Roots of Chinese Oil Investment Abroad
Why, Where and How China’s NOCs “Go Out”

The Rise of Asia’s National Oil Companies
National Bureau of Asian Research
May 3, 2007
Motive: Why China’s NOCs “Go Out”
Crude and Product Price Gap
January 2004 = 100

Source: CEIC, EIA and CSA calculations
Note: Crude prices are average import via Customs Administration. Gasoline prices are for wholesale for RON 93.

CHINA STRATEGIC ADVISORY
Oil & Gas Profit Margins
EBT basis

Source: CEIC and CSA calculations.
Share of Global Oil Production and Reserves
2005

China's Oil Production and Demand

DEMAND

PRODUCTION

Source: CEIC and IEA and author's estimates.

PRODUCTION RESERVES

3.8 million BPD
29.3 billion barrels

3.6 million BPD
16.0 billion barrels

Source: BP Statistical Review

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Strategy: Where and How to Invest
Type and Quantity of Crudes Consumed by China
2006

Source: China General Customs Administration, EIG, CSA Estimates

Note: Only includes trade partners that exported more than 1,000,000 metric tons of crude to China in 2005. API and sulfur content figures are derived from a weighted average of all crude types produced by a given exporter. Not all Chinese production is included, only the Daqing and Shengli fields for reference.
Global Upstream Portfolio: CNPC, Sinopec, CNOOC
Investment and Equity Production 2006

Source: CEIC, company filings, industry intelligence and CSA estimates. Dark coloring indicates countries with equity production in 2006.
Execution: Financing Overseas Deals
Financing Overseas Investment
Economy-wide investment by source and oil industry specifics, 2006

Sources of Investment
Economy-wide

- **Self Raised**: 56%
- **Loans**: 18%
- **State Budget**: 4%
- **Foreign Capital**: 4%
- **Other**: 18%

Oil Profits (2006) and Overseas Investment (01-05)

- **CNOOC**: $1.8
- **Sinopec**: $1.6
- **CNPC**: $6.8

Profits 2006
Overseas Investment 01-05

$25b
$20b
$15b
$10b
$5b
$0b

$5.9
$8.5
$6.8

Source: CEIC, company filings, WoodMackenzie and CSA estimates
The Margin Hurdle
Operating Margins vs 6-Month Enterprise Deposit Rates

PetroChina

S&P 500 Earnings

Exxon Mobil

China Margins

US Rates

China Rates

Source: CEIC and CSA calculations.
Implications & Conclusions
Equity Production as a Security Strategy

crude imports, equity production and maximum amount brought home by region

IMPORTS (2,915 tbdp)
EQUITY PRODUCTION (685 tbdp)
MAX BROUGHT HOME (253 tbdp)

Source: CEIC and CSA calculations.
Destination for Sudanese Crude
Chinese and Japanese imports, thousand barrels per day

Source: China General Customs Administration and MITI.
Thank you!

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