

Rating: Buy  
 S&P 500: 1230

## Shell Transport & Trading Frontier Challenge

<i>Symbol</i>	SC	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	22,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	4
<i>Price (US\$/sh)</i>	58.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	65
<i>Pricing Date (intraday)</i>	7/14/05	<i>Adjusted Reserves/Production NTM</i>	7.3
<i>Shares (mm)</i>	1587	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	92,300	<i>PV/Ebitda</i>	4.6
<i>Debt (US\$mm)</i>	14,000	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	106,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.40
<i>Present Value (PV) (US\$mm)</i>	102,800	<i>Present Value Proven Reserves(US\$/boe)</i>	13.70
<i>Net Present Value (US\$/share)</i>	55.95	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.28
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.74
<i>McDep Ratio - EV/PV</i>	1.03	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.2	<i>Indicated Annual Dividend (US\$/sh)</i>	1.88

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.

### Summary and Recommendation

Ironically, a giant cost overrun on a frontier project exposes the unrecognized value in the existing resources of buy-recommended **Shell Transport & Trading (SC)**. Management disclosed today that a liquefied natural gas (LNG) project being constructed on Sakhalin Island in remote eastern Russia would now cost some \$20 billion to complete by 2014. As in the booming nuclear power industry in the 1970s, the booming LNG industry in the 2000s is likely to add valuable energy supply at unexpectedly high cost in dollars as we know them today. At the same time the existing LNG plants, natural gas reserves, oil reserves and refining facilities are steadily increasing in value. Though SC stock is close to present value of \$56 a share, that estimate assumes \$40 oil when long-term futures are near \$60. Each SC American Depositary Receipt will become 0.86 ADR of a unified Royal Dutch Shell on July 20. Shareholders should be sure to tender before the July 18 deadline.

Kurt H. Wulff, CFA

**Please see disclosures on the final page.**

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