



# Independent Stock Idea

April 29, 2009

rating: hold  
s&p 500: 871 intraday

## Royal Dutch Shell plc (RDS) Lower Net Present Value to \$80 a Share

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	35,900
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	2
<i>Price (US\$/sh)</i>	45.91	<i>Natural Gas and Oil Production/Ebitda (%)</i>	69
<i>Pricing Date</i>	4/29/09	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	3063	<i>EV/Ebitda</i>	5.3
<i>Market Capitalization (US\$mm)</i>	141,000	<i>PV/Ebitda</i>	8.2
<i>Debt (US\$mm)</i>	49,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	190,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.00
<i>Present Value (PV) (US\$mm)</i>	294,000	<i>Present Value Proven Reserves(US\$/boe)</i>	17.20
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.87
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.27
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	7.3	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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.			
For historical analysis of RDS since 2001 see <a href="http://www.mcdep.com/1rd.htm">www.mcdep.com/1rd.htm</a>			

### Summary and Recommendation

Hold-rated **Royal Dutch Shell plc (RDSA)** offers unlevered appreciation potential of 55% to a McDep Ratio of 1.0 and levered appreciation potential of 74% to Net Present Value (NPV) of \$80 a share. We lower NPV from \$92 on the basis of lower cash flow margin on oil and gas production than we previously estimated. During the first quarter, according to results released today, RDS generated cash from oil and gas production of about \$16 a barrel of oil equivalent as the difference between price of about \$39 and cash operating costs of about \$23. Better downstream results helped earnings meet expectations from three months ago. We project more production cash flow and less refining and marketing cash flow in the next few quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow 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](#)). By latest disclosures, oil and gas reserves, weighted by development, are concentrated 56% by heating value in natural gas outside the U.S. (see table [Production and Reserves, 2008](#)). 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](#)). Despite lower NPV, RDS stock continues to offer a secure dividend that is likely to increase with inflation and offers a current annual yield of more than 7%.

Kurt H. Wulff, CFA



# Independent Stock Idea

April 29, 2009

Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
									Next
	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
									3/31/10
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,105	1,071	<b>1,053</b>	1,110	1,110	1,110	1,110	<b>1,110</b>	<b>1,110</b>
Overseas (or Int'l)	8,650	8,460	<b>7,516</b>	8,641	6,693	6,265	8,460	<b>7,511</b>	<b>7,511</b>
Total	9,755	9,531	<b>8,569</b>	9,751	7,803	7,375	9,570	<b>8,621</b>	<b>8,621</b>
Days	91	92	<b>366</b>	90	91	92	92	<b>365</b>	<b>365</b>
Oil (mbd)	1,840	1,772	<b>1,771</b>	1,772	1,772	1,772	1,772	<b>1,772</b>	<b>1,772</b>
Total gas & oil (mmb)	315	309	<b>1,171</b>	306	280	276	310	<b>1,171</b>	<b>1,171</b>
Total gas & oil (mbd)	3,466	3,361	<b>3,199</b>	3,397	3,073	3,001	3,367	<b>3,209</b>	<b>3,209</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	6.95	<b>9.04</b>	4.90	3.42	3.62	4.57	<b>4.13</b>	<b>4.30</b>
U.S.	9.52	6.37	<b>9.62</b>	4.80	3.35	3.55	4.48	<b>4.04</b>	<b>4.21</b>
Overseas (or Int'l)	6.14	6.85	<b>6.44</b>	6.14	6.55	6.16	6.85	<b>6.44</b>	<b>6.44</b>
Total	6.52	6.80	<b>6.83</b>	5.98	6.09	5.77	6.58	<b>6.13</b>	<b>6.15</b>
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	<b>99.59</b>	42.96	49.97	52.66	55.70	<b>50.32</b>	<b>54.12</b>
Worldwide	90.46	57.14	<b>92.49</b>	41.98	48.83	51.45	54.43	<b>49.21</b>	<b>52.87</b>
Total gas & oil (\$/bbl)	66.38	49.42	<b>69.49</b>	39.07	43.63	44.56	47.34	<b>43.64</b>	<b>45.72</b>
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	<b>9.86</b>	9.18	8.11	6.98	3.00	<b>6.82</b>	<b>5.74</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	957	628	<b>3,708</b>	480	338	363	457	<b>1,637</b>	<b>1,707</b>
Overseas (or Int'l)	4,831	5,335	<b>17,705</b>	4,772	3,988	3,551	5,335	<b>17,647</b>	<b>17,647</b>
Total	5,788	5,963	<b>21,413</b>	5,252	4,327	3,914	5,792	<b>19,284</b>	<b>19,354</b>
Oil	15,147	9,315	<b>59,945</b>	6,694	7,873	8,388	8,873	<b>31,829</b>	<b>34,197</b>
Other	93,367	65,795	<b>377,003</b>	16,276	16,276	16,276	16,276	<b>65,103</b>	<b>65,103</b>
Total	114,302	81,073	<b>458,361</b>	28,222	28,475	28,578	30,941	<b>116,216</b>	<b>118,654</b>
Expense	98,687	70,423	<b>398,165</b>	19,804	19,788	19,957	21,689	<b>81,239</b>	<b>82,744</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	11,063	6,583	<b>41,212</b>	4,882	5,612	5,659	6,746	<b>22,898</b>	<b>24,634</b>
Other	4,552	4,067	<b>18,984</b>	3,536	3,075	2,961	2,506	<b>12,079</b>	<b>11,276</b>
Total Ebitda	15,615	10,650	<b>60,196</b>	8,418	8,687	8,620	9,252	<b>34,977</b>	<b>35,910</b>
Exploration	325	778	<b>2,049</b>	496	600	600	600	<b>2,296</b>	<b>2,400</b>
Deprec., Deplet., & Amort.	3,146	3,684	<b>13,656</b>	3,090	3,090	3,090	3,090	<b>12,360</b>	<b>12,360</b>
Other non cash			-					-	-
Ebit	12,144	6,188	<b>44,491</b>	4,832	4,997	4,930	5,562	<b>20,321</b>	<b>21,150</b>
Interest	200	215	<b>862</b>	262	262	262	262	<b>1,048</b>	<b>1,048</b>
Ebt	11,944	5,974	<b>43,629</b>	4,570	4,735	4,668	5,300	<b>19,273</b>	<b>20,102</b>
Income Tax	4,180	2,091	<b>15,270</b>	1,600	1,657	1,634	1,855	<b>6,746</b>	<b>7,036</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	5,458	2,377	<b>19,241</b>	1,310					
Other	2,354	1,854	<b>9,472</b>	1,702					
Unallocated	(48)	(348)	<b>(354)</b>	(42)					
Total	7,764	3,883	<b>28,359</b>	2,971	3,078	3,034	3,445	<b>12,528</b>	<b>13,066</b>
Shares (millions)	3,106	3,064	<b>3,089</b>	3,063	3,063	3,063	3,063	<b>3,063</b>	<b>3,063</b>
Per share (\$)	2.50	1.27	<b>9.18</b>	0.97	1.01	0.99	1.12	<b>4.09</b>	<b>4.27</b>
Ebitda Margin (E&P)	53%	43%	<b>51%</b>	41%	46%	46%	46%	<b>45%</b>	<b>46%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>



# Independent Stock Idea

April 29, 2009

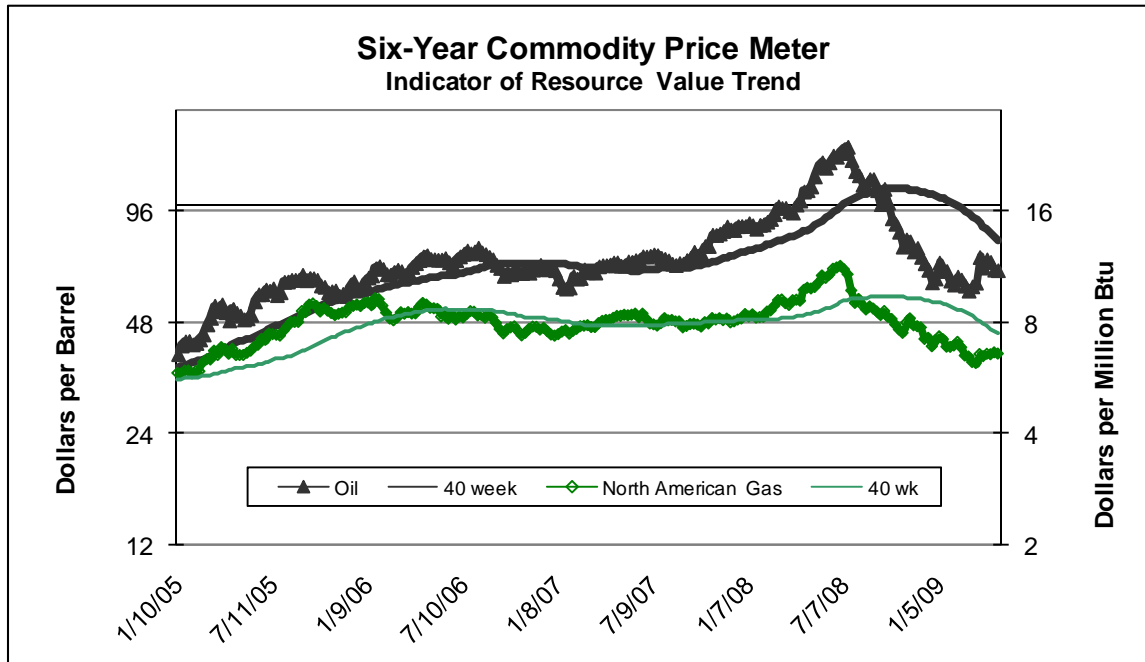
Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	790	4.4	11.4	9,000	3%
Rest of World Natural Gas	8,120	10.9	8.6	70,000	24%
Oil	15,720	5.5	7.6	119,000	40%
Downstream	11,280		8.5	96,000	33%
	35,910	7.6	8.2	294,000	100%
Debt (US\$mm)					49,000
Net Present Value (US\$mm)					245,000
Shares (mm)					3,063
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					79

Royal Dutch Shell								
Production and Reserves, 2008								
								<i>NTM</i>
				<i>12/31/2008 Proven Reserves</i>			<i>Weighted</i>	<i>Adjusted</i>
	<i>2008 Production</i>		<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>R/P</i>	
	<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>(years)</i>	
U.S. Natural Gas	1,047	382	1,202	1,200	1,802	4.7	4.4	
Rest of World Natural Gas								
Europe	3,690	1,347	12,502	3,230	14,117	10.5		
Africa	553	202	471	1,162	1,052			
Asia Pacific	2,551	931	4,904	2,643	6,226	6.7		
MidEast, Russia, CIS	238	87	167	14,324	7,329	84.2		
W. Hemisphere ex U.S.	507	185	891	643	1,213	6.6		
Total	7,540	2,752	18,935	22,002	29,936	10.9	10.9	
Oil								
U.S.	271	99	364	224	476	4.8		
Europe	375	137	384	107	438	3.2		
Africa	310	113	296	296	444	3.9		
Asia Pacific	205	75	236	57	265	3.5		
MidEast, Russia, CIS	452	165	554	845	977	5.9		
W. Hemisphere ex U.S.	82	30	63	80	103	3.4		
Oil Sands	79	29	725	272	861	29.7		
Total	1,775	648	2,622	1,881	3,563	5.5	5.5	
Total Oil Equivalent	3,206	1,170	5,978	5,748	8,852	7.6	7.6	



# Independent Stock Idea

April 29, 2009



**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.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.