Deutsche Bank
Markets Research

Rating
Hold

Asia
China

Energy
Oil & Gas

Company
COOEC

Reuters	Bloomberg	Exchange	Ticker
600583.SS	600583 CH	SHH	600583

Date
28 February 2018

Company Update

Price at 26 Feb 2018 (CNY)	6.73
Price target - 12mth (CNY)	7.10
52-week range (CNY)	8.18 - 5.93
HANG SENG INDEX	31,499

The stage is set for strong rebound but valuation demanding; maintaining Hold

2017 a kitchen-sink year - prelim results down >60% YoY

E&P capex hovered at a trough cycle level in 2017 and has yet to rebound; CNOOC Limited (COOEC's largest customer) recorded RMB50bn in 2017 vs. RMB49bn in 2016, while the oil price rebounded by 18% in 2017. We cut our 2017E net profit after accounting for: 1) FX loss of RMB350mn due to significant exposure in US$ deposits (c.US$500mn by end-2017); 2) investment loss of RMB180mn; 3) potential impairments loss. Our revised 2017E net profit is aligned to the low end of prelim results of RMB445-535mn. The demanding valuation and uncertainties from non-operating items prevent us for holding a more positive view; thus, we maintain Hold.

50% rebound in sales in 2018

COOEC's largest customer, CNOOC Limited, a subsidiary of CNOOC Group, budgeted 2018E capex to surge by 40%-60% to RMB70-80bn. We assume 65% of this to be development capex, and 25% to go into COOEC, meaning RMB11-13bn of revenue for COOEC; including overseas projects, we expect COOEC's sales to rebound by 50% YoY. Overseas E&P activities continue to recover, and COOEC is also a beneficiary. For example, Fluor won the FPSO for Shell's Penguins project in the North Sea in Jan 2018, and COOEC has been awarded fabrication sub-contract works, which are worth c.RMB800mn. In addition, with stabilized oil prices and new discovery fields in offshore China, we believe there will be a new wave of development capex spending ahead beyond 2018.

Demanding valuation, maintaining Hold

We derive our target price of RMB7.1 by applying 9.0x EV/EBITDA. With the current share price trading at 7.5x 2018E EV/EBITDA and 1.3x 2018E P/B (with 7.6% ROE), we believe it has priced in near-term recovery. Moreover, COOEC is trading in line with its global offshore engineering peers and with a backlog-to-revenue ratio of 1.1x in 2017E. Key risks include: 1) slower-/faster-than-expected CNOOC capex recovery, 2) slower-/faster-than-expected overseas business expansion, 3) major accidents and 4) exchange rate volatility. COSL (Buy; HK$8.57) is our preferred pick as an E&P proxy, while SEG (2386 HK, Buy; HK $7.76) is our top Chinese oil & gas capex proxy.

Valuation & Risks

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Key changes

Net profit (FYE)	1,165.9 to 479.4	↓	-58.9%

Source: Deutsche Bank

Price/price relative

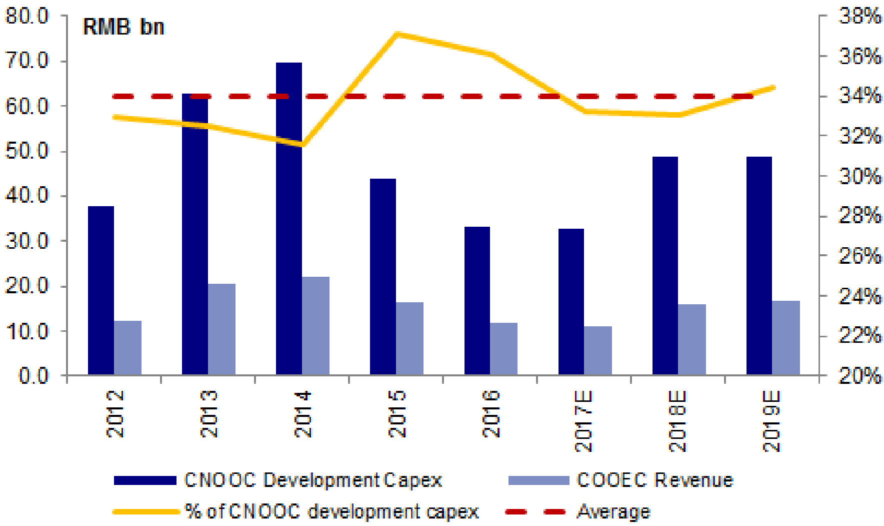
Performance (%)	1m	3m	12m
Absolute	-7.2	11.1	-16.9
HANG SENG INDEX	-5.0	5.5	31.4

Source: Deutsche Bank

Key indicators (FY1)	
ROE (%)	2.1
Net debt/equity (%)	-21.9
Book value/share (CNY)	5.25
Price/book (x)	1.3
Net interest cover (x)	3.0
Operating profit margin (%)	8.3

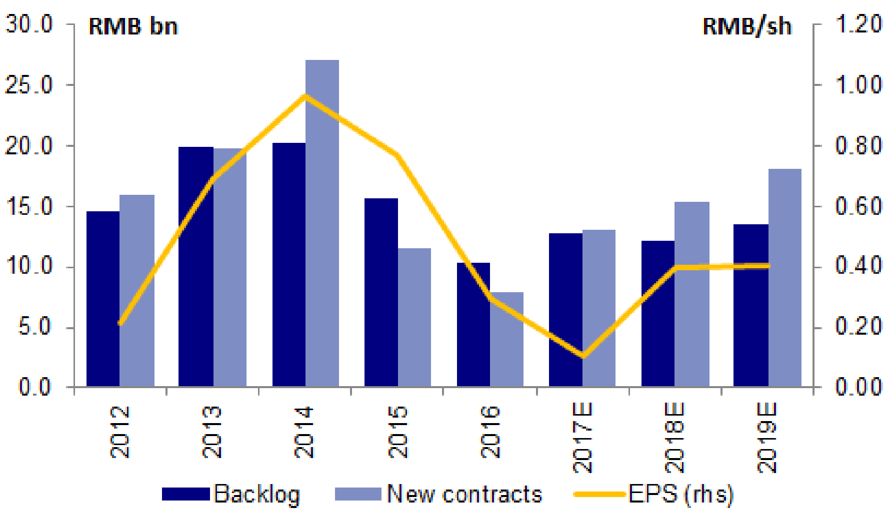
Source: Deutsche Bank

Figure 1: CNOOC capex driving COOEC revenue



Source: Deutsche Bank estimates, company data

Figure 2: COOEC backlog and new contracts



Source: Deutsche Bank estimates, company data

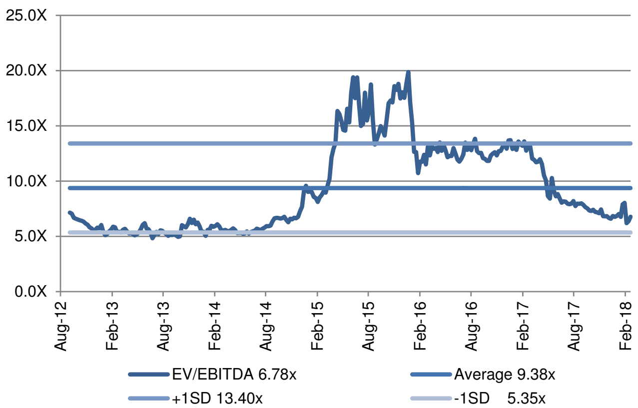
Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	16,201.5	11,991.7	10,963.8	16,129.6	16,777.5
EBITDA (CNYm)	4,808.7	1,903.6	1,994.1	2,896.3	2,896.4
Reported NPAT (CNYm)	3,410.0	1,315.3	479.4	1,770.5	1,783.8
DB Net Profit (CNY)	3,410.0	1,315.3	479.4	1,770.5	1,783.8
Reported EPS FD(CNY)	0.77	0.30	0.11	0.40	0.40
DB EPS FD(CNY)	0.77	0.30	0.11	0.40	0.40
OLD DB EPS FD(CNY)	0.77	0.30	0.26	0.45	0.46
% Change	0.0%	0.0%	-58.9%	-11.7%	-11.6%
DB EPS growth (%)	–	-61.4	-63.6	269.3	0.7
PER (x)	14.1	23.8	62.1	16.8	16.7
EV/EBITDA (x)	9.2	11.8	11.3	7.5	7.4
DPS (net) (CNY)	0.25	0.25	0.09	0.34	0.34
Yield (net) (%)	2.3	3.5	1.4	5.0	5.0

Source: Deutsche Bank estimates, company data

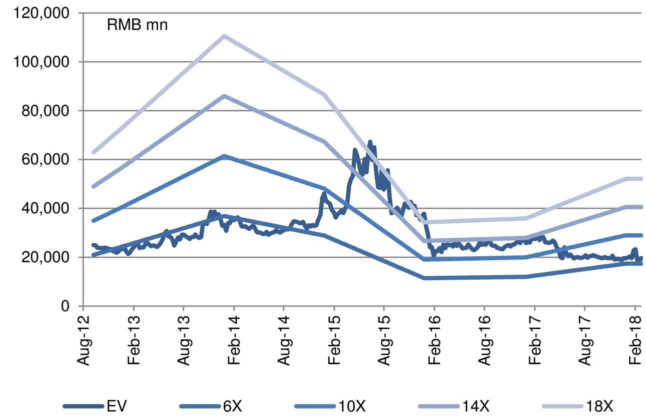
Valuation charts

Figure 3: 12-month forward EV/EBITDA



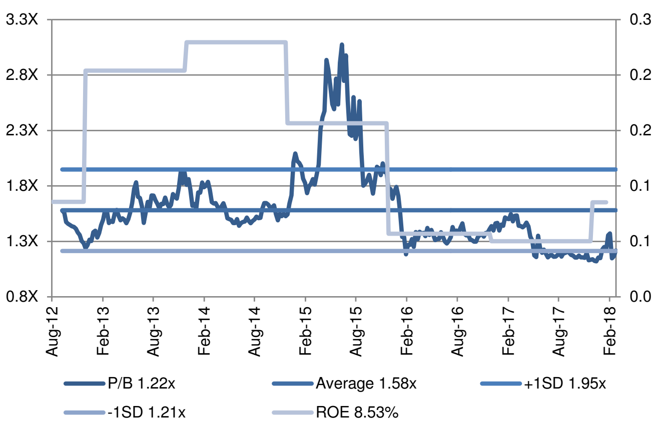
Source: Bloomberg Finance LP, Deutsche Bank

Figure 4: 12-month forward EV/EBITDA band



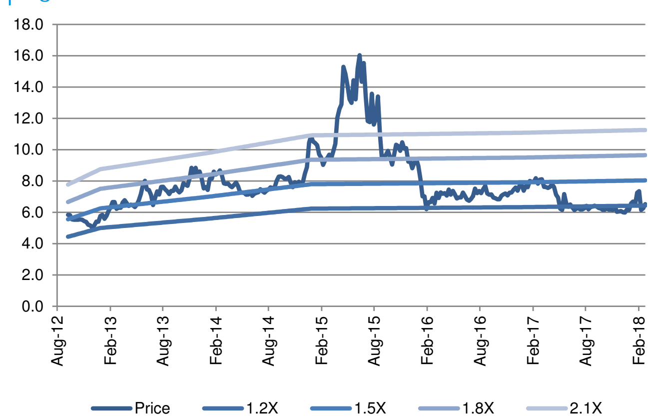
Source: Bloomberg Finance LP, Deutsche Bank

Figure 5: 12-month forward P/B



Source: Bloomberg Finance LP, Deutsche Bank

Figure 6: 12-month forward P/B band



Source: Bloomberg Finance LP, Deutsche Bank

Comp sheet

Figure 7: Comp sheet

Name	Reuters Ticker	DB Rating	Trading Curr	26-Feb Price	Mkt Cap (USD mn)	P/E (x) FY17E	P/E (x) FY18E	P/B (x) FY17E	P/B (x) FY18E	ROE (%) FY17E	ROE (%) FY18E	Dvd yield (%) FY17E	Dvd yield (%) FY18E	EV/EBITDA (x) FY17E	EV/EBITDA (x) FY18E
China Oil & Gas Engineering															
SEG	2386.HK	Buy	HKD	7.76	4,392	20.5	8.8	1.1	1.0	5.3	11.7	1.9	4.5	8.8	3.2
COOEC	600583.SS	Hold	CNY	6.73	4,694	25.5	14.8	1.3	1.3	5.0	8.5	3.3	5.7	11.2	7.5
EPC - Offshore Engineering															
KBR	KBR.N	Buy	USD	15.46	2,321	5.4	11.0	2.3	1.5	45.5	14.8	1.9	2.1	7.3	5.6
SBM OFFSHORE NV	SBMO.AS	NR	EUR	14.15	3,588	26.3	19.1	1.4	1.4	7.0	11.2	1.4	1.5	11.3	10.9
Saipem	SPMI.MI	NR	EUR	3.49	4,348	23.6	25.6	0.7	0.7	2.2	3.1	0.0	0.2	5.1	5.8
Petrofac	PFC.L	NR	GBP	437.80	1,941	5.4	6.5	1.6	1.5	31.2	23.7	11.5	11.5	3.3	3.4
Weighted average						**18.0**	**17.9**	**1.4**	**1.2**	**16.5**	**11.0**	**4.1**	**2.7**	**7.0**	**6.9**
EPC - Refining & Chemical															
Daelim Industrial Co Ltd.	000210.KS	NR	KRW	74,600	2,423	4.4	5.7	0.6	0.5	13.0	9.5	0.5	0.5	6.0	6.6
Petrofac	PFC.L	NR	GBP	437.80	1,941	5.4	6.5	1.6	1.5	31.2	23.7	11.5	11.5	3.3	3.4
GS Engineering & Construction Corp	006360.KS	NR	KRW	30,000	2,099	9.1	NA	0.6	NA	6.9	NA	1.2	NA	7.0	NA
SNC-Lavalin Group Inc.	SNC.TO	NR	CAD	56.59	7,833	27.5	18.3	NA	1.8	8.9	10.5	1.9	2.0	20.4	11.3
KBR	KBR.N	Buy	USD	15.46	2,321	5.4	11.0	2.3	1.5	45.5	14.8	1.9	2.1	7.3	5.6
Fluor	FLR.N	Hold	USD	58.58	6,647	35.0	18.2	2.2	2.2	5.9	12.8	1.8	1.4	9.7	7.6
CTCI CORP	9933 TW	NR	TWD	45.00	1,175	12.3	13.6	1.9	1.9	15.4	14.7	6.5	7.2	8.0	6.9
Chiyoda	6366.T	NR	JPY	1,096	2,670	NA	44.3	1.7	1.8	-19.8	3.3	0.5	0.5	9.7	NA
China National Chemical Engineering	601117.SS	NR	CNY	6.89	5,326	16.1	12.3	1.2	1.1	7.3	8.9	1.6	2.0	5.8	4.9
Weighted average						**20.2**	**17.0**	**1.6**	**1.6**	**10.0**	**11.4**	**2.3**	**2.5**	**10.6**	**7.5**
EPC Consulting															
Amec Foster Wheelers Plc	AMFW.L	Hold	GBP	NA	2,731	21.7	19.7	2.1	2.0	9.5	10.3	3.0	3.2	11.1	10.5
KBR	KBR.N	Buy	USD	15.46	2,321	5.4	11.0	2.3	1.5	45.5	14.8	1.9	2.1	7.3	5.6
Petrofac	PFC.L	NR	GBP	437.80	1,941	5.4	6.5	1.6	1.5	31.2	23.7	11.5	11.5	3.3	3.4
Wison Engineering Services Co Ltd	2236.HK	NR	HKD	1.63	837	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Jacob Engineering services	JEC.N	Hold	USD	63.01	6,592	22.8	19.1	1.6	1.2	6.8	7.7	0.0	0.0	13.1	11.9
Weighted average						**17.1**	**16.0**	**1.8**	**1.5**	**17.4**	**11.7**	**5.0**	**5.1**	**10.3**	**9.3**
Global General Construction Co															
NCC AB-B SHS	NCCb.ST	NR	SEK	160.60	2,136	13.0	13.1	3.1	3.0	18.8	23.5	5.3	5.8	7.9	6.8
GS Engineering & Construction Corp.	006360.KS	NR	KRW	30,000	2,099	9.1	NA	0.6	NA	6.9	NA	1.2	NA	7.0	NA
Daelim Industrial Co Ltd.	000210.KS	NR	KRW	74,600	2,423	4.4	5.7	0.6	0.5	13.0	9.5	0.5	0.5	6.0	6.6
WorleyParsons	WOR.AX	Buy	AUD	15.99	1,780	71.0	41.2	1.5	1.9	6.6	8.1	0.0	1.8	9.5	14.4
CTCI Corp	9933.TW	NR	TWD	45.00	1,175	12.3	13.6	1.9	1.9	15.4	14.7	6.5	7.2	8.0	6.9
Weighted average						**20.6**	**17.4**	**1.5**	**1.8**	**12.1**	**14.0**	**2.9**	**3.4**	**7.6**	**8.5**

Source: Bloomberg Finance LP, Deutsche Bank estimates

Model updated: 27 February 2018

Running the numbers

Asia

China

Oil & Gas

COOEC

Reuters: 600583.SS Bloomberg: 600583 CH

Hold

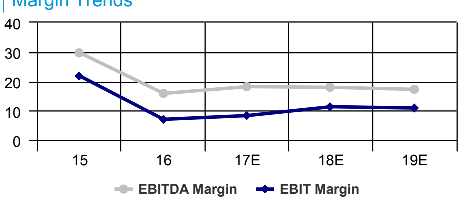
Price (26 Feb 18)	CNY 6.73
Target Price	CNY 7.10
52 Week range	CNY 5.93 - 8.18
Market cap (m)	CNYm 29,756 USDm 4,717.4

Company Profile

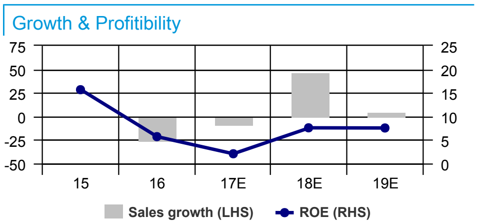
COOEC is the flagship engineering arm of CNOOC, the dominant offshore E&P company in China with a focus on offshore oil & gas development engineering design, onshore fabrication, offshore installation, commissioning and maintenance, along with LNG engineering projects. Therefore, COOEC could benefit from China's long-term rising E&P capex.

Price Performance

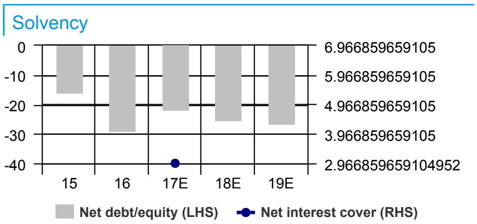
Margin Trends



Growth & Profitibility



Solvency



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Fiscal year end 31-Dec	2015	2016	2017E	2018E	2019E
Financial Summary					
DB EPS (CNY)	0.77	0.30	0.11	0.40	0.40
Reported EPS (CNY)	0.77	0.30	0.11	0.40	0.40
DPS (CNY)	0.25	0.25	0.09	0.34	0.34
BVPS (CNY)	5.2	5.2	5.3	5.3	5.4
Weighted average shares (m)	4,421	4,421	4,421	4,421	4,421
Average market cap (CNYm)	48,126	31,253	29,756	29,756	29,756
Enterprise value (CNYm)	44,479	22,524	22,630	21,824	21,441
Valuation Metrics					
P/E (DB) (x)	14.1	23.8	62.1	16.8	16.7
P/E (Reported) (x)	14.1	23.8	62.1	16.8	16.7
P/BV (x)	1.66	1.41	1.28	1.27	1.25
FCF Yield (%)	4.2	13.7	nm	7.6	6.2
Dividend Yield (%)	2.3	3.5	1.4	5.0	5.0
EV/Sales (x)	2.7	1.9	2.1	1.4	1.3
EV/EBITDA (x)	9.2	11.8	11.3	7.5	7.4
EV/EBIT (x)	12.6	26.6	24.8	11.9	11.7
Income Statement (CNYm)					
Sales revenue	16,202	11,992	10,964	16,130	16,777
Gross profit	4,981	1,896	1,788	3,115	3,167
EBITDA	4,809	1,904	1,994	2,896	2,896
Depreciation	1,223	1,019	1,057	1,044	1,045
Amortisation	56	39	23	22	22
EBIT	3,530	846	914	1,830	1,830
Net interest income(expense)	152	210	-308	24	29
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	-175	-133	-116	0	0
Other pre-tax income/(expense)	506	694	100	323	335
Profit before tax	4,012	1,617	590	2,177	2,193
Income tax expense	602	304	111	410	413
Minorities	0	-2	-1	-3	-3
Other post-tax income/(expense)	0	0	0	0	0
Net profit	3,410	1,315	479	1,771	1,784
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	3,410	1,315	479	1,771	1,784
Cash Flow (CNYm)					
Cash flow from operations	3,626	3,288	575	3,366	2,950
Net Capex	-1,622	1,004	-750	-1,100	-1,100
Free cash flow	2,004	4,292	-175	2,266	1,850
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-1,100	-1,175	-411	-1,464	-1,470
Net inc/(dec) in borrowings	-56	0	-1,199	0	0
Other investing/financing cash flows	681	-1,298	180	0	0
Net cash flow	1,528	1,819	-1,605	803	380
Change in working capital	-901	586	-812	557	132
Balance Sheet (CNYm)					
Cash and other liquid assets	4,869	6,706	5,101	5,904	6,284
Tangible fixed assets	14,309	11,485	11,215	11,199	11,226
Goodwill/intangible assets	1,811	844	831	821	813
Associates/investments	0	2,047	2,047	2,047	2,047
Other assets	10,454	8,730	8,551	9,161	9,887
Total assets	31,443	29,811	27,744	29,132	30,257
Interest bearing debt	1,207	10	10	10	10
Other liabilities	7,244	6,633	4,490	5,599	6,441
Total liabilities	8,451	6,643	4,500	5,609	6,452
Shareholders' equity	22,976	23,155	23,232	23,515	23,799
Minorities	15	13	12	9	6
Total shareholders' equity	22,992	23,168	23,244	23,523	23,805
Net debt	-3,662	-6,696	-5,091	-5,894	-6,274
Key Company Metrics					
Sales growth (%)	nm	-26.0	-8.6	47.1	4.0
DB EPS growth (%)	na	-61.4	-63.6	269.3	0.7
EBITDA Margin (%)	29.7	15.9	18.2	18.0	17.3
EBIT Margin (%)	21.8	7.1	8.3	11.3	10.9
Payout ratio (%)	32.4	84.0	84.0	84.0	84.0
ROE (%)	15.7	5.7	2.1	7.6	7.5
Capex/sales (%)	11.1	4.9	6.8	6.8	6.6
Capex/depreciation (x)	1.4	0.6	0.7	1.0	1.0
Net debt/equity (%)	-15.9	-28.9	-21.9	-25.1	-26.4
Net interest cover (x)	nm	nm	3.0	nm	nm

Source: Company data, Deutsche Securities estimates

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
COOEC	600583.SS	6.52 (CNY) 27 Feb 2018	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr. Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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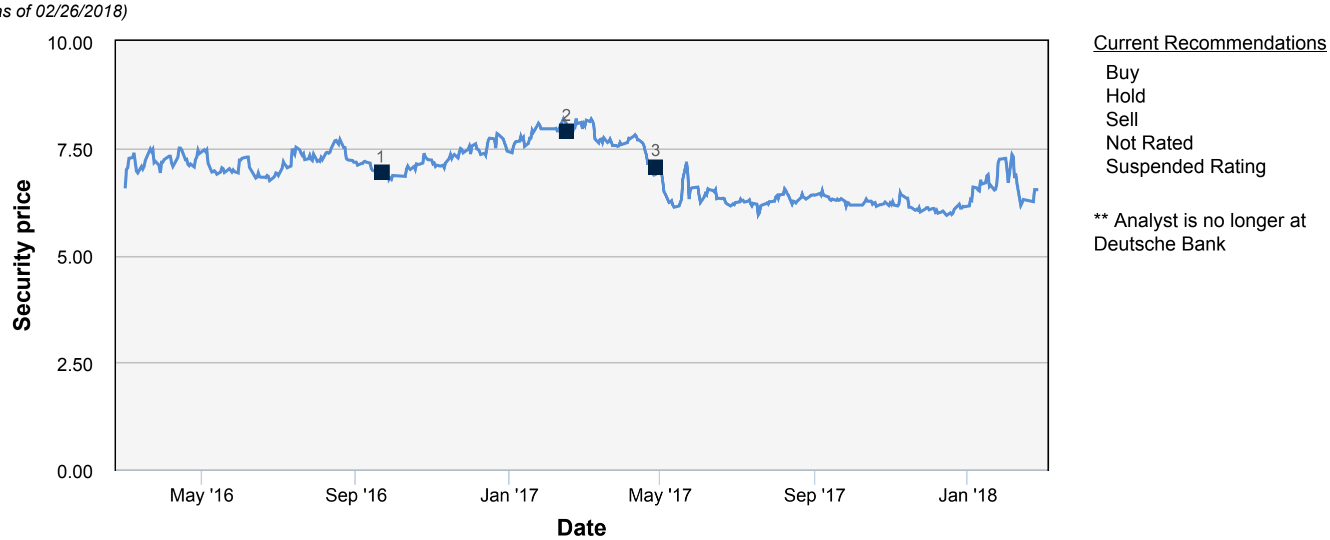
The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Vitus Leung

Historical recommendations and target price. COOEC (600583.SS)

(as of 02/26/2018)



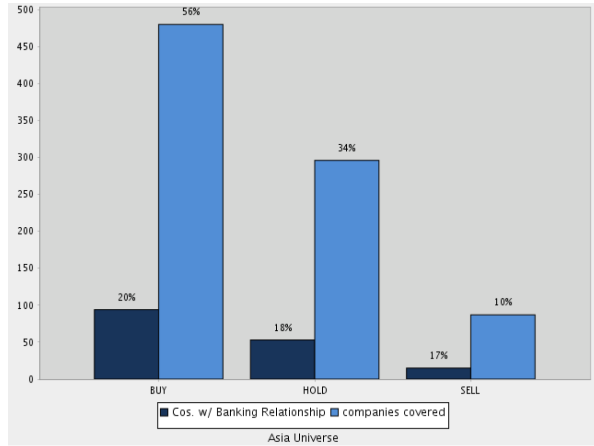
1. 09/22/2016 Hold, Target Price Change CNY 8,00 Vitus Leung
2. 02/16/2017 Hold, Target Price Change CNY 8,20 Johnson Wan
3. 04/28/2017 Hold, Target Price Change CNY 7,10 Vitus Leung

Equity Rating Key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



Additional Information

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