



Independent Stock Idea

December 8, 2015, Intraday

Royal Dutch Shell plc (RDS-A) Buy on Acquisition Pro Forma

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 12/31/16 (US\$mm)</i>	46,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	1
<i>Price (US\$/sh)</i>	45.87	<i>Natural Gas and Oil Production/Ebitda (%)</i>	51
<i>Pricing Date</i>	12/8/15	<i>Adjusted Reserves/Production NTM</i>	9.9
<i>Shares (mm)</i>	3965	<i>EV/Ebitda</i>	6.6
<i>Market Capitalization (US\$mm)</i>	182,000	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$mm)</i>	125,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	307,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	17.60
<i>Present Value (PV) (US\$mm)</i>	395,000	<i>Present Value Proven Reserves(US\$/boe)</i>	12.30
<i>Net Present Value (US\$/share)</i>	68	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.05
<i>Debt/Present Value</i>	0.32	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.93
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	8.2	<i>Indicated Annual Dividend (US\$/sh)</i>	3.76
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\$70 a barrel and natural gas, \$4.50 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/1rd.htm			

Summary and Recommendation

We designate the common stock of **Royal Dutch Shell (RDS-A)** as a new Buy on the outlook for financial performance with the expected completion of the acquisition of BG Group in early 2016. Declining 33% in 2015, the most in our Global Integrated group, RDS stock price has absorbed the dilution that often affects the buyer in an acquisition transaction. Management plans to offset that dilution with cost savings, asset sales and stock repurchase. Already, before the deal has been completed, Chief Executive Ben van Beurden promises \$3.5 billion in combination savings, up from \$2.5 billion estimated April 8. Strategically, the addition of BG increases Shell's concentration on oil production to 52% and complements Shell's concentration on natural gas at 18% (see table Present Value on page 2). BG has rapidly growing oil production offshore Brazil and a new natural gas liquefaction plant in Australia both of which fit neatly into Shell's growth emphasis on deep water oil and liquefied natural gas (LNG). At the same time, Shell retains downstream oil and chemicals businesses that are helpful today in offsetting reduced profit in oil and gas production. The company's European domicile could be helpful in a diversified portfolio should European stocks reverse their underperformance compared to the U.S. in recent years. An 8% dividend yield by itself is enough to make the stock attractive. We think the dividend will remain firm, but may not be increased for a few years. Finally, it is a close call whether RDS-A at McDep Ratio of 0.78 is more timely than CVX at 0.83 or less timely than TOT at 0.74 (see Tables 1-4 on pages 4-7).

Kurt H. Wulff, CFA

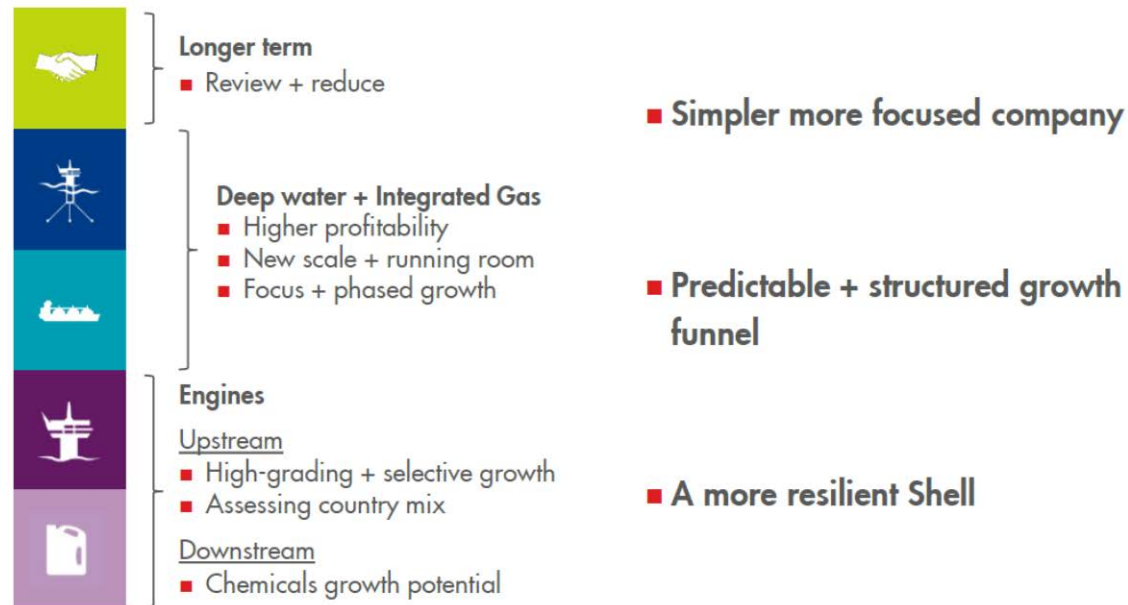


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Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	530	5.3	20.8	11,000	3%
Rest of World Natural Gas	8,950	9.0	6.7	60,000	15%
Oil	14,360	9.1	14.2	204,000	52%
Downstream	22,600		5.3	120,000	30%
	46,440	9.9	8.5	395,000	100%
Debt (US\$mm)					125,000
Net Present Value (US\$mm)					270,000
Shares (mm)					3,965
Net Present Value - Standard Estimate (US\$/sh)					68
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					75

SHELL + BG: 'GROW TO SIMPLIFY'





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Royal Dutch/Shell										
Next Twelve Months Operating and Financial Estimates										
(includes BG Group in 2016)										
	Q4	Year	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/14	2014	9/30/15	12/31/15	2015E	3/31/16	6/30/16	9/30/16	12/31/16	12/31/16
Volume										
Natural Gas (mmcf)										
Americas	1,477	1,611	1,438	1,477	1,420	1,346	1,418	1,438	1,477	1,420
Rest of World	8,305	7,648	6,399	8,305	7,222	10,578	8,644	8,952	10,884	9,763
Total	9,782	9,259	7,837	9,782	8,642	11,924	10,062	10,390	12,361	11,183
Oil (mbd)	1,526	1,484	1,526	1,526	1,515	1,838	1,847	1,857	1,867	1,853
Total gas & oil (mmb)	290	1,105	261	290	1,079	344	321	330	361	1,356
Total gas & oil (mbd)	3,156	3,027	2,832	3,156	2,956	3,825	3,524	3,589	3,927	3,716
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	4.02	4.43	2.76	2.28	2.67	2.12	2.29	2.41	2.55	2.34
Americas	3.64	4.44	2.31	1.90	2.31	1.84	1.98	2.08	2.21	2.03
Rest of World	6.76	7.13	5.58	5.58	5.59	5.08	4.95	4.97	5.07	5.02
Total	6.29	6.66	4.98	5.02	5.05	4.71	4.53	4.57	4.73	4.64
Oil (\$/bbl)										
WTI Cushing	73.18	93.04	46.39	42.32	48.82	39.16	42.16	43.80	45.26	42.60
Worldwide	71.71	89.39	45.22	41.25	47.10	39.06	41.99	43.65	45.12	42.49
Total gas & oil (\$/bbl)	54.16	64.19	38.15	35.52	38.91	33.46	34.95	35.81	36.33	35.15
Revenue (\$mm)										
Natural Gas										
Americas	495	2,613	306	259	1,196	222	255	275	300	1,053
Rest of World	5,166	19,894	3,285	4,263	14,726	4,836	3,895	4,091	5,077	17,899
Total	5,661	22,507	3,591	4,522	15,922	5,059	4,150	4,366	5,377	18,952
Oil	10,068	48,411	6,349	5,791	26,053	6,462	7,059	7,457	7,750	28,728
Other	76,646	350,187	58,767	58,767	233,919	60,714	60,714	60,714	60,714	242,856
Total	92,374	421,105	68,706	69,080	275,894	72,235	71,923	72,537	73,841	290,536
Expense	80,589	361,430	59,723	58,723	233,775	60,774	60,619	60,926	61,778	244,096
Ebitda (\$mm)										
Exploration and Production	8,334	45,740	3,906	5,157	21,133	5,760	5,605	5,912	6,564	23,840
Other	3,451	13,935	5,076	5,200	20,985	5,700	5,700	5,700	5,500	22,600
Total Ebitda	11,785	59,675	8,983	10,357	42,119	11,460	11,305	11,612	12,064	46,440
Exploration	1,323	4,224	1,000	1,000	3,764	983	983	983	983	3,932
Deprec., Deplet., & Amort.	4,991	18,885	4,700	4,700	18,677	5,560	5,560	5,560	5,560	22,240
Other non cash	-	-	-	-	-	-	-	-	-	-
Ebit	5,471	36,566	3,283	4,657	19,678	4,917	4,762	5,069	5,521	20,268
Interest	430	1,804	527	527	1,896	600	600	600	600	2,400
Ebt	5,041	34,762	2,756	4,130	17,782	4,317	4,162	4,469	4,921	17,868
Income Tax	1,764	12,167	964	1,445	6,224	1,511	1,457	1,564	1,722	6,254
Net Income (\$mm)										
Exploration and Production	1,730	16,505	(425)							
Other	1,550	6,265	2,617							
Unallocated	(3)	(175)	(401)							
Total	3,277	22,595	1,791	2,684	11,558	2,806	2,705	2,905	3,198	11,614
Shares (millions)										
	3,151	3,156	3,199	3,199	3,194	3,965	3,965	3,965	3,965	3,965
Per share (\$)	1.04	7.16	0.56	0.84	3.62	0.71	0.68	0.73	0.81	2.93
Ebitda Margin (E&P)	53%	64%	39%	50%	50%	50%	50%	50%	50%	50%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%



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						Present Value by Segment (%)					
		Price	EV/	Enterprise	North	Rest of			Dist.		
		(US\$/sh)	Market	Value	Amer.	World			Yield		
Symbol/Rating		8-Dec	Cap	(\$mm)	Natural	Natural	Oil	Down-	NTM	McDep	
		2015			Gas	Gas	Prod'n	stream	(%)	Ratio	
Global Integrated											
Exxon Mobil Corporation	XOM	74.93	1.27	398,000	7	11	57	25	3.9	0.85	
Chevron Corporation	CVX	86.26	1.35	219,000	3	8	64	25	5.0	0.83	
Royal Dutch Shell (BG pro form)	RDS-A B	45.87	1.69	307,000	3	15	52	30	8.2	0.78	
Total S.A.	TOT B	46.09	1.54	164,000		14	58	28	5.7	0.74	
<i>Total or Median</i>			<i>1.45</i>	<i>1,088,000</i>			<i>58</i>	<i>26</i>	<i>5.4</i>	<i>0.80</i>	
Large Independent											
EOG Resources, Inc.	EOG	77.21	1.16	49,200	16	3	81		0.9	0.97	
Occidental Petroleum Corp.	OXY	67.25	1.17	60,200	5	1	78	17	4.5	0.91	
ConocoPhillips	COP	48.38	1.63	98,000	16	11	73		6.1	0.80	
Devon Energy Corporation	DVN B	35.27	1.90	27,500	28		56	16	2.7	0.69	
Marathon Oil Corporation	MRO B	14.75	1.93	19,200	9	1	90		1.4	0.60	
<i>Total or Median</i>			<i>1.63</i>	<i>254,000</i>	<i>16</i>		<i>78</i>		<i>2.7</i>	<i>0.80</i>	
Small Independent											
Cimarex Energy Company	XEC	105.03	1.12	10,900	41		59		0.6	0.98	
California Resources	CRC	2.70	7.60	7,800	13		87		-	0.74	
Range Resources	RRC	25.66	1.97	8,400	80		20		0.6	0.68	
Continental Resources (32%)	CLR B	28.70	1.68	5,700	20		80		-	0.62	
Whiting Petroleum Corporation	WLL B	12.21	3.21	8,000	7		93		-	0.50	
<i>Total or Median</i>			<i>1.97</i>	<i>41,000</i>	<i>20</i>		<i>80</i>		<i>-</i>	<i>0.68</i>	
Income											
Sabine Royalty Trust	SBR	28.46	1.00	420	53		48		7.6	0.52	
Cross Timbers Royalty Trust	CRT	14.13	1.00	90	62		38		6.7	0.46	
Permian Basin RT	PBT	5.48	1.00	260	23		77		5.5	0.46	
Dorchester Minerals, L.P.	DMLP B	12.02	1.00	370	40		60		7.1	0.43	
San Juan Basin Royalty Trust	SJT B	4.77	1.00	220	100		-		5.1	0.40	
<i>Total or Median</i>			<i>1.00</i>	<i>1,400</i>	<i>53</i>		<i>48</i>		<i>6.7</i>	<i>0.46</i>	
Canada											
Imperial Oil Limited (30%)	IMO	29.64	1.36	10,300	1		69	30	1.4	0.80	
EnCana Corporation	ECA	6.62	2.54	14,200	56		44		4.2	0.73	
Cenovus Energy Inc.	CVE	13.70	1.33	15,100	12		74	13	3.5	0.66	
Canadian Oil Sands Limited	COSWF B	6.00	1.99	5,800			100		2.5	0.54	
Birchcliff Energy Ltd.	BIREF B	2.98	2.20	1,000	77		23		-	0.42	
<i>Total or Median</i>			<i>1.99</i>	<i>46,000</i>			<i>69</i>		<i>2.5</i>	<i>0.66</i>	

Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses



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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		8-Dec 2015	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		74.93	4,190	314,000	92.00	0.18	0.85
Chevron Corporation	CVX		86.26	1,872	162,000	111.00	0.22	0.83
Royal Dutch Shell (BG pro forma)	RDS-A	B	45.87	3,965	182,000	68.00	0.32	0.78
Total S.A.	TOT	B	46.09	2,312	107,000	71.00	0.26	0.74
	<i>Total or Median</i>				765,000		0.24	0.80
Large Independent								
EOG Resources, Inc.	EOG		77.21	549	42,400	80.00	0.13	0.97
Occidental Petroleum Corp.	OXY		67.25	763	51,300	75.00	0.13	0.91
ConocoPhillips	COP		48.38	1,242	60,000	68.00	0.31	0.80
Devon Energy Corporation	DVN	B	35.27	411	14,500	65.00	0.33	0.69
Marathon Oil Corporation	MRO	B	14.75	677	9,980	34.00	0.29	0.60
	<i>Total or Median</i>				178,200		0.29	0.80
Small Independent								
Cimarex Energy Company	XEC		105.03	93	9,800	108.00	0.10	0.98
California Resources	CRC		2.70	382	1,000	10.00	0.64	0.74
Range Resources	RRC		25.66	167	4,300	50.00	0.33	0.68
Continental Resources (32%)	CLR	B	28.70	118	3,400	58.00	0.25	0.62
Whiting Petroleum Corporation	WLL	B	12.21	204	2,500	52.00	0.34	0.50
	<i>Total or Median</i>				21,000		0.33	0.68
Income								
Sabine Royalty Trust	SBR		28.46	15	420	55.00	-	0.52
Cross Timbers Royalty Trust	CRT		14.13	6	90	31.00	-	0.46
Permian Basin RT	PBT		5.48	47	260	12.00	-	0.46
Dorchester Minerals, L.P.	DMLP	B	12.02	31	370	28.00	-	0.43
San Juan Basin Royalty Trust	SJT	B	4.77	47	220	12.00	-	0.40
	<i>Total or Median</i>				1,400		-	0.46
Canada								
Imperial Oil Limited (30%)	IMO		29.64	255	7,600	40.00	0.21	0.80
EnCana Corporation	ECA		6.62	843	5,600	13.00	0.44	0.73
Cenovus Energy Inc.	CVE		13.70	827	11,300	23.00	0.16	0.66
Canadian Oil Sands Limited	COSWF	B	6.00	485	2,900	16.00	0.27	0.54
Birchcliff Energy Ltd.	BIREF	B	2.98	154	500	12.00	0.23	0.42
	<i>Total or Median</i>				28,000		0.23	0.66

Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses



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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price	Adjustd			
			(US\$/sh)	Resrvs/	PV/	EV/	Dividend
	Symbol/Rating		8-Dec	Prod	Ebitda	Ebitda	P/E
	B = Buy		2015	NTM	NTM	NTM	NTM
							(\$/sh)
Global Integrated							
Exxon Mobil Corporation	XOM		74.93	14.4	10.5	8.9	19
Chevron Corporation	CVX		86.26	9.3	9.5	7.9	28
Royal Dutch Shell (BG pro forma)	RDS-A	B	45.87	9.9	8.5	6.6	16
Total S.A.	TOT	B	46.09	9.9	8.1	6.0	11
	<i>Median</i>			9.9	9.0	7.2	18
Large Independent							
EOG Resources, Inc.	EOG		77.21	9.0	15.6	15.1	0.67
Occidental Petroleum Corp.	OXY		67.25	8.9	14.1	12.9	3.00
ConocoPhillips	COP		48.38	11.4	14.5	11.6	2.96
Devon Energy Corporation	DVN	B	35.27	10.2	15.9	11.0	64
Marathon Oil Corporation	MRO	B	14.75	11.8	15.3	9.1	0.20
	<i>Median</i>			10.2	15.3	11.6	64
Small Independent							
Range Resources	RRC		25.66	13.8	31.9	21.6	0.16
California Resources	CRC		2.70	12.7	27.7	20.4	-
Cimarex Energy Company	XEC		105.03	7.7	18.0	17.6	0.64
Continental Resources (32%)	CLR	B	28.70	11.4	19.6	12.2	-
Whiting Petroleum Corporation	WLL	B	12.21	11.4	18.6	9.3	-
	<i>Median</i>			11.4	19.6	17.6	
Income							
San Juan Basin Royalty Trust	SJT	B	4.77	8.6	35.5	14.1	20
Sabine Royalty Trust	SBR		28.46	8.0	25.4	13.2	13
Cross Timbers Royalty Trust	CRT		14.13	12.4	25.6	11.7	15
Permian Basin RT	PBT		5.48	9.7	21.4	9.8	18
Dorchester Minerals, L.P.	DMLP	B	12.02	7.1	21.7	9.3	18
	<i>Median</i>			8.6	25.4	11.7	18
Canada							
EnCana Corporation	ECA		6.62	6.5	23.6	17.1	82
Canadian Oil Sands Limited	COSWF	B	6.00	18.0	26.5	14.4	0.15
Cenovus Energy Inc.	CVE		13.70	15.0	18.9	12.5	0.47
Imperial Oil Limited (30%)	IMO		29.64	23.4	13.1	10.4	17
Birchcliff Energy Ltd.	BIREF	B	2.98	12.5	18.9	8.0	-
	<i>Median</i>			15.0	18.9	12.5	49
	<i>Grand Median</i>			11	19	12	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2016; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2015										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total	Debt	Return	McDep
	Symbol/Rat.		8-Dec	29-Dec	Change	Distrib.	Return	(\$/sh)	(%)	Ratio
			2015	2014	(%)	(%)	(%)			
Global Integrated										
Total S.A.	TOT	B	46.09	52.74	(13)	4	(9)	25	(6)	0.74
Exxon Mobil Corporation	XOM		74.93	93.07	(19)	3	(16)	20	(13)	0.85
Chevron Corporation	CVX		86.26	113.32	(24)	4	(20)	31	(16)	0.83
Royal Dutch Shell (BG pro forma)	RDS-A	B	45.87	68.31	(33)	6	(27)	32	(19)	0.78
	<i>Median</i>				(22)		(18)		(15)	0.80
Large Independent										
Occidental Petroleum Corp.	OXY		67.25	81.71	(18)	3	(15)	12	(13)	0.91
EOG Resources, Inc.	EOG		77.21	94.33	(18)	0	(18)	12	(16)	0.97
ConocoPhillips	COP		48.38	70.11	(31)	4	(27)	30	(19)	0.80
Devon Energy Corporation	DVN	B	35.27	61.15	(42)	1	(41)	32	(27)	0.69
Marathon Oil Corporation	MRO	B	14.75	28.58	(48)	2	(46)	14	(31)	0.60
	<i>Median</i>				(31)		(27)		(19)	0.80
Small Independent										
Cimarex Energy Company	XEC		105.03	110.27	(5)	0	(4)	12	(4)	0.98
California Resources	CRC		2.70	5.77	(53)	1	(53)	18	(13)	0.74
Continental Resources (32%)	CLR	B	28.70	38.26	(25)	-	(25)	19	(17)	0.62
Whiting Petroleum Corporation	WLL	B	12.21	34.09	(64)	-	(64)	27	(36)	0.50
Range Resources	RRC		25.66	56.00	(54)	0	(54)	25	(37)	0.68
	<i>Median</i>				(53)		(53)		(17)	0.68
Income										
Sabine Royalty Trust	SBR		28.46	36.68	(22)	8	(14)	-	(14)	0.52
Cross Timbers Royalty Trust	CRT		14.13	18.07	(22)	7	(15)	-	(15)	0.46
Permian Basin RT	PBT		5.48	9.12	(40)	4	(36)	-	(36)	0.46
Dorchester Minerals, L.P.	DMLP	B	12.02	25.16	(52)	5	(48)	-	(48)	0.43
San Juan Basin Royalty Trust	SJT	B	4.77	13.97	(66)	2	(64)	-	(64)	0.40
	<i>Median</i>				(40)		(36)		(36)	0.46
Canada										
Canadian Oil Sands Limited	COSWF	B	6.00	9.20	(35)	2	(33)	6	(20)	0.54
Imperial Oil Limited (30%)	IMO		29.64	43.49	(32)	1	(31)	11	(25)	0.80
Cenovus Energy Inc.	CVE		13.70	20.95	(35)	3	(32)	5	(26)	0.66
EnCana Corporation	ECA		6.62	13.94	(53)	2	(51)	10	(29)	0.73
Birchcliff Energy Ltd.	BIREF	B	2.98	6.75	(56)	-	(56)	4	(36)	0.42
	<i>Median</i>				(35)		(33)		(26)	0.66
	<i>Grand Median</i>				(34)		(31)		(19)	0.68
Natural Gas (\$/mmbtu)			2.05	3.19	(36)					
Oil - West Texas Intermediate (\$/bbl)			37.47	53.69	(30)					
S&P 500			2,064	2,091	(1)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



Independent Stock Idea

December 8, 2015, Intraday

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