



# Independent Stock Idea

February 15, 2010

rating: contrarian buy  
s&p 500: 1076

## Statoil (STO) Reposition Dividend for Growth

<i>Symbol</i>	STO	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$m)</i>	21,900
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	21.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/12/10	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	3183	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (\$mm)</i>	69,200	<i>PV/Ebitda</i>	6.5
<i>Debt (\$mm)</i>	31,600	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	100,800	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	33.20
<i>Present Value (PV) (\$mm)</i>	143,000	<i>Present Value Proven Reserves(\$/boe)</i>	25.60
<i>Net Present Value (\$/share)</i>	35	<i>Present Value Proven Reserves(\$/mcf)</i>	4.30
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.87
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	4.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.02
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
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, \$8 a million btu.			
The Norwegian government owns 67% of the shares in Statoil.			

### Summary and Recommendation

Contrarian Buy-recommended **Statoil (STO)** offers unlevered appreciation potential of 42% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$35 a share. Fourth quarter results released on February 11 matched our expectations from three months ago for unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Cash flow and reserve life support NPV in an industry context (see table [Functional Cash Flow and Present Value](#)). The dividend for 2009 to be paid in June 2010 has been set at 6 Norwegian kroner per share, down from NOK7.25 the previous year. The new dividend sets a base from which it can grow every year with less sensitivity to the business cycle. Under the previous policy the dividend was tied more rigidly to earnings, which have fluctuated with a change to International Accounting Standards (IFRS) and with the economic swings of the past few years. As a result, investors can now have more confidence in the sustainability of the indicated 4.7% yield. Meanwhile futures prices for the next six years for oil settled at \$83 a barrel on February 12, above the 40-week average of \$82 (see chart [Six-Year Commodity Price Meter](#)). Finally, we changed our previous “Buy” on STO to “Contrarian Buy” after stock price dropped below its 200-day average of \$23 a share recently.

Kurt H. Wulff, CFA



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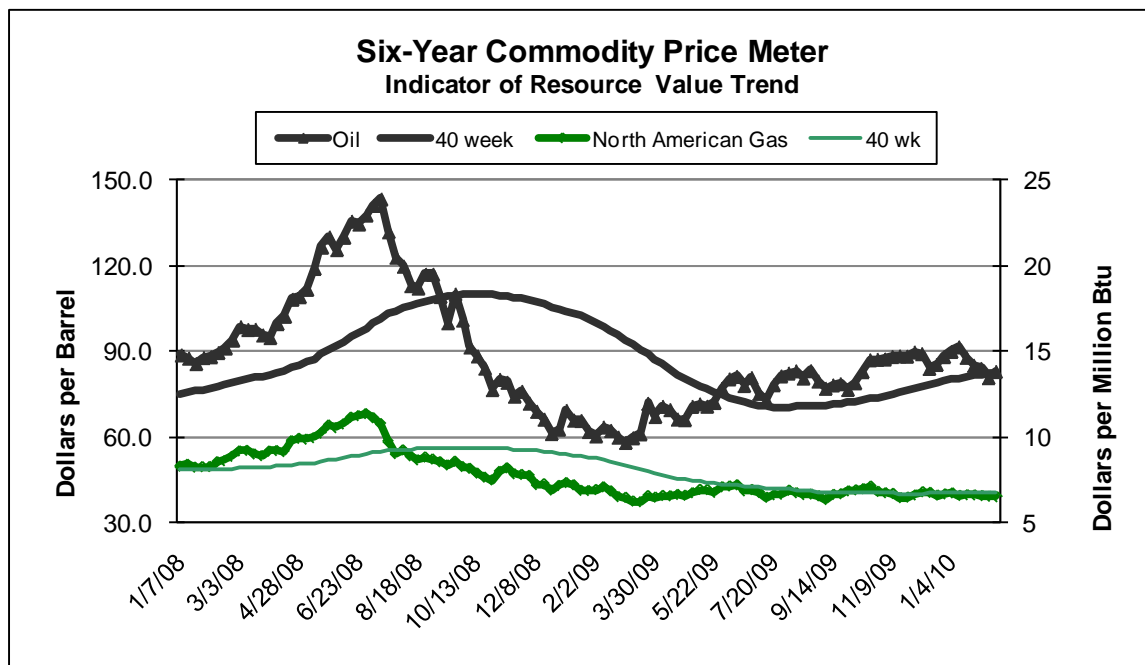
Statoil ASA									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
<b>Volume</b>									
Natural gas (bcf)	421	359	433	<b>1,620</b>	449	380	359	433	<b>1,620</b>
Natural Gas (mmcf)	4,572	3,900	4,704	<b>4,439</b>	4,986	4,176	3,900	4,704	<b>4,439</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mmb)	101	98	98	<b>389</b>	96	97	98	98	<b>390</b>
Oil (mbd)	1,095	1,060	1,068	<b>1,066</b>	1,068	1,068	1,068	1,068	<b>1,068</b>
Total gas & oil (mbd)	1,857	1,710	1,852	<b>1,806</b>	1,899	1,764	1,718	1,852	<b>1,808</b>
<b>Price</b>									
Natural gas (NOK/mcf)	85	46	44	<b>54</b>	49	50	50	49	<b>49</b>
Natural gas (NOK/Sm <sup>3</sup> )	2.99	1.61	1.57	<b>1.91</b>	1.73	1.75	1.75	1.75	<b>1.74</b>
Oil									
WTI Cushing US\$/bbl)	58.45	68.22	76.09	<b>61.70</b>	74.01	72.72	74.20	75.54	<b>74.11</b>
Kroner/\$	6.78	6.11	5.69	<b>6.29</b>	5.91	5.91	5.91	5.91	<b>5.91</b>
WTI Cushing (NOK/bbl)	396	417	433	<b>388</b>	437	430	438	446	<b>438</b>
Wellhead (NOK/bbl)	346	400	405	<b>362</b>	409	402	410	418	<b>410</b>
Total gas & oil (NOK/bbl)	413	352	347	<b>346</b>	359	361	368	366	<b>363</b>
<b>Revenue (NOKmm)</b>									
Natural Gas	35,628	16,365	19,248	<b>87,494</b>	22,016	18,822	17,818	21,398	<b>80,054</b>
Oil	34,856	39,008	39,794	<b>140,789</b>	39,340	39,084	40,317	41,045	<b>159,786</b>
Other	115,869	84,053	84,575	<b>324,025</b>	84,575	84,575	84,575	84,575	<b>338,301</b>
Total	150,725	123,061	124,369	<b>464,814</b>	145,931	142,481	142,711	147,018	<b>578,141</b>
<b>Expense</b>	105,282	90,230	94,058	<b>343,598</b>	112,799	111,212	111,318	113,299	<b>448,627</b>
<b>Ebitda (NOKmm)</b>	45,443	32,831	30,311	<b>121,216</b>	33,132	31,269	31,393	33,719	<b>129,513</b>
Exploration	3,882	2,075	4,930	<b>16,686</b>	4,500	4,500	4,500	4,500	<b>18,000</b>
Deprec., Deplet., & Amort.	13,809	17,557	12,498	<b>54,056</b>	12,498	12,498	12,498	12,498	<b>49,992</b>
<b>Ebit</b>	27,752	13,199	12,883	<b>50,474</b>	16,134	14,271	14,395	16,721	<b>61,521</b>
Interest	1,728	1,785	1,865	<b>7,061</b>	1,865	1,865	1,865	1,865	<b>7,460</b>
Foreign Exchange	22,937	-	-	<b>1,500</b>					
<b>Ebt</b>	3,087	11,413	11,018	<b>41,913</b>	14,269	12,406	12,530	14,856	<b>54,061</b>
Income Tax	1,080	3,995	3,856	<b>14,669</b>	4,994	4,342	4,386	5,200	<b>18,921</b>
<b>Net Income (NOKmm)</b>	2,007	7,419	7,162	<b>27,243</b>	9,275	8,064	8,145	9,657	<b>35,140</b>
<b>Shares (millions)</b>	3,185	3,184	3,183	<b>3,184</b>	3,183	3,183	3,183	3,183	<b>3,183</b>
Per share (NOK)	0.63	2.33	2.25	<b>8.56</b>	2.91	2.53	2.56	3.03	<b>11.04</b>
Ebitda Margin (E&P)	64%	59%	51%	<b>53%</b>	54%	54%	54%	54%	<b>54%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>



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Statoil ASA					
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>	
Natural Gas	7,316	11.3	9.6	70,000	49%
Oil	14,603	4.8	5.0	73,000	51%
	21,919	7.4	6.5	143,000	100%
Debt (US\$mm)					31,600
Net Present Value (US\$mm)					111,400
Shares (mm)					3,183
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					34





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