



Rating: Hold
 S&P 500: 1398

CNOOC Limited
Raise Net Present Value to \$140 a Share

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	12,200
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	173.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/25/08	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mn)</i>	448	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (US\$mm)</i>	77,600	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	59
<i>Enterprise Value (EV) (US\$mm)</i>	77,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	61.73
<i>Present Value (PV) (US\$mm)</i>	62,700	<i>Present Value Proven Reserves(US\$/boe)</i>	24.17
<i>Net Present Value (US\$/share)</i>	140	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.03
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	15.20
<i>McDep Ratio - EV/PV</i>	1.24	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	2.2	<i>Indicated Annual Dividend (US\$/sh)</i>	3.84
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\$80 a barrel and natural gas, \$11 a million btu.			
The Peoples Republic of China holds 66% of the outstanding shares.			
For historical research on CEO since 2001 see http://www.mcdep.com/4ceo.htm			

Summary and Recommendation

Short reserve life on oil and price controls on natural gas keep us from raising estimated Net Present Value (NPV) for hold-rated **CNOOC Limited (CEO)** to more than \$140 a share from \$125. Meanwhile, stock price exceeds NPV, helped by oil and natural gas volume growth offshore China and the prospect of a stock offering in the higher-priced Shanghai market later this year. First quarter operating results released today notched 5% growth over the same quarter a year ago while we look for higher growth in future quarters (see table [Quarterly Operations](#)). We project a competitive cash flow margin despite a special oil tax, though no financial results for 2008 will be reported until after mid-year (see table [Half-Year Financial Results](#)). NPV is supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Oil price continues to trend upward driven by high oil taxes in Alaska, Alberta, Algeria and Venezuela as well as U.S. fiscal stimulus and interest rates below inflation among other factors (see chart [\(Six-Year Commodity Price Meter\)](#)).

Kurt H. Wulff, CFA

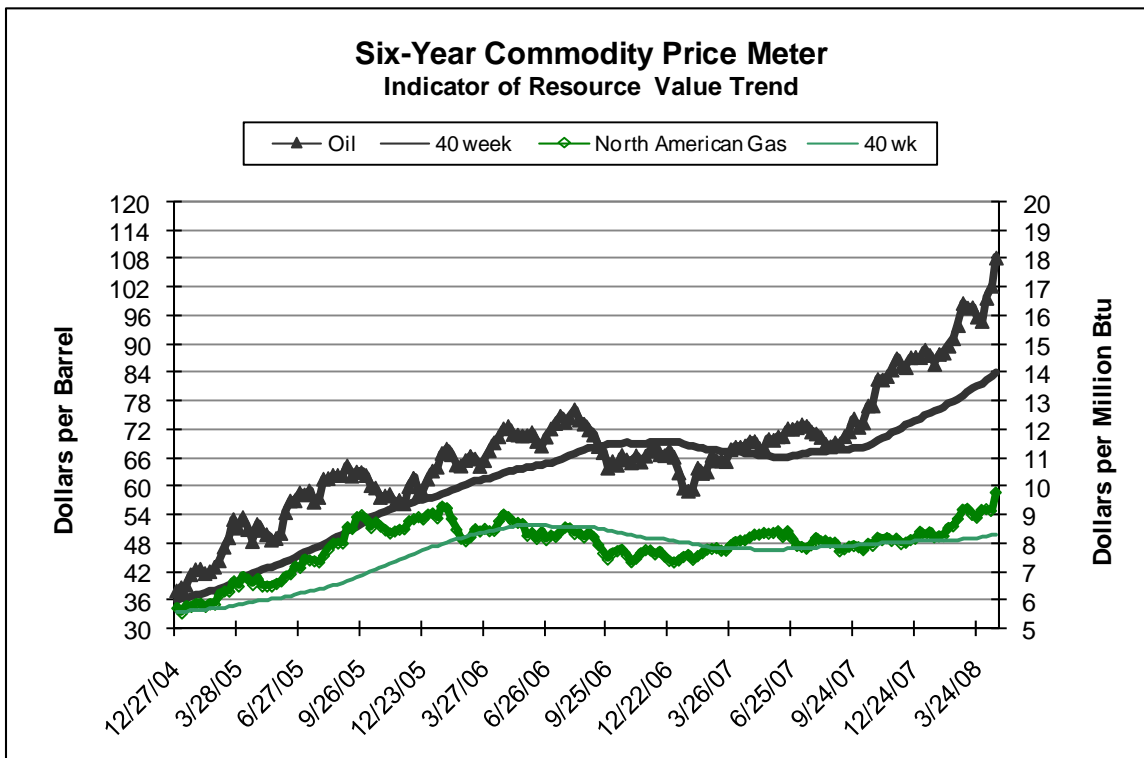


CNOOC Limited									
Quarterly Operations									
									Twelve
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Months
	3/31/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008E	6/30/09
Volume									
Natural gas (bcf)	50	50	204	55	56	61	56	228	240
Natural Gas (mmcf)	550	543	560	601	617	665	607	622	658
Days	90	92	365	91	91	92	92	366	365
Oil (mmb)	34	33	136	36	38	38	37	149	158
Oil (mbd)	379	363	372	393	417	417	405	408	432
Total gas & oil (mmboe)	42	42	170	45	47	49	47	187	198
Total gas & oil (mbd))	471	453	465	493	520	528	506	512	542
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.97	6.87	8.02	10.40	11.07	11.47	10.24	11.42
Company	3.19	3.36	3.30	3.65	3.65	3.65	3.65	3.65	3.65
Oil (\$/bbl)									
WTI Cushing	58.08	90.67	72.28	97.94	115.46	115.06	113.29	110.44	113.50
Company	52.45	80.35	66.26	88.76	116.61	102.70	100.39	102.32	105.02
Total gas & oil (\$/mcf)	7.66	11.39	9.49	12.53	16.32	14.29	14.12	14.34	14.70
Revenue (\$mm)									
Natural Gas	158	168	675	200	205	223	204	832	877
Oil	1,789	2,681	8,997	3,174	4,430	3,939	3,743	15,287	16,555
Total	1,947	2,848	9,672	3,374	4,635	4,162	3,947	16,118	17,432
RMB/\$	7.78	7.43	7.60	7.20	7.00	7.00	7.00	7.04	7.00
Revenue (RMB)									
Natural Gas	1,228	1,248	5,136	1,437	1,434	1,563	1,427	5,860	6,137
Oil	13,911	19,925	68,326	22,851	31,010	27,572	26,204	107,637	115,885
Total	15,139	21,172	73,462	24,288	32,444	29,135	27,630	113,497	122,021

CNOOC Limited									
Half-Year Financial Results									
									Twelve
	H1	H2	Year	H1E	H2E	Year	H1E	Months	
	6/30/07	12/31/07	2007	6/30/08	12/31/08	2008E	6/30/09	6/30/09	
Revenue (mmRMB)									
Natural Gas (from Q table)	2,473	2,663	5,136	2,871	2,990	5,860	3,147	6,137	
Oil (from Q table)	30,924	37,402	68,326	53,861	53,776	107,637	62,109	115,885	
Other	(175)	(250)	(425)			-		-	
Total	33,222	39,815	73,037	56,732	56,765	113,497	65,256	122,021	
Expense									
	5,502	10,157	15,659	17,019	17,030	34,049	19,577	36,606	
Ebitda									
	27,720	29,658	57,378	39,712	39,736	79,448	45,679	85,415	
Exploration	1,221	2,211	3,432	2,211	2,211	4,422	2,211	4,422	
Deprec., Deplet., & Amort.	3,536	3,838	7,374	3,838	3,838	7,676	3,838	7,676	
Ebit									
	22,963	23,609	46,572	33,663	33,687	67,350	39,630	73,317	
Interest	-	-	-	-	-	-	-	-	
Ebt									
	22,963	23,609	43,997	33,663	33,687	67,350	39,630	73,317	
Income Tax	5,462	6,590	12,052	11,782	11,790	23,572	13,871	25,661	
Net Income									
	14,926	17,019	31,945	21,881	21,896	43,777	25,760	47,656	
Shares (millions)									
	43,900	44,787	44,368	44,787	44,787	44,787	44,787	44,787	
Per share (RMB)	0.34	0.38	0.72	0.49	0.49	0.98	0.58	1.06	
Ebitda Margin	83%	74%	79%	70%	70%	70%	70%	70%	
Tax Rate	24%	28%	27%	35%	35%	35%	35%	35%	



CNOOC Limited					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	610	17.5	8.2	5,000	8%
Oil	11,590	7.1	5.0	57,700	92%
	12,200	9.2	5.1	62,700	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					62,700
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					140
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					142



McDep LLC
Independent Stock Idea
April 28, 2008



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