



# Independent Stock Idea

October 28, 2008

rating: hold  
s&p 500: 940

## CNOOC Limited (CEO) Oil & Gas Growth Offshore China

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$m)</i>	7,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	63.35	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/28/08	<i>Adjusted Reserves/Production NTM</i>	8.8
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	3.7
<i>Market Capitalization (US\$m)</i>	28,400	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	59
<i>Enterprise Value (EV) (US\$m)</i>	28,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.91
<i>Present Value (PV) (US\$m)</i>	60,500	<i>Present Value Proven Reserves(US\$/boe)</i>	23.33
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.89
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.71
<i>McDep Ratio - EV/PV</i>	0.47	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	7.5	<i>Indicated Annual Dividend (US\$/sh)</i>	4.77
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\$75 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 <a href="http://www.mcdep.com/4ceo.htm">http://www.mcdep.com/4ceo.htm</a>			

### Summary and Recommendation

Hold-rated **CNOOC Limited (CEO)** offers unlevered appreciation potential of 110% to estimated net present value (NPV) of \$135 a share. On October 28, we reset NPV from \$180 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as CEO stock price remains below the 200-day average of \$150. Released today, third quarter results delivered volume gain of 15% over the third quarter of 2007 (see table [Quarterly Operations](#)). The volume trend also compares favorably with that for the largest companies (see chart [Oil and Gas Production](#)). Meanwhile, lower price for crude oil and natural gas leads to lower cash flow (Ebitda) for the next year (see table [Half-Yearly Financial Results](#)). Yet, projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). The market unlevered cash flow multiple (EV/Ebitda) at a remarkably low 3.7 times, compared to 5.1 times as recently as the end of August, indicates that the stock market has more than compensated for the decline in expected cash flow. Noting the company also has no debt, only a wariness of the global financial situation keeps us from recommending buy rather than hold.

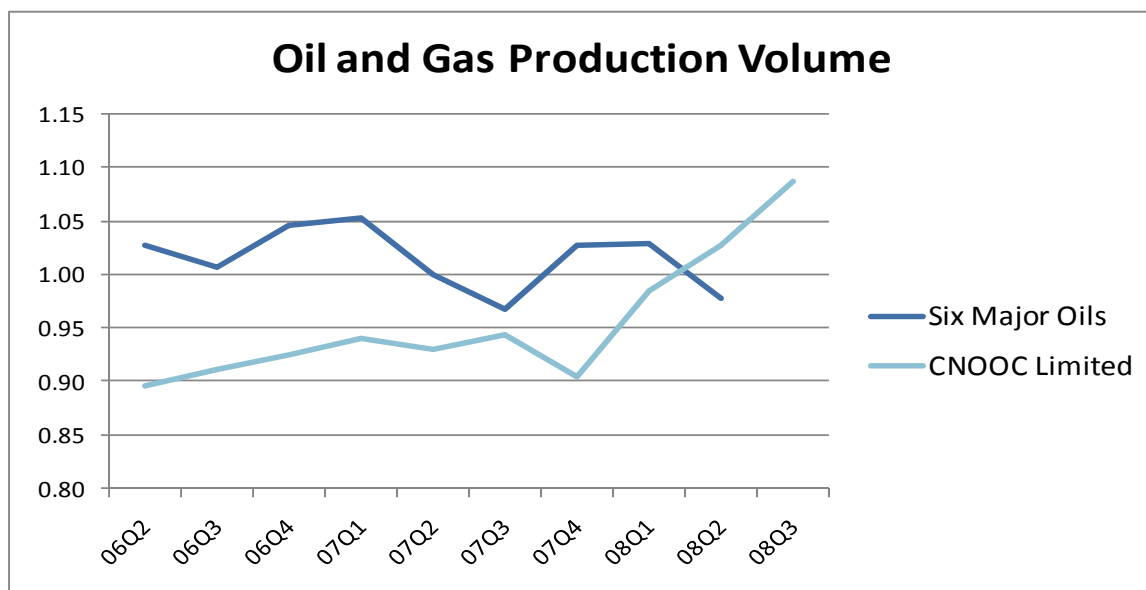
Kurt H. Wulff, CFA



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CNOOC Limited										
Quarterly Operations										
	Q3		Q2		Q1		Q4		Year	Twelve
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	12/31/09	Months E
<b>Volume</b>										
Natural gas (bcf)	55	58	62	62	237	61	65	65	256	
Natural Gas (mmcf)	595	635	679	679	649	679	710	710	702	
Days	92	91	92	92	366	90	91	92	365	
Oil (mmb)	34	37	40	40	152	40	41	42	165	
Oil (mbd)	373	408	431	431	416	439	456	456	452	
Total gas & oil (mmboe)	43	47	50	50	192	50	52	53	208	
Total gas & oil (mbd))	472	514	544	544	524	552	574	574	569	
<b>Price</b>										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.93	
Company	3.42	3.67	3.83	3.83	3.75	3.91	3.98	4.06	4.03	
Oil (\$/bbl)										
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.48	
Company	67.37	115.71	106.94	60.09	92.60	57.16	58.56	59.83	59.20	
Total gas & oil (\$/mcf)	9.59	16.07	14.91	8.73	13.02	8.38	8.57	8.75	8.67	
<b>Revenue (\$mm)</b>										
Natural Gas	187	212	239	239	890	239	257	265	1,032	
Oil	2,312	4,297	4,240	2,383	14,095	2,259	2,430	2,510	9,763	
Total	2,499	4,509	4,480	2,622	14,985	2,497	2,688	2,775	10,795	
RMB/\$	7.56	6.96	6.84	6.86	6.95	6.86	6.86	6.84	6.85	
<b>Revenue (RMB)</b>										
Natural Gas	1,415	1,476	1,636	1,641	6,183	1,637	1,765	1,816	7,075	
Oil	17,478	29,908	29,004	16,338	97,990	15,487	16,663	17,167	66,900	
Total	18,893	31,385	30,641	17,978	104,174	17,124	18,429	18,983	73,975	





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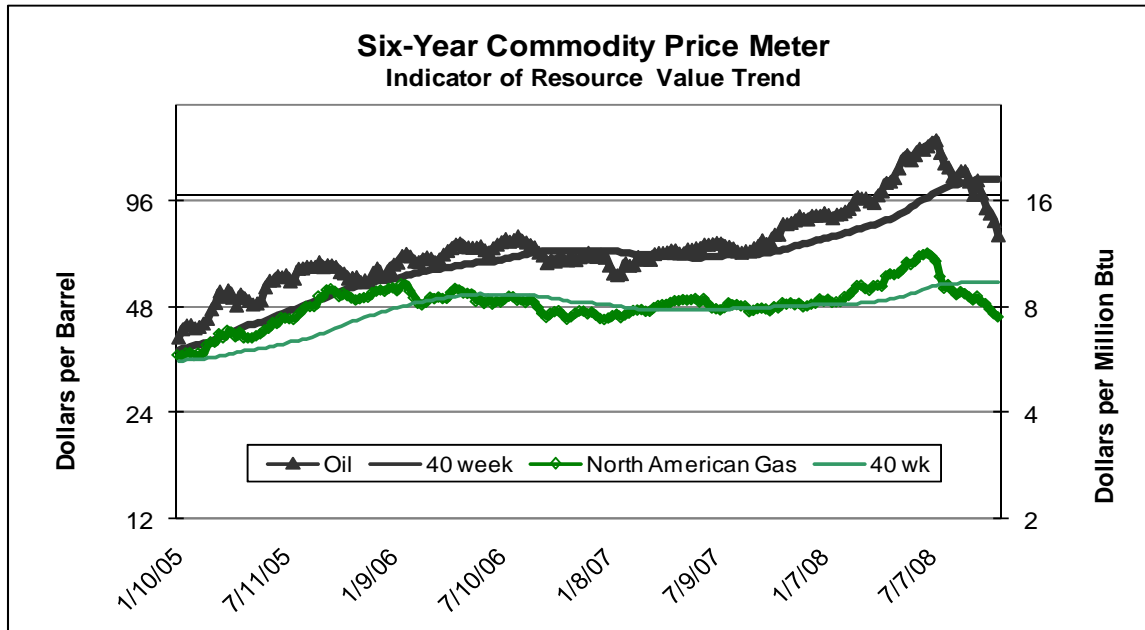
CNOOC Limited									
Half-Year Financial Results									
	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Twelve</i>
	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007</i>	<i>6/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>6/30/09</i>	<i>12/31/09</i>	<i>Months</i>
									<i>12/31/09</i>
<b>Revenue (mmRMB)</b>									
Natural Gas (from Q table)	2,473	2,663	<b>5,136</b>	2,906	3,277	<b>6,183</b>	3,402	3,673	<b>7,075</b>
Oil (from Q table)	30,924	37,402	<b>68,326</b>	52,648	45,342	<b>97,990</b>	32,150	34,750	<b>66,900</b>
Other	(175)	(250)	<b>(425)</b>	(1,091)		<b>(1,091)</b>	-		-
Total	33,222	39,815	<b>73,037</b>	54,464	48,619	<b>103,083</b>	35,552	38,423	<b>73,975</b>
<b>Expense</b>	5,502	10,157	<b>15,659</b>	12,775	14,099	<b>26,875</b>	10,310	11,143	<b>21,453</b>
<b>Ebitda</b>	27,720	29,658	<b>57,378</b>	41,689	34,519	<b>76,208</b>	25,242	27,280	<b>52,522</b>
Exploration	1,221	2,211	<b>3,432</b>	1,342	1,342	<b>2,684</b>	1,342	1,342	<b>2,684</b>
Deprec., Deplet., & Amort.	3,536	3,838	<b>7,374</b>	4,350	4,350	<b>8,700</b>	4,350	4,350	<b>8,700</b>
<b>Ebit</b>	22,963	23,609	<b>46,572</b>	35,997	28,827	<b>64,824</b>	19,550	21,588	<b>41,138</b>
Interest	-	-	-	-	-	-	-	-	-
<b>Ebt</b>	22,963	23,609	<b>43,997</b>	35,997	28,827	<b>64,824</b>	19,550	21,588	<b>41,138</b>
Income Tax	5,462	6,590	<b>12,052</b>	8,229	10,090	<b>18,319</b>	6,843	7,556	<b>14,398</b>
<b>Net Income</b>	14,926	17,019	<b>31,945</b>	27,768	18,738	<b>46,506</b>	12,708	14,032	<b>26,740</b>
<b>Shares (millions)</b>	43,900	44,787	<b>44,368</b>	44,787	44,787	<b>44,787</b>	44,787	44,787	<b>44,787</b>
Per share (RMB)	0.34	0.38	<b>0.72</b>	0.62	0.42	<b>1.04</b>	0.28	0.31	<b>0.60</b>
Ebitda Margin	83%	74%	<b>79%</b>	77%	71%	<b>74%</b>	71%	71%	<b>71%</b>
Tax Rate	24%	28%	<b>27%</b>	23%	35%	<b>28%</b>	35%	35%	<b>35%</b>

CNOOC Limited					
Functional Cash Flow and Present Value					
				<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	740	16.4	9.5	7,000	12%
Oil	6,960	6.8	7.7	53,500	88%
	7,700	8.8	7.9	60,500	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					60,500
Shares (mm)					448
Net Present Value - Standard Estimate (US\$/sh)					135
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					125



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