

Rating: Buy  
S&P 500: 1553

## **CNOOC Limited**

### **Fu Chengyu Meets Boone Pickens**

<i>Symbol</i>	CEO	<i>Ebitda Twelve Months ending 6/30/08 (US\$mm)</i>	7,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	122.39	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/19/07	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	6.9
<i>Market Capitalization (US\$mm)</i>	50,300	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$mm)</i>	50,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.60
<i>Present Value (PV) (US\$mm)</i>	44,400	<i>Present Value Proven Reserves(US\$/boe)</i>	17.62
<i>Net Present Value (US\$/share)</i>	108	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.94
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.87
<i>McDep Ratio - EV/PV</i>	1.13	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	2.7	<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\$66 a barrel and natural gas, \$11 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**

After recent strong stock market performance, buy-recommended **CNOOC Limited (CEO)**, trading above estimated net present value (NPV), presents an opportunity for investors with more than a full portfolio position to rebalance to a full position. NPV increased to \$108 a share from \$98 on May 29 when we raised our long-term oil price assumption to \$66 a barrel from \$60. Rising oil price and reacceleration of volume growth next year point to further gains in NPV to justify continued investment in CEO. Meanwhile, we are intrigued by a news item from *Bloomberg* that Fu Chengyu met on July 18 in China with T. Boone Pickens. Mr. Fu is chairman of CEO, a natural gas producer choked by price controls, while Mr. Pickens is co-founder of Clean Energy Fuels, Inc. (CLNE), a supplier of natural gas fuel for vehicles. A wide spread between the price of natural gas and the price of oil creates a strong incentive to use the clean fuel for transportation while China's relatively undeveloped infrastructure means less entrenched commitment to gasoline and diesel. Finally, stock price momentum for CEO is positive, but the rate of advance relative to the 200-day and 60-day average is greater than for practically any of our buy recommendations.

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	480	21.7	8.1	3,900	9%
Oil	6,820	8.0	5.9	40,500	91%
	7,300	10.6	6.1	44,400	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					44,400
Shares (mm)					411
Net Present Value - Standard Estimate (US\$/sh)					108
Net Present Value - Approximation by Correlation (US\$/sh)					122

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

	<i>Q2</i> <i>6/30/06</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)	43	<b>179</b>	50	50	51	51	<b>201</b>	<b>201</b>
Natural Gas (mmcf)	467	<b>490</b>	550	550	550	550	<b>550</b>	<b>550</b>
Days	91	<b>365</b>	90	91	92	92	<b>365</b>	<b>365</b>
Oil (mmb)	34	<b>136</b>	34	34	35	35	<b>138</b>	<b>138</b>
Oil (mbd)	371	<b>373</b>	379	379	379	379	<b>379</b>	<b>379</b>
Total gas & oil (bcf)	245	<b>995</b>	254	257	260	260	<b>1,031</b>	<b>1,031</b>
Total gas & oil (mbd)	449	<b>454</b>	471	471	471	471	<b>471</b>	<b>471</b>
<b>Price</b>								
Natural gas (\$/mcf)								
Henry Hub (\$/mmbtu)	6.81	<b>7.23</b>	6.81	7.56	6.62	7.49	<b>7.12</b>	<b>7.58</b>
Company	3.23	<b>3.00</b>	3.19	3.19	3.19	3.19	<b>3.19</b>	<b>3.19</b>
Oil (\$/bbl)								
WTI Cushing	70.47	<b>66.05</b>	58.08	64.91	72.33	72.87	<b>67.05</b>	<b>72.99</b>
Company	70.82	<b>58.90</b>	52.45	58.62	65.32	65.81	<b>60.60</b>	<b>65.91</b>
Total gas & oil (\$/mcf)	9.76	<b>8.59</b>	7.66	8.49	9.39	9.45	<b>8.75</b>	<b>9.47</b>
<b>Revenue (\$mm)</b>								
Natural Gas	137	<b>537</b>	158	160	161	161	<b>640</b>	<b>640</b>
Oil	2,252	<b>8,010</b>	1,789	2,022	2,278	2,295	<b>8,383</b>	<b>9,118</b>
Total	2,389	<b>8,547</b>	1,947	2,181	2,439	2,456	<b>9,023</b>	<b>9,758</b>
RMB/\$	8.01	<b>7.97</b>	7.78	7.57	7.57	7.57	<b>7.62</b>	<b>7.62</b>
<b>Revenue (RMB)</b>								
Natural Gas	1,099	<b>4,279</b>	1,228	1,209	1,222	1,222	<b>4,880</b>	<b>4,848</b>
Oil	18,041	<b>63,914</b>	13,911	15,304	17,242	17,371	<b>63,828</b>	<b>69,022</b>
Total	19,139	<b>68,193</b>	15,139	16,513	18,464	18,593	<b>68,708</b>	<b>73,870</b>

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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>	2,436	2,444	<b>4,880</b>	2,404	<b>4,848</b>
Oil (from Q table)	34,213	29,701	<b>63,914</b>	29,215	34,613	<b>63,828</b>	34,410	<b>69,022</b>
Other	(713)		<b>(713)</b>	-		-	-	-
Total	35,475	32,006	<b>67,481</b>	31,652	37,056	<b>68,708</b>	36,814	<b>73,870</b>
<b>Expense</b>	7,781	6,420	<b>14,200</b>	7,913	9,264	<b>17,177</b>	9,203	<b>18,467</b>
Fixed	4,247	3,210	<b>7,456</b>	3,956	3,956	<b>7,913</b>	3,956	<b>7,913</b>
Variable	4,247	3,210	<b>7,456</b>	3,956	4,632	<b>8,589</b>	4,602	<b>9,234</b>
<b>Ebitda</b>	27,694	25,586	<b>53,280</b>	23,739	27,792	<b>51,531</b>	27,610	<b>55,402</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>	19,664	23,717	<b>43,381</b>	23,535	<b>47,252</b>
Interest	-	-	-	-	-	-	-	-
<b>Ebt</b>	23,619	21,511	<b>45,130</b>	19,664	23,717	<b>43,381</b>	23,535	<b>47,252</b>
Income Tax	7,581	7,529	<b>15,110</b>	6,882	8,301	<b>15,183</b>	8,237	<b>16,538</b>
<b>Net Income</b>	16,038	13,982	<b>30,021</b>	12,782	15,416	<b>28,198</b>	15,298	<b>30,714</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>	0.31	0.37	<b>0.69</b>	0.37	<b>0.75</b>
Ebitda Margin	78%	80%	<b>79%</b>	75%	75%	<b>75%</b>	75%	<b>75%</b>
Tax Rate	32%	35%	<b>33%</b>	35%	35%	<b>35%</b>	35%	<b>35%</b>

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