

A Study on the Financing Decision of China Petroleum and Petrochemical Listed Companies —Taking PetroChina Company Limited (PetroChina) as an Example

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ABSTRACT

In today's world, the shortage of oil resources makes oil enterprises have to face some uncertain factors in today's market. After a series of analyses in the process of financing strategy, PetroChina Company Limited (PetroChina) has proven that good asset structure and correct market environment analysis are very important for the financing decision-making.

Keywords: *financing, mode design, financing management*

1. INTRODUCTION

1.1. Background and Significance of the Study

Enterprise financing means based on the company's operating status and use of funds for investment or creditor financing and ensure the operation of corporate business activities work properly. Funding is the basis of the survival and development of enterprises. Throughout the development of many enterprises, the difficulties are inevitable. The key issue is money after all. Financing is no different from the artery of the enterprise, and the competition is an effective way to promote financing. In the aspect of competition, capital is the most important. This is determined by the nature of the market. The start-up and development of enterprises must rely on sufficient funds to begin, therefore, it is extremely important to study enterprise financing.

The modern transportation industry is well developed so much so that petroleum is used widely. It is praised as "the industry blood". Petroleum is not only used for life, but it is also often associated with resources, interests, ethnicity, religion, and life [1-2]. On April 21, 2020, after the CONK contract has expired, to avoid taking physical delivery, a large number of low or even negative prices were sold on the futures contract.

PetroChina Company Limited (PetroChina) is a major oil company in China and the world. Its revenue and size have reached the leading level in the world. PetroChina's annual turnover in 2019 was 27273.03 billion yuan. The return on equity is 2.3%, and the basic earnings per share is 0.25 yuan.

1.2. Status of Domestic Oil Enterprise Financing

Compared with other enterprises, petroleum companies have obvious special characteristics. The company mainly manages limited resources. My country's petroleum resources are monopolized by the State. At present, the three major companies that monopolized the oil industry are PetroChina, Sinopec Group, and CNOOC. They are formed due to the reorganization of state-owned enterprises. Their crude oil production accounts for 99% of the country [3]. Shell Group of Companies, Exxon Mobil Corporation and Total's average asset-liability ratio in 2010 was 27.22%, China's three debt ratios were generally high, and CNOOC reached 59.76%.

1.3. Status of Overseas Financing for Domestic Petroleum Companies

Because of PetroChina's huge system and many financing opportunities, the selection is very important. Low cost, lesser risk, and high efficiency are the standard of enterprise financing. When foreign subsidiaries have capital needs, the headquarters of the company will mobilize and arrange their financing from other subsidiaries, on the premise that the internal operation of the enterprise is relatively stable.

1.4. Financing Decision Theory

The financing channels of petroleum companies are very narrow compared with other enterprises. In the 1990s, the

sources of funds were very limited, such as the allocation of loans, self-financing, or using national petroleum funds, etc. China emphasizes great importance to the development and utilization of oil resources, and the State will arrange financing loans for petroleum enterprises. At the same time, enterprises will also carry out internal borrowing, but due to the limited internal resources, the source of funds mainly depends on State loans.

2. OVERVIEW OF ENTERPRISE FINANCING THEORY

The concept of financing can be interpreted from two aspects, one is financing in a broad sense, mainly refers to the two-way interaction between the holders of funds, the other is the funds-providing. For enterprises, capital is the basis and premise of enterprise development. The correct analysis of the market environment and operating conditions, as well as the way of using funds to organize and raise funds to obtain capital to support the normal operation. Financing is an important instrument for enterprises to develop and further broaden their market.

3. OVERVIEW OF PETROCHINA

3.1. Overview of PetroChina

PetroChina was founded on November 2, 1999, is a state-owned enterprise, it is in the monopoly position in China's petroleum industry. Its scope is mainly engaged in the development and exploration of crude oil. PetroChina has invested in 995 foreign companies with 18930 branches [4]. As an excellent state-owned enterprise, PetroChina has made more accurate and timely measures under the background of an unpredictable market conditions.

3.2. Analysis of the Current Financing Situation of PetroChina

According to Bank of America Merrill Lynch reports, PetroChina Company Limited (HK: 0857) has turned around the target price of shares from HK \$2.80 to HK \$3.00. PetroChina will be benefited from improving oil prices [5]. The increase of oil price by \$1.00 a barrel can make the group's profit next year increase by 900 million yuan or 4%. Besides, the group recently announced the discovery of giant gas belts. The reserves are expected to reach 1 trillion cubic meters. But, the bank mentioned that because PetroChina has a one-month lags in achieving its benchmark oil price, compared with its peers, PetroChina's second-quarter profit is expected to have a greater downward pressure.

4. OPTIMIZATION OF FINANCING DECISION AND RISK PREVENTION OF PETROCHINA

Because of the particularity of PetroChina's system, we can't simply use the financing theory of capital market when we analyzing it, but adopt appropriate financing strategies according to China's national conditions. Through the analysis of PetroChina, the following four financing strategies are finally obtained.

4.1. Internal Financing

The internal financing of capital market enterprises is the basis of external financing, but it only accounts for a small proportion of the whole financing process. Only by using their advantages and technologies to obtain sufficient profits and sales can enterprises have internal sources of financing. The rolling of capital and the initial accumulation of capital are the driving force of the enterprise. For PetroChina, internal financing is conducive to the transfer of funds and more flexible and rapid. But the ability of internal financing to solve the problem is limited and relatively small.

4.2. Absorb Investment

Absorbing investment means attracting foreign funds to enter. We can increase the accumulated funds for the further development of enterprises [6]. From the current situation of China's market and the strategies of the absorb investments, co-investment and sharing profits are universal financing criteria. Enterprises decides according to project requirements. The investors are all owners, they have the management right to the enterprise, and lay the foundation for the subsequent financing. At the same time, it is beneficial to obtain equipment produce directly and quickly. This is crucial for oil companies. At the same time, if the company is in good condition, it can pay more to investors, compared with the financial risk policy is more flexible.

4.3. Bond Market Financing

PetroChina is a state-owned enterprise of larger scale with strong and comprehensive capability. China's market economy system can use national policies and related methods to promote the development and profitability of enterprises. For private enterprises, nearly 1/4 of the borrowing costs are up to the State. PetroChina has played its role as a benchmark for state-owned enterprises under the market economy system and actively provides guidance for the healthy development of oil enterprises.

5. CONCLUSION

Under the market economy system, the situation faced by PetroChina Company Limited (PetroChina) is more complex. Petroleum companies on the availability of financing channels are very narrow, foreign exchange risk has increased the burden of debt. The use and source of funds are also worthy of our thinking. Without sufficient investment in science and technology, the core competitiveness of human nature will be restricted and financing will be affected.

At the same time, the structure of the funds is also very important. On the domestic side, we advocate moderate control of the expansion of the capital structure and the contraction of equity capital. Looking at the research of enterprise financing decisions, it can be seen that the research on oil capital structure and the financing decision is relatively few. China's economic development requires oil companies to make financing decisions according to their own situation and actively promote the development of the national economy.

In recent years, large petroleum companies with sufficient cash and resources, have been able to support more liabilities. From the selection of financing mode, we should consider the capacity of the capital market and the influence of stock price. Petroleum projects are generally large-scale and long payback periods. From the perspective of risk control and matching the term structure of funds, the long-term and fixed interest rate financing should be preferred. So it is more appropriate for the company to choose bond financing rather than equity financing at this stage. At the same time, because of the overall economic slowdown and due to more uncertain factors, PetroChina should choose bond investment as its source of funds.

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