

Rating: Buy  
S&P 500: 1494

## **CNOOC Limited**

### **Volume up 5%**

<i>Symbol</i>	CEO	<i>Ebitda Twelve Months ending 6/30/08 (US\$mm)</i>	7,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	87.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/26/07	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	35,900	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	51
<i>Enterprise Value (EV) (US\$mm)</i>	35,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.56
<i>Present Value (PV) (US\$mm)</i>	40,300	<i>Present Value Proven Reserves(US\$/boe)</i>	15.95
<i>Net Present Value (US\$/share)</i>	98	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.66
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.62
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.8	<i>Indicated Annual Dividend (US\$/sh)</i>	3.33

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-recommended **CNOOC Limited (CEO)** reported on April 26 year over year growth in oil and gas volume of 5%. Presented by Chief Financial Officer Yang Hua, the latest results appear to contrast with management's recent guidance for flat volume in 2007 against the backdrop of continuing growth of 7-11% per year over several years. Meanwhile, estimated net present value (NPV) of \$98 a share continues to be justified by our analysis (see table, Functional Cash Flow and Present Value). As the independent oil producer of China with the resource rights to practically all of the country's offshore acreage, CNOOC benefits from others taking risks and absorbing costs in return for a share of the rewards. Natural gas remains a largely untapped opportunity measured both by a long reserve life and a low current price. When asked if that price would be moving up soon, Mr. Yang answered that he did not see a change in the near future. While we wait, cash generation from oil is strong and unlike most independent producers, CEO pays nearly 4% a year in dividends.

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	21.5	8.8	4,300	11%
Oil	6,610	8.4	5.4	36,000	89%
	7,100	11.0	5.7	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)					114

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

	<i>Q1</i> <i>3/31/06</i>	<i>Q4</i> <i>12/31/06</i>	<i>Year</i> <i>2006</i>	<i>Q1</i> <i>3/31/07</i>	<i>Q2E</i> <i>6/30/07</i>	<i>Q3E</i> <i>9/30/07</i>	<i>Q4E</i> <i>12/31/07</i>	<i>Year</i> <i>2007E</i>	<i>Twelve</i> <i>Months E</i> <i>6/30/08</i>
<b>Volume</b>									
Natural gas (bcf)	35	55	179	50	50	51	51	201	201
Natural Gas (mmcf)	390	597	490	550	550	550	550	550	550
Days	90	92	365	90	91	92	92	365	365
Oil (mmb)	35	33	136	34	34	35	35	138	138
Oil (mbd)	384	364	373	379	379	379	379	379	379
Total gas & oil (bcf)	242	256	995	254	257	260	260	1,031	1,031
Total gas & oil (mbd)	449	463	454	471	471	471	471	471	471
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	7.23	6.81	7.60	7.95	8.80	7.79	8.65
Company	3.10	2.43	3.00	3.19	3.19	3.19	3.19	3.19	3.19
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	66.05	58.08	65.07	67.85	69.47	65.12	69.68
Company	58.13	48.84	58.90	52.45	58.77	61.28	62.74	58.84	62.92
Total gas & oil (\$/mcf)	8.73	6.91	8.59	7.66	8.51	8.84	9.04	8.52	9.07
<b>Revenue (\$mm)</b>									
Natural Gas	109	134	537	158	160	161	161	640	640
Oil	2,009	1,635	8,010	1,789	2,027	2,137	2,188	8,140	8,704
Total	2,118	1,768	8,547	1,947	2,187	2,298	2,349	8,781	9,345
RMB/\$	8.05	7.86	7.97	7.78	7.72	7.72	7.72	7.73	7.73
<b>Revenue (RMB)</b>									
Natural Gas	876	1,049	4,279	1,228	1,233	1,246	1,246	4,953	4,944
Oil	16,172	12,850	63,914	13,911	15,647	16,494	16,888	62,941	67,197
Total	17,048	13,899	68,193	15,139	16,880	17,741	18,134	67,894	72,141

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

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Twelve</i>
	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>	<i>Months</i>
								<i>6/30/08</i>
<b>Revenue (mmRMB)</b>								
Natural Gas (from Q table)	1,975	2,305	<b>4,279</b>	2,460	2,492	<b>4,953</b>	2,452	<b>4,944</b>
Oil (from Q table)	34,213	29,701	<b>63,914</b>	29,559	33,383	<b>62,941</b>	33,814	<b>67,197</b>
Other	(713)		<b>(713)</b>	-		-	-	-
Total	35,475	32,006	<b>67,481</b>	32,019	35,875	<b>67,894</b>	36,266	<b>72,141</b>
<b>Expense</b>								
Fixed	4,247	3,210	<b>7,456</b>	4,002	4,002	<b>8,005</b>	4,002	<b>8,005</b>
Variable	4,247	3,210	<b>7,456</b>	4,002	4,484	<b>8,487</b>	4,533	<b>9,018</b>
<b>Ebitda</b>	27,694	25,586	<b>53,280</b>	24,014	27,388	<b>51,403</b>	27,730	<b>55,118</b>
Exploration	709	709	<b>1,418</b>	709	709	<b>1,418</b>	709	<b>1,418</b>
Deprec., Deplet., & Amort.	3,366	3,366	<b>6,732</b>	3,366	3,366	<b>6,732</b>	3,366	<b>6,732</b>
<b>Ebit</b>	23,619	21,511	<b>45,130</b>	19,939	23,313	<b>43,253</b>	23,655	<b>46,968</b>
Interest	-	-	-	-	-	-	-	-
<b>Ebt</b>	23,619	21,511	<b>45,130</b>	19,939	23,313	<b>43,253</b>	23,655	<b>46,968</b>
Income Tax	7,581	7,529	<b>15,110</b>	6,979	8,160	<b>15,138</b>	8,279	<b>16,439</b>
<b>Net Income</b>	16,038	13,982	<b>30,021</b>	12,961	15,154	<b>28,114</b>	15,376	<b>30,529</b>
<b>Shares (millions)</b>	41,124	41,124	<b>41,124</b>	41,124	41,124	<b>41,124</b>	41,124	<b>41,124</b>
Per share (RMB)	0.39	0.34	<b>0.73</b>	0.32	0.37	<b>0.68</b>	0.37	<b>0.74</b>
Ebitda Margin	78%	80%	<b>79%</b>	75%	76%	<b>76%</b>	76%	<b>76%</b>
Tax Rate	32%	35%	<b>33%</b>	35%	35%	<b>35%</b>	35%	<b>35%</b>

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