



Independent Stock Idea

August 4, 2008

rating: hold
s&p 500: 1260

CNOOC Limited (CEO) Punitive Taxes and Price Controls

Symbol	CEO	Ebitda Next Twelve Months ending 6/30/09 (US\$mm)	13,500
Rating	Hold	North American Natural Gas/Ebitda (%)	0
Price (US\$/sh)	148.52	Natural Gas and Oil Production/Ebitda (%)	100
Pricing Date	8/1/08	Adjusted Reserves/Production NTM	9.2
Shares (mm)	448	EV/Ebitda	4.9
Market Capitalization (US\$mm)	66,500	PV/Ebitda	6.0
Debt (US\$mm)	0	Undeveloped Reserves (%)	59
Enterprise Value (EV) (US\$mm)	66,500	Natural Gas and Oil Ebitda (US\$/boe)	68.29
Present Value (PV) (US\$mm)	80,600	Present Value Proven Reserves(US\$/boe)	31.08
Net Present Value (US\$/share)	180	Present Value Proven Reserves(US\$/mcfe)	5.18
Debt/Present Value	0.00	Earnings Next Twelve Months (US\$/sh)	17.03
McDep Ratio - EV/PV	0.83	Price/Earnings Next Twelve Months	9
Dividend Yield (%/year)	2.6	Indicated Annual Dividend (US\$/sh)	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\$100 a barrel and natural gas, \$14 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

Hold-rated **CNOOC Limited (CEO)**, with estimated net present value (NPV) of \$180 a share, offers portfolio representation mainly in crude oil production and non-U.S. domicile. On May 13 we raised NPV from \$140 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. First half results to be reported at the end of August are widely anticipated to show the adverse effect of a “windfall profits” tax, which takes some 40% of incremental crude oil price (see table [Half-Yearly Financial Results](#)). We think the fiscal limits will be eased as it makes no economic sense for the government of an energy importing country like China to discourage an indigenous producer like CEO. We also await production volume, which normally would have been reported by now (see table [Quarterly Operations](#)). Allowing for reduced punitive tax on crude oil and continuing price controls on natural gas, 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](#)). Meanwhile, crude oil price trends upward with the latest quote of \$123 a barrel for delivery over the next six years above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



Independent Stock Idea

August 4, 2008

CNOOC Limited								
Half-Year Financial Results								
	H1	H2	Year	H1E	H2E	Year	H1E	Twelve 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	2,792	2,924	5,716	3,078	6,002
Oil (from Q table)	30,924	37,402	68,326	54,662	58,340	113,003	67,689	126,029
Other	(175)	(250)	(425)			-	-	-
Total	33,222	39,815	73,037	57,454	61,265	118,719	70,767	132,031
Expense	5,502	10,157	15,659	20,109	18,379	38,488	21,230	39,609
Ebitda	27,720	29,658	57,378	37,345	42,885	80,230	49,537	92,422
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	31,296	36,836	68,132	43,488	80,324
Interest	-	-	-	-	-	-	-	-
Ebt	22,963	23,609	43,997	31,296	36,836	68,132	43,488	80,324
Income Tax	5,462	6,590	12,052	10,954	12,893	23,846	15,221	28,113
Net Income	14,926	17,019	31,945	20,342	23,944	44,286	28,267	52,210
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	0.45	0.53	0.99	0.63	1.17
Ebitda Margin	83%	74%	79%	65%	70%	68%	70%	70%
Tax Rate	24%	28%	27%	35%	35%	35%	35%	35%

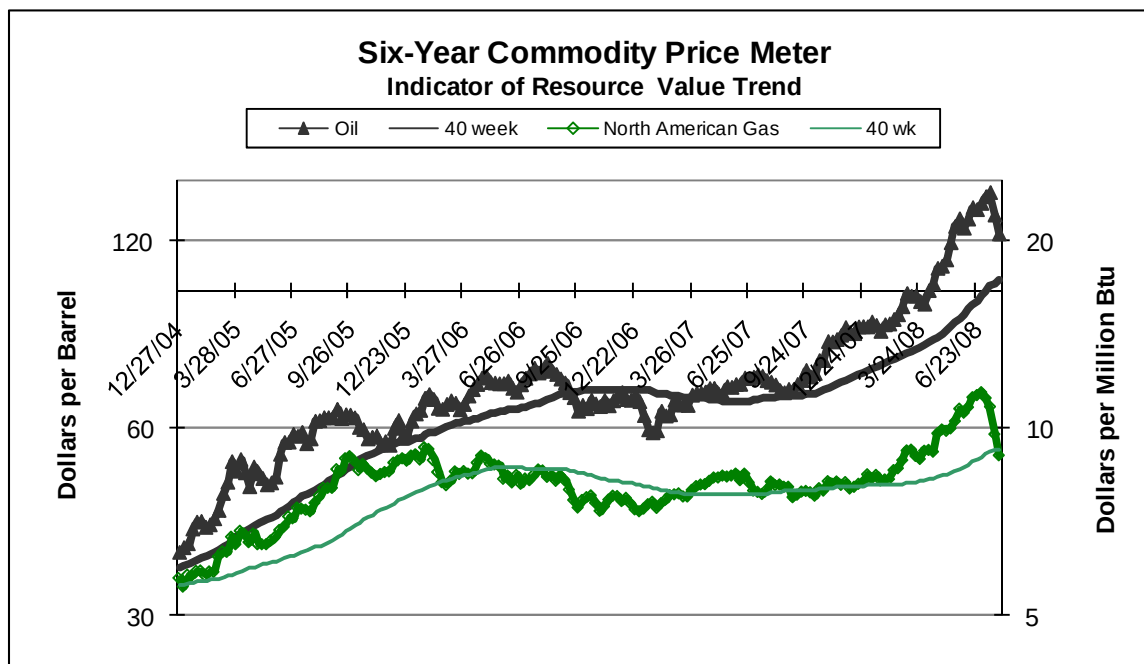
CNOOC Limited									
Quarterly Operations									
	Q1	Q2	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve Months E
	3/31/07	6/30/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008E	6/30/09
Volume									
Natural gas (bcf)	50	50	204	55	56	61	56	228	240
Natural Gas (mmcf)	550	552	560	601	617	665	607	622	658
Days	90	91	365	91	91	92	92	366	365
Oil (mmb)	34	34	136	36	38	38	37	149	158
Oil (mbd)	379	374	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	465	465	493	520	528	506	512	542
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	7.56	6.87	8.02	10.93	10.51	9.66	9.78	9.94
Company	3.19	3.23	3.30	3.65	3.65	3.65	3.65	3.65	3.65
Oil (\$/bbl)									
WTI Cushing	58.08	64.91	72.28	97.94	123.97	127.56	125.71	118.80	126.25
Company	52.45	69.94	66.26	88.76	125.21	113.86	111.39	110.12	116.77
Total gas & oil (\$/mcf)	7.66	9.35	9.49	12.53	17.47	15.76	15.59	15.37	16.26
Revenue (\$mm)									
Natural Gas	158	162	675	200	205	223	204	832	877
Oil	1,789	2,215	8,997	3,174	4,757	4,367	4,154	16,452	18,406
Total	1,947	2,377	9,672	3,374	4,961	4,590	4,357	17,283	19,283
RMB/\$	7.78	7.68	7.60	6.96	6.85	6.85	6.85	6.87	6.85
Revenue (RMB)									
Natural Gas	1,228	1,245	5,136	1,389	1,402	1,529	1,395	5,716	6,002
Oil	13,911	17,013	68,326	22,093	32,569	29,900	28,440	113,003	126,029
Total	15,139	18,258	73,462	23,483	33,971	31,429	29,836	118,719	132,031



Independent Stock Idea

August 4, 2008

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	11.5	7,000	9%
Oil	12,890	7.1	5.7	73,600	91%
	13,500	9.2	6.0	80,600	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					80,600
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					180
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					173





Independent Stock Idea

August 4, 2008

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. 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.