



# Independent Stock Idea

October 30, 2008

rating: hold  
s&p 500: 930

## Royal Dutch Shell plc (RDS) Secure Dividend 5.6%

<i>Symbol</i>	RDS-B	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	49,600
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	56.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date</i>	10/29/08	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Shares (mm)</i>	3080	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$mm)</i>	175,300	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$mm)</i>	43,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	218,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.70
<i>Present Value (PV) (US\$mm)</i>	326,300	<i>Present Value Proven Reserves(US\$/boe)</i>	43.70
<i>Net Present Value (US\$/share)</i>	92.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	7.28
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.99
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	5.6	<i>Indicated Annual Dividend (US\$/sh)</i>	3.20
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 <a href="http://www.mcdep.com/1sc.htm">www.mcdep.com/1sc.htm</a>			

### Summary and Recommendation

Hold-rated **Royal Dutch Shell plc (RDSB)** offers unlevered appreciation potential of 49% to estimated net present value (NPV) of \$92 a share. On October 28, we reset NPV from \$120 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as RDS-B stock price remains below the 200-day average of \$70. 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](#)). Downstream operations, 31% of NPV for RDS compared to 21% for its peer group, track the industry trend (see chart [Oil and Gas Downstream Cash Flow](#)). 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](#)). Strong cash flow even in a lower price environment provides ample coverage for a dividend that implies a tempting 5.6% yield at current stock price. Finally, Chief Financial Officer Peter Voser, a Swiss whose oil career at Shell included an interlude as Chief Executive of machinery giant ABB, has been named to be Chief Executive of RDS on July 1, 2009.

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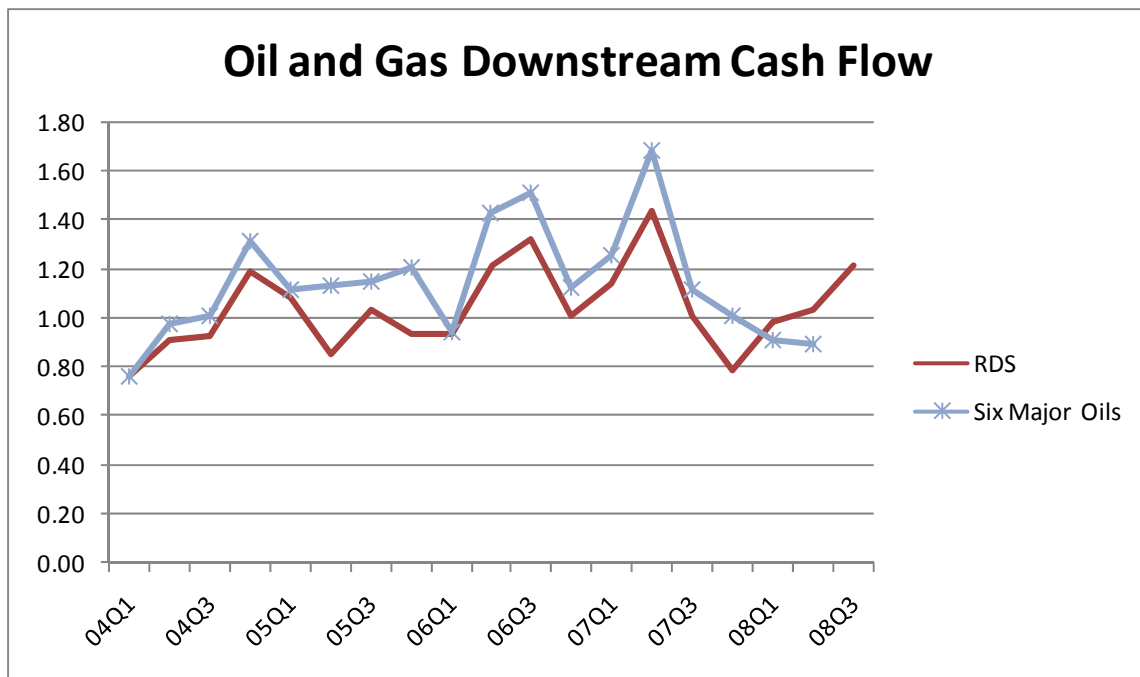
Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,131	1,096	942	942	<b>1,021</b>	942	942	942	<b>942</b>
Overseas (or Int'l)	6,198	6,693	6,265	8,047	<b>7,412</b>	8,650	6,693	6,265	<b>7,409</b>
Total	7,329	7,789	7,207	8,989	<b>8,433</b>	9,592	7,635	7,207	<b>8,351</b>
Days	92	91	92	92	<b>366</b>	90	91	92	<b>365</b>
Oil (mbd)	1,874	1,783	1,689	1,689	<b>1,750</b>	1,689	1,689	1,689	<b>1,689</b>
Total gas & oil (mbd)	3,096	3,081	2,890	3,187	<b>3,155</b>	3,288	2,962	2,890	<b>3,081</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	<b>8.96</b>	6.65	6.67	6.97	<b>6.73</b>
U.S.	6.53	11.89	10.82	7.02	<b>9.87</b>	7.02	7.35	7.68	<b>7.27</b>
Overseas (or Int'l)	4.21	6.55	6.16	5.79	<b>6.14</b>	6.14	6.55	6.16	<b>6.14</b>
Total	4.57	7.30	6.77	5.92	<b>6.59</b>	6.22	6.65	6.36	<b>6.27</b>
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	<b>101.86</b>	64.23	65.80	67.22	<b>66.19</b>
Worldwide	70.69	112.09	111.30	63.69	<b>94.50</b>	60.59	62.08	63.41	<b>62.45</b>
Total gas & oil (\$/bbl)	53.62	83.32	81.93	50.46	<b>70.03</b>	49.29	52.54	52.92	<b>51.23</b>
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.71	<b>10.02</b>	5.31	10.44	8.40	<b>7.47</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	679	1,186	938	608	<b>3,689</b>	595	630	666	<b>2,500</b>
Overseas (or Int'l)	2,402	3,988	3,551	4,290	<b>16,660</b>	4,777	3,988	3,551	<b>16,607</b>
Total	3,081	5,174	4,489	4,898	<b>20,349</b>	5,373	4,618	4,217	<b>19,107</b>
Oil	12,188	18,187	17,295	9,897	<b>60,527</b>	9,211	9,541	9,854	<b>38,502</b>
Other	75,434	108,057	109,783	109,783	<b>420,990</b>	109,783	109,783	109,783	<b>439,132</b>
Total	90,703	131,419	131,567	124,578	<b>501,866</b>	124,366	123,942	123,853	<b>496,740</b>
Expense	77,597	113,962	115,094	112,967	<b>440,710</b>	111,939	111,535	110,652	<b>447,093</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	8,426	12,697	10,869	7,990	<b>42,618</b>	7,875	7,646	7,598	<b>31,109</b>
Other	4,681	4,761	5,604	3,622	<b>18,538</b>	4,552	4,761	5,604	<b>18,538</b>
Total Ebitda	13,106	17,457	16,473	11,611	<b>61,156</b>	12,427	12,407	13,202	<b>49,647</b>
Exploration	608	408	538	538	<b>1,809</b>	538	600	600	<b>2,276</b>
Deprec., Deplet., & Amort.	2,842	3,439	3,387	3,387	<b>13,359</b>	3,387	3,387	3,387	<b>13,548</b>
Other non cash	(408)				-				-
Ebit	10,064	13,610	12,548	7,686	<b>45,988</b>	8,502	8,420	9,215	<b>33,823</b>
Interest	200	269	178	178	<b>825</b>	178	178	178	<b>712</b>
Ebt	9,864	13,341	12,370	7,508	<b>45,163</b>	8,324	8,242	9,037	<b>33,111</b>
Income Tax	3,452	4,669	4,329	2,628	<b>15,807</b>	2,913	2,885	3,163	<b>11,589</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	3,380	6,134	5,272						
Other	2,444	2,333	2,931						
Unallocated	588	205	(163)						
Total	6,412	8,672	8,040	4,880	<b>29,356</b>	5,411	5,357	5,874	<b>21,522</b>
Shares (millions)	3,143	3,095	3,080	3,080	<b>3,091</b>	3,080	3,080	3,080	<b>3,080</b>
Per share (\$)	2.04	2.80	2.61	1.58	<b>9.50</b>	1.76	1.74	1.91	<b>6.99</b>
Ebitda Margin (E&P)	55%	54%	50%	54%	<b>53%</b>	54%	54%	54%	<b>54%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



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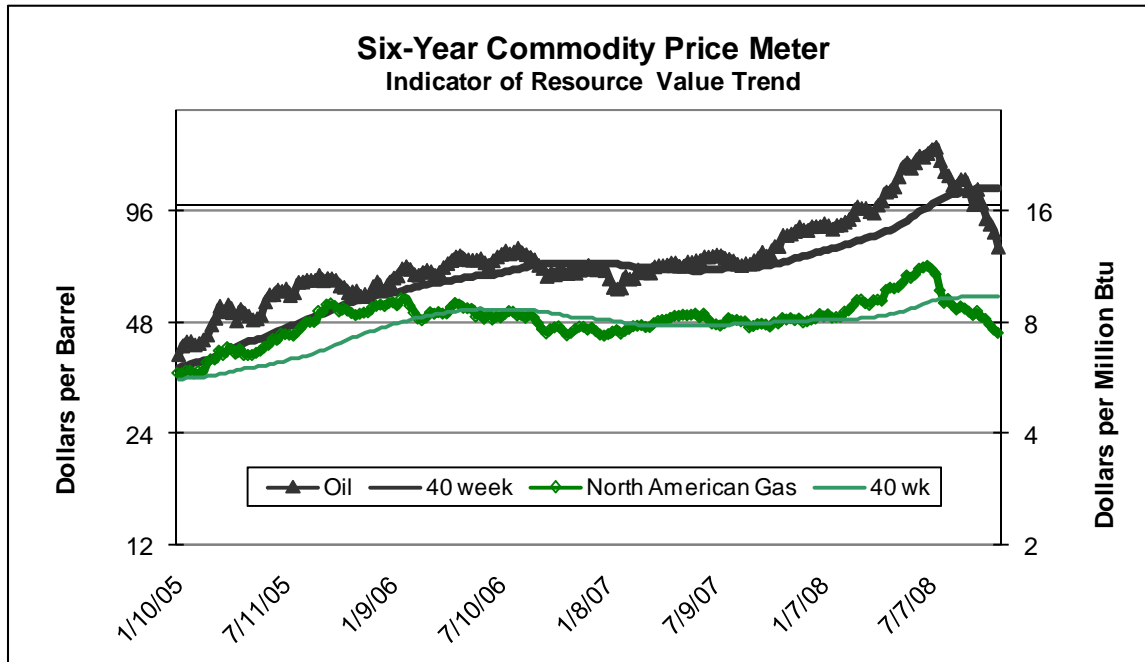
Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
				(US\$m)	
North American Natural Gas	1,350	5.5	6.7	9,000	3%
Rest of World Natural Gas	8,970	10.4	8.4	75,000	23%
Oil	20,790	6.2	6.8	142,000	44%
Downstream	18,540		5.4	100,000	31%
	49,650	7.9	6.6	326,000	100%
Debt (US\$m)					43,000
Net Present Value (US\$m)					283,000
Shares (mm)					3,080
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					93





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