Your Money

Mainland's energy thirst is a growth driver, writes **Andy Mantel**

Big two ride China oil boom

China's surging demand for energy resources and its geopolitical ambitions will sustain a further build-up of oil inventories and oil-related assets. Last year the mainland overtook Japan as the world's largest oil consumer after the United States.

China's crude-oil imports so far this year to the end of April are up 33 per cent and 41 per cent respectively by volume and value. Imports of all oil products including diesel and fuel are up 65 and 63 per cent.

The thirst for oil-related assets bodes well for two companies in particular, offshore oil producer CNOOC and oil refiner Zhenhai Refining.

CNOOC explores, develops, produces and sells crude oil and natural gas. It is the mainland's leading offshore oil producer and is a preferred investment to take advantage of China's energy growth.

Last year the company's oil and gas production was 356,729 barrels per day, a 3 per cent increase year on year. The realised oil price was US$28.11 per barrel, 15.4 per cent more than the year before.

CNOOC has a near monopolistic position of crude oil and natural gas offshore with substantial reserves in Bohai Bay. Last year 12 new oil and gas discoveries were made, nine of them in Chinese waters and three in Indonesia. Natural gas exploration, particularly around the Guangdong province region, will become a major driving force for the company's growth.

Listed in February 2001, CNOOC has routinely beat market estimates each reporting period and has often paid out special dividends. Last year revenue increased 55 per cent to 40.9 billion yuan and profits increased 25 per cent to 11.5 billion yuan.

Based on various financial measurements, the company is better value than other Chinese and global oil majors. For example, its 26.4 per cent return on equity last year was the best among any top-tier oil company worldwide. Trading at 11 times this year's price/earnings and with a 4 per cent dividend yield, the company has a capable management team, a strong balance sheet and an adequate investment development portfolio that will aid its growth in the future.

Zhenhai Refining is principally engaged in the production and sale of petroleum products. These include petrol, diesel and kerosene, but the firm also produces a range of intermediate petrochemical products such as asphalt.

The company was arguably the best firm from the first batch of H shares to list in Hong Kong in the mid-1990s. State-owned China Petrochemical Corporation is the ultimate controlling shareholder via its 55 per cent stake in H share Sinopec Corporation. About one-third of the company's free float, or 9.4 per cent of the entire issued capital, is owned by British Petroleum.

Based in Ningbo, Zhejiang province, Zhenhai Refining ranks as the most advanced refinery in China in terms of overall technology. Good facilities for sea transport, inland water transport and pipeline transport enhance its ability to reach markets.

Following a capacity upgrade last year, processing capacity reached 16 million tonnes.

Last year turnover was 29.1 billion yuan, up 29.3 per cent from the previous year, with earnings up 11.8 per cent to 1.1 billion yuan. Total product output in 2003 amounted to 12.8 million tonnes, representing a 12.7 per cent increase.

The company also produced more than half a million tonnes of high-quality pavement, up 150 per cent from the year earlier. Some of that asphalt went into the Shanghai Formula One racing circuit.

This year Zhenhai Refining is expected to see enormous growth from increased refining volume, expanding margins and significant new capacity.

It has a valuation of 12 times current price/earnings, with a 4 per cent dividend yield. The company ranks as one of the few H shares assessed the full 33 per cent tax rate.

The government recently raised some of the company's product prices and, as a result, refining margins have hit a record.

Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund

MANTEL'S CHOICE

	Price on recommendation	Friday price
	Jan 21	
China Resources	$10.40	$9.75
Qiao Xing Universal Telephone (Nasdaq short)	US$15.00	$10.40
	Feb 29	
Kwang Sung Electronics	$1.76	$1.61
Weichai Power	$10.50	$14.45
	March 28	
Jilin Chemical	$1.68	$1.21
GES	S$0.665	$0.63
	May 28	
CNOOC	$3.325	$3.325
Zhenhai Refining	$6.60	$6.60

SMP Graphic

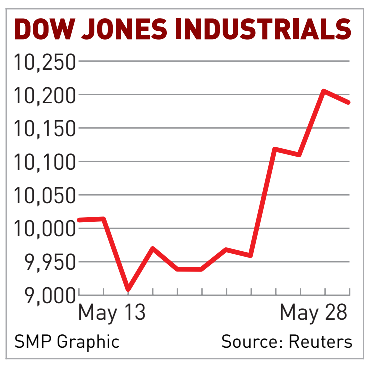
Zhenhai Refining is the supplier of asphalt for the Shanghai Formula One racing circuit

UPDATE

Your Money welcomes your contributions and ideas. Just e-mail us at money@scmp.com

The Hang Seng Index looks set for a strong start this week, driven by improving sentiment on the back of a gain of 540 points, or 4.7 per cent, last week and a cumulative two-week gain of 840 points or 7.4 per cent.

The rebound erases some of the 10 per cent loss the benchmark suffered during the past month on fears of a slowdown in China and the United States. *Bloomberg*



Wall Street will be waiting on key economic figures this week, including what could be a catalyst for a Federal Reserve interest-rate increase, analysts say.

Last week the Dow advanced 2.2 per cent to 10,188.45, the S&P 500 climbed 2.5 per cent to 1,120.68, and the Nasdaq jumped 3.9 per cent to 1,986.74. US markets will be closed tomorrow for a holiday. *Reuters*

Savings for school fees can't be put off

Steve Gollop

Education costs can be crippling in Hong Kong – even for well-paid professionals. A look at the numbers and the impact of inflation reveals that a high-quality education is fast becoming a luxury.

We will consider husband and wife team Maurice and Eva, with two children aged three and one. Maurice is an airline pilot on a salary of US$120,000 a year while Eva is a kindergarten teacher on $20,000 a year.

Their primary aim is to develop a fund to see their children through secondary school and on to university. Maurice and Eva have registered their children in one of the better private schools, and plan for the children to begin attending when they reach the age of 11.

Private school fees are currently US$20,000 a year and if we assume this sum through to age 21 for each child, the initial capital target will be US$360,000.

However, we need to take account of inflation and, using a modest 2 per cent level, the overall costs will rise to US$482,000.

Also, good schools will tend to increase their fees considerably above inflation and so there may be the need to adjust the target figures.

The best advice I can give to young couples is to begin planning early. Generally, investing on a regular basis is more practical and comfortable for people looking to build towards long-term goals.

Through careful budgeting Maurice and Eva estimate they can afford to invest US$2,000 a month. If we assume an 11 per cent return, we can see that a contribution of $2,250 a month will be needed to meet the inflation-adjusted target. Alternatively, they could start at $2,000 a month and slowly raise the contribution as wages increase, or hope the return on the funds exceeds 11 per cent.

Typically, people make the costly error of delaying their financial planning. Investing over a long period clearly has benefits. We even suggest that couples start saving for school fees even before they have children. If no children arrive or if privately funded education is not felt necessary, the capital can always be used to purchase a dream car or a holiday home.

When considering the appropriate savings plan, I advise against the commonly sold flexible whole-of-life plans. These are suitable for life cover, but the charges and fund options generally make them a very ineffective means of saving. The charging structure must be studied and understood fully and my advice will always be to enter into a fixed-term contract.

Instead I recommend investment-linked fixed term plans whereby the overall return depends on the performance of the chosen funds. There are a number of alternatives available where fund choice is comprehensive and associated charges are relatively low.

It is important that Maurice and Eva establish the true cost of school fees and ensure that it is achievable. This means not only the published school fees, but also the peripheral costs. Unfortunately children grow, which can entail a new school uniform each year. Then there are flights home, annual holidays and extra-curricular activities.

Unlike buying a new house or retiring, school fees cannot be deferred. Prudent planning and regular reviews can help ensure that your children can attend the preferred school.

Steven Gollop is a director of Bridgewater, an independent investment adviser

MAURICE AND EVA

- **Age**
  33 and 31, married
  Children aged 3 and 1
- **Goals**
  Pay for the children's secondary and university education, estimated total US$482,000
- **Profession**
  Airline pilot earning US$120,000 a year and teacher earning US$20,000 a year