



# Independent Stock Idea

February 23, 2011

rating: buy  
s&p 500: 1315

## Woodside Petroleum Ltd. (WOPEY) Double LNG Late 2011

<i>Symbol</i>	WOPEY	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$mm)</i>	3,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	2
<i>Price (US\$/sh)</i>	42.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/22/11	<i>Adjusted Reserves/Production NTM</i>	19.9
<i>Shares (mm)</i>	774	<i>EV/Ebitda</i>	12.4
<i>Market Capitalization (US\$mm)</i>	33,100	<i>PV/Ebitda</i>	13.9
<i>Debt (US\$mm)</i>	6,200	<i>Probable Reserves (%)</i>	22
<i>Enterprise Value (EV) (US\$mm)</i>	39,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	44.27
<i>Present Value (PV) (US\$mm)</i>	44,100	<i>Present Value /Proven and Probable Reserves(US\$/boe)</i>	26.25
<i>Net Present Value (US\$/share)</i>	49	<i>Present Value/ Proven and Probable Reserves(US\$/mcf)</i>	4.38
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.95
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	22
<i>Dividend Yield (%/year)</i>	2.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.05
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, \$8 a million btu.			
Royal Dutch Shell holds 24% of the outstanding shares.			

### Summary and Recommendation

Buy-recommended **Woodside Petroleum Ltd. (WOPEY)** offers unlevered appreciation potential of 11% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$49 a share. In line with expectations from six months ago, half-yearly results released on February 21 tracked a steady trend ahead of startup of new liquefied natural gas (LNG) capacity, now expected in August (see tables [Half-Year Financial Results](#) and [Quarterly Operations](#)). The company's high growth prospects support a high cash flow multiple (PV/Ebitda) of 14 times (see table [Functional Cash Flow and Present Value](#)). Most of the value (40% in natural gas and 33% in oil) corresponds to resources currently generating cash flow as well as Pluto 1, the first phase, or train, of a new LNG plant to start up six months from now. A flawed flare tower, labor disputes and now a cyclone have delayed Pluto 1 about a year. The remainder of value (27%) corresponds to contingent resources expected to be part of future LNG plants, including more trains at Pluto and new projects such as Browse and Sunrise awaiting Final Investment Decision (FID). The projects contribute to potential six-fold expansion of natural gas capacity by 2020. High cash flow from shorter life oil production is helping to fund LNG expansion.

Though most of the payoff for investors in Woodside may unfold over the years, a successful Pluto startup amid a positive energy investment climate may offer an earlier reward. The elements of an energy investment boom until the next U.S. election appear to be falling in place



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with the latest example the chaos in Libya. We seem to be replaying the 1979-1980 economic and energy cycle. The U.S. as the leading global economy is stimulating economic growth and restricting its own oil supply as it did then. At the same time, consuming countries are unable to contain and may be abetting political instability in producing countries that interrupts supply. Equity investors profited from inept U.S. political leadership until a new president was elected in November 1980. Then a shift to bonds would have been more advantageous temporarily. Whether or not that cycle repeats, long term investment in new clean energy supply makes sense in our opinion.

Kurt H. Wulff, CFA

<b>Woodside Petroleum Ltd.</b>									
<b>Half-Year Financial Results</b>									
(U.S. Dollars beginning in 2010, Australian dollars, 2009)									
	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Twelve Months</i>
	<i>6/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>6/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>6/30/11</i>	<i>12/31/11</i>	<i>12/31/11</i>
<b>Volume</b>									
Natural Gas (mmcf)	719	723	<b>721</b>	681	677	<b>679</b>	603	793	<b>699</b>
Oil (mbd)	101	101	<b>101</b>	89	83	<b>86</b>	79	79	<b>79</b>
Total gas & oil (boe)	40.0	40.8	<b>80.8</b>	36.7	36.0	<b>72.7</b>	32.6	38.9	<b>71.5</b>
Total gas & oil (mbd)	221	222	<b>221</b>	203	196	<b>199</b>	180	212	<b>196</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	4.20	3.78	<b>3.99</b>	4.71	4.09	<b>4.38</b>	4.06	4.25	<b>4.16</b>
Company	4.50	5.64	<b>5.08</b>	7.51	6.79	<b>6.88</b>	7.17	7.61	<b>7.42</b>
Oil (\$/bbl)									
WTI Cushing	51.24	72.15	<b>61.70</b>	78.26	80.59	<b>76.08</b>	91.08	96.38	<b>93.73</b>
Company	46.94	69.30	<b>58.22</b>	72.81	81.73	<b>76.33</b>	93.75	99.20	<b>96.50</b>
Total gas & oil (\$/bbl)									
<b>Revenue (\$mm)</b>									
Natural Gas	586	750	<b>1,336</b>	927	846	<b>1,773</b>	783	1,110	<b>1,629</b>
Oil	860	1,291	<b>2,151</b>	1,175	1,245	<b>2,420</b>	1,347	1,449	<b>2,592</b>
Other	95	404	<b>500</b>	-	-	<b>-</b>			<b>-</b>
Total	1,541	2,445	<b>3,987</b>	2,102	2,091	<b>4,193</b>	2,130	2,559	<b>4,221</b>
<b>Expense</b>	457	915	<b>1,371</b>	495	523	<b>1,018</b>	532	640	<b>1,055</b>
<b>Ebitda</b>	1,085	1,531	<b>2,615</b>	1,607	1,568	<b>3,175</b>	1,597	1,920	<b>3,166</b>
Exploration	131	165	<b>295</b>	145	184	<b>329</b>	172	172	<b>356</b>
Deprec., Deplet., & Amort.	367	567	<b>934</b>	379	403	<b>782</b>	483	483	<b>886</b>
Other non cash	(501)	(422)	<b>(923)</b>	(120)	(249)	<b>(369)</b>	(200)	(200)	<b>(449)</b>
<b>Ebit</b>	1,088	1,221	<b>2,309</b>	1,203	1,230	<b>2,433</b>	1,142	1,465	<b>2,373</b>
Interest	51	53	<b>104</b>	51	62	<b>113</b>	62	62	<b>124</b>
<b>Ebt</b>	1,037	1,168	<b>2,205</b>	1,152	1,168	<b>2,320</b>	1,080	1,403	<b>2,249</b>
Income Tax	363	409	<b>772</b>	339	358	<b>697</b>	378	491	<b>736</b>
<b>Net Income</b>	674	759	<b>1,433</b>	813	810	<b>1,623</b>	702	912	<b>1,513</b>
<b>Shares (millions)</b>	702	703	<b>703</b>	772	774	<b>773</b>	774	774	<b>774</b>
Per share (\$)	0.96	1.08	<b>2.04</b>	1.05	1.05	<b>2.10</b>	0.91	1.18	<b>1.95</b>
Ebitda Margin	75%	75%	<b>75%</b>	76%	75%	<b>76%</b>	75%	75%	<b>75%</b>
Tax Rate	35%	35%	<b>35%</b>	29%	31%	<b>30%</b>	35%	35%	<b>33%</b>



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<b>Woodside Petroleum Ltd.</b>								
<b>Quarterly Operations</b>								
(U.S Dollars)								
								<i>Twelve</i>
	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Months E</i>
	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>12/31/11</i>
<b>Volume</b>								
Natural gas (bcf)	62	62	<b>248</b>	59	50	60	86	<b>255</b>
Natural Gas (mmcf)	677	678	<b>679</b>	659	547	648	939	<b>699</b>
Days	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mmb)	7.9	7.3	<b>31.4</b>	7.1	7.2	7.3	7.3	<b>29.0</b>
Oil (mbd)	86	79	<b>86</b>	79	79	79	79	<b>79</b>
Total gas & oil (boe)	18.3	17.7	<b>72.7</b>	17.0	15.5	17.2	21.7	<b>71.5</b>
Total gas & oil (mbd))	199	192	<b>199</b>	189	171	187	236	<b>196</b>
<b>Price</b>								
Natural gas (\$/mcf)								
Henry Hub (US\$/mmbtu)	4.38	3.80	<b>4.40</b>	4.14	3.97	4.12	4.39	<b>4.16</b>
Company (\$/mcf)	6.88	6.71	<b>7.15</b>	7.11	7.24	7.53	7.66	<b>7.42</b>
Oil (\$/bbl)								
WTI Cushing	76.08	85.10	<b>79.43</b>	90.26	91.90	95.59	97.17	<b>93.73</b>
Company	76.33	87.59	<b>77.14</b>	92.90	94.59	98.38	100.01	<b>96.50</b>
Total gas & oil (\$/bbl)	56.45	59.77	<b>57.68</b>	63.74	67.25	67.73	64.14	<b>65.59</b>
<b>Revenue (\$mm)</b>								
Natural Gas	428	418	<b>1,773</b>	422	361	449	662	<b>1,893</b>
Oil	605	640	<b>2,420</b>	664	683	719	730	<b>2,796</b>
Total	1,033	1,058	<b>4,193</b>	1,086	1,044	1,167	1,392	<b>4,689</b>

<b>Woodside Petroleum Ltd.</b>					
<b>Functional Cash Flow and Present Value</b>					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Natural Gas	1,290	28.0	13.6	17,500	40%
Oil	1,910	8.0	7.6	14,600	33%
Liquefied Natural Gas Projects				12,000	27%
	3,200	19.9	13.8	44,100	100%
Debt (US\$mm)					6,200
Net Present Value (US\$mm)					37,900
Shares (mm)					774
Net Present Value - Standard Estimate (US\$/sh)					49
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					46



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