



Independent Stock Idea

August 27, 2008

rating: hold
s&p 500: 1271

CNOOC Limited (CEO) Strong Operating and Financial Results

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	12,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	145.71	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/26/08	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$mm)</i>	65,300	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	59
<i>Enterprise Value (EV) (US\$mm)</i>	65,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	64.43
<i>Present Value (PV) (US\$mm)</i>	80,600	<i>Present Value Proven Reserves(US\$/boe)</i>	31.08
<i>Net Present Value (US\$/share)</i>	180	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.18
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	16.01
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	4.74
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, \$14 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

Hold-rated **CNOOC Limited (CEO)**, with estimated net present value (NPV) of \$180 a share, offers portfolio representation mainly in crude oil production and non-U.S. domicile. First half results reported today scored strong volume and profit gains despite a Chinese “windfall profits” tax, which takes some 40% of incremental crude oil price (see table [Half-Yearly Financial Results](#)). A high 77% cash flow margin and low 23% corporate tax rate help counter the extra crude oil levy of RMB 10 billion (US\$ 1.4 billion). Production volume gained ten percent in the latest quarter over a year ago (see table [Quarterly Operations](#)). Natural gas price under \$4 a thousand cubic feet is absurdly low at one-fifth the going rate for imports in Asia. The potential for ultimate market price for natural gas is not reflected in stock price and given little credit in estimated NPV (see table [Functional Cash Flow and Present Value](#)). Meanwhile, crude oil price trends upward with the latest quote of \$118 a barrel for delivery over the next six years above the 40-week average of \$107 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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CNOOC Limited								
Half-Year Financial Results								
								<i>Twelve</i>
	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Months</i>
	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>6/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>6/30/09</i>	<i>6/30/09</i>
Revenue (mmRMB)								
Natural Gas (from Q table)	2,473	2,663	5,136	2,906	2,942	5,849	3,144	6,087
Oil (from Q table)	30,924	37,402	68,326	52,648	54,627	107,275	61,790	116,417
Other	(175)	(250)	(425)	(1,091)		(1,091)	-	-
Total	33,222	39,815	73,037	54,464	57,569	112,033	64,934	122,503
Expense	5,502	10,157	15,659	12,775	16,695	29,470	18,831	35,526
Ebitda	27,720	29,658	57,378	41,689	40,874	82,563	46,103	86,977
Exploration	1,221	2,211	3,432	1,342	1,342	2,684	1,342	2,684
Deprec., Deplet., & Amort.	3,536	3,838	7,374	4,350	4,350	8,700	4,350	8,700
Ebit	22,963	23,609	46,572	35,997	35,182	71,179	40,411	75,593
Interest	-	-	-	-	-	-	-	-
Ebt	22,963	23,609	43,997	35,997	35,182	71,179	40,411	75,593
Income Tax	5,462	6,590	12,052	8,229	12,314	20,543	14,144	26,458
Net Income	14,926	17,019	31,945	27,768	22,868	50,636	26,267	49,136
Shares (millions)	43,900	44,787	44,368	44,787	44,787	44,787	44,787	44,787
Per share (RMB)	0.34	0.38	0.72	0.62	0.51	1.13	0.59	1.10
Ebitda Margin	83%	74%	79%	77%	71%	74%	71%	71%
Tax Rate	24%	28%	27%	23%	35%	29%	35%	35%

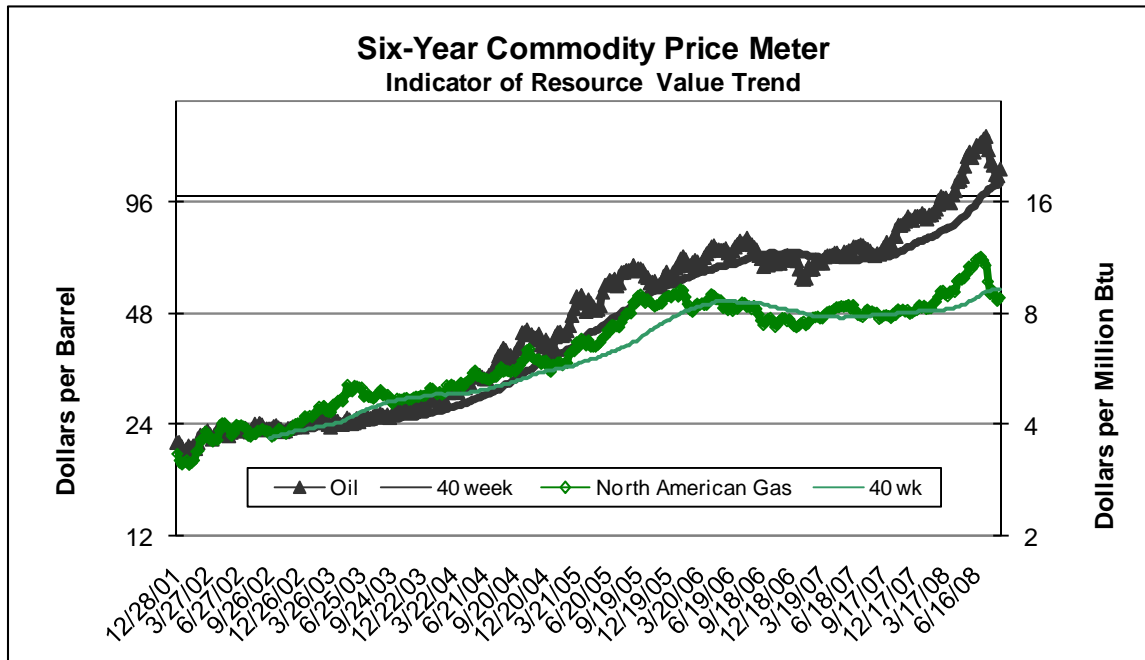
CNOOC Limited									
Quarterly Operations									
									<i>Twelve</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months E</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
Volume									
Natural gas (bcf)	50	55	58	61	56	230	60	65	242
Natural Gas (mmcf)	552	601	635	665	607	627	672	710	663
Days	91	91	91	92	92	366	90	91	365
Oil (mmb)	34	36	37	38	37	149	40	42	157
Oil (mbd)	374	393	408	417	405	406	439	456	429
Total gas & oil (mmboe)	42	45	47	49	47	187	50	52	197
Total gas & oil (mbd))	465	493	514	528	506	510	551	574	540
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.06	8.33	9.33	8.94	8.03	8.84
Company	3.23	3.65	3.67	3.67	3.67	3.66	3.67	3.67	3.67
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	121.20	115.71	114.71	117.19	115.31	117.35
Company	69.94	88.76	115.71	108.18	102.53	103.97	105.84	116.46	108.44
Total gas & oil (\$/mcf)	9.35	12.53	16.07	15.01	14.41	14.53	14.80	16.17	15.12
Revenue (\$mm)									
Natural Gas	162	200	212	224	205	841	222	237	888
Oil	2,215	3,174	4,297	4,149	3,823	15,444	4,184	4,834	16,990
Total	2,377	3,374	4,509	4,374	4,028	16,285	4,406	5,071	17,878
RMB/\$	7.68	7.16	6.96	6.85	6.85	6.95	6.85	6.85	6.85
Revenue (RMB)									
Natural Gas	1,245	1,430	1,476	1,538	1,404	5,849	1,520	1,625	6,087
Oil	17,013	22,740	29,908	28,430	26,197	107,275	28,668	33,122	116,417
Total	18,258	24,170	31,385	29,968	27,601	113,124	30,188	34,747	122,503



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CNOOC Limited					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	630	17.3	11.1	7,000	9%
Oil	12,070	7.2	6.1	73,600	91%
	12,700	9.3	6.3	80,600	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					80,600
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					180
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					181





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