



# Independent Stock Idea

March 31, 2010

rating: buy  
s&p 500: 1169 intraday

## CNOOC Limited (CEO) Raise NPV to \$145 from \$135 a Share on Reserves

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 3/31/11 (US\$mm)</i>	13,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	165.41	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/31/10	<i>Adjusted Reserves/Production NTM</i>	6.8
<i>Shares (mm)</i>	446	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (US\$mm)</i>	73,800	<i>PV/Ebitda</i>	5.0
<i>Debt (US\$mm)</i>	1,700	<i>Undeveloped Reserves (%)</i>	57
<i>Enterprise Value (EV) (US\$mm)</i>	75,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	47.79
<i>Present Value (PV) (US\$mm)</i>	66,400	<i>Present Value Proven Reserves(US\$/boe)</i>	24.98
<i>Net Present Value (US\$/share)</i>	145	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.16
<i>Debt/Present Value</i>	0.03	<i>Earnings Next Twelve Months (US\$/sh)</i>	15.78
<i>McDep Ratio - EV/PV</i>	1.14	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	5.15
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
The Peoples Republic of China holds 66% of the outstanding shares.			
For historical research on CEO since 2001 see <a href="http://www.mcdep.com/4ceo.htm">http://www.mcdep.com/4ceo.htm</a>			

### Summary and Recommendation

Today's disclosure of a 6% increase in proven reserves for buy-recommended **CNOOC Limited (CEO)** triggers our increase in estimated Net Present Value (NPV) to \$145 a share from \$135 (see table [Functional Cash Flow and Present Value](#)). We continue to recommend buy while stock price is in an uptrend expressed by current quote above the 200-day average of \$147. Otherwise the McDep Ratio at 1.14 suggests caution with respect to immediate stock price appreciation. According to partial final 2009 financial results released today, unlevered cash flow for the second half of 2009 met expectations from two months ago while earnings were modestly lower than expected (see table [Half-Year Financial Results](#)). The production outlook is unchanged from when the Chinese company surprised investors with a blockbuster growth forecast two months ago (see table [Quarterly Operations](#)). With rights to almost all of China's offshore oil and gas, the company appears to be performing well in developing production at a rapid rate. Since the country's appetite exceeds its oil and gas resources, the government is encouraging CNOOC to expand overseas. A recent \$3 billion deal in Argentina follows previous arrangements in Canada, Indonesia, Africa and Australia among other overseas locations.

Kurt H. Wulff, CFA



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<b>CNOOC Limited</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	890	13.0	7.9	7,000	11%
Oil	12,510	5.5	4.7	59,400	89%
	13,400	6.8	5.0	66,400	100%
Debt (US\$mm)					1,700
Net Present Value (US\$mm)					64,700
Shares (mm)					446
Net Present Value - Standard Estimate (US\$/sh)					145
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					145

<b>CNOOC Limited</b>									
<b>Half-Year Financial Results</b>									
									<i>Twelve</i>
	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Year</i>	<i>Months E</i>
	<i>12/31/08</i>	<i>2008</i>	<i>6/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>6/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>6/30/11</i>
<b>Revenue (mmRMB)</b>									
Natural Gas (from Q table)	3,456	<b>6,362</b>	2,833	3,856	<b>6,690</b>	4,316	4,565	<b>8,881</b>	<b>9,099</b>
Oil (from Q table)	43,588	<b>96,236</b>	29,443	47,851	<b>77,294</b>	55,301	63,793	<b>119,094</b>	<b>127,247</b>
Other	(676)	<b>(1,767)</b>	247	(19)	<b>227</b>	(19)		<b>(19)</b>	-
Total	46,367	<b>100,831</b>	32,523	51,688	<b>84,211</b>	59,598	68,357	<b>127,955</b>	<b>136,346</b>
<b>Expense</b>	16,744	<b>29,520</b>	8,151	16,369	<b>24,521</b>	19,667	22,558	<b>42,225</b>	<b>44,994</b>
<b>Ebitda</b>	29,623	<b>71,311</b>	24,372	35,319	<b>59,690</b>	39,931	45,799	<b>85,730</b>	<b>91,352</b>
Exploration	2,068	<b>3,410</b>	977	2,902	<b>3,879</b>	2,902	2,902	<b>5,804</b>	<b>5,804</b>
Deprec., Deplet., & Amort.	5,708	<b>10,058</b>	6,539	8,450	<b>14,989</b>	8,450	8,450	<b>16,901</b>	<b>16,901</b>
<b>Ebit</b>	21,847	<b>57,843</b>	16,856	23,966	<b>40,822</b>	28,578	34,447	<b>63,025</b>	<b>68,647</b>
Interest	-	-	-	-	-	-	-	-	-
<b>Ebt</b>	21,847	<b>57,843</b>	16,856	23,966	<b>40,822</b>	28,578	34,447	<b>63,025</b>	<b>68,647</b>
Income Tax	5,276	<b>13,505</b>	4,325	7,011	<b>11,336</b>	8,574	10,334	<b>18,908</b>	<b>20,594</b>
<b>Net Income</b>	16,571	<b>44,338</b>	12,531	16,955	<b>29,486</b>	20,005	24,113	<b>44,118</b>	<b>48,053</b>
<b>Shares (millions)</b>	44,786	<b>44,786</b>	44,752	44,620	<b>44,676</b>	44,620	44,620	<b>44,620</b>	<b>44,620</b>
Per share (RMB)	0.37	<b>0.99</b>	0.28	0.38	<b>0.66</b>	0.45	0.54	<b>0.99</b>	<b>1.08</b>
Ebitda Margin	64%	<b>71%</b>	75%	68%	<b>71%</b>	67%	67%	<b>67%</b>	<b>67%</b>
Tax Rate	24%	<b>23%</b>	26%	29%	<b>28%</b>	30%	30%	<b>30%</b>	<b>30%</b>



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CNOOC Limited									
Quarterly Operations									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Year	Twelve
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/09	2010E	Months E
									6/30/11
<b>Volume</b>									
Natural gas (bcf)	64	64	74	244	72	73	74	292	292
Natural Gas (mmcf)	700	699	800	669	800	800	800	800	800
Days	92	92	92	365	90	91	92	365	365
Oil (mmb)	42	48	51	187	51	54	58	221	231
Oil (mbd)	460	526	529	511	562	595	631	606	634
Total gas & oil (mmboe)	53	59	63	227	63	66	70	270	280
Total gas & oil (mbd)	577	643	662	623	696	728	765	739	767
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.32	3.92	4.16	4.53	4.72
Company	4.13	3.93	4.24	4.01	4.32	4.41	4.50	4.46	4.57
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	78.64	82.38	83.31	82.05	83.94
Company	50.38	67.83	73.03	60.61	75.48	79.07	79.96	78.87	80.57
Total gas & oil (\$/mcf)	7.53	9.97	10.63	9.01	11.00	11.57	11.79	11.58	11.89
<b>Revenue (\$mm)</b>									
Natural Gas	266	253	312	979	311	321	331	1,301	1,333
Oil	2,132	3,282	3,725	11,315	3,820	4,282	4,644	17,448	18,643
Total	2,398	3,535	4,037	12,295	4,131	4,603	4,975	18,749	19,976
RMB/\$	6.84	6.83	6.83	6.83	6.83	6.83	6.83	6.83	6.83
<b>Revenue (RMB)</b>									
Natural Gas	1,819	1,726	2,130	6,690	2,125	2,191	2,260	8,881	9,099
Oil	14,583	22,422	25,429	77,294	26,071	29,230	31,695	119,094	127,247
Total	16,403	24,149	27,558	83,984	28,196	31,421	33,955	127,975	136,346

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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