China Petroleum & Chemical Corporation (NYSE: SNP)  Zacks Rank 2-Buy

$s54.92 USD (As of 03/01/21)

Summary

Through its refinery business, Sinopec has been able to withstand the crude price weakness to a large extent. We appreciate Sinopec’s large-scale oil discoveries, especially in the Shengli field and Junggar Basin, which will support long-term production. Also, declining long-term debt load along with a rapidly rising cash balance reflect balance sheet strength. The first nine months of 2017 saw a modest recovery of the global economy as well as GDP growth of 6.9% in the Chinese economy. Sinopec’s dividend yield is also impressive and higher than that of the industry. The company gives emphasis to building production capacity, improving operational organization and growing output. Hence, the business scenario looks favorable and Sinopec is well positioned to capitalize on the opportunity.

Data Overview

Target Price
$64.00
52 Week High-Low
$58.23 - $38.20
20 Day Average Volume
139,154
Beta
0.97
Market Cap
$3.30 / 6.00%
Dividend / Div Yld
66.61B
Industry
Oil and Gas - Integrated - Emerging Markets
Industry Rank
3 / 253 (Top 1%)
Current Ratio
0.92
Debt/Capital
8.60%
Net Margin
1.65%
Price/Book (P/B)
0.53
Price/Cash Flow (P/CF)
2.84
Earnings Yield
11.05%
Debt/Equity
0.09
Value Score
P/E (F1)
9.05
P/E (F1) Rel to Industry
17.38
PEG Ratio
NA
P/S (F1)
0.53
P/S (TM)
0.20
P/CFO
2.84
P/CFO Rel to Industry
11.05%
EV/EBITDA Annual
0.92
Growth Score
Proj. EPS Growth (F1/F0)
9.95%
Hist. EPS Growth (Q0/Q-1)
-13.79%
Qtr CFO Growth
-22.90%
2 Yr CFO Growth
4.11%
Return on Equity (ROE)
4.11%
(Net Income) / Total Assets
1.64%
Asset Turnover
1.27
Momentum Score
1 week Volume change
NA
1 week Price Cng Rel to Industry
NA
(F1) EPS Est 1 week change
6.29%
(F1) EPS Est 4 week change
45.46%
(F1) EPS Est 12 week change
NA

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10 S. Riverside Plaza Suite 1600 • Chicago, IL 60606
<table>
<thead>
<tr>
<th>Quarter</th>
<th>Reported</th>
<th>Estimate</th>
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Average 4 Qtr Surprise

Zacks Equity Research: SNP
www.zacks.com
Overview

China Petroleum and Chemical Corporation (SNP or Sinopec), with its head office in Beijing, China, is one of the largest petroleum and petrochemical companies in Asia. The company is the second largest crude oil and natural gas producer, and the largest refiner and marketer of refined petroleum products in China. The company is also the largest producer and distributor of petrochemicals in the nation. China Petrochemical Corporation (or the Sinopec Group), a state-owned enterprise, owns a 75.84% stake in Sinopec. The company operates in four business segments — Exploration and Production (E&P), Refining, Marketing and Distribution, and Chemicals.

Sinopec’s exploration and production activities are primarily located in mainland China. Total production in 2016 was 431.29 million barrels of oil equivalent, of which crude oil volumes were 303.51 million barrels and natural gas volume was 766.12 billion cubic feet. During 2016, this unit contributed 4% of the total revenue.

For the refining segment, throughput amounted to 235.53 million tons in 2016, representing a year-over-year decrease of 0.4%. It is to be noted that Sinopec is the largest refiner of China. During 2016, this segment contributed 28% of the total revenue.

The company’s marketing and distribution segment offers enhanced customer service, reinforces quality control, expands sales volume and provides customers with premium oil products. During 2016, this unit contributed 34% of the total revenue.

Sinopec’s chemical operations include manufacturing and marketing of a range of chemicals for industrial use. Sinopec’s six major categories of chemical products are basic organic chemicals, monomers and polymers for synthetic fiber, synthetic resin, synthetic fiber, synthetic rubber and chemical fertilizer. In 2016, the company produced 11.059 million tons of ethylene, reflecting a year-over-year decrease of 0.5%. During 2016, this unit contributed 11% of the total revenue.

The remaining 23% of the revenues has been contributed by Corporate and Others unit.
Reasons To Buy:

▲ Through its refinery business, Sinopec has been able to withstand the crude price weakness to a large extent. In fact, the company’s massive refining exposure has helped it to benefit from the volatile crude price environment. During the first nine months of 2017, production of refined petroleum products increased 1.1% from the prior-year comparable period. This reflects consistently healthy demand for gasoline and kerosene in the domestic market.

▲ Sinopec’s natural gas business has immense potential for growth over the coming years as China moves from coal to natural gas. At present, two-thirds of China’s electricity is generated by coal-fired power plants, which emit greenhouse gases that lead to pollution. To solve this problem, China is planning to increase its natural gas usage significantly. This apart, improvement on the crude front after OPEC’s decision to restrict production should boost the company’s upstream business.

▲ Sinopec has made major progress in identifying attractive and economically viable oil and natural gas reserves. Huge scale of prospective oil reserves was discovered in a number of fields like Junggar basin, North Jiangsu basin, Shengli Oilfield and Tahe basin of Xinjiang. Fresh natural gas reserves were identified in the Ordos Basin and Sichuan basin. These discoveries will likely support large-scale oil and gas production.

▲ Since the beginning of 2015, Sinopec’s long-term debt plunged nearly 30%. Also, during the same time span, the company’s cash balance jumped from $1.6 billion to $24.3 billion reflecting balance sheet strength.

▲ The company has been returning cash to the shareholders on a regular basis. The dividend yield of Sinopec that stands at 4.18% is impressive and is higher than 0.88% yield for the industry.


**Risks**

- Sinopec's operating expenses, since the beginning of 2017, have been pretty high. During the first nine months of this year, the company's costs from operations increased nearly 30%, which is a matter of concern.

- Sinopec has underperformed the broader market indices over the past year. The company gained 2.3%, in comparison, the industry has increased by 26.2%, during the aforesaid period.

- Though Sinopec is an integrated oil company, it is fairly different from western oil majors, particularly in its capital allocation. The asset structure that balances the risk-return trade off for the average western integrated major is two-thirds upstream/one-third downstream. Sinopec, on the other hand, is significantly downstream weighted.
Sinopec reported third-quarter 2017 earnings per American Depositary Receipt (ADR) of $1.31, beating the Zacks Consensus Estimate of 97 cents and the year-ago quarter figure of $1.26. Also, revenues increased 19.5% year over year to 579,118 million yuan.

Higher oil equivalent production and increased refinery throughput volumes primarily supported Sinopec's Q3 numbers.

**Operational Performance**

**Exploration and Production:** During the nine-month period ending Sep 30, 2017, Sinopec's crude oil production decreased 4% year over year to 220.21 million barrels. Domestic crude oil production declined 2.7% year over year to 186.09 million barrels, while overseas volumes slipped 10.5% year over year to 34.12 million barrels.

Natural gas volumes, however, increased 21% year over year to 674.15 billion cubic feet in the same period. Also, total oil and gas production jumped 3.2% year over year to 332.63 million barrels of oil equivalent.

**Refining:** The company's Refining business recorded refinery throughput of 177.46 million tons (up 1.3% year over year). It also produced approximately 112.20 million tons of petroleum products, which represents a 1.1% rise from the first nine months of 2016.

**Marketing and Distribution:** The Marketing and Distribution segment sold 150.23 million tons of refined oil products, which reflects a 3.1% year-over-year increase.

**Chemical:** During the nine-month period ending Sep 30, 2017, the production of ethylene came at 8,534 thousand tons, up 5.2% from 8,115 thousand tons in the prior-year period.

Also, production of Synthetic resin was 11,791 thousand tons as compared with 11,138 thousand tons in the year-ago period.

**Capital Expenditure**

Capital expenditures in the first nine months of 2017 totaled 29.1 billion yuan. Out of this, 10.9 billion yuan was spent on exploration and production projects. Sinopec spent 8.5 billion yuan on the Refining segment, while the Chemical Business segment was allocated 3.7 billion yuan. The company had set aside 5.3 billion yuan for the Marketing and Distribution segment.
Valuation

The ‘Value’ section of the Industry Comparisons table below provides all the key valuation metrics for Sinopec contrasted with its nearest peers as well as the industry and the S&P 500 index. Please note that the Zacks Value Style Score condenses all of these valuation metrics into one score that provides a true measure of the stock’s intrinsic value. A Value Style Score of ‘A’ (or ‘B’) is highly desirable, particularly when accompanied with Zacks Rank #1 (Strong Buy) or Zacks Rank #2 (Buy).

The target price of $96.00 is based on 14.3x the Zacks Consensus Estimate for F1 earnings.
### Industry Analysis

**Zacks Industry Rank:** NA

![Industry Price Chart]

**Position in Industry:** 3 of 4

**Industry Comparison**

**Oil And Gas - Integrated - Emerging Markets**

<table>
<thead>
<tr>
<th></th>
<th>SNP</th>
<th>X Industry</th>
<th>S&amp;P 500</th>
<th>PBR</th>
<th>CEO</th>
<th>EC</th>
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<tbody>
<tr>
<td>Market Cap</td>
<td>66.61 B</td>
<td>51.72 B</td>
<td>27.20 B</td>
<td>51.72 B</td>
<td>53.01 B</td>
<td>25.18 B</td>
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<tr>
<td># of Analysts</td>
<td>2</td>
<td>13</td>
<td>6.52%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>6.00%</td>
<td>3.87%</td>
<td>1.48%</td>
<td>1.18%</td>
<td>3.87%</td>
<td>6.52%</td>
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**Value Score**

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>A</th>
<th>B</th>
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<tr>
<td>Cash/Price</td>
<td>0.42</td>
<td>0.20</td>
<td>0.06</td>
<td>0.20</td>
<td>0.39</td>
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<tr>
<td>EV/EBITDA</td>
<td>1.64</td>
<td>2.79</td>
<td>14.95</td>
<td>3.94</td>
<td>NA</td>
</tr>
<tr>
<td>PEG Ratio</td>
<td>NA</td>
<td>NA</td>
<td>2.32</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>Price/Book (P/B)</td>
<td>0.53</td>
<td>1.16</td>
<td>3.80</td>
<td>1.17</td>
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<tr>
<td>Price/Cash Flow (P/CF)</td>
<td>2.84</td>
<td>2.84</td>
<td>15.39</td>
<td>2.30</td>
<td>3.11</td>
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<tr>
<td>P/E (F1)</td>
<td>9.05</td>
<td>9.57</td>
<td>20.41</td>
<td>10.08</td>
<td>7.06</td>
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<tr>
<td>Price/Sales (P/S)</td>
<td>0.20</td>
<td>0.96</td>
<td>3.10</td>
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<tr>
<td>Earnings Yield</td>
<td>11.05%</td>
<td>10.51%</td>
<td>4.82%</td>
<td>9.96%</td>
<td>14.17%</td>
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<tr>
<td>Debt/Equity</td>
<td>0.09</td>
<td>0.75</td>
<td>0.68</td>
<td>1.52</td>
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<td>Cash Flow ($/share)</td>
<td>19.37</td>
<td>3.45</td>
<td>6.62</td>
<td>3.45</td>
<td>38.20</td>
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**Growth Score**

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<tr>
<td>Hist. EPS Growth (3-5 yrs)</td>
<td>-13.79%</td>
<td>17.57%</td>
<td>9.34%</td>
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<td>NA</td>
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<tr>
<td>Proj. EPS Growth (F1/F0)</td>
<td>9.95%</td>
<td>78.47%</td>
<td>14.09%</td>
<td>82.95%</td>
<td>73.98%</td>
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<tr>
<td>Curr. Cash Flow Growth</td>
<td>-7.19%</td>
<td>6.08%</td>
<td>0.52%</td>
<td>6.08%</td>
<td>13.84%</td>
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<tr>
<td>Hist. Cash Flow Growth (3-5 yrs)</td>
<td>1.07%</td>
<td>20.45%</td>
<td>7.62%</td>
<td>32.44%</td>
<td>-2.46%</td>
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<tr>
<td>Current Ratio</td>
<td>0.92</td>
<td>1.08</td>
<td>1.39</td>
<td>1.08</td>
<td>2.00</td>
</tr>
<tr>
<td>Debt/Capital</td>
<td>8.60%</td>
<td>42.82%</td>
<td>41.42%</td>
<td>60.32%</td>
<td>22.58%</td>
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<tr>
<td>Net Margin</td>
<td>1.65%</td>
<td>1.89%</td>
<td>10.59%</td>
<td>2.13%</td>
<td>NA</td>
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<tr>
<td>Return on Equity</td>
<td>4.11%</td>
<td>5.13%</td>
<td>14.65%</td>
<td>6.14%</td>
<td>NA</td>
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<tr>
<td>Sales/Assets</td>
<td>1.27</td>
<td>0.31</td>
<td>0.51</td>
<td>0.30</td>
<td>NA</td>
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<tr>
<td>Proj. Sales Growth (F1/F0)</td>
<td>19.18%</td>
<td>12.53%</td>
<td>6.75%</td>
<td>12.31%</td>
<td>12.53%</td>
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**Momentum Score**

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<td>Daily Price Chg</td>
<td>-3.68%</td>
<td>-3.68%</td>
<td>-0.84%</td>
<td>-4.11%</td>
<td>-2.84%</td>
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<tr>
<td>1 Week Price Chg</td>
<td>9.98%</td>
<td>-1.46%</td>
<td>-0.16%</td>
<td>-4.74%</td>
<td>10.88%</td>
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<td>4 Week Price Chg</td>
<td>12.86%</td>
<td>1.07%</td>
<td>2.75%</td>
<td>-24.83%</td>
<td>14.11%</td>
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<tr>
<td>12 Week Price Chg</td>
<td>18.17%</td>
<td>-0.08%</td>
<td>5.58%</td>
<td>-24.83%</td>
<td>19.94%</td>
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<tr>
<td>52 Week Price Chg</td>
<td>6.67%</td>
<td>-30.46%</td>
<td>20.43%</td>
<td>-34.35%</td>
<td>-14.89%</td>
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<td>2,018,241</td>
<td>45,100,488</td>
<td>36,098</td>
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<td>(F1) EPS Est Wkd Chg</td>
<td>6.29%</td>
<td>6.93%</td>
<td>0.00%</td>
<td>-9.26%</td>
<td>36.87%</td>
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<tr>
<td>(F1) EPS Est Mthly Chg</td>
<td>6.29%</td>
<td>6.93%</td>
<td>0.45%</td>
<td>-5.77%</td>
<td>36.87%</td>
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<tr>
<td>(F1) EPS Est Qtrly Chg</td>
<td>45.46%</td>
<td>44.96%</td>
<td>1.88%</td>
<td>58.06%</td>
<td>44.46%</td>
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<tr>
<td>(Q1) EPS Est Mthly Chg</td>
<td>NA%</td>
<td>3.23%</td>
<td>0.21%</td>
<td>NA</td>
<td>NA</td>
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### Top Peers

- PetroChina Company Limited (PTR)
- BP p.l.c. (BP)
- Royal Dutch Shell PLC (RDS.A)
- Exxon Mobil Corporation (XOM)
- TOTAL SE (TOT)
- Chevron Corporation (CVX)
- Petroleo Brasileiro S.A. Petrobras (PBR)
- CNOOC Limited (CEO)
- Ecopetrol S.A. (EC)
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We offer two rating systems that take into account investors' holding horizons; Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

**Zacks Recommendation**

This rating system that has an excellent track record of predicting performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook.

The Zacks Recommendation is broken down into 3 Levels: Outperform, Neutral and Underperform. Unlike most Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations.

Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

**Zacks Rank**

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

**Zacks Style Score Education**

The Zacks Style Score is as a complementary indicator to the Zacks Rank, giving investors a way to focus on the best Zacks Rank stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Growth, Value, and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. An A is better than a B; a B is better than a C; and so on.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Rank #1 or #2, Strong Buy or Buy, which also has a Style Score of an A or a B.
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