



Independent Stock Idea

April 29, 2009

rating: hold
s&p 500: 871 intraday

Royal Dutch Shell plc (RDS) Lower Net Present Value to \$80 a Share

<i>Symbol</i>	RDS-B	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	35,900
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	2
<i>Price (US\$/sh)</i>	45.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	69
<i>Pricing Date</i>	4/29/09	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	3063	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$mm)</i>	138,600	<i>PV/Ebitda</i>	8.2
<i>Debt (US\$mm)</i>	49,100	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	187,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	21.00
<i>Present Value (PV) (US\$mm)</i>	294,100	<i>Present Value Proven Reserves(US\$/boe)</i>	43.00
<i>Net Present Value (US\$/share)</i>	80.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	7.17
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.27
<i>McDep Ratio - EV/PV</i>	0.64	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	7.4	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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\$80 a barrel and natural gas, \$11 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/1sc.htm			

Summary and Recommendation

Hold-rated **Royal Dutch Shell plc (RDSB)** offers unlevered appreciation potential of 57% to a McDep Ratio of 1.0 and levered appreciation potential of 77% to Net Present Value (NPV) of \$80 a share. We lower NPV from \$92 on the basis of lower cash flow margin on oil and gas production than we previously estimated. During the first quarter, according to results released today, RDS generated cash from oil and gas production of about \$16 a barrel of oil equivalent as the difference between price of about \$39 and cash operating costs of about \$23. Better downstream results helped earnings meet expectations from three months ago. We project more production cash flow and less refining and marketing cash flow in the next few quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). By latest disclosures, oil and gas reserves, weighted by development, are concentrated 56% by heating value in natural gas outside the U.S. (see table [Production and Reserves, 2008](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged \$66 a barrel recently (see chart [Six-Year Commodity Price Meter](#)). Despite lower NPV, RDS stock continues to offer a secure dividend that is likely to increase with inflation and offers a current annual yield of more than 7%.

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Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Months
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10
Volume									
Natural Gas (mmcf)									
U.S.	1,105	1,071	1,053	1,110	1,110	1,110	1,110	1,110	1,110
Overseas (or Int'l)	8,650	8,460	7,516	8,641	6,693	6,265	8,460	7,511	7,511
Total	9,755	9,531	8,569	9,751	7,803	7,375	9,570	8,621	8,621
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	1,840	1,772	1,771	1,772	1,772	1,772	1,772	1,772	1,772
Total gas & oil (mmb)	315	309	1,171	306	280	276	310	1,171	1,171
Total gas & oil (mbd)	3,466	3,361	3,199	3,397	3,073	3,001	3,367	3,209	3,209
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	6.95	9.04	4.90	3.42	3.62	4.57	4.13	4.30
U.S.	9.52	6.37	9.62	4.80	3.35	3.55	4.48	4.04	4.21
Overseas (or Int'l)	6.14	6.85	6.44	6.14	6.55	6.16	6.85	6.44	6.44
Total	6.52	6.80	6.83	5.98	6.09	5.77	6.58	6.13	6.15
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	99.59	42.96	49.97	52.66	55.70	50.32	54.12
Worldwide	90.46	57.14	92.49	41.98	48.83	51.45	54.43	49.21	52.87
Total gas & oil (\$/bbl)	66.38	49.42	69.49	39.07	43.63	44.56	47.34	43.64	45.72
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	9.86	9.18	8.11	6.98	3.00	6.82	5.74
Revenue (\$mm)									
Natural Gas									
U.S.	957	628	3,708	480	338	363	457	1,637	1,707
Overseas (or Int'l)	4,831	5,335	17,705	4,772	3,988	3,551	5,335	17,647	17,647
Total	5,788	5,963	21,413	5,252	4,327	3,914	5,792	19,284	19,354
Oil	15,147	9,315	59,945	6,694	7,873	8,388	8,873	31,829	34,197
Other	93,367	65,795	377,003	16,276	16,276	16,276	16,276	65,103	65,103
Total	114,302	81,073	458,361	28,222	28,475	28,578	30,941	116,216	118,654
Expense	98,687	70,423	398,165	19,804	19,788	19,957	21,689	81,239	82,744
Ebitda (\$mm)									
Exploration and Production	11,063	6,583	41,212	4,882	5,612	5,659	6,746	22,898	24,634
Other	4,552	4,067	18,984	3,536	3,075	2,961	2,506	12,079	11,276
Total Ebitda	15,615	10,650	60,196	8,418	8,687	8,620	9,252	34,977	35,910
Exploration	325	778	2,049	496	600	600	600	2,296	2,400
Deprec., Deplet., & Amort.	3,146	3,684	13,656	3,090	3,090	3,090	3,090	12,360	12,360
Other non cash			-					-	-
Ebit	12,144	6,188	44,491	4,832	4,997	4,930	5,562	20,321	21,150
Interest	200	215	862	262	262	262	262	1,048	1,048
Ebt	11,944	5,974	43,629	4,570	4,735	4,668	5,300	19,273	20,102
Income Tax	4,180	2,091	15,270	1,600	1,657	1,634	1,855	6,746	7,036
Net Income (\$mm)									
Exploration and Production	5,458	2,377	19,241	1,310					
Other	2,354	1,854	9,472	1,702					
Unallocated	(48)	(348)	(354)	(42)					
Total	7,764	3,883	28,359	2,971	3,078	3,034	3,445	12,528	13,066
Shares (millions)	3,106	3,064	3,089	3,063	3,063	3,063	3,063	3,063	3,063
Per share (\$)	2.50	1.27	9.18	0.97	1.01	0.99	1.12	4.09	4.27
Ebitda Margin (E&P)	53%	43%	51%	41%	46%	46%	46%	45%	46%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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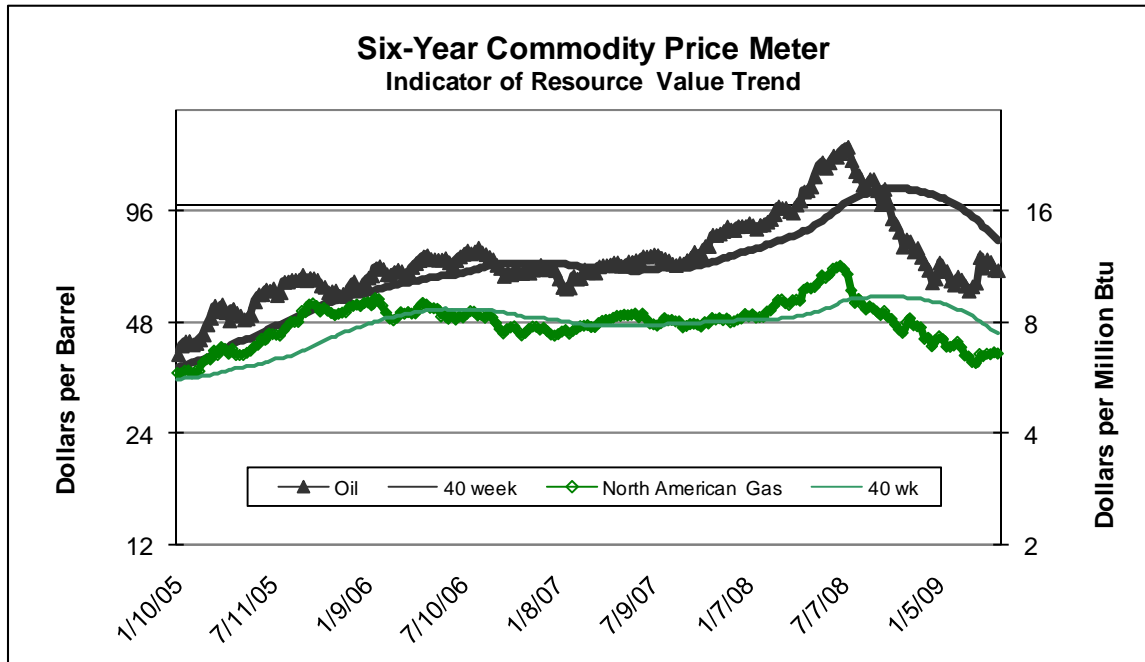
Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	790	4.4	11.4	9,000	3%
Rest of World Natural Gas	8,120	10.9	8.6	70,000	24%
Oil	15,720	5.5	7.6	119,000	40%
Downstream	11,280		8.5	96,000	33%
	35,910	7.6	8.2	294,000	100%
Debt (US\$mm)					49,000
Net Present Value (US\$mm)					245,000
Shares (mm)					3,063
Net Present Value - Standard Estimate (US\$/sh)					80
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					79

Royal Dutch Shell								
Production and Reserves, 2008								
								<i>NTM</i>
				<i>12/31/2008 Proven Reserves</i>			<i>Weighted</i>	<i>Adjusted</i>
	<i>2008 Production</i>		<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>R/P</i>	
	<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>(years)</i>	
U.S. Natural Gas	1,047	382	1,202	1,200	1,802	4.7	4.4	
Rest of World Natural Gas								
Europe	3,690	1,347	12,502	3,230	14,117	10.5		
Africa	553	202	471	1,162	1,052			
Asia Pacific	2,551	931	4,904	2,643	6,226	6.7		
MidEast, Russia, CIS	238	87	167	14,324	7,329	84.2		
W. Hemisphere ex U.S.	507	185	891	643	1,213	6.6		
Total	7,540	2,752	18,935	22,002	29,936	10.9	10.9	
Oil								
U.S.	271	99	364	224	476	4.8		
Europe	375	137	384	107	438	3.2		
Africa	310	113	296	296	444	3.9		
Asia Pacific	205	75	236	57	265	3.5		
MidEast, Russia, CIS	452	165	554	845	977	5.9		
W. Hemisphere ex U.S.	82	30	63	80	103	3.4		
Oil Sands	79	29	725	272	861	29.7		
Total	1,775	648	2,622	1,881	3,563	5.5	5.5	
Total Oil Equivalent	3,206	1,170	5,978	5,748	8,852	7.6	7.6	



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