

Rating: Buy Old NHY, Hold New NHY

S&P 500: 1526

Intraday

## **Norsk Hydro (NHY)** **Confidence in Aluminium**

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$m)</i>	2,790
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	
<i>Price (\$/sh) (excludes .8622 STO)</i>	14.11	<i>Natural Gas and Oil Production/Ebitda (%)</i>	
<i>Pricing Date</i>	7/24/07	<i>Adjusted Reserves/Production NTM</i>	
<i>Shares (mm)</i>	1241	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (\$mm)</i>	17,500	<i>PV/Ebitda</i>	6.5
<i>Debt (\$mm)</i>	2,100	<i>Undeveloped Reserves (%)</i>	
<i>Enterprise Value (EV) (\$mm)</i>	19,600	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	
<i>Present Value (PV) (\$mm)</i>	18,200	<i>Present Value Proven Reserves(\$/boe)</i>	
<i>Net Present Value (\$/share)</i>	13	<i>Present Value Proven Reserves(\$/mcf)</i>	
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.23
<i>McDep Ratio - EV/PV</i>	1.08	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.17

Note: Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

The Norwegian government owns 44% of the shares in Norsk Hydro.

For historical analysis of NHY since 2004 see [www.mcdep.com/2nhy.htm](http://www.mcdep.com/2nhy.htm)

### **Summary and Recommendation**

Hold-rated new **Norsk Hydro (NHY)** trades near roughly estimated net present value (NPV) of \$13 a share revised up from \$11 after disclosure of second quarter results on July 24. Because aluminium will not be an independent company until October 1 when NHY oil operations become part of buy-rated **Statoil (STO)**, there is no history of unlevered cash flow (Ebitda) for a valuation estimate (see table Next Twelve Months Operating and Financial Estimates). At the same time, industry confidence in the light metal is exceedingly strong considering Rio Tinto (RTP)'s \$40 billion bid for Canada's Alcan Inc. (AL). Finally, taxable U.S. investors who purchased American Depositary Shares of buy-rated old NHY within the last three years may find it desirable for tax purposes to realize a loss in new NHY. The value of 0.8622 Statoil to be received would be taxed as a qualified dividend at the maximum rate of 15%. The taxable income from the distribution might be offset, at least partially, by a possible loss on the sale of NHY as the price drops after the distribution. Investors who purchased NHY since October 1, 2006, may be able to incur a short-term loss that might have its best value in offsetting other short-term gains.

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**Norsk Hydro**  
**Next Twelve Months Operating and Financial Estimates**

	Q2	Q3	Year	Q1	Q2	Q3E	Q4E	Year	Next Twelve Months
	6/30/06	9/30/06	2006	3/31/07	6/30/07	9/30/07	12/31/07	2007E	6/30/08
<b>Volume</b>									
Natural gas (bcf)	93	92	<b>407</b>	104	91				
Natural Gas (mmcf)	1,014	1,002	<b>1,111</b>	1,152	984				
Days	92	92	<b>366</b>	90	92				
Oil (mmb)	34	35	<b>142</b>	38	36				
Oil (mbd)	368	381	<b>387</b>	418	394				
Total gas & oil (mbd)	537	548	<b>572</b>	610	558				
<b>Price</b>									
Natural gas (NOK/mcf)	51	49	<b>55</b>	54	46				
Natural gas (NOK/Sm3)	1.79	1.73	<b>1.55</b>	1.90	1.62				
<b>Oil</b>									
WTI Cushing US\$/bbl)	70.47	70.42	<b>66.05</b>	58.08	64.91				
Kroner/\$	6.22	6.33	<b>6.40</b>	6.22	6.00				
WTI Cushing (NOK/bbl)	438	446	<b>423</b>	361	389				
NHY (NOK/bbl)	422	421	<b>403</b>	348	403				
Total gas & oil (NOK/bb)	385	382	<b>379</b>	340	366				
Aluminum (US\$/tonne)	2,654	2,486	<b>2,572</b>	2,797	2,766				
<b>Revenue (NOKmm)</b>									
Natural Gas	4,730	4,518	<b>22,222</b>	5,581	4,155				
Oil	14,294	14,743	<b>57,154</b>	13,084	14,619				
Other	37,141	36,218	<b>146,373</b>	37,030	31,910	30,000	30,000	<b>128,940</b>	<b>120,000</b>
Total	51,435	50,961	<b>203,527</b>	50,114	46,529	30,000	30,000	<b>156,643</b>	<b>120,000</b>
<b>Expense</b>									
Production	11,778	11,274	<b>47,875</b>	10,876	9,898				
Other	32,135	30,478	<b>124,284</b>	31,267	26,837	26,000	26,000	<b>110,105</b>	<b>104,000</b>
Total	43,913	41,752	<b>172,158</b>	42,144	36,736	26,000	26,000	<b>130,880</b>	<b>104,000</b>
<b>Ebitda (NOKmm)</b>									
Exploration and Production	7,246	7,987	<b>31,501</b>	7,788	8,875				
Other	5,006	5,740	<b>22,089</b>	5,762	5,073	4,000	4,000	<b>18,835</b>	<b>16,000</b>
Total Ebitda	12,252	13,727	<b>53,590</b>	13,551	13,948	4,000	4,000	<b>35,498</b>	<b>16,000</b>
Exploration	618	868	<b>4,986</b>	786	653				
Deprec., Deplet., & Amort.	4,082	4,286	<b>22,409</b>	4,703	4,651	1,000	1,000	<b>11,354</b>	<b>4,000</b>
<b>Ebit</b>									
Interest	116	158	<b>654</b>	140	107	40	40	<b>327</b>	<b>160</b>
Foreign Exchange	(813)	999	<b>(1,057)</b>	(566)	(713)			<b>(1,279)</b>	
<b>Ebt</b>									
Income Tax	2,887	2,596	<b>9,309</b>	2,971	3,237	770	770	<b>7,747</b>	<b>3,078</b>
<b>Net Income (NOKmm)</b>									
Exploration and Production	13,168	13,311	<b>46,252</b>	11,166	11,455				
Other Operations	1,472	1,977	<b>6,118</b>	3,656	2,743				
Non operating deductions	(9,278)	(10,468)	<b>(35,081)</b>	(9,305)	(8,186)				
Total	5,362	4,820	<b>17,289</b>	5,517	6,012	2,190	2,190	<b>15,910</b>	<b>8,762</b>
<b>Shares (millions)</b>									
Per share (NOK)	4.30	3.90	<b>13.90</b>	4.50	4.90	1.77	1.77	<b>12.93</b>	<b>7.06</b>
Ebitda Margin (E&P)	38%	41%	<b>40%</b>	42%	47%				
Ebitda Margin						13%	13%		<b>13%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	26%	26%	<b>33%</b>	<b>26%</b>

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