



# Independent Stock Idea

August 4, 2009

rating: buy  
s&p 500: 1005 intraday

## StatoilHydro (STO) Natural Gas Growth with Dividends

<i>Symbol</i>	STO	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$m)</i>	20,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	22.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/4/09	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	3184	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (\$mm)</i>	70,800	<i>PV/Ebitda</i>	7.0
<i>Debt (\$mm)</i>	29,800	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (\$mm)</i>	100,600	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	30.70
<i>Present Value (PV) (\$mm)</i>	141,200	<i>Present Value Proven Reserves(\$/boe)</i>	25.30
<i>Net Present Value (\$/share)</i>	35	<i>Present Value Proven Reserves(\$/mcf)</i>	4.20
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.50
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	5.4	<i>Indicated Annual Dividend (US\$/sh)</i>	1.20
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, \$8 a million btu.			
The Norwegian government owns 67% of the shares in StatoilHydro.			

### Summary and Recommendation

Buy-recommended **StatoilHydro (STO)** offers unlevered appreciation potential of 40% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$35 a share. Released today, second quarter results apparently exceeded our estimate for unlevered cash flow (Ebitda) from three months ago. Lower natural gas price was cushioned by higher Ebitda margin (see table [Next Twelve Months Operating and Financial Estimates](#)). Natural gas, mostly sold to continental neighbors in Europe, drives 53% of NPV in our valuation that capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table [Functional Cash Flow and Present Value](#)). Much natural gas outside North America is priced under contract that essentially lags crude oil by six months (see chart [Global Natural Gas Price](#)). As a result, natural gas price may increase in the fourth quarter after a further decline in the third quarter. Pointing to possible further gains, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May (see chart [Six-Year Commodity Price Meter](#)). Concentrated practically entirely on oil and gas production, STO earns the high cash flow from oil today and invests in the higher long-term growth potential of natural gas. Management projects rising volume through 2012 and has a policy to distribute half of earnings as dividends.

Kurt H. Wulff, CFA



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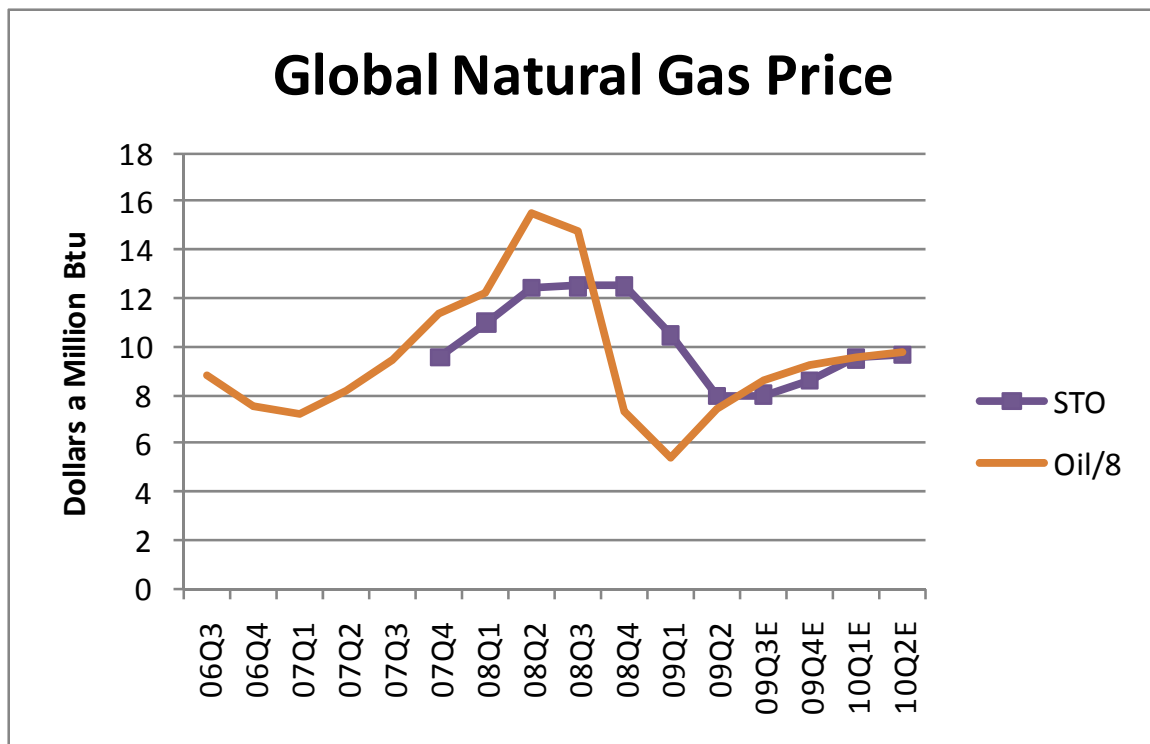
StatoilHydro ASA									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	6/30/10
<b>Volume</b>									
Natural gas (bcf)	366	449	380	384	459	<b>1,672</b>	449	380	<b>1,672</b>
Natural Gas (mmcf)	4,026	4,986	4,176	4,176	4,986	<b>4,580</b>	4,986	4,176	<b>4,580</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mmb)	95	99	94	94	94	<b>381</b>	94	94	<b>376</b>
Oil (mbd)	1,039	1,104	1,032	1,032	1,032	<b>1,044</b>	1,032	1,032	<b>1,029</b>
Total gas & oil (mbd)	1,710	1,935	1,728	1,728	1,863	<b>1,807</b>	1,863	1,728	<b>1,792</b>
<b>Price</b>									
Natural gas (NOK/mcf)	63	72	52	48	52	<b>56</b>	57	58	<b>54</b>
Natural gas (NOK/Sm <sup>3</sup> )	2.23	2.54	1.82	1.70	1.84	<b>1.99</b>	2.03	2.06	<b>1.91</b>
Oil									
WTI Cushing US\$/bbl)	123.97	42.96	59.52	69.09	74.17	<b>61.44</b>	76.50	78.25	<b>74.50</b>
Kroner/\$	5.08	6.87	6.50	6.05	6.05	<b>6.36</b>	6.05	6.05	<b>6.05</b>
WTI Cushing (NOK/bbl)	630	295	387	418	448	<b>391</b>	462	473	<b>450</b>
Wellhead (NOK/bbl)	585	294	349	377	405	<b>355</b>	418	427	<b>407</b>
Total gas & oil (NOK/bbl)	504	353	333	342	363	<b>348</b>	385	396	<b>372</b>
<b>Revenue (NOKmm)</b>									
Natural Gas	23,144	32,289	19,593	18,544	23,857	<b>94,283</b>	25,762	22,217	<b>90,380</b>
Oil	55,311	29,212	32,775	35,414	38,016	<b>135,417</b>	39,210	40,105	<b>152,745</b>
Other	115,297	83,543	71,854	71,854	71,854	<b>299,104</b>	71,854	71,854	<b>287,415</b>
Total	170,608	112,755	104,629	125,812	133,726	<b>476,922</b>	136,826	134,176	<b>530,540</b>
<b>Expense</b>	130,969	87,579	71,731	98,833	102,790	<b>360,932</b>	104,340	103,015	<b>408,977</b>
<b>Ebitda (NOKmm)</b>	39,639	25,176	32,898	26,979	30,936	<b>115,990</b>	32,486	31,161	<b>121,562</b>
Exploration	1,945	5,260	4,421	4,421	4,421	<b>18,523</b>	5,260	4,421	<b>18,523</b>
Deprec., Deplet., & Amort.	8,233	11,171	12,830	12,830	12,830	<b>49,661</b>	12,830	12,830	<b>51,320</b>
<b>Ebit</b>	29,461	8,745	15,647	9,728	13,685	<b>47,806</b>	14,396	13,910	<b>51,719</b>
Interest	1,320	1,610	1,801	1,801	1,801	<b>7,013</b>	1,801	1,801	<b>7,204</b>
Foreign Exchange	(729)	1,500	-			<b>1,500</b>			
<b>Ebt</b>	28,870	5,635	13,846	7,927	11,884	<b>39,292</b>	12,595	12,109	<b>44,515</b>
Income Tax	10,105	1,972	4,846	2,774	4,159	<b>13,752</b>	4,408	4,238	<b>15,580</b>
<b>Net Income (NOKmm)</b>	18,766	3,663	9,000	5,152	7,725	<b>25,540</b>	8,187	7,871	<b>28,935</b>
<b>Shares (millions)</b>	3,186	3,185	3,184	3,184	3,184	<b>3,184</b>	3,184	3,184	<b>3,184</b>
Per share (NOK)	5.89	1.15	2.83	1.62	2.43	<b>8.02</b>	2.57	2.47	<b>9.09</b>
Ebitda Margin (E&P)	51%	41%	63%	50%	50%	<b>50%</b>	50%	50%	<b>50%</b>
Tax Rate	35%	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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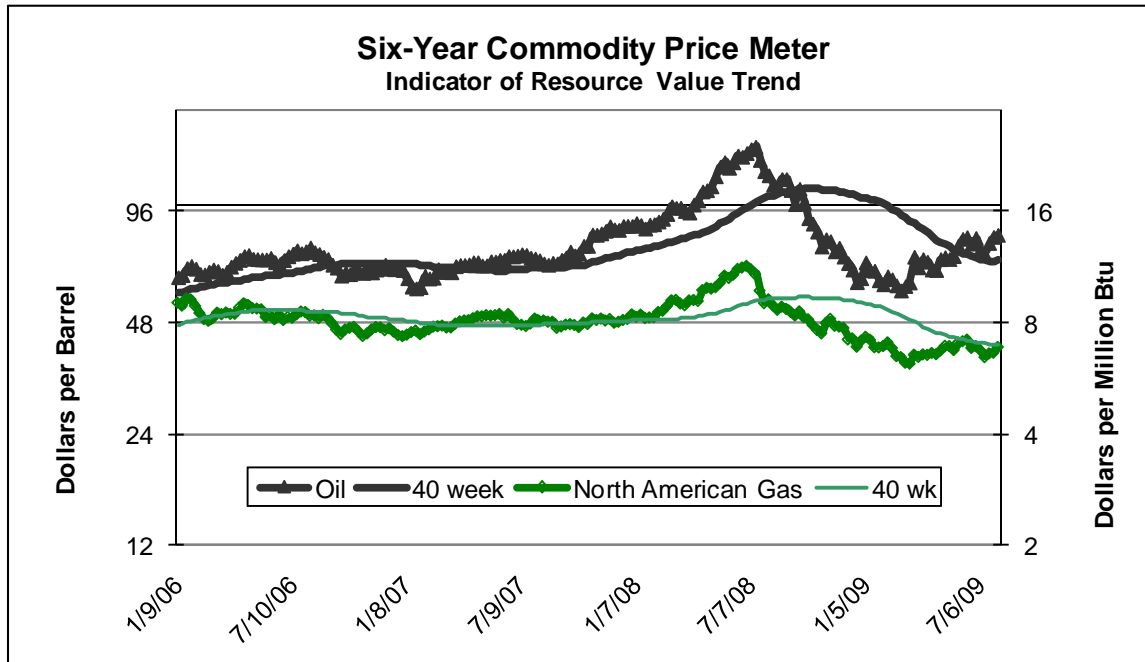
StatoilHydro ASA					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	7,475	10.9	9.8	73,000	52%
Oil	12,633	5.0	5.4	68,200	48%
	20,108	7.5	7.0	141,200	100%
Debt (US\$mm)					29,800
Net Present Value (US\$mm)					111,400
Shares (mm)					3,184
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					30





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