

Rating: Buy
 S&P 500: 1192

Shell Transport & Trading Nice Return for Low Risk

<i>Symbol</i>	SC	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	19,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (US\$/sh)</i>	52.45	<i>Natural Gas and Oil Production/Ebitda (%)</i>	61
<i>Pricing Date (intraday)</i>	5/31/05	<i>Adjusted Reserves/Production NTM</i>	7.3
<i>Shares (mm)</i>	1587	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	83,200	<i>PV/Ebitda</i>	5.2
<i>Debt (US\$mm)</i>	14,000	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	97,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.20
<i>Present Value (PV) (US\$mm)</i>	102,800	<i>Present Value Proven Reserves(US\$/boe)</i>	12.70
<i>Net Present Value (US\$/share)</i>	55.95	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.12
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.61
<i>McDep Ratio - EV/PV</i>	0.95	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.92

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.

Summary and Recommendation

Delivering a total return to investors of 13% a year for the past ten years, buy-recommended **Shell Transport & Trading (SC)** would return more than 11% per year for the next ten years assuming a constant real oil price of \$38 a barrel. The current average futures price for oil for the next six years is more than \$50 in a rising trend. Risk is low with globally diversified, integrated operations and miniscule debt. Large dividend increases seem likely along with large scale stock repurchase. Each SC American Depositary Receipt will become .86 ADR of a unified Royal Dutch Shell on July 20 presuming shareholder approval on June 28, 2005.

Present Value Low Relative to Cash Flow

Estimated originally on a discounted cash flow basis assuming \$40 oil, present value looks low relative to next twelve months cash flow (see table [Functional Cash Flow and Present Value](#)). Cash flow multiple for the company compares closely to our current correlation with adjusted reserve life index for thirty producers. North American Natural Gas is below the correlation multiple by 0.1. Overseas Natural Gas and Oil equal the correlation multiple. The downstream multiple is 0.2 below the median of fourteen companies.

Cash Flow Rising with Commodity Price

A dynamic measure, projected cash flow is updated frequently with latest futures quotes (see table [Next Twelve Months Operating and Financial Estimates](#)). Recent quarterly results also influence projections.

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Royal Dutch/Shell
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	2,060	4.7	4.4	9,000	4%
Overseas Natural Gas	6,940	11.1	6.3	44,000	17%
Oil	21,020	5.6	4.1	86,000	33%
Downstream	19,550		6.0	118,000	46%
	49,570	7.3	5.2	257,000	100%

Oil Price Trend Rising

Average oil price for the next six years has reached about \$50 a barrel suggesting that recent quotes have staying power. Moreover the trend appears to be continuing upward (see chart Oil Six-Year Futures Strip and 40-Week Average).

Futures Guide Estimates of Next Twelve Months Cash Flow

The quarterly trend of futures illustrates (1) gradually higher oil cash flow, (2) buildup in natural gas to a winter peak and (3) a downstream summer peak (see chart Futures as Cash Flow Indicators). Cash flow estimates reflect the trend in Light, Sweet Crude Oil traded on the New York Mercantile Exchange though different grades of crude oil can exhibit their own patterns. Nymex natural gas guides our estimates of cash flow in North America though regional differences can be pronounced. Refining crack spreads calculated from futures prices are indicative of market pressures, but not broad enough to justify continuous adjustment of downstream projections.

Buy Oil and Gas Producers at Mid Decade

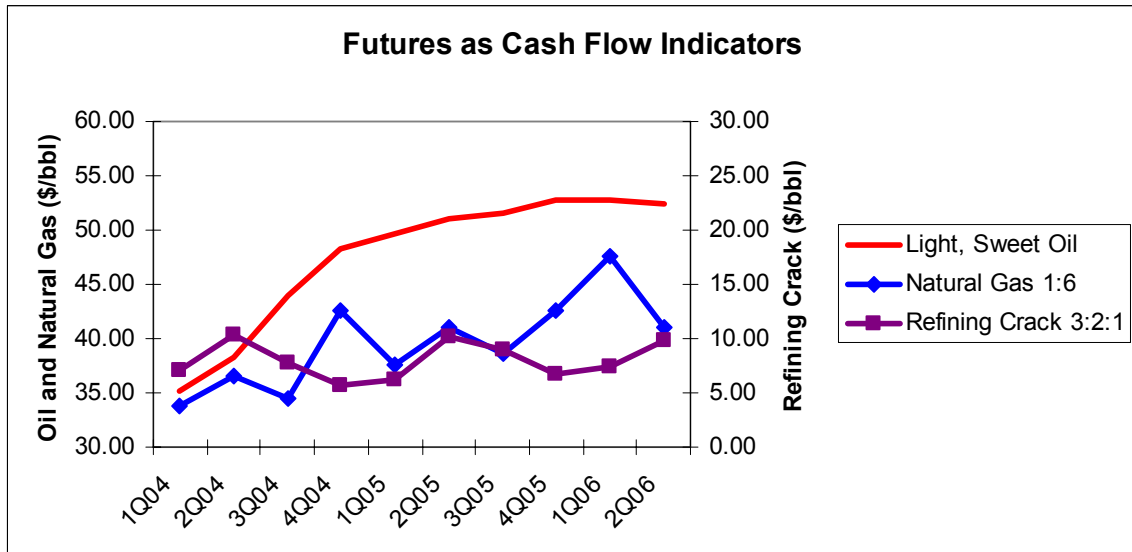
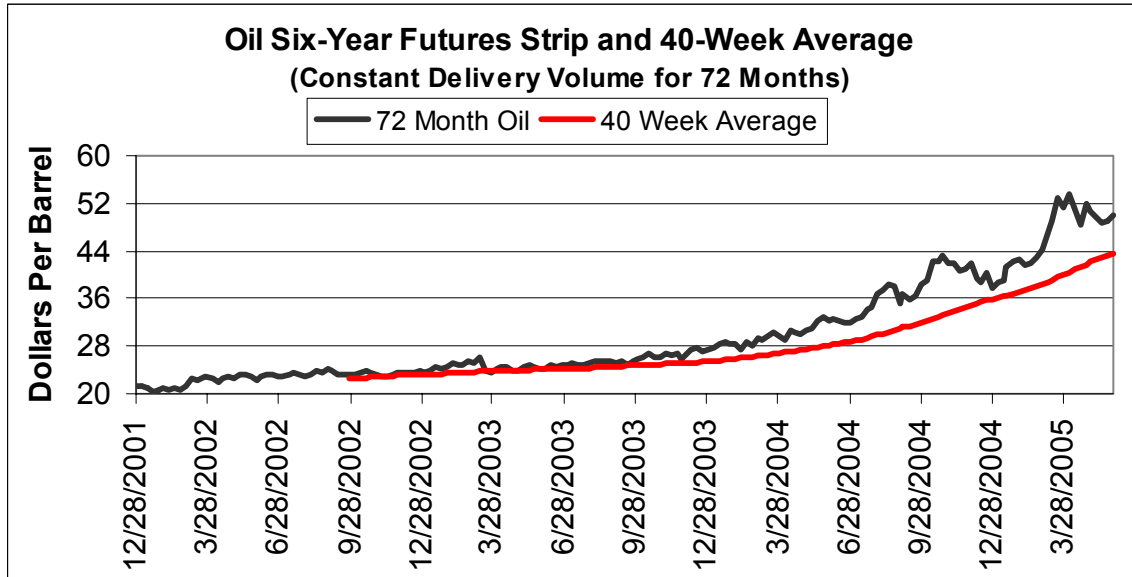
Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio).

Kurt H. Wulff, CFA

Royal Dutch/Shell
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	1,302	1,335	1,385	1,385	1,385	1,385	1,385	1,385	1,385	1,385
Overseas (or Int'l)	8,408	7,528	8,490	6,226	5,660	7,924	7,070	8,483	6,221	7,067
Total	9,710	8,864	9,875	7,611	7,045	9,309	8,455	9,868	7,606	8,452
Oil (mbd)	2,163	2,261	2,144	2,144	2,144	2,144	2,144	2,144	2,144	2,144
Total gas & oil (mmb)	348	1,365	341	311	305	340	1,297	341	310	1,297
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.83	6.43	7.11	6.66	7.94	6.84	7.08
U.S. (or North America)	7.27	6.33	6.83	6.77	6.37	7.04	6.75	7.86	6.77	7.01
Overseas (or Int'l)	3.32	3.08	3.92	4.51	4.55	4.65	4.38	4.66	4.63	4.63
Total	3.85	3.57	4.33	4.92	4.91	5.01	4.77	5.11	5.02	5.02
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	51.05	51.57	52.68	51.24	52.78	52.47	52.38
Worldwide	40.17	35.56	43.84	45.08	45.54	46.52	45.25	46.61	46.33	46.25
Total gas & oil (\$/bbl)	32.86	29.98	36.08	39.29	39.85	39.60	38.66	39.68	40.31	39.85
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.24	8.89	6.64	7.99	7.40	9.77	8.18
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	871	3,084	851	853	811	897	3,412	980	854	3,542
Overseas (or Int'l)	2,568	8,471	2,997	2,554	2,371	3,391	11,313	3,558	2,623	11,944
Total	3,439	11,555	3,848	3,407	3,183	4,288	14,725	4,539	3,476	15,486
Oil	7,994	29,357	8,459	8,795	8,982	9,176	35,412	8,993	9,039	36,190
Other	64,991	227,152	59,848	59,848	59,848	59,848	239,393	59,848	59,848	239,393
Total	76,424	268,064	72,156	72,050	72,013	73,312	289,531	73,380	72,364	291,069
Expense (\$mm)										
Production	4,466	15,888	5,292	5,271	5,263	5,523	21,349	5,537	5,334	21,657
Other	59,488	209,644	54,834	54,961	54,961	54,961	219,718	54,961	54,961	219,845
Ebitda (\$mm)										
Exploration and Production	6,967	25,024	7,016	6,931	6,902	7,940	28,788	7,995	7,182	30,019
Other	5,503	17,508	5,014	4,887	4,887	4,887	19,675	4,887	4,887	19,549
Total Ebitda	12,470	42,532	12,030	11,818	11,789	12,827	48,464	12,882	12,069	49,567
Exploration	519	1,828	261	600	600	600	2,061	600	600	2,400
Deprec., Deplet., & Amort.	3,545	11,897	3,155	3,155	3,155	3,155	12,620	3,155	3,155	12,620
Other non cash	161	554	-	-	-	-	-	-	-	-
Ebit	8,245	28,253	8,614	8,063	8,034	9,072	33,783	9,127	8,314	34,547
Interest	336	1,259	78	78	78	78	312	78	78	312
Ebt	7,909	26,994	8,536	7,985	7,956	8,994	33,471	9,049	8,236	34,235
Income Tax	2,768	9,448	2,987	2,795	2,784	3,148	11,715	3,167	2,883	11,982
Net Income (\$mm)										
Exploration and Production	2,578	9,664	2,955	-	-	-	11,715	5,882	5,354	22,253
Other	3,036	9,436	2,797	-	-	-	11,715	5,882	5,354	22,253
Unallocated	(473)	(1,554)	(204)	-	-	-	11,715	5,882	5,354	22,253
Total	5,141	17,546	5,548	5,190	5,171	5,846	21,756	5,882	5,354	22,253
Shares (millions) - SC	1,575	1,581	1,576	1,576	1,576	1,576	1,575	1,576	1,576	1,576
Per share (\$) - SC	1.30	4.44	1.41	1.32	1.31	1.48	5.52	1.49	1.36	5.65
Ebitda Margin (E&P)	61%	61%	57%	57%	57%	59%	57%	59%	57%	58%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>31-May</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
BP plc	BP	B	60.20	3,574	215,000	64.00	0.13	0.95
Shell Transport and Trading Co. plc	SC	B	52.45	1,587	83,000	56.00	0.14	0.95
Exxon Mobil Corporation	XOM	B	56.20	6,421	361,000	60.00	0.06	0.94
Royal Dutch Petroleum	RD	B	58.58	2,018	118,000	66.00	0.14	0.90
Total S.A.	TOT	B	111.19	1,192	133,000	126.00	0.15	0.90
Chevron Corporation	CVX	B	53.78	2,311	124,000	70.00	0.13	0.80
	<i>Total or Median</i>				<i>1,034,000</i>		<i>0.13</i>	<i>0.92</i>

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