

Rating: Buy
 S&P 500: 1178

CNOOC Limited Nice Dividend

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 12/31/05 (US\$mm)</i>	4,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	55.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/29/05	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	22,700	<i>PV/Ebitda</i>	6.0
<i>Debt (US\$mm)</i>	500	<i>Undeveloped Reserves (%)</i>	53
<i>Enterprise Value (EV) (US\$mm)</i>	23,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.43
<i>Present Value (PV) (US\$mm)</i>	28,000	<i>Present Value Proven Reserves(US\$/boe)</i>	14.41
<i>Net Present Value (US\$/share)</i>	67	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.40
<i>Debt/Present Value</i>	0.02	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.99
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.7	<i>Indicated Annual Dividend (US\$/sh)</i>	2.04

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.

The Peoples Republic of China holds 81% of the outstanding shares.

Summary and Recommendation

Buy-recommended **CNOOC Limited (CEO)**, the “independent producer” of China-domiciled oil and gas companies, raised its indicated dividend 14% taking the indicated yield to 3.7% per year. Year-end adjustments apparently trimmed reported cash flow growth to a gain of some 58% over the previous half-year. Taking the latest results as a new base, our projections continue robust, though less ebullient than the most recent previous projection. Estimated present value of \$67 a share remains steady. A longer reserve life expected after final details are released supports the multiple of present value to cash flow.

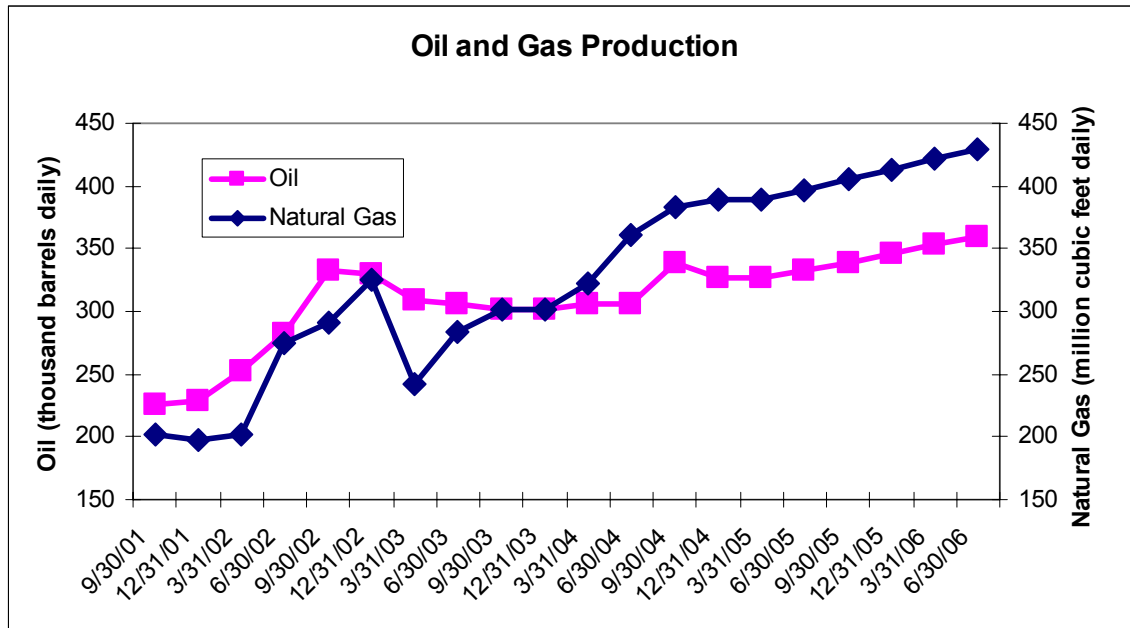
Daily Volume Growth Expected

Earlier in the month, management laid out expectations for some 19% growth in oil and gas volume in 2005. We project more moderate gains after an apparent dip in reported fourth quarter 2004 results (see chart [Oil and Gas Production](#)).

The impact on revenue is magnified when we take account of latest futures prices for oil (see table [Next Twelve Months Operations](#)). The company reported oil and gas prices in the fourth quarter somewhat lower than we previously projected.

Higher revenue translates mostly to higher cash flow as the company has a high Ebitda margin (see table [Next Twelve Months Financial Results](#)). Expected cash flow remains well ahead of recent experience even though less than recently projected. Near term expectations can swing widely.

Please see disclosures on the final page.



CNOOC Limited
Next Twelve Months Operations

	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	9/30/04	12/31/04	2004	3/31/05	6/30/05	9/30/05	12/31/05	2005E	3/31/06	6/30/06	6/30/06
Volume											
Natural gas (bcf)	35	36	133	35	36	37	38	146	38	39	152
Natural Gas (mmcf)	384	389	364	389	397	405	413	401	421	430	417
Days	92	92	366	90	91	92	92	365	90	91	365
Oil (mmb)	31	30	117	29	30	31	32	123	32	33	128
Oil (mbd)	338	326	319	326	333	339	346	336	353	360	350
Total gas & oil (bcf)	222	216	838	211	218	225	229	882	229	236	918
Total gas & oil (mbd)	402	391	380	391	399	407	415	403	423	432	419
Price											
Natural gas (\$/mcf)			140					147			153
Henry Hub (\$/mmbtu)	5.75	7.10	6.15	6.27	7.17	7.36	7.75	7.14	8.25	6.89	7.56
Company	2.87	2.43	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Oil (\$/bbl)											
WTI Cushing	43.89	48.30	41.44	49.42	54.42	55.55	55.25	53.66	54.59	53.69	54.77
Company	40.28	36.37	35.41	37.22	40.98	41.83	41.61	40.46	41.11	40.43	41.24
Total gas & oil (\$/mcf)	6.10	5.46	5.38	5.63	6.15	6.27	6.24	6.08	6.17	6.08	6.19
Revenue (\$mm)											
Natural Gas	101	87	367	96	99	102	104	403	104	108	419
Oil	1,253	1,091	4,139	1,092	1,240	1,306	1,325	4,963	1,306	1,325	5,261
Other											
Total	1,354	1,178	4,506	1,189	1,340	1,408	1,429	5,365	1,410	1,432	5,680

Please see disclosures on the final page.

CNOOC Limited
Next Twelve Months Financial Estimates

	<i>Year</i>	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Next Twelve Months</i>
	<i>2003</i>	<i>6/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>6/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>6/30/06</i>	<i>6/30/06</i>
Revenue (mmRMB)									
Natural Gas (from Q table)	2,480	1,474	1,555	3,030	1,617	1,710	3,327	1,750	3,460
Oil (from Q table)	25,680	14,840	19,370	34,210	19,278	21,737	41,015	21,741	43,479
Other	(44)	(129)	(44)	(173)	(44)	(44)	(88)	(44)	(88)
Total	28,116	16,028	20,858	36,886	20,851	23,403	44,254	23,447	46,851
Expense									
Fixed	3,266	1,452	2,298	3,750	1,875	1,875	3,750	1,875	3,750
Variable	3,266	1,452	2,298	3,750	2,104	2,361	4,465	2,365	4,726
Other	-	-	-	-	-	-	-	-	-
Ebitda	21,628	13,411	16,329	29,740	16,916	19,212	36,127	19,251	38,463
Exploration	848	551	765	1,316	765	765	1,530	765	1,530
Deprec., Deplet., & Amort.	4,643	2,648	2,807	5,455	2,807	2,807	5,614	2,807	5,614
Ebit	16,137	10,212	12,757	22,969	13,344	15,640	28,983	15,679	31,319
Interest	-	-	-	-	-	-	-	-	-
Ebt	16,137	10,212	12,757	22,969	13,344	15,640	28,983	15,679	31,319
Income Tax	4,627	3,221	3,710	6,931	4,670	5,474	10,144	5,488	10,962
Net Income	11,510	6,991	9,047	16,038	8,673	10,166	18,839	10,191	20,357
Shares (millions)	41,107	41,124	41,124	41,124	41,124	41,124	41,124	41,124	41,124
Per share (RMB)	0.28	0.17	0.22	0.39	0.21	0.25	0.46	0.25	0.50
Ebitda Margin	77%	84%	78%	81%	81%	82%	82%	82%	82%
Tax Rate	29%	32%	29%	30%	35%	35%	35%	35%	35%

Present Value Reflects Cash Flow Multiple

Oil accounts for 88% of estimated present value as we estimate now (see table Functional Cash Flow and Present Value). The cash flow multiple of 5.7 times for oil is high for the adjusted reserve life of 7.8 years. When details of higher 2004 reserves are reported the reserve life is likely to be higher. Management cites the respected U.S. engineering firm Ryder Scott in disclosing its reserves of specific new fields.

CNOOC Limited
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	350	17.2	9.4	3,300	12%
Oil	4,350	7.8	5.7	24,800	88%
	4,700	9.3	6.0	28,100	100%
Debt (US\$mm)					500
Net Present Value (US\$mm)					27,600
Shares (mm)					411
Net Present Value (US\$/sh)					67

Please see disclosures on the final page.

Buy Oil and Gas Producers at Mid Decade

Measured by McDep Ratio, CEO stock appears undervalued along with peers (see table [Rank by McDep Ratio](#)). A McDep Ratio of 1.0 means that stock price and debt equal present value estimated on the basis of a long-term price of oil of \$40 a barrel. The current benchmark oil average futures price for the next six years is about \$51 a barrel. If the past repeats, we see three to five-fold gain potential for oil and gas price over the next 5 to 13 years.

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>29-Mar</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	32.07	349	11,210	33.80	0.17	0.96
Unocal Corporation	UCL	B	60.90	271	16,500	65.00	0.21	0.95
Encana Corporation	ECA	B	68.24	471	32,100	77.00	0.16	0.90
Occidental Petroleum Corp.	OXY	B	70.41	406	28,600	87.00	0.15	0.84
CNOOC Limited (19%)	CEO	B	55.19	78	4,310	67.00	0.02	0.83
Burlington Resources	BR	B	50.20	391	19,600	67.00	0.12	0.78
Devon Energy Corporation	DVN	B	46.60	500	23,300	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	74.98	246	18,400	113.00	0.14	0.71
	<i>Total or Median</i>				<i>154,000</i>		<i>0.15</i>	<i>0.83</i>

Kurt H. Wulff, CFA

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a negative total return less than 7% per year including the effects of inflation.