

Shaanxi Yanchang Petroleum: The Biggest Chinese Oil Company You Probably Never Heard of

INSIGHTFUL AND ACTIONABLE ANALYSIS OF CHINA'S OIL & GAS SECTOR

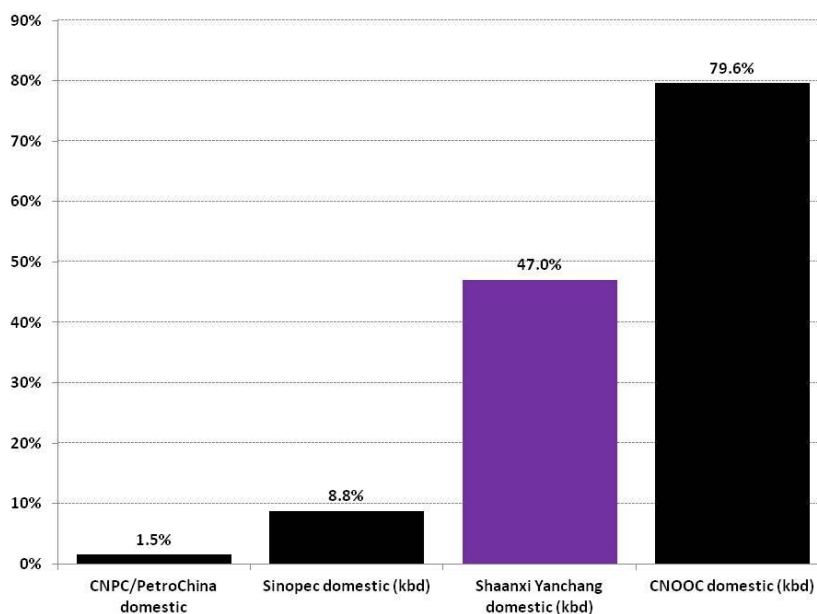
Of China's four largest oil companies, CNPC/PetroChina, Sinopec, and CNOOC are well known. In a sample Google search, each name garnered more than 3 million search results while a Chinese-language search on Baidu had over 2 million hits for CNOOC, 3 million for CNPC, and over 9 million for Sinopec.

The fourth company, Shaanxi Yanchang Petroleum (陕西延长石油有限责任公司), yielded only 46,400 Google hits and 533,000 Baidu hits. Yet it employs 97,000 workers and produces nearly 250,000 bbl of oil per day—roughly 6% of China's total domestic crude oil production and more oil than Devon Energy, a leading U.S. independent producer.

Three Reasons Shaanxi Yanchang Deserves More Attention

First, it posted the fastest production growth of the three major Chinese onshore oil producers between 2005 and 2011—a 47% increase, as opposed to 8.8% for Sinopec and only 1.5% for PetroChina (**Exhibit 1**)

Exhibit 1: Production increases for China's 4 Largest Oil Companies, 2005-2011

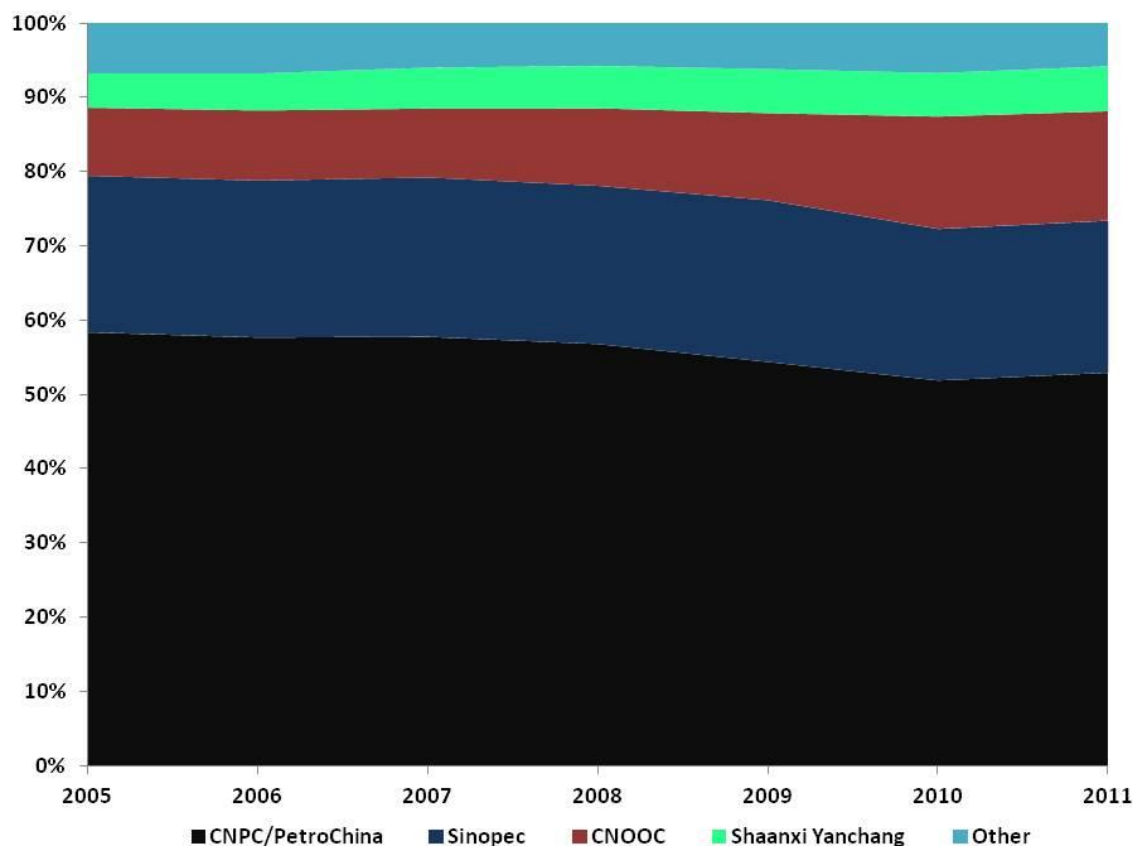


Source: Company reports, National Bureau of Statistics, China Oil Trader™

Second, the company offers foreign firms a route into China's developing shale gas sector. China's Ministry of Land and Natural Resources aims to auction the rights to 20 shale gas development blocks, perhaps as soon as July 2012 (Wall Street Journal). Foreign companies cannot bid independently on acreage, but can partner with a Chinese firm. Shaanxi Yanchang's geographic position in shale-rich Shaanxi and its underappreciated oil and gas production heft make it an attractive partner for a foreign firm seeking a foothold in China's emerging shale gas plays.

Third, the company's profile is not commensurate with its production in a large part because it is not publicly traded, whereas the three largest domestic oil producers are. For reference, in 2011, CNPC/PetroChina produced 53% of the country's domestic crude oil output, Sinopec nearly 21%, CNOOC just under 15%, and Shaanxi Yanchang just over 6% (**Exhibit 2**). China's total daily domestic crude oil output in 2011 was 4.06 million barrels per day, making it the world's 5th largest oil producer.

Exhibit 2: China "Big Four" Oil Company Domestic Oil Production
% of total domestic oil production



Source: Company reports, China Oil Trader™