

Rating: Buy  
 S&P 500: 1456

## CNOOC Limited

### Oil, China and Natural Gas Growth

<i>Symbol</i>	CEO	<i>Ebitda Twelve Months ending 12/30/07 (US\$mm)</i>	6,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	83.61	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/22/07	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	5.7
<i>Market Capitalization (US\$mm)</i>	34,400	<i>PV/Ebitda</i>	6.7
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	51
<i>Enterprise Value (EV) (US\$mm)</i>	34,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.39
<i>Present Value (PV) (US\$mm)</i>	40,300	<i>Present Value Proven Reserves(US\$/boe)</i>	17.07
<i>Net Present Value (US\$/share)</i>	98	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.84
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.92
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	2.82

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\$60 a barrel and natural gas, \$10 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

Buy **CNOOC Limited (CEO)** for oil cash flow, China economic exposure and natural gas growth at a 200-day average stock price. Estimated net present value (NPV) of \$98 a share depends 89% on oil production (see table [Functional Cash Flow and Present Value](#)). While the McDep Ratio of 0.85 indicates the stock is valued low even for \$60 a barrel, we see oil price turning up again later in 2007 heading toward our vision of \$150 in 2010 (see chart [Six-Year Commodity Price Meter](#)). China's rapid economic growth and its increasing dependence on oil imports should favor reasonable taxation and political support for its own oil producers. Natural gas at 11% of NPV has three times the annual volume potential measured by proven reserves and four times the price potential measured by heating equivalence to catch up with oil today. Approaching NPV at year end, CEO stock price has dropped back to what may prove to be a classic buy point on the 200-day average (see stock price chart). Though no one can make such assurances, we comfortably assign CNOOC stock a full weight in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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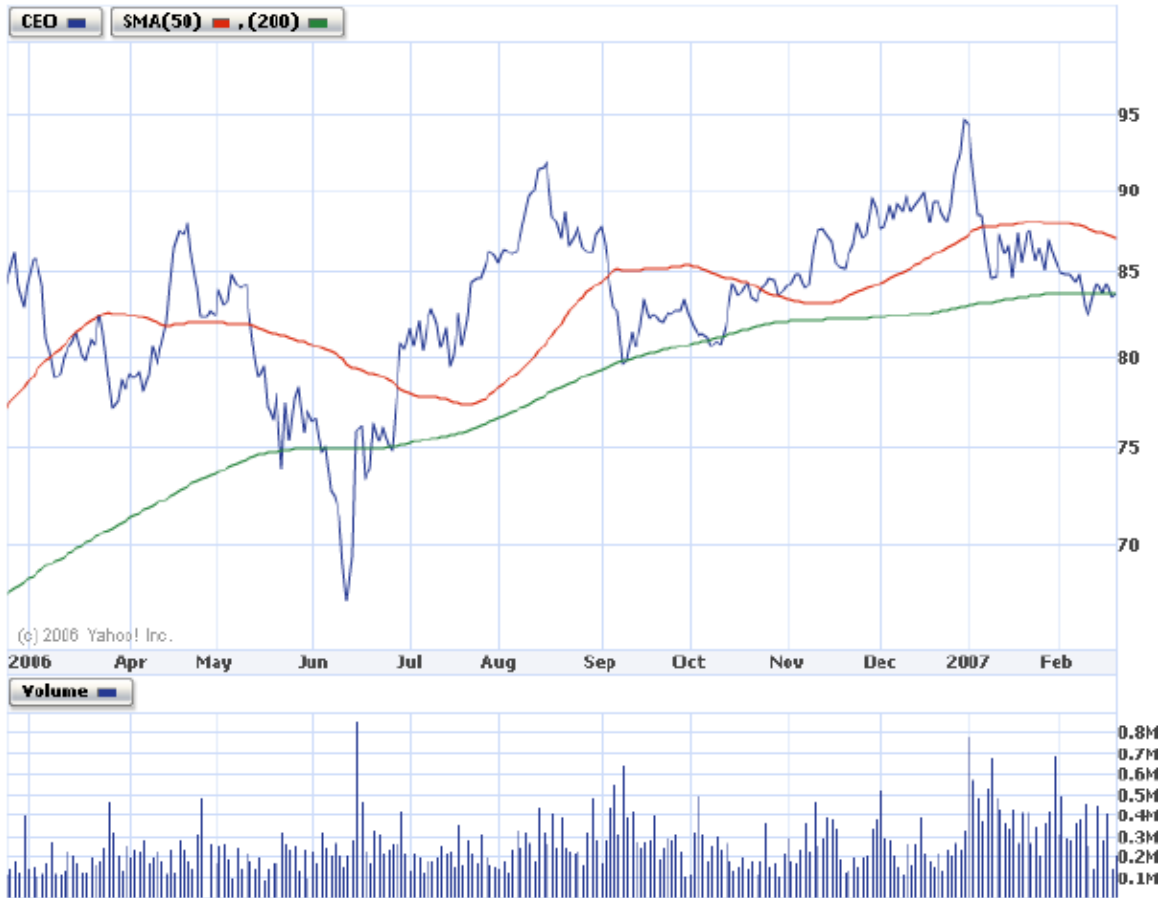
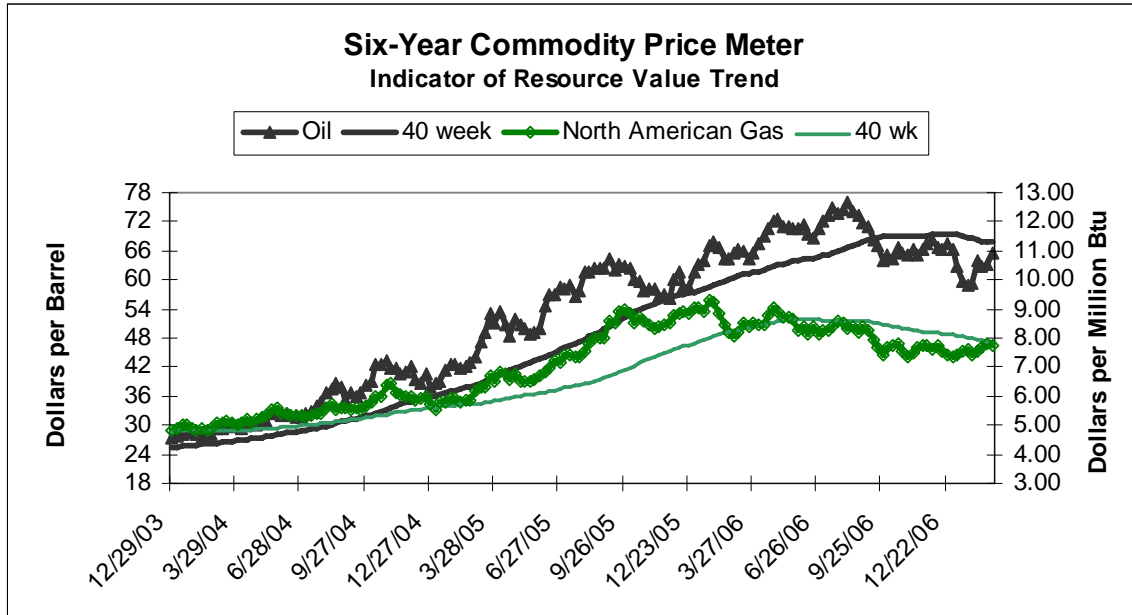
**CNOOC Limited**  
**Functional Cash Flow and Present Value**

	<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>	
Natural Gas	490	21.9	8.8	4,300	11%
Oil	5,610	8.0	6.4	36,000	89%
	6,100	10.6	6.6	40,300	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					40,300
Shares (mm)					411
Net Present Value - Standard Estimate (US\$/sh)					98
Net Present Value - Approximation by Correlation (US\$/sh)					106

**CNOOC Limited**  
**Quarterly Operations**

	<i>Q3</i> <i>9/30/05</i>	<i>Q4</i> <i>12/31/05</i>	<i>Year</i> <i>2005</i>	<i>Q1</i> <i>3/31/06</i>	<i>Q2</i> <i>6/30/06</i>	<i>Q3</i> <i>9/30/06</i>	<i>Q4E</i> <i>12/31/06</i>	<i>Year</i> <i>2006E</i>	<i>Twelve</i> <i>Months</i> <i>12/31/07</i>
<b>Volume</b>									
Natural gas (bcf)	38	40	<b>142</b>	35	43	46	46	<b>171</b>	<b>184</b>
Natural Gas (mmcf/d)	410	433	<b>390</b>	390	467	505	505	<b>467</b>	<b>505</b>
Days	92	92	<b>365</b>	90	91	92	92	<b>365</b>	<b>365</b>
Oil (mmb)	33	34	<b>130</b>	35	34	34	34	<b>137</b>	<b>136</b>
Oil (mbd)	356	365	<b>358</b>	384	371	372	372	<b>375</b>	<b>372</b>
Total gas & oil (bcf)	234	241	<b>925</b>	242	245	252	252	<b>991</b>	<b>999</b>
Total gas & oil (mbd)	424	437	<b>423</b>	449	449	456	456	<b>453</b>	<b>456</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	13.00	<b>8.65</b>	8.97	6.81	6.58	6.57	<b>7.23</b>	<b>7.71</b>
Company	2.94	2.52	<b>2.77</b>	3.10	3.23	3.39	3.39	<b>3.29</b>	<b>3.39</b>
Oil (\$/bbl)									
WTI Cushing	62.52	60.02	<b>56.31</b>	63.33	70.47	70.42	59.99	<b>66.05</b>	<b>60.65</b>
Company	52.40	51.67	<b>47.31</b>	58.13	70.82	61.78	52.63	<b>59.80</b>	<b>53.23</b>
Total gas & oil (\$/mcf)	7.80	7.61	<b>7.10</b>	8.73	9.76	9.02	7.78	<b>8.82</b>	<b>7.86</b>
<b>Revenue (\$mm)</b>									
Natural Gas	111	100	<b>395</b>	109	137	157	157	<b>561</b>	<b>625</b>
Oil	1,716	1,735	<b>6,174</b>	2,009	2,252	2,114	1,801	<b>8,177</b>	<b>7,227</b>
Other									
Total	1,827	1,836	<b>6,569</b>	2,118	2,389	2,272	1,959	<b>8,738</b>	<b>7,852</b>
RMB/\$	8.14	8.08	<b>8.19</b>	8.05	8.01	7.97	7.86	<b>7.97</b>	<b>7.76</b>
<b>Revenue (RMB)</b>									
Natural Gas	903	812	<b>1,714</b>	876	1,099	1,255	1,238	<b>4,468</b>	<b>4,849</b>
Oil	13,970	14,020	<b>27,990</b>	16,172	18,041	16,851	14,158	<b>65,223</b>	<b>56,084</b>
Other									
Total	14,873	14,831	<b>29,704</b>	17,048	19,139	18,107	15,396	<b>69,690</b>	<b>60,933</b>

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Source: yahoo

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**CNOOC Limited**  
**Half-Year Financial Results**

	H2 12/31/05	Year 2005	H1 6/30/06	H2E 12/31/06	Year 2006E	H1E 6/30/07	H2E 12/31/07	Twelve Months 12/31/07
<b>Revenue (mmRMB)</b>								
Natural Gas (from Q table)	1,714	<b>3,192</b>	1,975	2,493	<b>4,468</b>	2,405	2,444	<b>4,898</b>
Oil (from Q table)	27,990	<b>49,946</b>	34,213	31,010	<b>65,223</b>	26,977	29,106	<b>57,987</b>
Other	762	<b>2,062</b>	(713)		<b>(713)</b>	-		-
Total	30,466	<b>55,200</b>	35,475	33,503	<b>68,978</b>	29,382	31,551	<b>62,885</b>
<b>Expense</b>								
Fixed	3,483	<b>4,967</b>	4,247	4,247	<b>8,493</b>	4,247	4,247	<b>8,493</b>
Variable	3,483	<b>4,967</b>	4,247	3,932	<b>8,178</b>	3,448	3,702	<b>7,380</b>
<b>Ebitda</b>	22,738	<b>43,205</b>	27,694	25,325	<b>53,019</b>	21,687	23,602	<b>47,012</b>
Exploration	600	<b>1,211</b>	709	709	<b>1,418</b>	709	709	<b>1,418</b>
Deprec., Deplet., & Amort.	2,732	<b>5,519</b>	3,366	3,366	<b>6,732</b>	3,366	3,366	<b>6,732</b>
<b>Ebit</b>	19,406	<b>36,475</b>	23,619	21,250	<b>44,869</b>	17,612	19,527	<b>38,862</b>
Interest	-	-	-	-	-	-	-	-
<b>Ebt</b>	19,406	<b>36,475</b>	23,619	21,250	<b>44,869</b>	17,612	19,527	<b>38,862</b>
Income Tax	5,835	<b>10,978</b>	7,581	7,437	<b>15,018</b>	6,164	6,834	<b>13,602</b>
<b>Net Income</b>	13,571	<b>25,497</b>	16,038	13,812	<b>29,851</b>	11,448	12,692	<b>25,260</b>
<b>Shares (millions)</b>	41,124	<b>41,124</b>	41,124	41,124	<b>41,124</b>	41,124	41,124	<b>41,124</b>
Per share (RMB)	0.33	<b>0.62</b>	0.39	0.34	<b>0.73</b>	0.28	0.31	<b>0.61</b>
Ebitda Margin	75%	<b>78%</b>	78%	76%	<b>77%</b>	74%	75%	<b>75%</b>
Tax Rate	30%	<b>30%</b>	32%	35%	<b>33%</b>	35%	35%	<b>35%</b>

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