



Independent Stock Idea

February 4, 2010

rating: buy
s&p 500: 1063

Royal Dutch Shell plc (RDS) Cautious Outlook, Nice Dividend

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	43,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	54.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	82
<i>Pricing Date</i>	2/4/10	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	3064	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$mm)</i>	167,000	<i>PV/Ebitda</i>	6.9
<i>Debt (US\$mm)</i>	62,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	229,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.50
<i>Present Value (PV) (US\$mm)</i>	305,000	<i>Present Value Proven Reserves(US\$/boe)</i>	21.30
<i>Net Present Value (US\$/share)</i>	79	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.55
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.14
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	6.2	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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.			
For historical analysis of RDS since 2001 see www.mcdep.com/1rd.htm			

Summary and Recommendation

Buy-recommended **Royal Dutch Shell (RDSA)** offers unlevered appreciation potential of 33% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$79 a share. Fourth quarter results released today disclosed unlevered cash flow (Ebitda) below our expectations of three months ago in the upstream business as a result of higher costs recorded in the quarter. Ebitda was also lower in the downstream as the refining environment deteriorated (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV remains supported by cash flow and reserve life in an industry context (see table [Functional Cash Flow and Present Value](#)). Cautious about the economic outlook, Chief Executive Peter Voser focuses on projects to bring on new upstream volume and on pruning the weakest refineries downstream. Further staff reductions and cost savings are expected in 2010. Because natural gas prices in long-term contracts automatically lag oil price, there are built-in gains coming in the next quarters. Albeit at continuing low levels, refining margins are expected to be better than the lowest levels in the fourth quarter. Meanwhile the trend for oil, 49% of the value in Shell, continues up with futures prices for the next six years for oil at \$83 a barrel, above the 40-week average of \$82 (see chart [Six-Year Commodity Price Meter](#)). Though there may be no obvious medium-trend in RDSA stock as it trades close to its 200-day average of \$56 a share, a 6% dividend yield is attractive, we believe.

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Please see disclosures on the final page.

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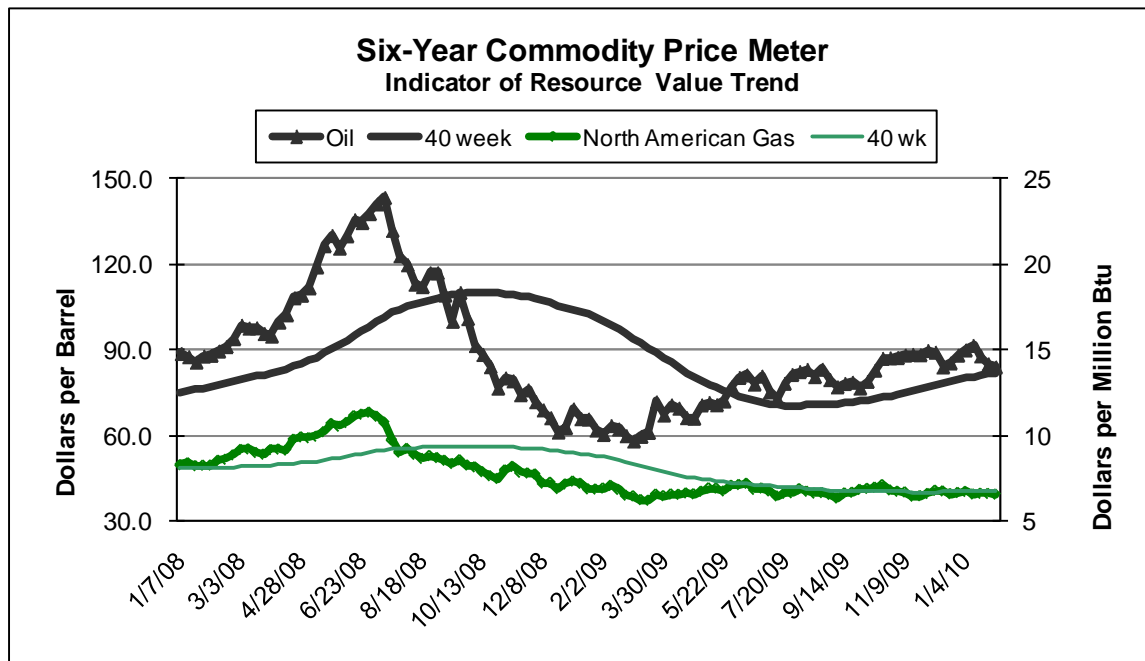
Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q4 12/31/08	Q3 9/30/09	Q4 12/31/09	Year 2009	Q1E 3/31/10	Q2E 6/30/10	Q3E 9/30/10	Q4E 12/31/10	12/31/10
Volume									
Natural Gas (mmcf)									
U.S.	1,071	1,017	1,064	1,062	1,064	1,064	1,064	1,064	1,064
Overseas (or Int'l)	8,460	6,394	8,388	7,492	8,641	6,558	6,394	8,388	7,492
Total	9,531	7,411	9,452	8,553	9,705	7,622	7,458	9,452	8,556
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	1,772	1,648	1,701	1,677	1,701	1,701	1,701	1,701	1,701
Total gas & oil (mmb)	309	265	301	1,133	299	270	271	301	1,141
Total gas & oil (mbd)	3,361	2,883	3,276	3,103	3,319	2,971	2,944	3,276	3,127
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.53	5.45	5.64	6.12	5.69
U.S.	6.37	3.53	4.71	4.23	5.53	5.45	5.64	6.12	5.69
Overseas (or Int'l)	6.85	3.96	4.70	4.64	5.53	5.45	5.64	6.12	5.70
Total	6.80	3.90	4.70	4.59	5.53	5.45	5.64	6.12	5.70
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
Worldwide	57.14	63.02	70.29	57.05	70.11	70.00	71.48	72.65	71.07
Total gas & oil (\$/bbl)	49.42	46.05	50.05	43.48	52.10	54.06	55.60	55.37	54.26
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	6.92	9.63	8.41	4.65	7.40
Revenue (\$mm)									
Natural Gas									
U.S.	628	330	461	1,638	529	528	552	599	2,208
Overseas (or Int'l)	5,335	2,329	3,626	12,678	4,297	3,254	3,320	4,721	15,592
Total	5,963	2,659	4,087	14,316	4,826	3,782	3,872	5,320	17,801
Oil	9,315	9,556	11,000	34,926	10,734	10,835	11,186	11,370	44,124
Other	65,795	62,794	65,988	198,946	65,988	65,988	65,988	65,988	263,951
Total	81,073	75,009	81,075	248,188	81,548	80,605	81,046	82,678	325,876
Expense (\$mm)									
Exploration and Production	6,583	6,973	7,632	27,386	9,025	8,478	8,734	9,680	35,917
Other	4,067	2,245	1,037	7,935	1,920	2,160	2,080	1,760	7,920
Total Ebitda	10,650	9,218	8,669	35,320	10,945	10,638	10,814	11,440	43,837
Exploration	778	637	669	2,408	700	700	700	700	2,800
Deprec., Deplet., & Amort.	3,684	4,341	3,748	14,458	4,000	4,000	4,000	4,000	16,000
Other non cash				-					-
Ebit (\$mm)									
Ebit	6,188	4,240	4,252	18,454	6,245	5,938	6,114	6,740	25,037
Interest	215	189	4	756	200	200	200	200	800
Ebt (\$mm)									
Ebt	5,974	4,051	4,248	17,698	6,045	5,738	5,914	6,540	24,237
Income Tax	2,091	1,418	1,487	6,194	2,116	2,008	2,070	2,289	8,483
Net Income (\$mm)									
Exploration and Production	2,377	1,666	2,762						
Other	1,854	756	(427)						
Unallocated	(348)	211	426						
Total	3,883	2,633	2,761	11,504	3,929	3,730	3,844	4,251	15,754
Shares (millions)									
Shares	3,064	3,066	3,064	3,064	3,064	3,064	3,064	3,064	3,064
Per share (\$)	1.27	0.86	0.90	3.75	1.28	1.22	1.25	1.39	5.14
Ebitda Margin (E&P)	43%	57%	51%	56%	58%	58%	58%	58%	58%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	1,280	4.6	7.0	9,000	3%
Rest of World Natural Gas	9,040	10.9	8.8	80,000	26%
Oil	25,600	5.7	5.9	151,000	50%
Downstream	7,920		8.2	65,000	21%
	43,840	7.8	7.0	305,000	100%
Debt (US\$mm)					63,000
Net Present Value (US\$mm)					242,000
Shares (mm)					3,064
Net Present Value - Standard Estimate (US\$/sh)					79
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					75





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