

Rating: Buy
 S&P 500: 1209

CNOOC Ltd. Independent Producer with Income

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 6/31/06 (US\$mm)</i>	6,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	73.66	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/30/05	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$mm)</i>	30,300	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	300	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$mm)</i>	30,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	42.88
<i>Present Value (PV) (US\$mm)</i>	34,900	<i>Present Value Proven Reserves(US\$/boe)</i>	17.59
<i>Net Present Value (US\$/share)</i>	84	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.93
<i>Debt/Present Value</i>	0.01	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.50
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	2.32

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 71% of the outstanding shares.

Summary and Recommendation

An independent producer with the rights to most of the oil and gas production potential offshore China, buy-recommended **CNOOC Ltd. (CEO)** enjoys rising volume in a rising commodity price environment. As it reported better-than-expected first half 2005 results today the company boosted its dividend 25% from the previous half-year declaration. Investors can expect \$1.29 per American Depositary Share to be paid in September, up from \$1.03 paid in June. The 3.1% annual yield on a trailing basis would be 4.5% on a next twelve months basis if the next two dividends increase in proportion to estimated earnings. The stock has 14% appreciation potential to net present value of \$84 a share that presumes a long-term real price for oil of \$50 a barrel. The tragedy of Hurricane Katrina seems to add another talking point that appears to reduce the likelihood that long-term oil price will be lower than in our valuation. Financial risk in CEO is low though there is obvious political risk.

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>	<i>(US\$mm)</i>	
Natural Gas	370	19.2	11.6	4,300	12%
Oil	6,530	7.9	4.7	30,500	88%
	6,900	9.5	5.0	34,800	100%
Debt (US\$mm)				300	
Net Present Value (US\$mm)				34,500	
Shares (mm)				411	
Net Present Value (US\$/sh)				84	

Please see disclosures on the final page.

CNOOC Limited
Next Twelve Months Operations

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural gas (bcf)	36	133	31	34	35	35	135	35	36	142
Natural Gas (mmcf)	389	364	348	369	376	384	369	392	399	388
Days	92	366	90	91	92	92	365	90	91	365
Oil (mmb)	30	117	32	32	34	34	132	34	35	137
Oil (mbd)	326	319	352	357	364	371	361	379	386	375
Total gas & oil (bcf)	216	835	221	229	236	240	926	240	247	963
Total gas & oil (mbd)	391	380	410	419	427	435	423	444	453	440
Price										
Natural gas (\$/mcf)		139					154			161
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.85	9.77	7.66	10.30	8.51	9.11
Company	2.43	2.75	2.69	2.95	2.95	2.95	2.89	2.95	2.95	2.95
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	61.76	64.40	57.22	65.29	65.08	64.13
Company	36.37	35.41	40.91	43.91	51.11	53.30	47.45	54.04	53.87	53.10
Total gas & oil (\$/mcf)	5.46	5.39	6.23	6.68	7.70	8.01	7.18	8.12	8.09	7.98
Revenue (\$mm)										
Natural Gas	87	367	84	99	102	104	390	104	107	418
Oil	1,091	4,139	1,296	1,427	1,712	1,821	6,256	1,843	1,894	7,271
Other										
Total	1,178	4,506	1,380	1,526	1,814	1,926	6,646	1,946	2,001	7,688

CNOOC Limited
Next Twelve Months Financial Estimates

	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Next Twelve Months</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)	1,556	3,030	1,478	1,664	3,142	1,703	3,367
Oil (from Q table)	19,368	34,208	21,956	28,498	50,455	30,135	58,633
Other	(66)	(352)	1,300	1,300	2,599	1,300	2,599
Total	20,858	36,886	24,734	31,462	56,196	33,138	64,600
Expense							
Fixed	2,297	3,749	1,484	2,297	3,781	2,297	4,595
Variable	2,297	3,749	1,484	1,910	3,393	2,016	3,925
Ebitda	16,329	29,740	20,467	25,955	46,422	27,525	53,480
Exploration	765	1,316	611	611	1,222	611	1,222
Deprec., Deplet., & Amort.	2,807	5,455	2,787	2,787	5,574	2,787	5,574
Ebit	12,757	22,969	17,069	22,557	39,626	24,127	46,684
Interest	-	-	-	-	-	-	-
Ebt	12,757	22,969	17,069	22,557	39,626	24,127	46,684
Income Tax	3,710	6,931	5,143	7,895	13,038	8,444	16,339
Net Income	9,047	16,038	11,926	14,662	26,588	15,683	30,345
Shares (millions)	41,124	41,124	41,124	41,124	41,124	41,124	41,124
Per share (RMB)	0.22	0.39	0.29	0.36	0.65	0.38	0.74
Ebitda Margin	78%	81%	83%	82%	83%	83%	83%
Tax Rate	29%	30%	30%	35%	33%	35%	35%

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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>30-Aug</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	47.22	892	42,100	51.00	0.16	0.94
CNOOC Limited (29%)	CEO	B	73.66	119	8,780	84.00	0.01	0.88
XTO Energy Inc.	XTO	B	38.45	370	14,210	48.00	0.17	0.84
Burlington Resources	BR	B	70.05	385	27,000	86.00	0.09	0.83
Devon Energy Corporation	DVN	B	59.36	471	28,000	86.00	0.15	0.74
Occidental Petroleum Corp.	OXY	B	80.81	406	32,800	120.00	0.11	0.71
Anadarko Petroleum Corp.	APC	B	89.47	238	21,300	140.00	0.11	0.68
	<i>Total or Median</i>				<i>437,000</i>		<i>0.12</i>	<i>0.83</i>

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