



Independent Stock Idea

April 29, 2009

rating: buy
s&p 500: 861

CNOOC Limited (CEO) Reinstate Buy on Rising Outlook

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	7,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	108.86	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/28/09	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (US\$mm)</i>	48,800	<i>PV/Ebitda</i>	8.4
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	60
<i>Enterprise Value (EV) (US\$mm)</i>	48,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.62
<i>Present Value (PV) (US\$mm)</i>	60,500	<i>Present Value Proven Reserves(US\$/boe)</i>	24.05
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.01
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.75
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	4.7	<i>Indicated Annual Dividend (US\$/sh)</i>	5.16
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

We recommend current purchase of **CNOOC Limited (CEO)** stock for its growing oil and gas production that we believe will be increasingly valuable to its home country, China. Our quantitative justification is the unlevered appreciation potential of 24% to a McDep Ratio of 1.0 and levered appreciation potential of 24% to Net Present Value (NPV) of \$135 a share. We are also encouraged that the stock has traded above its 200-day average for almost a month signaling a rising trend by that measure (see chart). NPV is supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). First quarter operating results released today highlighted growing oil production (see tables Quarterly Operations and Half-Yearly Financial Results). Natural gas promises future profits as it accounts for 37% of the energy content of reserves and just 10% of current revenue. Pointing to expected oil price recovery, futures prices for the next six years averaged \$66 a barrel recently (see chart Six-Year Commodity Price Meter).

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CNOOC Limited					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	R/P	Ebitda	(US\$mm)	
Natural Gas	740	13.6	9.5	7,000	12%
Oil	6,460	6.0	8.3	53,500	88%
	7,200	7.5	8.4	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)					129



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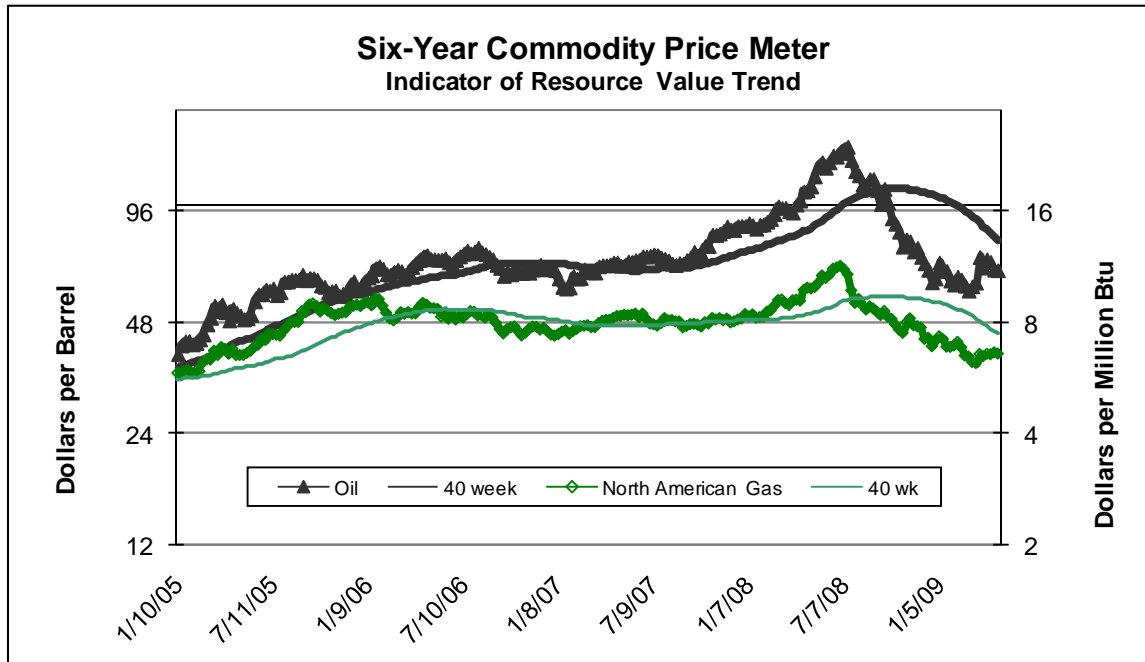
CNOOC Limited									
Quarterly Operations									
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	Months E
									6/30/10
Volume									
Natural gas (bcf)	55	64	239	51	65	65	65	246	267
Natural Gas (mmcf)	601	700	654	563	710	710	710	674	731
Days	91	92	366	90	91	92	92	365	365
Oil (mmb)	36	42	155	42	43	46	49	179	192
Oil (mbd)	393	460	423	469	469	496	529	491	526
Total gas & oil (mmb)	45	53	195	51	53	56	60	220	236
Total gas & oil (mbd)	493	577	532	562	588	614	647	603	647
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	6.95	9.04	4.90	3.42	3.62	4.57	4.13	4.83
Company	3.65	4.13	3.83	3.89	3.97	4.05	4.13	4.02	4.17
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	99.59	42.96	49.97	52.66	55.70	50.32	56.67
Company	88.76	50.38	89.39	41.56	44.47	46.86	49.57	45.78	50.50
Total gas & oil (\$/mcf)	12.53	7.53	12.63	6.42	6.72	7.09	7.51	6.96	7.62
Revenue (\$mm)									
Natural Gas	200	266	917	197	256	264	270	987	1,113
Oil	3,174	2,132	13,844	1,753	1,899	2,137	2,413	8,201	9,689
Total	3,374	2,398	14,761	1,950	2,156	2,401	2,682	9,189	10,802
RMB/\$	7.16	6.84	6.95	6.84	6.83	6.83	6.83	6.83	6.83
Revenue (RMB)									
Natural Gas	1,430	1,819	6,362	1,348	1,751	1,806	1,842	6,748	7,605
Oil	22,740	14,583	96,236	11,987	12,975	14,599	16,482	56,043	66,193
Total	24,170	16,403	102,598	13,335	14,726	16,405	18,324	62,791	73,798

CNOOC Limited									
Half-Year Financial Results									
	H2	Year	H1	H2	Year	H1E	H2E	Year	Twelve
	12/31/07	2007	6/30/08	12/31/08	2008	6/30/09	12/31/09	2008E	Months
									12/31/09
Revenue (mmRMB)									
Natural Gas (from Q table)	2,663	5,136	2,906	3,456	6,362	3,100	3,648	6,748	7,605
Oil (from Q table)	37,402	68,326	52,648	43,588	96,236	24,962	31,081	56,043	66,193
Other	(250)	(425)	(1,091)	(676)	(1,767)	-	-	-	-
Total	39,815	73,037	54,464	46,367	100,831	28,061	34,729	62,791	73,798
Expense	10,157	15,659	12,776	16,744	29,520	9,260	11,461	20,721	24,353
Ebitda	29,658	57,378	41,688	29,623	71,311	18,801	23,269	42,070	49,445
Exploration	2,211	3,432	1,342	2,068	3,410	2,068	2,068	4,136	4,136
Deprec., Deplet., & Amort.	3,838	7,374	4,350	5,708	10,058	5,708	5,708	11,416	11,416
Ebit	23,609	46,572	35,996	21,847	57,843	11,025	15,493	26,518	33,893
Interest	-	-	-	-	-	-	-	-	-
Ebt	23,609	43,997	35,996	21,847	57,843	11,025	15,493	26,518	33,893
Income Tax	6,590	12,052	8,229	5,276	13,505	3,308	4,648	7,955	10,168
Net Income	17,019	31,945	27,767	16,571	44,338	7,718	10,845	18,562	23,725
Shares (millions)	44,787	44,368	44,786	44,786	44,786	44,786	44,786	44,786	44,786
Per share (RMB)	0.38	0.72	0.62	0.37	0.99	0.17	0.24	0.41	0.53
Ebitda Margin	74%	79%	77%	64%	71%	67%	67%	67%	67%
Tax Rate	28%	27%	23%	24%	23%	30%	30%	30%	30%



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