



Independent Stock Idea

August 26, 2009

rating: buy
s&p 500: 1027 intraday

CNOOC Limited (CEO) Full Current Valuation, Promising Prospects

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	10,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	136.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/26/09	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	448	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	61,100	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$mm)</i>	700	<i>Undeveloped Reserves (%)</i>	60
<i>Enterprise Value (EV) (US\$mm)</i>	61,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.78
<i>Present Value (PV) (US\$mm)</i>	61,100	<i>Present Value Proven Reserves(US\$/boe)</i>	24.29
<i>Net Present Value (US\$/share)</i>	135	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.05
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.15
<i>McDep Ratio - EV/PV</i>	1.01	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	3.8	<i>Indicated Annual Dividend (US\$/sh)</i>	5.16
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, \$8 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)** has appreciated to a McDep Ratio of 1.01 where stock price slightly exceeds Net Present Value (NPV) of \$135 a share. We expect to keep a buy rating until we see a change in stock price trend or valuation reaches too much of a premium. Second quarter operating and first half financial results released today exceeded our expectations from a month ago for oil volume, oil price, cash flow (Ebitda) and earnings. We project further volume gains as management has indicated and further price gains as the futures market indicates (see tables [Quarterly Operations](#) and [Half-Yearly Financial Results](#)). Gains for the next twelve months are included in our assessment of NPV (see table [Functional Cash Flow and Present Value](#)). A short reserve life limits our current valuation. As President Yang Hua declares on today's conference call, it is becoming more challenging for the company to replace reserves every year. Remaining optimistic on future growth, Chairman Fu Chengyu points to untested deep water areas in CNOOC's exclusive access offshore China. China has started investing in deep water rigs that Mr. Fu thinks will drill successful exploration wells in five to seven years.

Kurt H. Wulff, CFA



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CNOOC Limited									
Quarterly Operations									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Twelve
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	Months E
									6/30/10
Volume									
Natural gas (bcf)	58	51	56	56	56	219	55	62	230
Natural Gas (mmcf)	635	563	611	611	611	599	611	683	629
Days	91	90	91	92	92	365	90	91	365
Oil (mmb)	37	42	45	46	49	182	48	52	195
Oil (mbd)	408	469	496	496	529	497	539	570	533
Total gas & oil (mmb)oe)	47	51	54	55	58	218	58	62	233
Total gas & oil (mmbd))	514	562	598	598	631	597	641	684	638
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.42	4.26	4.02	5.46	5.52	4.66
Company	3.67	3.89	3.91	3.99	4.07	3.97	4.15	4.23	4.11
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	69.87	75.07	61.85	76.94	78.43	75.08
Company	115.71	41.56	56.63	66.48	71.42	59.57	73.21	74.62	71.56
Total gas & oil (\$/mcf)	16.07	6.42	8.50	9.87	10.64	8.93	10.92	11.07	10.64
Revenue (\$mm)									
Natural Gas	212	197	217	224	229	868	228	263	944
Oil	4,297	1,753	2,556	3,031	3,476	10,816	3,550	3,873	13,930
Total	4,509	1,950	2,773	3,256	3,705	11,683	3,778	4,136	14,874
RMB/\$	6.96	6.84	6.83	6.83	6.83	6.83	6.83	6.83	6.83
Revenue (RMB)									
Natural Gas	1,476	1,348	1,485	1,532	1,562	5,928	1,559	1,797	6,451
Oil	29,908	11,987	17,456	20,708	23,744	73,894	24,250	26,455	95,156
Total	31,385	13,335	18,941	22,239	25,306	79,822	25,809	28,252	101,606

CNOOC Limited									
Half-Year Financial Results									
	Year	H1	H2	Year	H1	H2E	Year	H1E	Twelve
	2007	6/30/08	12/31/08	2008	6/30/09	12/31/09	2009E	6/30/10	Months E
									6/30/10
Revenue (mmRMB)									
Natural Gas (from Q table)	5,136	2,906	3,456	6,362	2,833	3,094	5,928	3,356	6,451
Oil (from Q table)	68,326	52,648	43,588	96,236	29,443	44,451	73,894	50,704	95,156
Other	(425)	(1,091)	(676)	(1,767)	247		247	-	-
Total	73,037	54,464	46,367	100,831	32,523	47,546	80,069	54,061	101,606
Expense	15,659	12,776	16,744	29,520	8,151	15,690	23,841	17,840	33,530
Ebitda	57,378	41,688	29,623	71,311	24,372	31,856	56,227	36,221	68,076
Exploration	3,432	1,342	2,068	3,410	977	977	1,954	977	1,954
Deprec., Deplet., & Amort.	7,374	4,350	5,708	10,058	6,539	6,539	13,078	6,539	13,078
Ebit	46,572	35,996	21,847	57,843	16,856	24,340	41,195	28,705	53,044
Interest	-	-	-	-	-	-	-	-	-
Ebt	43,997	35,996	21,847	57,843	16,856	24,340	41,195	28,705	53,044
Income Tax	12,052	8,229	5,276	13,505	4,325	7,302	11,627	8,611	15,913
Net Income	31,945	27,767	16,571	44,338	12,531	17,038	29,568	20,093	37,131
Shares (millions)	44,368	44,786	44,786	44,786	44,752	44,752	44,752	44,752	44,752
Per share (RMB)	0.72	0.62	0.37	0.99	0.28	0.38	0.66	0.45	0.83
Ebitda Margin	79%	77%	64%	71%	75%	67%	70%	67%	67%
TaxRate	27%	23%	24%	23%	26%	30%	28%	30%	30%



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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	15.8	11.1	7,000	11%
Oil	9,370	5.9	5.8	54,100	89%
	10,000	7.6	6.1	61,100	100%
Debt (US\$mm)					700
Net Present Value (US\$mm)					60,400
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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