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A Company Analysis and Financial Valuation of Sinopec

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Abstract: In this article, a comprehensive analysis of Sinopec is presented, delving beyond surface evaluations to deeply assess its strengths, weaknesses, and potential opportunities. Recognizing the limitations of superficial evaluations, the analysis incorporates financial insights to quantify the risks faced by Sinopec. Additionally, two comparable companies are scrutinized to provide a broader context for evaluation. Through meticulous data comparison, coupled with an examination of policies and pricing mechanisms, a nuanced understanding of Sinopec's position in the market emerges. While acknowledging areas where Sinopec may lag behind its competitors, the analysis underscores its promising developmental trajectory and investment potential. Despite identified weaknesses, Sinopec exhibits resilience and strategic positioning that warrant investor attention. Consequently, the article advocates for Sinopec as an attractive investment option, emphasizing its favorable prospects and priority for investment. By offering a multifaceted examination that integrates financial analysis, industry context, and strategic outlook, this article equips investors with a comprehensive understanding of Sinopec's standing in the market, ultimately advocating for its consideration as a compelling investment opportunity.

Keywords: Sinopec, Company Analysis, Financial Valuation.

1. Introduction

Sinopec is a petroleum and chemical company, which was established in July 1953 [1]. In terms of relevant policies, this paper will provide a relevant example, and several similar companies to compare. Here are some of Saudi Arabia's policy support for Aramco. In March 2024, the Saudi Arabian government transferred $164 billion worth of Aramco shares to the country's sovereign wealth fund, the Public Investment Fund (PIF), in an effort to bolster its cash flow. This policy shows the intention of the Saudi government to help Saudi Aramco strengthen its cash flow, in the form of a share transfer, which greatly increases the cash flow of Saudi Aramco and thus reduces the risk of Saudi Aramco preventing its bankruptcy. In April 2023, the government of Saudi Arabia transferred a 4% stake in Saudi Aramco to PIF. In addition, the Saudi Arabian government has been looking to sell a majority stake in the oil giant as part of the Crown prince's vision to diversify the economy to monetize the kingdom's vast oil assets and use the proceeds to invest in industries other than oil. Sinopec has received support in clean energy and high value-added materials, rural revitalization and education. The following is part of the support content, financial support. On March 19, 2024, Sinopec announced that the company issued 23,90,438,247 RMB ordinary shares (A shares) to the controlling shareholder, raising a total of about 12 billion yuan, and the relevant funds were remitted

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to the special account opened by the company on March 12. The new shares issued this time have completed the share registration procedures at the Shanghai branch of China Securities Depository and Clearing Co., Ltd. on March 18. Sinopec said that the controlling shareholder received 12 billion yuan in cash to support the company's continued steady investment and transformation and upgrading in the direction of clean energy and high value-added materials. In the 2019-2020 tax year, Shell enjoyed tax breaks for its operations in the UK North Sea, receiving £110 million from the HM Revenue. Next, this paper will analyze Sinopec based on the SWOT Framework. The relevant information of Sinopec in this paper is from the 2022 financial report of Sinopec.

2. Company Analysis

2.1. Strengths

First, Sinopec is vigorously developing hydrogen energy (environmental protection, high efficiency) in the field of hydrogen energy in the hydrogen energy chain system technology to accelerate the development of fuel cell vehicle hydrogen purification technology, built 3,000 meters (standard)/hour purification device and thousand-ton scale hydrogen supply terminal, formed the hydrogen station and oil hydrogen joint construction station design, construction and operation standards system. The single-tank megawatt proton exchange membrane electrolysis water hydrogen production device was successfully developed. Speed up the development of Wejin hydrogen energy business, the annual development of Jiaxi station 24, the domestic network share of more than 30% : hydrogen sales of 1,735 tons, the market share of 40%, the company has become the world's largest construction and operation of nitrogen station enterprises. Actively layout the construction of charging and replacing outlets, the annual development of 1004 milli, more than 11,000 charging parking Spaces, charging and replacing operation of more than 170 million KWH, 9.4 million vehicles. Vigorously promote the "light fast +" action, and develop 1199 distributed photovoltaic stations throughout the year, with an installed capacity of 88 megawatts, generating power exceeding 50 million kilowatts, and saving electricity costs of about 20,000 yuan per station on average. Steadily promote the hydrogen energy transportation construction layout to build hydrogen purification and charging facilities, with a total capacity of 16,500 tons/year, and the annual supply of high-purity hydrogen for fuel cells is about 1,700 tons, an increase of 244%. A total of 98 hydrogen refueling stations have been built, with an annual refueling capacity of about 1,750 tons, an increase of 100% [2]. During the Beijing 2022 Winter Olympic Games and Paralympic Winter Games, petrochemical hydrogen lit the main torch of the opening ceremony of the Winter Olympic Games, and the four Winter Olympic hydrogen refueling stations have refueled 87 tons of vehicles and refueled 8,689 vehicles, effectively guaranteeing the hydrogen energy supply of the Beijing Winter Olympic Games. Actively promote the work of hydrogen energy application industry chain to undertake research on the development status of hydrogen energy industry chain; Held the hydrogen energy application modern industrial chain construction promotion meeting and high-quality development forum, signed hydrogen energy industrial chain construction cooperation agreements with 8 units such as Baowu Clean Energy Company and FAW Jiefang Company, strengthened cooperation convergence points, and created an industrial ecosystem [3]. The development of hydrogen energy can be supported by relevant policies, which can save energy and reduce emissions to reduce enterprise risks, and there is no need to worry about resource consumption. Second, even if China does not export, it has a large sales market, and there is no lagging sales in terms of sales. In recent years, oil prices have become higher, with an increase of 260,000 tons of crude oil of 3.144,000 tons. In 2022, the total surplus revenue of oil and gas will reach 213 million tons, down 5.5%, of which domestic refined oil sales will reach 163 million tons, down 5.1% retail sales will reach 107 million tons, down 6.5%, natural gas sales will reach 4.18 billion cubic meters, down 16.8%, and easyJet service operating revenue will reach 38.1 billion yuan,

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up 7.6%. In recent years, under the active promotion of the rapid development of the market economy and the continuous reform of the refining and chemical industry, the development of the domestic refining and chemical industry has shown a thriving trend [4]. In general, sales are low but oil prices are soaring, which increases the profit margin for companies and reduces their risk. At present, China has begun to formulate and implement relevant carbon emission control policies, such as the "National Carbon Emission Accounting Guide" and "Power Grid carbon trading Management Measures" [5, 6].

2.2. Weaknesses

With the increasingly fierce market competition, the major oil field enterprises are facing the severe situation of sharp compression of production and sales profit margin [7]. Crude oil operations totaled 294 million tons, marking a decrease of 29.42 million tons, or 9.09%. Imports stood at 203 million tons, reflecting a decrease of 4.53 million tons, or 2.10%. Third-party trade amounted to 91 million tons, while refined oil operations reached 50.55 million tons, experiencing a minimal decrease of 60,000 tons. The daily output reached 23.46 million tons, showing an increase of 990,000 tons, or 4.4%. Third-party trade accounted for 24.82 million tons, with the Golden Year witnessing imports of 15.67 million tons, equivalent to 3.5 billion cubic meters, marking a decrease of 13.4%. Chemical products in third-party trade reached 2.25 million tons, equating to 6.54 billion US dollars, showing a significant increase of 56%. The overall business volume reached 5.688 million tons of food, representing a 10% increase. International trade in equipment and materials, other refining and marketing by-products and other chemicals amounted to 1.055 billion US dollars, down 22.71%. Vitamin agent overseas sales (shipping) 24,098 tons, the amount of 147.61 million US dollars. 86.58%, a record high, to achieve a rise against the market. The total foreign trade volume of lubricating oil is 317 million US dollars, and the total volume of operation is 196,000 tons. The transaction value of E-PAK International Station is $2,175. Increasing external investment will increase the cost, thus increasing the risk of the enterprise, so more international trade will increase the risk of the company. Secondly, at present, China's ESG information disclosure system is still in the preliminary exploration stage, so compared with other countries' oil industry is relatively backward [8].

2.3. Opportunities

The level of autonomy in the lubricating oil industry chain has been continuously improved, and the synthetic aero-engine river oil has passed the air penetration certification, becoming the first domestic sinking product to enter commercial application. The domestic preparation of independent additives such as PMA type point depressant (T866) by the Research Institute of Petroleum and Chemical Industry has been steadily promoted. Breakthroughs were made in the production of special oil products, Maoming Petrochemical cost 150BS base oil reached the HVIIC standard requirements, Jingmen Petrochemical successfully passed the food-grade white oil certification, and Jinling Petrochemical realized the industrial production and market application of high value-added heavy alkyl tea. The needle coke products produced by Jinling Petrochemical and Maoming Petrochemical have reached the level of super coke by evaluation. Successfully used in 450 mm, 550 mm high-power series graphite electrodes and high Mantan battery negative electrode materials. Jinan Refining and Chemical, Qilu Petrochemical successfully produced special coke for negative electrode materials, high-end low-connection pre-conditioning anode coke, to achieve customer customization. Zhenhai refining and chemical bio-aviation coal obtained the first Golden Globe RS8 certification in Asia and the first bio-aviation medium airworthiness certification in China issued by SCS, an international certification body, to realize the flight at home and abroad. Xingmen Petrochemical first

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trial production of petroleum based high-industry aerospace fire tube oil, the production of products with low cost and good physical and chemical properties. It can get rid of the original production technology for special oil types. Special modified asphalt has been successfully applied to Hongqiao Airport. Chengdu Tianfu F1 circuit modified asphalt has been successfully developed, clean taste environmentally friendly asphalt has been promoted and applied in a number of enterprises, due to the emergence of new products can bring the company more development prospects and opportunities.

3. Valuation

3.1. Forecast

Table 1: Forecast index of Sinopec and its competitors.

	SINOPEC	Shell	Aramco
Market value of equity(M(E))	779.627B	212.925B	7.60T
Market value of debt(M(D))	476.55B	81.54B	290.17B
Leverage	62%	27.69%	14.31%
Debt-to-equity ratio	61%	38.30%	16.70%
Marginal corporate tax rate	20.94%	39.82%	48.79%
Expected cost of debt capital(r_D)	1.72%	12.53%	1.60%
Equity beta(β)	0.71	0.56	0.22
Expected cost of equity capital (r_E)	7.25%	6.50%	6.50%
Weighted average cost of capital(WACC)	5.02%	6.98%	4.04%
Business risk (β_A)	0.31	0.44	0.28

As can be seen from the results in Table 1, Aramco has the highest market cap of all three companies, as a result of the plentiful resources in Saudi Arabia. On the other hand, Shell has the lowest market cap, for being in a highly competitive market. Next, a noticeable characteristic of SINOPEC's corporate capital structure is that, it has high leverage and debt-to-equity ratio, far beyond Shell and Aramco, indicating a more aggressive capital structure, with a higher risk of default and financial distress. As regards the business risk (β_A), Aramco has the lowest business risk, followed by Sinopec and then Shell. This indicates that Aramco's operations may be more stable compared with the other two companies. Why does Sinopec have such an aggressive capital structure? Why does the business risk of the three companies have such a ranking? The discussion and findings will be explained in the next part.

3.2. Strategy & Risks

It is mentioned in the quotation that Saudi Arabia will pay $164 billion to Saudi Aramco to enhance its cash flow, and the Saudi government's behavior is intended to help Saudi Aramco expand other industries, and expand the scale of Saudi Aramco's industry to reduce its risk. In the quotation, the Chinese government also supported Sinopec in a similar way, but compared with the Saudi government's cash flow of 164 billion yuan, although this measure helped reduce the risk of Sinopec, the reduction degree was far smaller than that of Saudi Aramco. The British government's preferential policy for Shell also enhanced the cash flow. But 110 million is far too small compared to 164 billion and 12 billion. From the above materials, it can be seen that in terms of government support, the Saudi Aramco government holds a large part of the shares, so the government provides large-scale assistance to the company, leading to the reduction of its risk. Compared with Saudi Aramco, Sinopec

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receives less government support, while Shell receives little government support, which greatly increases its risk.

The first reason comes down to the different pricing mechanisms. For Aramco, a company headquartered in Saudi Arabia, a powerful member of the Organization of the Petroleum Exporting Countries (OPEC), while restricted by other members, it still acts as the price-setter among all the oil companies. OPEC's decisions on oil output cut and increase will lead to a higher price and a lower price respectively. While peer oil companies struggle to cope with the changing supply and demand, Aramco's affiliation with OPEC offers it a level of stability and predictability, thereby mitigating operational risks associated with market volatility. Conversely, Shell operates in a highly competitive market, the oil price it offers is mostly decided by the international oil price, which means that Shell is acting as the price-taker. Despite efforts by Shell and other companies in non-OPEC countries to enhance their position in the crude oil system through upstream mergers and acquisitions, OPEC retains overall control over oil supply, significantly impacting oil prices. As a result, companies like Shell are compelled to accept these prices. On the other hand, China has its unique way of oil pricing, with a combination of government regulations, market forces, and international benchmarks [9]. Despite being the largest oil importer, China's oil prices are expected to be highly responsive to fluctuations in international markets to ensure a satisfactory profit. However, the reality is that while the international oil price experiences significant fluctuations due to unmatched supply and demand, China's domestic oil prices exhibit a narrower range of fluctuations, indicating a degree of stability. This benefits from China's constant optimization of the pricing mechanism. The pricing mechanism aims to maintain China's economic equilibrium and energy security by allowing domestic oil prices to adjust slightly in response to the international oil price with a periodic adjustment for every 10 working days, with additional constraints in place to preserve stability. China has set up upper limits and lower limits to the domestic oil price. When the international oil price goes beyond the limit, the oil price in China would have to stop fluctuating per the policy. Thus, although SINOPEC cannot completely remove the influence of its role as a price-taker in the oil system, SINOPEC's oil pricing responds on a smaller scale and acts slower than counterparts that have a freely fluctuating pricing mechanism, presenting a less risky prospect when supply and demand change [10].

4. Conclusion

Sinopec went all out to ensure the operation, significantly improved the quality of production and operation, and vigorously implemented the seven-year action plan in the upper and lower reaches, proved oil reserves reached 200 million tons, and oil and gas production equivalent reached a record high. The main body of Xinjiang Kuqa green hydrogen demonstration project has been completed, the number of construction and operation of hydrogen refueling stations ranks first in the world, wind power, photovoltaic, geothermal and other development momentum is good, and the first carbon industry chain technology company in the circle has been successfully established. The map production line was completed and put into operation, the independent travel geosteering drilling system as a whole reached the international advanced level, POE, PVA optical grade, high specification poly1-butene, nitrogen extraction, high temperature heat transfer oil and other "jamming technology has made a major breakthrough." New progress has been made in key core technologies such as ultra-deep oil and gas exploration and development and engineering, substantial increase in oil recovery in old oil fields, integration of shale oil and gas geological engineering, large-scale green electricity production of grade hydrogen, and direct cracking of crude oil to ethylene. Promote the implementation of the special action plan for digital transformation, and lead the intelligent development of the industry with more than 10 pilot demonstration projects such as industrial Internet and artificial intelligence. From China's point of view, the petrochemical industry from scratch, from dispersion to concentration, from disorder to order, has a relatively solid monopoly ability. Sinopec

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has a very good development prospect, and it has the ability to solve most of the problems similar to the neck, which is a company worthy of consideration by investors. Pay attention to the value of the investment and whatever method he takes he does it in an estimated way with some degree of risk.

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