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Analysis of the Financial Performance of CNOOC under the Perspective of ESG

Lanjun Wu[1,a,*]

[1]School of Management, China University of Geoscience, Beijing, 100084, China
a. 13986802003@163.com
**corresponding author*

Abstract: Since the late 20th century, climate change and related environmental problems have become increasingly prominent. As the world’s second-largest economy, China has actively taken on social responsibilities. In the 14th Five-Year Plan, China proposed the “dual carbon” goals. As the main entities of social production, it is particularly important for enterprises to take their environmental and social responsibilities as well as improve governance levels, which often affect the business outcomes of enterprises. This paper studies the financial performance of petroleum from the perspective of Environment, Social and Governance (ESG). Based on the analysis of literature and public data, a case study of China National Offshore Oil Corporation (CNOOC) is conducted. The purpose is to examine the applicability in practical situations of conclusions drawn by existing empirical research regarding the relationship between ESG and enterprise financial performance. The paper finds that CNOOC has effectively enhanced its financial performance and operational capabilities through proactive actions in environmental protection, social responsibility, and corporate governance. Although the ESG practices with such a high-standard may limit the company’s growth potential in the short term, by improving transparency and demonstrating enterprises’ social responsibility, ESG practices indirectly promote the enterprises’ financial performance, including the improvement of management efficiency, boost in investor confidence, expansion of financing channels, and enhancement in consumer trust, thereby enhancing the enterprises’ profitability and reinvestment capabilities.

Keywords: ESG, petroleum enterprises, financial performance.

1. Introduction

ESG is an acronym for Environmental, Social and Governance, from which it measures the performance of an enterprise in environment protection, social input and contributions, and enterprise governance. Under the goals of sustainable development, ESG, as a non-financial evaluation standard, is not only regarded by companies as a symbol of social responsibility but has also sparked numerous academic studies on the relationship between ESG and corporate finance, stock prices, and competitiveness [1-3]. While most empirical studies suggest a positive correlation between ESG performance and corporate financial performance, Yukun Feng’s study concluded that there is a time lag and a non-linear relationship between social responsibility and financial performance; D. D. Lee found a negative correlation between corporate social responsibility and market performance [4]. Domestic researches are primarily empirical analysis with data from A-share listed companies, often

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focusing on macro-level analysis with limited specific case studies. In this paper, analysis is conducted based on a representative company in the petroleum industry, which not only tests the findings of existing empirical researches, but also offers recommendations on how companies can better fulfill their social responsibilities to enhance profitability, development, and operations. As a typical energy-intensive industry, the petrochemical industry is also one of the eight key industries to be gradually incorporated into the national carbon market during the 14th Five-Year Plan. Therefore, ESG practices are not only related to the sustainable development of enterprises but also attract extensive attention from stakeholders, which exerts profound impacts on the development of enterprises.

2. The Analysis of CNOOC's ESG Performance

2.1. An Overview of CNOOC

CNOOC is China's largest producer of offshore crude oil and natural gas, and is also one of the world's largest independent oil and gas exploration and production groups. Its main business is the exploration, development, production and sale of crude oil and natural gas. In 2022, CNOOC not only won a number of awards, but also ranked among the "Forbes China Sustainable Development Industrial Enterprises Top 50", and was also named as one of the "Sustainable Development (ESG) of Energy Listed Companies in China Top 100" by the Securities Times. According to the latest ESG ratings released by Sino-Securities Index in 2024, CNOOC was rated AA and ranked No. 2 among 64 petroleum, natural gas and consumer companies. The ESG ratings released by Sino-Securities Index range from C to AAA, with AAA being the highest rating and AA being the second. This indicates that the company has an outstanding performance in sustainability and ESG practices.

2.2. Environment Performance

From 2019 to 2023, CNOOC's investment in energy conservation and emission reduction has expanded from 300 million yuan to 560 million yuan. What's more, there has been a significant reduction in greenhouse gas emissions since 2021. Although a lasting and stable increase has not achieved in its energy conservation, it has still been maintained a saving mount at a level of over 200,000 tons of standard coal. Continuous innovation have been made in green governance. In 2023, a new model for mud treatment pioneered by the company was an example. In this model, waste and residues were transported to factories for centralized pressure filtration, and then pollutants were made into eco-friendly brick for the construction of well sites and square pits. In this case, a compliant and harmless disposal of waste within the industrial area was ensured. In addition, the company's R&D investment in green and low-carbon technologies is also in continuous increase. Moreover, real-time monitoring of operational parameters for process facilities and pipelines is conducted to reduce the probability of oil spill risks.

2.3. Social Responsibility

CNOOC pays great attention to workplace safety and employee health. During 2021 to 2023, despite a rise in the total workdays of employees and contractors, the safety incidents and the missed-work rate of record-keeping have all declined. What's more, the number of deaths at work has dropped to zero across the board, and the number of working days lost due to work-related injuries has been reduced from more than three years to less than one year. The company has also established six regional health service centers to organize physical checks for staff, with a current check-up rate of 100%. In addition, a network platform for psychological consultation was opened around the clock to ensure comprehensive protection for staff's health. Since 2019, the size of the workforce has been

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slightly scaled down with a total of tens of thousands of employees, but the rate of union participation, labour contract signing, and social security coverage are all 100%. In addition, each year, the money put by the company in social charities hits between 140 million and 250 million yuan, with tax payments to the state reached to hundreds of billions of yuan.

In 2021, the company experienced a large-scale offshore oil spill which caused large losses and negative social impacts. Therefore, the company organizes emergency drills of offshore oil spill regularly to avoid the recurrence of similar accidents.

2.4. Company Governance

CNOOC holds four board meetings annually, with the majority of its committees composed of non-executive and independent non-executive directors, thus ensuring a high degree of independence. In cases where shareholders have conflicts of interest involving certain topics, these types of shareholders can represent the interests of small and medium shareholders by making suggestions. In addition, members of the board are diverse regarding nationality, age, and professional background. In terms of gender, women account for 25%, reflecting the diversity of the board. This diversity allows for a more comprehensive consideration of various factors in decision-making, thereby enhancing the scientific nature of decision making.

In 2023, CNOOC participated for the first time in the annual evaluation of information disclosure work of the Shanghai Stock Exchange and received an A (Excellent). Regarding ESG governance, the company has established a Sustainability Committee under the board of directors and executes through subordinate departments, incorporating indicators such as carbon reduction and new energy production into the senior management assessment mechanism, setting energy conservation and carbon reduction targets for them. Moreover, the company attaches great importance to business ethics and takes active actions in fighting corruption and building a clean company. It has imposed strict punishment on corruption-related crimes, holding annual anti-corruption awareness training and education. In addition to raising employees' awareness, CNOOC has further strengthened its internal controls to prevent corruption and fraudulent acts, using internal audits as a means of supervision and management to enhance its own construction. All those measures form the foundation of risk control. The company has established a Risk Control and Compliance Committee, which sets overall objectives and strategies for risk management according to the strategy and assesses risks. Continuous tracking ensures that all major risks and compliance events within the company are given full attention and receive adequate monitoring as well as in-time response.

3. Financial Performance

3.1. Analysis of Financial Indicators

From a financial performance perspective, CNOOC's profitability is particularly remarkable. From 2021 to 2023, despite a total revenue which was only about one-tenth of that of China National Petroleum Corporation (CNPC) and Sinopec, CNOOC's net profit margin ranked first in the industry, significantly higher than similar companies. Moreover, the company's Return on Assets (ROA) has remained at a high level, which maintaining between 8% and 12% in most years from 2019 to 2023, reaching over 16% in 2022. This highlights CNOOC's resilience in maintaining strong profitability in a complex and volatile market environment.

In addition, CNOOC's debt-paying ability has provided significant guard for its steady operation. The company's current ratio, which measures its short-term debt-paying ability, has been maintained at above 2 from 2019 to 2023, with the lowest being 2.02 in 2023. Overall, the company has sufficient current assets to cover current liabilities, indicating a strong debt-paying capacity. The debt-to-asset ratio is used to assess the financial leverage and debt risk of a company. From 2018 to 2023, the

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company's debt-to-asset ratio was adjusted from 0.4 times to around 0.34 times, while current liabilities have been continuously increasing, indicating that the company's assets are also in an increase.

In terms of operation, it shows a better performance in the company's operation capacity. The inventory turnover rate of the company gradually increased from 20 times per year in 2019 to over 30 times per year, indicating a faster inventory turnover, which reduces inventory costs and injects new vitality into the company's sustainable development.

However, in terms of development capabilities, CNOOC also faces some challenges. Regarding the company's net profit growth rate, there has been a year-on-year decline since 2021, corresponding to a significant decrease in the revenue growth rate in 2023. But this does not mean that the prospects for CNOOC are bleak. In addition to factors such as global oil price fluctuations, changes in market demand, and intensifying competition, the company has increased investments in workplace safety, environmental protection technologies, and facility upgrades to enhance its ESG performance. These additional short-term costs may have impacts on the company's profits and revenue growth.

Currently, amidst the context of energy transition, traditional petroleum and petrochemical enterprises are facing pressures from low-carbon transformation and environmental protection. It's important for petrochemical companies to build and improve an ESG system as a pivot for the green transformation. CNOOC is actively seeking a path of transformation and upgrading, increasing its investment in new energy fields, with the aim of achieving more robust and sustainable development in the future.

3.2. The Impact of ESG on Enterprise Finance

According to the report released by CNOOC in 2023, sustainable development issues that have great importance to both companies and their stakeholders are workplace safety, occupational health, risk management and control, stable energy supply, climate change response, and sustainable profitability. The analysis above finds that the company has paid significant attention to those issues and corresponding measures have also been taken. It can be concluded from the data that CNOOC has done successful and fruitful work in ESG governance.

As a company with a strong ESG profile, CNOOC has done well in leveraging insurance effects to convey non-financial information, thus improving the quality of information disclosure and reputation of the company, further strengthening the trust of stakeholders, and mitigating the impact of negative events [5]. For instance, after the offshore oil spill in 2011, the company has been disclosing real-time monitoring and emergency drills for such incidents in its annual reports. Therefore, the incident did not exert a lasting or severe negative impact, allowing a further and steady operation for the company.

Furthermore, ESG can also exert a governance effect based on agency theory. The release of ESG reports can help companies reduce information asymmetry among stakeholders, and enhance information transparency, thus decrease opportunistic behaviors by managers for personal gain, improve corporate governance efficiency, and strengthen external supervision, and ultimately improve the company's governance.

Moreover, ESG has a certain financing effect. The release of high-standard ESG reports by companies shows their strong sense of social responsibility, a low risk of environmental violations, and significant potential for sustainable development in the future. Therefore, it's a more effective way for companies to gain the trust of investors and bolster their investment confidence.

Overall, the impact of ESG on corporate finance is in an indirect way. It often conveys non-financial information which sends signals that the company has a strong sense of social responsibility and ethical awareness, and improves the transparency of information at the same time [6]. Regarding different stakeholders, for companies, the transparency of their internal working improves and the efficiency of management enhances, thereby their governance is improved. At the same time, governments may offer related rewards, investor confidence is strengthened, investment risks are reduced, and corporate financing channels are broadened. Consumer have a higher trust in company's products, thanks to which the sales and profitability of companies are increased. As a result, companies gain more funds for further investment in reproduction, R&D, carbon reduction and efficiency enhancement.

4. Conclusion

This paper analyzes the financial performance of CNOOC from the perspective of ESG and examines the effects of good ESG performance on company's protection, governance, and financing capabilities, as well as its impacts on the company's finance. The study finds that CNOOC's strenuous efforts in environmental protection, social responsibility, and corporate governance, including emissions reduction, employee safety and health, community charity, and transparent decision-making, have laid a solid foundation for its sustainable development and exerted positive influences on its profitability and operational capacity. However, too much investment in ESG practices may also lead to constraints on the company's development capabilities in the short term, such as declines in profit and revenue growth rates.

The limitation of this study lies in the lack of a vertical analysis in the long run. Future research could focus on the long-term impacts of ESG practices on the financial performance of petroleum enterprises, and comparative analyses with other companies in the same industry should also be conducted for a more comprehensive assessment of the effects brought about by ESG. Future studies could also investigate how investors incorporate ESG factors into their investment decisions and analyze the impact of those factors on company valuation and capital allocation.

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