

# Get right into the thick of it — buy PetroChina

By Sunil Vidyarthi

I think it may be safe now to confess that I watch TV regularly and sometimes at odd hours late at night. Unfortunately, it's not any of the exciting stuff that you may imagine, tempting as it may be. I end up watching more of the same — business news from all over the world.

The miracle of cable and a hundred channels have me hooked to this medium, and fortunately, it is already too late to worry about setting a good example for the kids — they are all grown-up.

Recently, there was yet another excitement in the international investment arena, as the Chinese stock market (Shanghai not Hong Kong) took a good 6.5 per cent tumble in a day. Unless you have been asleep, you would have noticed that the same thing happened a couple of months ago, which precipitated the more recent correction in Toronto and New York.

Two aspects of the latest correction made me search for an investment idea in this melee. First, unlike the February-March 2007 correction, this one at the end of May was entirely contained in China. Second, the excitement it created among journalists, particularly on late-night business TV, was extraordinary.

There were widespread conclusions and opinions about the ignorant Chinese retail investors, who have taken that market up by more than



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50 per cent in 2007 alone. And it was their lack of “fundamental” understanding of the market that was the underlying cause of all this volatility.

Too bad the tube isn't interactive yet, or I would have asked if the same group of “ignorant” investors were responsible for certain junior gas stocks rising over 1,000 per cent in Canada, or if it was the same crowd that was responsible for what happened to Nasdaq in 2000 or Nikkei in 1989-1999.

Here is a typical quote about China: “The rally has made many China stocks extremely expensive relative to their earnings. Stocks on the Shanghai exchange have a price/earnings ratio of about 50, according to Wachovia Securities. That compares with an average P/E of 18 for companies in the Standard & Poor's 500-stock index.”

All fail to mention that the Chinese economy is also growing at three times faster than the U.S. and even hot Canada. And, indeed, we forget the hundreds of times revenue, we paid for Internet companies that had yet to sell a dime's worth of pet food or whatever.

The excitement in Chinese stocks is simply a reflection of China's economic growth and is perhaps more fundamentally justified than either our Internet bubble or the Japanese miracle, both of which have lost investors trillions of dollars. And nothing signifies that excitement more than the resource boom, part of which has created all that

prosperity for us Canadians.

I would like to take the energy sector particularly, among resources kicked up by China, as being the most believable story, i.e. we are indeed running out of the stuff. I have my doubts about scarce metals, including uranium. And in the energy sector nothing combines oil and China together more than **PetroChina Co.** (PTR-NYSE \$131.10).

## Believable story

PTR engages in petroleum and natural-gas-related activities in the People's Republic of China. It operates in four segments: exploration and production, refining and marketing, chemicals and marketing and natural gas and pipeline in both crude oil and natural gas.

As of Dec. 31, 2006, the company had estimated proved reserves of about 11.6 billion barrels of crude oil and about 53.5 trillion cubic feet of natural gas, as well as 18,207 service stations. It owned and operated 20,590 kilometres of natural-gas pipelines, 9,620 kilometres of crude-oil pipelines, and 2,413 kilometres of pipelines for refined products. The company was founded in 1988 and is headquartered in Beijing.

Fundamentally, just in case you were of the opinion that the Chinese were not good at math, PTR is no different than any of the mega oil companies around here.

It trades at 12 times next year's earnings per share, returned 29 per cent on its equity last year and has a small 12 per cent debt (of capitaliza-

tion) on its books. So, if there is going to be sustained growth in China, it will need energy, and the first beneficiary of that need is going to be PTR.

While the fundamentals like P/E ratio of this company is in line with other, similarly sized energy companies, it is growing at 24 per year compared to a more modest 10 per cent average for the industry. Obviously Warren Buffet has been on this story for some time for a good reason.

And just in case any of these is not a good enough argument for you to buy PTR, consider this: the CEO gets paid \$88,000 a year; no “one for you and 10 for me” at this company.

Of course, there can't be a foreign story without problems. Petro China is the target of a divestment campaign related to the slaughter currently underway in the Darfur region of Sudan.

More than 200,000 people have been murdered there, hundreds of thousands more made homeless, and rape and torture are daily acts of war. Campaigners argue that PetroChina has blood on its hands and that anyone who holds shares in the company, directly or through a mutual fund, is complicit.

PTR is a key player in Sudan. This is not a minor issue, as investors in Talisman and Nexen have known for years and some argue that the taint is still around. Blood seems to be a tough thing to wash off the balance sheet.

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