



Independent Stock Idea

July 31, 2008

rating: buy
s&p 500: 1284

Royal Dutch Shell plc (RDS) Rebuilding North American Natural Gas

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	72,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	73.69	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	7/30/08	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	3106	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (US\$mm)</i>	229,000	<i>PV/Ebitda</i>	5.7
<i>Debt (US\$mm)</i>	43,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	272,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	44.90
<i>Present Value (PV) (US\$mm)</i>	415,000	<i>Present Value Proven Reserves(US\$/boe)</i>	25.90
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.32
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.50
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	4.3	<i>Indicated Annual Dividend (US\$/sh)</i>	3.20
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/1rd.htm			

Summary and Recommendation

Buy-recommended **Royal Dutch Shell plc (RDSA)** offers unlevered appreciation potential of 53% to estimated net present value (NPV) of \$120 a share. On May 13 we raised NPV from \$104 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as stock price has entered a downtrend defined by current quote below the 200-day average of \$78. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price along with dampened downstream refining and marketing where higher price was not fully passed through to consumers. Projected volumes along with current futures prices promise a high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$124 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)). Supplementing its concentration on oil, RDS is rebuilding its strategic position in the North American Natural Gas business. The company is acquiring for \$6 billion an independent Canadian producer and is drilling with buy-recommended **Encana (ECA)** in Louisiana's Haynesville Shale.

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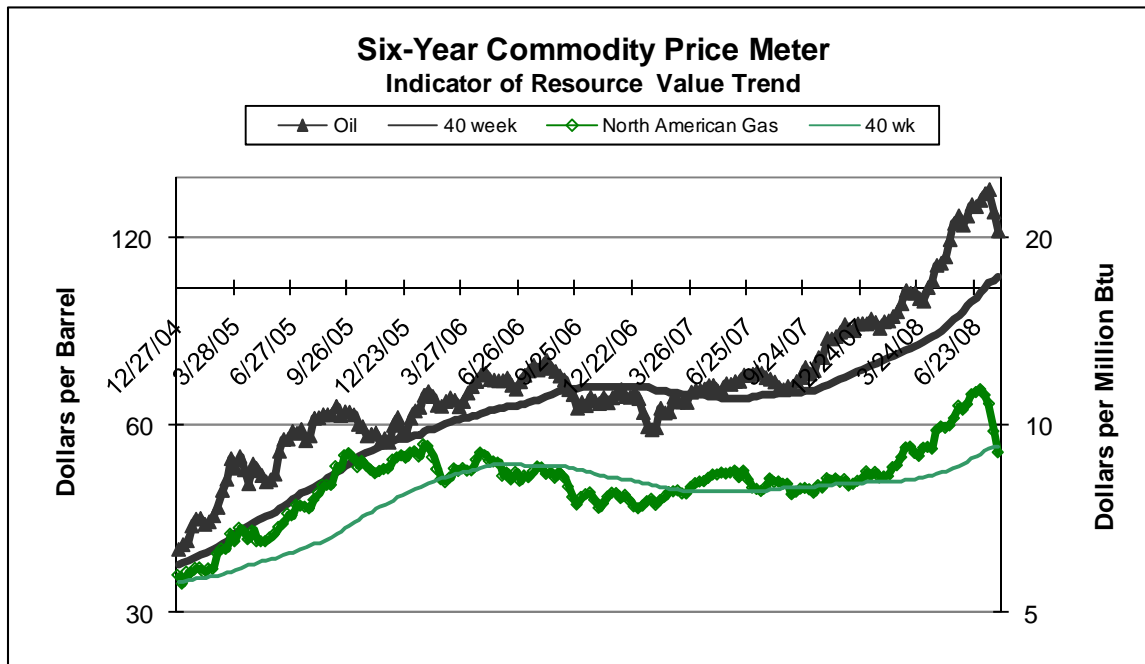
Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	6/30/09
Volume									
Natural Gas (mmcf)									
U.S.	1,091	1,105	1,096	1,096	1,096	1,098	1,096	1,096	1,096
Overseas (or Int'l)	6,276	8,650	6,693	6,198	8,047	7,396	8,650	6,693	7,392
Total	7,367	9,755	7,789	7,294	9,143	8,494	9,746	7,789	8,488
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	1,908	1,840	1,783	1,783	1,783	1,797	1,783	1,783	1,783
Total gas & oil (mbd)	3,136	3,466	3,081	2,999	3,307	3,213	3,407	3,081	3,198
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.49	9.66	9.78	10.19	9.38	9.93
U.S.	7.78	9.52	11.89	11.41	10.51	10.83	11.08	10.39	10.85
Overseas (or Int'l)	4.21	6.14	6.55	4.21	5.79	5.73	6.14	6.55	5.73
Total	4.74	6.52	7.30	5.29	6.36	6.39	6.69	7.09	6.39
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	127.56	125.71	118.80	126.45	125.26	126.25
Worldwide	63.92	90.46	112.09	115.34	113.66	107.79	114.34	113.25	114.15
Total gas & oil (\$/bbl)	50.03	66.38	83.32	81.45	78.87	77.19	78.97	83.46	80.61
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	12.32	9.19	11.00	11.65	15.15	12.08
Revenue (\$mm)									
Natural Gas									
U.S.	772	957	1,186	1,150	1,059	4,353	1,093	1,037	4,339
Overseas (or Int'l)	2,405	4,831	3,988	2,402	4,290	15,511	4,777	3,988	15,458
Total	3,178	5,788	5,174	3,552	5,350	19,864	5,870	5,025	19,797
Oil	11,098	15,147	18,187	18,919	18,645	70,898	18,347	18,376	74,287
Other	70,620	93,367	108,057	108,057	108,057	417,539	108,057	108,057	432,229
Total	84,896	114,302	131,419	130,529	132,052	508,301	132,275	131,458	526,313
Expense (\$mm)									
70,063	98,687	114,031	113,489	115,233	441,439	114,403	113,849	456,974	
Ebitda (\$mm)									
Exploration and Production	8,200	11,063	12,649	12,359	13,197	49,269	13,320	12,870	51,746
Other	6,633	4,552	4,739	4,681	3,622	17,594	4,552	4,739	17,594
Total Ebitda	14,833	15,615	17,388	17,040	16,819	66,862	17,872	17,609	69,340
Exploration	450	325	408	408	408	1,549	408	600	1,824
Deprec., Deplet., & Amort.	3,238	3,146	3,439	3,439	3,439	13,463	3,439	3,600	13,917
Other non cash	(622)					-			-
Ebit	11,766	12,144	13,541	13,193	12,972	51,850	14,025	13,409	53,599
Interest	130	200	200	200	200	800	200	200	800
Ebt	11,636	11,944	13,341	12,993	12,772	51,050	13,825	13,209	52,799
Income Tax	4,073	4,180	4,669	4,548	4,470	17,868	4,839	4,623	18,480
Net Income (\$mm)									
Exploration and Production	3,148	5,458	6,134						
Other	3,757	2,354	2,333						
Unallocated	659	(48)	205						
Total	7,564	7,764	8,672	8,445	8,302	33,183	8,986	8,586	34,319
Shares (millions)									
3,152	3,106	3,095	3,095	3,095	3,097	3,095	3,095	3,095	
Per share (\$)	2.40	2.50	2.80	2.73	2.68	10.71	2.90	2.77	11.09
Ebitda Margin (E&P)	57%	53%	54%	55%	55%	54%	55%	55%	55%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	2,390	4.8	5.0	12,000	3%
Rest of World Natural Gas	8,500	10.4	7.9	67,000	16%
Oil	40,860	5.9	5.6	230,000	55%
Downstream	17,590		6.3	110,000	26%
	69,340	7.6	6.0	419,000	100%
Debt (US\$mm)					48,000
Net Present Value (US\$mm)					371,000
Shares (mm)					3,095
Net Present Value - Standard Estimate (US\$/sh)					120
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					111





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