



Independent Stock Idea

January 21, 2009

rating: hold
s&p 500: 805

CNOOC Limited (CEO) More Volume Growth in 2009

| | | | |
|---|---------|---|-------|
| <i>Symbol</i> | CEO | <i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i> | 6,300 |
| <i>Rating</i> | Hold | <i>North American Natural Gas/Ebitda (%)</i> | 0 |
| <i>Price (US\$/sh)</i> | 80.77 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 1/20/09 | <i>Adjusted Reserves/Production NTM</i> | 8.3 |
| <i>Shares (mm)</i> | 448 | <i>EV/Ebitda</i> | 5.7 |
| <i>Market Capitalization (US\$mm)</i> | 36,200 | <i>PV/Ebitda</i> | 9.6 |
| <i>Debt (US\$mm)</i> | 0 | <i>Undeveloped Reserves (%)</i> | 59 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 36,200 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 28.74 |
| <i>Present Value (PV) (US\$mm)</i> | 60,500 | <i>Present Value Proven Reserves(US\$/boe)</i> | 23.33 |
| <i>Net Present Value (US\$/share)</i> | 135 | <i>Present Value Proven Reserves(US\$/mcf)</i> | 3.89 |
| <i>Debt/Present Value</i> | 0.00 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 6.75 |
| <i>McDep Ratio - EV/PV</i> | 0.60 | <i>Price/Earnings Next Twelve Months</i> | 12 |
| <i>Dividend Yield (%/year)</i> | 5.9 | <i>Indicated Annual Dividend (US\$/sh)</i> | 4.77 |
| 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, \$10 a million btu. | | | |
| The Peoples Republic of China holds 66% of the outstanding shares. | | | |
| For historical research on CEO since 2001 see http://www.mcdep.com/4ceo.htm | | | |

Summary and Recommendation

Hold-rated **CNOOC Limited (CEO)** offers 15% volume growth in 2009 after a similar gain likely achieved in 2008. That could strengthen the validity of our estimated net present value (NPV) of \$135 a share, 67% above current stock price for the no-debt company. While detailed financial and operating data for 2008 will not be released for some weeks, management presented its 2009 Strategy Review on January 20. As a result, we raise our projections for future oil and gas production to near the low end of guidance from the company (see table [Quarterly Operations](#)). Meanwhile, lower price for crude oil and natural gas leads to lower cash flow (Ebitda) for the next year (see table [Half-Yearly Financial Results](#)). Awaiting a stronger indication that the stock market recovery will be sustained, we limit our buy recommendations to two of the five stocks in the Brazil/China/Russia segment of our oil and gas coverage. Less complicated CEO along with its favorable operating record could supplement or substitute for its larger peers in a McDep Energy Portfolio.

Kurt H. Wulff, CFA



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| CNOOC Limited | | | | | | | | | |
|--------------------------|----------|---------|----------|---------|---------|---------|---------|----------|----------|
| Quarterly Operations | | | | | | | | | |
| | Q4 | Q3 | Q4E | Year | Q1E | Q2E | Q3E | Q4E | Twelve |
| | 12/31/07 | 9/30/08 | 12/31/08 | 2008E | 3/31/09 | 6/30/09 | 9/30/09 | 12/31/09 | Months E |
| | | | | | | | | | 12/31/09 |
| Volume | | | | | | | | | |
| Natural gas (bcf) | 50 | 62 | 64 | 239 | 63 | 65 | 65 | 65 | 258 |
| Natural Gas (mmcf) | 543 | 679 | 700 | 654 | 700 | 710 | 710 | 710 | 708 |
| Days | 92 | 92 | 92 | 366 | 90 | 91 | 92 | 92 | 365 |
| Oil (mmb) | 33 | 40 | 41 | 154 | 41 | 43 | 46 | 48 | 177 |
| Oil (mbd) | 363 | 431 | 450 | 421 | 452 | 469 | 496 | 518 | 484 |
| Total gas & oil (mmboe) | 42 | 50 | 52 | 194 | 51 | 53 | 56 | 58 | 220 |
| Total gas & oil (mbd) | 453 | 544 | 567 | 530 | 569 | 588 | 614 | 636 | 602 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 6.97 | 10.25 | 6.95 | 9.04 | 5.25 | 4.97 | 5.29 | 6.01 | 5.38 |
| Company | 3.36 | 3.83 | 3.83 | 3.75 | 3.91 | 3.98 | 4.06 | 4.15 | 4.03 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 90.67 | 117.99 | 58.45 | 99.59 | 38.53 | 49.29 | 53.81 | 56.66 | 49.57 |
| Company | 80.35 | 106.94 | 52.02 | 90.06 | 34.29 | 43.87 | 47.89 | 50.43 | 44.47 |
| Total gas & oil (\$/mcf) | 11.39 | 14.91 | 7.67 | 12.69 | 5.34 | 6.64 | 7.23 | 7.61 | 6.75 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 168 | 239 | 247 | 898 | 246 | 257 | 265 | 271 | 1,040 |
| Oil | 2,681 | 4,240 | 2,154 | 13,865 | 1,395 | 1,874 | 2,184 | 2,401 | 7,853 |
| Total | 2,848 | 4,480 | 2,400 | 14,763 | 1,641 | 2,131 | 2,449 | 2,672 | 8,893 |
| RMB/\$ | 7.43 | 6.84 | 6.85 | 6.95 | 6.85 | 6.85 | 6.84 | 6.85 | 6.84 |
| Revenue (RMB) | | | | | | | | | |
| Natural Gas | 1,248 | 1,636 | 1,688 | 6,231 | 1,685 | 1,762 | 1,816 | 1,854 | 7,116 |
| Oil | 19,925 | 29,004 | 14,741 | 96,394 | 9,548 | 12,825 | 14,936 | 16,434 | 53,743 |
| Total | 21,172 | 30,641 | 16,429 | 102,625 | 11,232 | 14,587 | 16,752 | 18,287 | 60,859 |

| CNOOC Limited | | | | | | | | | |
|-----------------------------|---------|----------|--------|---------|----------|---------|---------|----------|----------|
| Half-Year Financial Results | | | | | | | | | |
| | H1 | H2 | Year | H1 | H2E | Year | H1E | H2E | Twelve |
| | 6/30/07 | 12/31/07 | 2007 | 6/30/08 | 12/31/08 | 2008E | 6/30/09 | 12/31/09 | Months |
| | | | | | | | | | 12/31/09 |
| Revenue (mmRMB) | | | | | | | | | |
| Natural Gas (from Q table) | 2,473 | 2,663 | 5,136 | 2,906 | 3,325 | 6,231 | 3,447 | 3,670 | 7,116 |
| Oil (from Q table) | 30,924 | 37,402 | 68,326 | 52,648 | 43,745 | 96,394 | 22,373 | 31,370 | 53,743 |
| Other | (175) | (250) | (425) | (1,091) | | (1,091) | - | - | - |
| Total | 33,222 | 39,815 | 73,037 | 54,464 | 47,070 | 101,534 | 25,820 | 35,040 | 60,859 |
| Expense | 5,502 | 10,157 | 15,659 | 12,775 | 13,650 | 26,425 | 7,488 | 10,162 | 17,649 |
| Ebitda | 27,720 | 29,658 | 57,378 | 41,689 | 33,420 | 75,109 | 18,332 | 24,878 | 43,210 |
| Exploration | 1,221 | 2,211 | 3,432 | 1,342 | 1,342 | 2,684 | 1,342 | 1,342 | 2,684 |
| Deprec., Deplet., & Amort. | 3,536 | 3,838 | 7,374 | 4,350 | 4,350 | 8,700 | 4,350 | 4,350 | 8,700 |
| Ebit | 22,963 | 23,609 | 46,572 | 35,997 | 27,728 | 63,725 | 12,640 | 19,186 | 31,826 |
| Interest | - | - | - | - | - | - | - | - | - |
| Ebt | 22,963 | 23,609 | 43,997 | 35,997 | 27,728 | 63,725 | 12,640 | 19,186 | 31,826 |
| Income Tax | 5,462 | 6,590 | 12,052 | 8,229 | 9,705 | 17,934 | 4,424 | 6,715 | 11,139 |
| Net Income | 14,926 | 17,019 | 31,945 | 27,768 | 18,023 | 45,791 | 8,216 | 12,471 | 20,687 |
| Shares (millions) | 43,900 | 44,787 | 44,368 | 44,787 | 44,787 | 44,787 | 44,787 | 44,787 | 44,787 |
| Per share (RMB) | 0.34 | 0.38 | 0.72 | 0.62 | 0.40 | 1.02 | 0.18 | 0.28 | 0.46 |
| Ebitda Margin | 83% | 74% | 79% | 77% | 71% | 74% | 71% | 71% | 71% |
| Tax Rate | 24% | 28% | 27% | 23% | 35% | 28% | 35% | 35% | 35% |



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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>(US\$mm)</i> | |
| Natural Gas | 740 | 16.2 | 9.5 | 7,000 | 12% |
| Oil | 5,560 | 6.4 | 9.6 | 53,500 | 88% |
| | 6,300 | 8.3 | 9.6 | 60,500 | 100% |
| Debt (US\$mm) | | | | | - |
| Net Present Value (US\$mm) | | | | | 60,500 |
| Shares (mm) | | | | | 448 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 135 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 125 |

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