

Rating: Buy
 S&P 500: 1301

CNOOC Limited Growth Marches On

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$m)</i>	7,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	81.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/24/06	<i>Adjusted Reserves/Production NTM</i>	10.1
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$m)</i>	33,400	<i>PV/Ebitda</i>	4.9
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	52
<i>Enterprise Value (EV) (US\$m)</i>	33,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	40.59
<i>Present Value (PV) (US\$m)</i>	34,500	<i>Present Value Proven Reserves(US\$/boe)</i>	14.60
<i>Net Present Value (US\$/share)</i>	84	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.43
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.67
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.2	<i>Indicated Annual Dividend (US\$/sh)</i>	2.58

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.

The Peoples Republic of China holds 71% of the outstanding shares.

Summary and Recommendation

Reporting 2005 results on March 24, buy-recommended **CNOOC Limited (CEO)** notched another year of volume growth offshore China where international partners take exploration risk and CEO profits from production. Buy-recommendations **Chevron (CVX)**, **ConocoPhillips (COP)** and **Devon Energy (DVN)** are prominent partners. Having appreciated five-fold for investors in five years, CEO stock is priced near estimated net present value of \$84 a share. Yet our estimate presumes a long-term oil price of \$50 a barrel for oil while six-year futures are at \$66 in a rising trend. Our vision of \$150 oil in 2010 suggests that oil price and CEO stock have appreciation potential. Our estimate of natural gas value is inhibited by the low price the company currently receives. Finally, there is risk that the company overpays for an overseas acquisition to quench China's search for clean energy. Considering how cautiously management has been proceeding so far we expect that such transactions are likely to be on reasonable terms.

Natural Gas Price Opportunity

CNOOC reported a low natural gas price of \$2.77 an mcf for 2005. That is a third of the global indicator at \$8.65 a million btu for the Henry Hub in Louisiana and one-fourth of the \$11 equivalent indicated by Light, Sweet Crude Oil last year. Chairman and CEO Chengyu Fu was asked about the low price at the analyst meeting and conference call in Hong Kong. Mr. Fu explained that there was a lot of discussion going on in China about the continuous growth in energy demand and environmental issues. More coal burning has caused a lot of problems in the environment, as he put it. Mr. Fu believes the trend will be for natural gas price to move upward.

Kurt H. Wulff, CFA

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CNOOC Limited
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	390	21.2	11.0	4,300	12%
Oil	6,710	7.8	4.5	30,200	88%
	7,100	10.1	4.9	34,500	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					34,500
Shares (mm)					411
Net Present Value - Standard Estimate (US\$/sh)					84
Net Present Value - Approximation by Correlation (US\$/sh)					90

CNOOC Limited
Next Twelve Months Operations

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural gas (bcf)	31	40	142	40	41	166	43	44	173
Natural Gas (mmcf)	348	433	390	442	450	455	478	488	473
Days	90	92	365	90	91	365	90	91	365
Oil (mmb)	32	34	130	34	35	140	36	37	146
Oil (mbd)	352	365	358	372	380	384	403	411	399
Total gas & oil (bcf)	221	241	925	241	248	1,006	261	269	1,047
Total gas & oil (mbd)	410	437	423	446	455	460	483	492	478
Price			154			168			174
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	6.98	8.08	10.72	8.77	8.96
Company	2.69	2.52	2.77	2.77	2.77	2.77	2.77	2.77	2.77
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	62.86	61.81	63.49	65.59	65.82	65.17
Company	40.91	51.67	47.31	54.12	53.22	54.68	56.47	56.66	56.12
Total gas & oil (\$/mcf)	6.23	7.61	7.10	7.99	7.86	8.07	8.31	8.34	8.27
Revenue (\$mm)									
Natural Gas	84	100	395	110	114	460	119	123	479
Oil	1,296	1,735	6,174	1,813	1,839	7,658	2,048	2,120	8,174
Other									
Total	1,380	1,836	6,569	1,923	1,953	8,119	2,167	2,242	8,652

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CNOOC Limited
Next Twelve Months Financial Estimates

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Next Twelve Months</i>
	<i>6/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>6/30/07</i>	<i>6/30/07</i>
Revenue (mmRMB)								
Natural Gas (from Q table)	1,478	1,704	3,182	1,804	1,908	3,711	1,952	3,860
Oil (from Q table)	21,956	27,833	49,790	29,454	32,308	61,761	33,609	65,917
Other	1,300	929	2,228	929	929	1,857	929	1,857
Total	24,734	30,466	55,200	32,186	35,144	67,330	36,490	71,634
Expense								
Fixed	1,484	3,400	4,883	3,400	3,400	6,800	3,400	6,800
Variable	1,484	3,400	4,883	3,598	3,938	7,536	4,093	8,031
Ebitda	20,467	22,738	43,205	24,260	26,877	51,137	28,068	54,946
Exploration	611	600	1,211	1,000	1,000	2,000	1,000	2,000
Deprec., Deplet., & Amort.	2,787	2,732	5,519	2,732	2,732	5,464	2,732	5,464
Ebit	17,069	19,406	36,475	20,528	23,145	43,673	24,336	47,482
Interest	-	-	-	-	-	-	-	-
Ebt	17,069	19,406	36,475	20,528	23,145	43,673	24,336	47,482
Income Tax	5,143	5,835	10,978	7,185	8,101	15,286	8,518	16,619
Net Income	11,926	13,571	25,497	13,343	15,044	28,388	15,819	30,863
Shares (millions)	41,124	41,124	41,124	41,124	41,124	41,124	41,124	41,124
Per share (RMB)	0.29	0.33	0.62	0.32	0.37	0.69	0.38	0.75
Ebitda Margin	83%	75%	78%	75%	76%	76%	77%	77%
Tax Rate	30%	30%	30%	35%	35%	35%	35%	35%

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