

Rating: Buy  
 S&P 500: 1214

## CNOOC, Unocal, Chevron Bidding Battle

### Summary and Recommendation

We continue our buy-rating on the shares of **CNOOC Ltd. (CEO)**, **Unocal (UCL)** and **Chevron (CVX)** because each has long-term strategic value highlighted by a takeover battle that has drawn CNOOC's competing offer of \$67 cash for each Unocal share. Short-term, the successful buyer would suffer some dilution much of which is already reflected in stock price. In a broader sense the bidding represents the beginning of a potential wave of further deals as the corporate guys act on the shift in resource value investors have started to sense. Multi-fold price appreciation may occur for resource-rich stocks before the wave crests.

Kurt H. Wulff, CFA

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/31/06 (US\$m)</i>	5,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	53.31	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/22/05	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (US\$m)</i>	21,900	<i>PV/Ebitda</i>	4.8
<i>Debt (US\$m)</i>	300	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$m)</i>	22,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.52
<i>Present Value (PV) (US\$m)</i>	27,900	<i>Present Value Proven Reserves(US\$/boe)</i>	14.06
<i>Net Present Value (US\$/share)</i>	67	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.34
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.89
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.8	<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.

<i>Symbol</i>	UCL	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	4,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	22
<i>Price (US\$/sh)</i>	64.86	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	6/22/05	<i>Adjusted Reserves/Production NTM</i>	8.5
<i>Shares (mm)</i>	273	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$m)</i>	17,700	<i>PV/Ebitda</i>	4.4
<i>Debt (US\$m)</i>	4,100	<i>Undeveloped Reserves (%)</i>	48
<i>Enterprise Value (EV) (US\$m)</i>	21,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.50
<i>Present Value (PV) (US\$m)</i>	21,800	<i>Present Value Proven Reserves(US\$/boe)</i>	12.40
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.07
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.67
<i>McDep Ratio - EV/PV</i>	1.00	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80

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.

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

<i>Symbol</i>	CVX	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	37,120
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (\$/sh)</i>	58.27	<i>Natural Gas and Oil Production/Ebitda (%)</i>	74
<i>Pricing Date</i>	6/22/05	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	2311	<i>EV/Ebitda</i>	4.3
<i>Market Capitalization (\$mm)</i>	135,000	<i>PV/Ebitda</i>	5.0
<i>Debt (\$mm)</i>	25,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	159,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	27.60
<i>Present Value (PV) (\$mm)</i>	187,000	<i>Present Value Proven Reserves(\$/boe)</i>	12.10
<i>Net Present Value (\$/share)</i>	70	<i>Present Value Proven Reserves(\$/mcfe)</i>	2.00
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.13
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	1.80

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.

Includes Unocal for all of Next Twelve Months except for earnings where Unocal is included only in 2006.

**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 total return less than inflation.

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