



Independent Stock Idea

November 3, 2008

rating: buy
s&p 500: 966

StatoilHydro (STO) Financially Strong Dividend Payer

<i>Symbol</i>	STO	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	18,050
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	20.01	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/3/08	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	3186	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (\$mm)</i>	63,800	<i>PV/Ebitda</i>	7.3
<i>Debt (\$mm)</i>	20,500	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (\$mm)</i>	84,200	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	29.10
<i>Present Value (PV) (\$mm)</i>	132,000	<i>Present Value Proven Reserves(\$/boe)</i>	22.90
<i>Net Present Value (\$/share)</i>	35	<i>Present Value Proven Reserves(\$/mcfe)</i>	3.80
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.66
<i>McDep Ratio - EV/PV</i>	0.64	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	6.3	<i>Indicated Annual Dividend (US\$/sh)</i>	1.26
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
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 Norwegian government owns 71% of the shares in StatoilHydro.			

Summary and Recommendation

Buy-recommended **StatoilHydro (STO)** offers unlevered appreciation potential of 57% to estimated net present value (NPV) of \$35 a share. On October 28, we reset NPV from \$52 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as STO stock price remains below the 200-day average of \$30. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). 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](#)). Production costs under \$10 a barrel and low debt combine to keep the company healthy in stressed economic conditions. A high dividend, paid annually at mid-year, is intended to track about half of earnings. Earnings ought to track oil price, approximately. Timing differences created by the U.S. Dollar/Norwegian Kroner exchange should even out as the real value of the dividend tracks the real value of oil. STO is one of our two European buy recommendations among eleven total selections for global representation in natural gas and oil.

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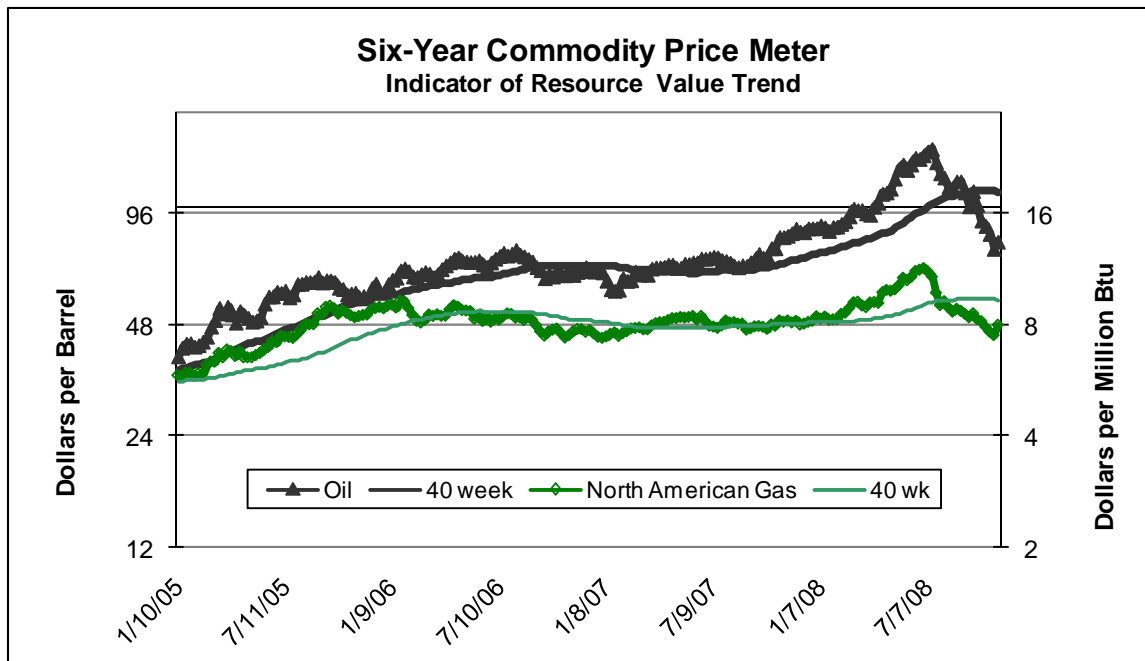
StatoilHydro ASA									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	12/31/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
Volume									
Natural gas (bcf)	393	366	310	393	1,500	427	366	310	1,496
Natural Gas (mmcf)	4,272	4,026	3,366	4,272	4,099	4,740	4,026	3,366	4,098
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)	102	95	93	93	381	91	92	93	370
Oil (mbd)	1,106	1,039	1,015	1,015	1,042	1,015	1,015	1,015	1,015
Total gas & oil (mbd)	1,818	1,710	1,576	1,727	1,725	1,805	1,686	1,576	1,698
Price									
Natural gas (NOK/mcf)	52	63	67	52	60	58	63	67	60
Natural gas (NOK/Sm3)	1.83	2.23	2.37	1.83	2.11	2.06	2.23	2.37	2.11
Oil									
WTI Cushing US\$/bbl)	90.67	123.97	117.99	68.14	102.01	65.30	67.42	69.39	67.57
Kroner/\$	5.44	5.08	5.37	6.73	5.62	6.73	6.73	6.73	6.73
WTI Cushing (NOK/bbl)	493	630	634	459	574	439	454	467	455
Wellhead (NOK/bbl)	468	585	578	418	519	401	414	426	415
Total gas & oil (NOK/bbl)	407	504	516	374	455	379	400	418	392
Revenue (NOKmm)									
Natural Gas	20,375	23,144	20,791	20,375	89,482	24,895	23,144	20,791	89,205
Oil	47,620	55,311	53,974	39,066	198,055	36,624	38,233	39,780	153,702
Other	98,528	115,297	115,297	115,297	455,362	115,297	115,297	115,297	461,187
Total	146,148	170,608	174,484	174,737	679,005	176,815	176,674	175,868	704,095
Expense									
	119,329	130,969	133,290	145,017	532,360	146,056	145,985	145,582	582,641
Ebitda (NOKmm)									
	26,819	39,639	41,194	29,720	146,645	30,759	30,688	30,286	121,454
Exploration	4,500	1,945	4,644	4,644	15,459	4,000	4,000	3,000	15,644
Deprec., Deplet., & Amort.	11,869	8,233	11,407	11,407	40,594	11,407	11,407	11,407	45,628
Ebit									
	10,450	29,461	25,143	13,669	90,592	15,352	15,281	15,879	60,182
Interest	-	1,320	1,377	1,377	5,240	1,377	1,377	1,377	5,507
Foreign Exchange	987	(729)	13,767		9,626				
Ebt									
	9,463	28,870	9,999	12,293	75,726	13,976	13,905	14,502	54,675
Income Tax	3,312	10,105	3,500	4,302	26,504	4,891	4,867	5,076	19,136
Net Income (NOKmm)									
	6,151	18,766	6,499	7,990	49,222	9,084	9,038	9,426	35,539
Shares (millions)									
	3,187	3,186	3,186	3,186	3,186	3,186	3,186	3,186	3,186
Per share (NOK)	1.93	5.89	2.04	2.51	15.45	2.85	2.84	2.96	11.15
Ebitda Margin (E&P)	39%	51%	55%	50%	51%	50%	50%	50%	50%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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StatoilHydro ASA					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	6,628	12.1	8.6	57,000	43%
Oil	11,420	5.3	6.6	75,000	57%
	18,047	8.0	7.3	132,000	100%
Debt (US\$mm)					20,500
Net Present Value (US\$mm)					111,500
Shares (mm)					3,186
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					34





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