

Rating: Buy
S&P 500: 1271

Royal Dutch Shell plc **Lower Net Present Value to \$80 a Share**

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$mm)</i>	53,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	66.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	62
<i>Pricing Date (intraday)</i>	2/2/06	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	3293	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	218,000	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	32,000	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	250,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	25.70
<i>Present Value (PV) (US\$mm)</i>	295,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.00
<i>Net Present Value (US\$/share)</i>	80	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.50
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.61
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	2.23

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.

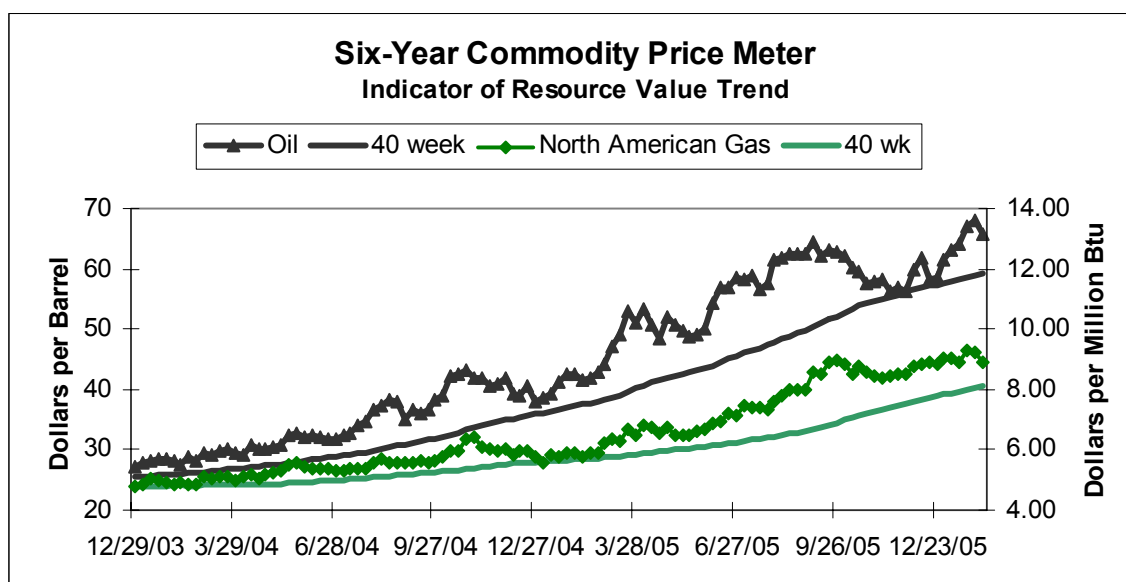
Summary and Recommendation

The stock of buy-recommended **Royal Dutch Shell plc (RDS-A)** offers 19% appreciation potential to estimated net present value of \$80 a share. We lower the estimate from \$84 following the release of fourth quarter results and ahead of forthcoming confirmation that reserves declined modestly in 2005. Meanwhile, estimated present value presumes a long-term oil price of \$50 a barrel. Futures investors price Light, Sweet Crude Oil at \$66 a barrel for the next six years. Among mega cap peers RDS has a median McDep Ratio. An unlevered multiple of cash flow may be low relative to peers in part because RDS has the lowest adjusted reserve life at 7.4 years. A traditionally strong downstream business helps to offset some of the challenges that have limited the company's upstream business.

McDep Ratio Relates Oil Price to Opportunity

A McDep Ratio below 1.0 tells us that RDS's market cap and debt, or enterprise value, is less than the estimated present value of its energy resources. The estimate has been increasing with six-year oil futures. Futures price momentum has been positive for more than three years as the current quote stays above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Six-year oil has tripled in the four years we have been calculating it on a weekly basis. We do not need further gains in oil price to make money in buy recommendations. Yet our vision of \$150 oil in 2010 implies additional scope to exceed common expectations. Meanwhile the McDep Ratio for RDS ranks in the midst of peers (see table [Rank by McDep Ratio](#)).

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 2-Feb 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
BP plc	BP B	69.61	3,501	244,000	77.00	0.11	0.91
Total S.A.	TOT B	133.74	1,176	157,000	160.00	0.12	0.86
Royal Dutch Shell plc	RDS-A B	66.19	3,293	218,000	80.00	0.11	0.85
Exxon Mobil Corporation	XOM B	61.95	6,211	385,000	74.00	0.04	0.84
ConocoPhillips	COP B	64.31	1,693	109,000	95.00	0.22	0.75
Chevron Corporation	CVX B	58.51	2,236	131,000	85.00	0.11	0.72
<i>Total or Median</i>				<i>1,244,000</i>		<i>0.11</i>	<i>0.85</i>

Low Cash Flow Multiple

Unlevered cash flow multiples in single digits attest to low valuation (see table [Rank by EV/Ebitda](#)). Cash flow estimated for the next twelve months, Ebitda NTM, reflects latest futures prices. Reserve life is measured as adjusted reserves divided by next twelve months production. RDS's adjusted reserve life index of 7.4 years is the shortest of peers. Shortest life contributes to an unlevered cash flow multiple, EV/Ebitda, low among peers.

Downstream Concentration

Each oil and gas stock has its own unique mix of energy resources (see table [Business Segments](#)). RDS's business mix includes a greater emphasis on the downstream businesses of refining/marketing and chemicals. A portion of cash generated in the rapidly growing liquefied natural gas business is included in downstream.

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

			<i>Price</i> <i>(\$/sh)</i>	<i>Adjstd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>	<i>Divd or</i>
	<i>Symbol/</i>		<i>2-Feb</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>NTM</i>
	<i>Rating</i>		<i>2006</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
Mega Cap							
BP plc	BP	B	69.61	9.5	6.1	5.6	9
Exxon Mobil Corporation	XOM	B	61.95	11.2	6.3	5.3	9
Total S.A.	TOT	B	133.74	9.2	6.0	5.2	9
Royal Dutch Shell plc	RDS-A	B	66.19	7.4	5.6	4.7	9
ConocoPhillips	COP	B	64.31	10.9	5.5	4.1	6
Chevron Corporation	CVX	B	58.51	9.7	5.5	4.0	7
	<i>Median</i>			<i>9.6</i>	<i>5.8</i>	<i>4.9</i>	<i>9</i>

Home Country and Business Segments

				<i>North</i>	<i>Rest</i>			
	<i>Symbol/</i>		<i>Non-</i>	<i>Amer.</i>	<i>of World</i>	<i>Oil</i>	<i>Down-</i>	<i>Total</i>
	<i>Rating</i>	<i>Domicile</i>	<i>U.S.</i>	<i>Natural</i>	<i>Natural</i>	<i>Prod'n</i>	<i>stream</i>	<i>Present</i>
				<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>Value</i>
Mega Cap								
Exxon Mobil Corporation	XOM	B		10	20	37	33	481,000
BP plc	BP	B	UK	10	12	42	36	302,000
Royal Dutch Shell plc	RDS-A	B	UK	3	19	32	46	295,000
Total S.A.	TOT	B	France	-	28	37	35	214,000
Chevron Corporation	CVX	B		9	9	51	30	214,000
ConocoPhillips	COP	B		23	7	43	28	207,000
	<i>Total or Median</i>			<i>9</i>	<i>15</i>	<i>40</i>	<i>34</i>	<i>1,713,000</i>

Correlation Verifies Present Value in Real Time

Our underlying quantitative method for estimating present value projects cash flows years into the future and brings them to the present by applying a real discount rate, currently 7% a year. Around that traditional discounted cash flow analysis (DCF) we deal with uncertainty on a qualitative basis. "Option value" to us, for example, is "upside potential". After awhile DCF analyses fall into a pattern where differences among companies depend mostly on first year cash flow and reserve life. Meanwhile input information is continually changing as companies make new disclosures, each on a different day or at a different hour and commodity prices fluctuate. We aggregate latest information into a correlation analysis that determines a real-time present value approximation. When that approximation deviates too much from our steady, official estimate of present value and we cannot justify the difference with company-specific explanation, we change the official estimate. Net present value indicated by the current correlation is about \$5 a share lower than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

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Royal Dutch Shell plc
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	1,790	6.2	5.6	10,000	3%
Rest of World Natural Gas	7,540	11.0	7.3	55,000	19%
Oil	23,620	5.5	4.0	95,000	32%
Downstream	20,000		6.8	135,000	46%
	52,950	7.4	5.6	295,000	100%
Debt (US\$mm)				32,000	
Net Present Value (US\$mm)				263,000	
Shares (mm)				3,293	
Net Present Value - Standard Estimate (US\$/sh)				80	
Net Present Value - Approximation by Correlation (US\$/sh)				75	

Futures Prices and Company Disclosures Propel Estimated Cash Flow by Quarter

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year in our model.

Kurt H. Wulff, CFA

Royal Dutch/Shell
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,302	948	919	1,150	1,050	1,050	1,050	1,050	1,050
Overseas (or Int'l)	8,408	5,603	7,865	7,113	8,490	6,518	5,603	7,865	7,113
Total	9,710	6,551	8,784	8,264	9,540	7,568	6,653	8,915	8,163
Oil (mbd)	2,163	2,077	2,077	2,116	2,150	2,150	2,150	2,150	2,150
Total gas & oil (mmb)	348	292	326	1,275	337	310	300	334	1,281
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.35	8.60	8.88	9.85	9.17
U.S.	7.27	8.35	12.40	8.41	9.25	8.51	8.79	9.75	9.08
Overseas (or Int'l)	3.32	3.95	5.01	4.20	5.26	5.52	5.80	6.09	5.65
Total	3.85	4.59	5.78	4.78	5.70	5.93	6.27	6.52	6.09
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	64.95	66.12	67.39	67.94	66.60
Worldwide	40.17	56.83	52.77	50.34	57.10	58.14	59.25	59.73	58.57
Total gas & oil (\$/bbl)	32.86	46.74	45.29	41.81	47.36	49.81	51.89	51.30	50.04
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.06	10.63	6.97	11.66	12.52	10.17	10.33
Revenue (\$mm)									
Natural Gas									
U.S.	871	728	1,048	3,531	875	813	849	942	3,478
Overseas (or Int'l)	2,568	2,038	3,623	10,901	4,017	3,274	2,988	4,403	14,681
Total	3,439	2,766	4,671	14,432	4,891	4,087	3,836	5,345	18,160
Oil	7,994	10,859	10,084	38,882	11,050	11,374	11,720	11,815	45,960
Other	64,991	62,809	60,742	253,418	60,742	60,742	60,742	60,742	242,966
Total	76,424	76,435	75,496	306,731	76,683	76,203	76,298	77,902	307,086
Expense									
Production	4,466	6,026	7,154	24,432	7,748	7,508	7,556	8,357	31,169
Other	59,488	58,026	56,433	235,361	55,742	55,742	55,742	55,742	222,966
Ebitda (\$mm)									
Exploration and Production	6,967	7,600	7,600	28,882	8,193	7,954	8,001	8,803	32,951
Other	5,503	4,783	4,308	18,057	5,000	5,000	5,000	5,000	20,000
Total Ebitda	12,470	12,383	11,908	46,939	13,193	12,954	13,001	13,803	52,951
Exploration	519	275	502	1,286	502	502	502	502	2,008
Deprec., Deplet., & Amort.	3,545	2,903	2,787	11,981	2,787	2,787	2,787	2,787	11,148
Other non cash	161			-					-
Ebit	8,245	9,205	8,619	33,672	9,904	9,665	9,712	10,514	39,795
Interest	336	284	311	747	311	311	311	311	1,244
Ebt	7,909	8,921	8,308	32,925	9,593	9,354	9,401	10,203	38,551
Income Tax	2,768	3,123	2,908	11,524	3,358	3,274	3,290	3,571	13,493
Net Income (\$mm)									
Exploration and Production	2,578	3,212	3,561	12,473					
Other	3,036	2,723	2,280	10,090					
Unallocated	(473)	(136)	(440)	(1,162)					
Total	5,141	5,799	5,401	21,401	6,236	6,080	6,111	6,632	25,058
Shares (millions)	3,360	3,352	3,293	3,344	3,293	3,293	3,293	3,293	3,293
Per share (\$)	1.53	1.73	1.64	6.40	1.89	1.85	1.86	2.01	7.61
Ebitda Margin (E&P)	61%	56%	52%	54%	51%	51%	51%	51%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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