1	0.3	11.3	7.1	N/A	N/A	N/A	N/A	1.8
Shengli Pipe	1080 HK	NR	0.25	NR	0.1	0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chu Kong Pipe	1938 HK	NR	1.29	NR	0.2	0.2	N/A	8.2	45.6	18.5	-4.9	0.3	0.0
Malaysia													
AlamMaritim	AMRB MK	Sell	0.49	0.35	0.1	0.1	13.0	12.4	5.2	5.3	4.1	0.5	0.0
Barakah Offshore	BARAKAH MK	Hold	0.92	0.75	0.2	0.3	32.0	12.3	10.5	5.5	6.8	1.8	0.0
Bumi Armada	BAB MK	Buy	0.91	1.20	1.2	2.8	26.6	23.8	9.8	9.9	3.1	0.8	0.0
Coastal Contracts	COCO MK	NR	1.89	NR	0.2	0.4	4.9	6.2	2.6	2.8	13.5	0.6	4.0
Daya Materials	DAYA MK	NR	0.10	NR	0.0	0.1	6.7	5.9	N/A	N/A	7.3	0.5	2.0
Dayang Enterprise	DEHB MK	NR	1.70	NR	0.3	0.2	10.2	8.3	6.2	5.0	16.5	1.6	3.9
Dialog	DLG MK	Buy	1.59	1.90	1.8	2.3	28.1	30.1	27.3	28.5	15.9	4.0	1.4
KNM	KNMG MK	Buy	0.48	1.00	0.2	2.9	6.9	5.8	5.2	4.2	5.1	0.3	0.0
MMHE	MMHE MK	Hold	1.07	1.32	0.4	0.3	12.3	14.4	6.9	6.8	5.1	0.6	0.0
Muhibbah Engineering	MUHI MK	NR	2.03	NR	0.2	0.4	8.9	8.2	8.9	8.1	13.8	1.2	2.6
Perdana Petroleum	PETR MK	Buy	1.54	1.70	0.3	0.7	19.2	9.2	14.2	9.3	8.6	1.6	0.0
Perisai Petroleum	PPT MK	Sell	0.33	0.25	0.1	1.0	33.3	9.8	27.5	21.5	1.0	0.3	0.0
Petra Energy	PENB MK	NR	1.16	NR	0.1	0.1	12.0	8.7	7.3	7.5	6.2	0.8	2.2
SapuraKencana	SAKP MK	Hold	1.91	2.00	2.6	6.3	9.4	11.6	10.2	8.9	11.0	1.0	2.3
TH Heavy Engineering	RH MK	NR	0.21	NR	0.1	0.3	N/A	11.1	41.2	8.6	-1.9	0.5	N/A
UMW O&G	UMWOG MK	Sell	1.25	2.55	0.6	0.7	-295.1	-26.4	20.0	29.7	-0.3	0.8	0.0
UZMA	UZMA MK	NR	2.00	NR	0.1	0.1	10.1	8.3	9.0	7.0	18.9	1.3	0.8
WahSeong	WSC MK	Sell	1.23	0.90	0.2	0.1	13.1	13.8	8.6	8.6	6.6	0.8	4.1
Yinson	YNS MK	Buy	2.90	4.35	0.7	0.4	21.0	18.6	15.1	14.9	13.9	2.1	0.7
Singapore													
Cosco Corp	COS SP	Sell	2.40	2.45	3.6	3.6	11.1	11.8	8.6	7.6	14.7	1.6	3.8
Dyna-Mac	DMHL SP	NR	0.18	NR	0.1	0.1	35.6	35.6	12.5	11.9	2.6	N/A	N/A
Ezion	EZI SP	Buy	0.66	1.35	0.7	10.1	5.7	3.5	8.6	5.6	10.0	0.5	0.2
Ezra	EZRA SP	NR	0.12	NR	0.2	5.1	13.5	11.6	14.3	13.0	3.3	0.2	1.2
Keppel	KEP SP	Hold	6.76	7.80	8.6	28.9	8.3	8.6	9.9	10.4	13.9	1.1	6.5
Mermaid Maritime	MMT SP	NR	0.16	NR	0.2	0.0	9.1	6.6	4.7	3.4	3.0	0.3	2.7
Nam Cheong	NCL SP	Sell	0.17	0.17	0.2	0.4	8.0	9.4	11.7	12.9	9.8	0.8	0.0
SembCorp Marine	SMM SP	Sell	2.25	2.45	3.3	3.7	10.4	11.1	8.2	7.2	14.7	1.5	4.0
Swiber	SWIB SP	Hold	0.21	0.34	0.1	0.0	N/A	2.3	20.6	11.9	-1.4	0.1	0.0
Vard Holdings	VARD SP	Sell	0.45	0.35	0.4	0.9	21.3	20.4	42.5	38.8	3.4	0.7	0.0
Yangzijiang Shipbuilding	YZJSGD SP	Sell	1.12	1.12	3.0	11.8	6.7	6.5	5.6	6.0	13.7	0.8	4.9
Vietnam													
PetroVietnam Drilling & Well	PVD VN	NR	34,400	NR	0.5	1.6	6.1	6.1	3.9	3.9	16.2	0.9	4.8
PetroVietnam Technical Services	PVS VN	Buy	21,200	41,300	0.4	1.4	6.5	6.1	1.6	1.5	14.8	0.9	5.7
<b>Asian Oil Service average</b>							<b>7.1</b>	<b>12.5</b>	<b>10.8</b>	<b>10.3</b>	<b>10.3</b>	<b>1.1</b>	<b>3.3</b>
Halliburton	HAL US	NR	34.93	NR	29.9	572.6	22.3	22.2	8.1	7.4	7.4	1.5	2.1
Schlumberger	SLB US	NR	69.37	NR	87.8	749.8	19.8	20.2	9.2	9.2	11.7	2.3	2.8
Weatherford Int'l	WFT US	NR	8.17	NR	6.3	148.0	N/A	N/A	9.3	8.2	-5.9	1.0	0.0
Transocean	RIG US	NR	11.99	NR	4.4	201.4	3.6	44.1	3.4	7.2	4.2	0.3	9.2
Baker Hughes	BHI US	NR	50.50	NR	22.0	220.9	N/A	144.3	12.9	10.8	-1.6	1.3	1.3
<b>Global Oil Service Average</b>							<b>15.4</b>	<b>36.7</b>	<b>9.1</b>	<b>8.7</b>	<b>7.6</b>	<b>1.8</b>	<b>2.5</b>

Source: Bloomberg, Maybank KE

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\*NR = Not Rated

\* All forward-looking estimates and multiples for companies not under MayBank Kim Eng's coverage, including companies currently under review, are from Bloomberg consensus.

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