



# Independent Stock Idea

February 3, 2010

rating: buy  
s&p 500: 1103

## CNOOC Limited (CEO) Blockbuster Growth Forecast

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	10,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	150.74	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/2/10	<i>Adjusted Reserves/Production NTM</i>	6.5
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	67,500	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	700	<i>Undeveloped Reserves (%)</i>	60
<i>Enterprise Value (EV) (US\$mm)</i>	68,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	40.18
<i>Present Value (PV) (US\$mm)</i>	61,100	<i>Present Value Proven Reserves(US\$/boe)</i>	24.29
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.05
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	13.52
<i>McDep Ratio - EV/PV</i>	1.12	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	5.15
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, \$8 a million btu.			
The Peoples Republic of China holds 66% of the outstanding shares.			
For historical research on CEO since 2001 see <a href="http://www.mcdep.com/4ceo.htm">http://www.mcdep.com/4ceo.htm</a>			

### Summary and Recommendation

Buy-recommended **CNOOC Limited (CEO)** has appreciated to a McDep Ratio of 1.12 where stock price exceeds Net Present Value (NPV) of \$135 a share. In its 2010 Strategy Review on February 2, CNOOC startled investors by raising its forecast of 2010 volume to 275-290 million barrels equivalent, up from our estimate of 254 (MR 11/3/09) and up 25% from 226-228 for 2009. We keep our buy rating because stock price trend continues upward and we may well see a further positive surprise when final results for 2009 are reported next month. Meanwhile, we add higher volumes to our projections (see tables [Quarterly Operations](#) and [Half-Yearly Financial Results](#)). NPV is in line with cash flow and reserve life in an industry context (see table [Functional Cash Flow and Present Value](#)). Higher reserve life could trigger higher NPV as could higher cash flow margin beyond what we currently estimate for 2010. An ambitious program to bring nine new projects to production offshore China gives Chairman Fu Chengyu and President Yang Hua the confidence to make their bold forecast.

Kurt H. Wulff, CFA



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CNOOC Limited									
Quarterly Operations									
									<i>Twelve</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Months E</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/09</i>	<i>12/31/10</i>	<i>12/31/10</i>
<b>Volume</b>									
Natural gas (bcf)	64	64	74	<b>244</b>	72	73	74	74	<b>292</b>
Natural Gas (mmcf)	700	699	800	<b>669</b>	800	800	800	800	<b>800</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mmb)	42	48	51	<b>187</b>	51	54	58	58	<b>221</b>
Oil (mbd)	460	526	529	<b>511</b>	562	595	631	635	<b>606</b>
Total gas & oil (mmboe)	53	59	63	<b>227</b>	63	66	70	71	<b>270</b>
Total gas & oil (mbd))	577	643	662	<b>623</b>	696	728	765	768	<b>739</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	<b>3.99</b>	5.53	5.45	5.64	6.12	<b>5.69</b>
Company	4.13	3.93	4.01	<b>3.94</b>	4.09	4.17	4.25	4.34	<b>4.21</b>
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	<b>61.70</b>	75.89	75.77	77.37	78.64	<b>76.92</b>
Company	50.38	67.83	75.65	<b>61.33</b>	75.46	75.33	76.93	78.19	<b>76.54</b>
Total gas & oil (\$/mcf)	7.53	9.97	10.94	<b>9.10</b>	10.95	11.02	11.33	11.52	<b>11.22</b>
<b>Revenue (\$mm)</b>									
Natural Gas	266	253	295	<b>962</b>	294	304	313	319	<b>1,230</b>
Oil	2,132	3,282	3,858	<b>11,449</b>	3,818	4,080	4,467	4,567	<b>16,932</b>
Total	2,398	3,535	4,153	<b>12,411</b>	4,113	4,384	4,781	4,886	<b>18,163</b>
RMB/\$	6.84	6.83	6.83	<b>6.83</b>	6.83	6.83	6.83	6.83	<b>6.83</b>
<b>Revenue (RMB)</b>									
Natural Gas	1,819	1,726	2,015	<b>6,575</b>	2,011	2,074	2,139	2,182	<b>8,405</b>
Oil	14,583	22,419	26,356	<b>78,218</b>	26,083	27,870	30,517	31,195	<b>115,665</b>
Total	16,403	24,145	28,371	<b>84,793</b>	28,094	29,944	32,656	33,376	<b>124,070</b>



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CNOOC Limited									
Half-Year Financial Results									
	H1		Year	H1		Year	H1E		Twelve
	6/30/08	12/31/08	2008	6/30/09	12/31/09	2009E	6/30/10	12/31/10	Months E
									12/31/10
<b>Revenue (mmRMB)</b>									
Natural Gas (from Q table)	2,906	3,456	<b>6,362</b>	2,833	3,742	<b>6,575</b>	4,085	4,320	<b>7,827</b>
Oil (from Q table)	52,648	43,588	<b>96,236</b>	29,443	48,775	<b>78,218</b>	53,953	61,712	<b>102,728</b>
Other	(1,091)	(676)	<b>(1,767)</b>	247		<b>247</b>	-		-
Total	54,464	46,367	<b>100,831</b>	32,523	52,516	<b>85,039</b>	58,038	66,032	<b>110,554</b>
<b>Expense</b>	12,776	16,744	<b>29,520</b>	8,151	17,330	<b>25,482</b>	19,153	21,791	<b>36,483</b>
<b>Ebitda</b>	41,688	29,623	<b>71,311</b>	24,372	35,186	<b>59,557</b>	38,886	44,241	<b>74,072</b>
Exploration	1,342	2,068	<b>3,410</b>	977	977	<b>1,954</b>	977	977	<b>1,954</b>
Deprec., Deplet., & Amort.	4,350	5,708	<b>10,058</b>	6,539	6,539	<b>13,078</b>	6,539	6,539	<b>13,078</b>
<b>Ebit</b>	35,996	21,847	<b>57,843</b>	16,856	27,670	<b>44,525</b>	31,370	36,725	<b>59,040</b>
Interest	-	-	-	-	-	-	-	-	-
<b>Ebt</b>	35,996	21,847	<b>57,843</b>	16,856	27,670	<b>44,525</b>	31,370	36,725	<b>59,040</b>
Income Tax	8,229	5,276	<b>13,505</b>	4,325	8,301	<b>12,626</b>	9,411	11,018	<b>17,712</b>
<b>Net Income</b>	27,767	16,571	<b>44,338</b>	12,531	19,369	<b>31,899</b>	21,959	25,708	<b>41,328</b>
<b>Shares (millions)</b>	44,786	44,786	<b>44,786</b>	44,752	44,752	<b>44,752</b>	44,752	44,752	<b>44,752</b>
Per share (RMB)	0.62	0.37	<b>0.99</b>	0.28	0.43	<b>0.71</b>	0.49	0.57	<b>0.92</b>
Ebitda Margin	77%	64%	<b>71%</b>	75%	67%	<b>70%</b>	67%	67%	<b>67%</b>
Tax Rate	23%	24%	<b>23%</b>	26%	30%	<b>28%</b>	30%	30%	<b>30%</b>

CNOOC Limited						
Functional Cash Flow and Present Value						
					Present	
	NTM Ebitda	Adjusted	PV/		Value	
	(US\$mm)	R/P	Ebitda		(US\$mm)	
Natural Gas	730	12.4	9.6		7,000	11%
Oil	10,070	5.2	5.4		54,100	89%
	10,800	6.5	5.7		61,100	100%
Debt (US\$mm)						700
Net Present Value (US\$mm)						60,400
Shares (mm)						448
Net Present Value - Standard Estimate (US\$/sh)						135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)						131



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