

Rating: Buy  
S&P 500: 1423

## **CNOOC Limited**

### **New Oil Price and Stock Price Momentum**

<i>Symbol</i>	CEO	<i>Ebitda Twelve Months ending 6/30/08 (US\$mm)</i>	6,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	88.91	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/29/07	<i>Adjusted Reserves/Production NTM</i>	11.1
<i>Shares (mm)</i>	411	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$mm)</i>	36,600	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$mm)</i>	0	<i>Undeveloped Reserves (%)</i>	51
<i>Enterprise Value (EV) (US\$mm)</i>	36,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.97
<i>Present Value (PV) (US\$mm)</i>	40,300	<i>Present Value Proven Reserves(US\$/boe)</i>	15.95
<i>Net Present Value (US\$/share)</i>	98	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.66
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.75
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	3.7	<i>Indicated Annual Dividend (US\$/sh)</i>	3.33

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\$60 a barrel and natural gas, \$10 a million btu.

The Peoples Republic of China holds 66% of the outstanding shares.

For historical research on CEO since 2001 see <http://www.mcdep.com/4ceo.htm>

### **Summary and Recommendation**

Presenting summary 2006 financial and operating results to analysts on March 29, Chief Financial Officer Yang Hua of buy-recommended **CNOOC Limited (CEO)** emphasized low cost operations and volume growth after 2007. Although we await more detail on 2006, we think our estimate of net present value (NPV) of \$98 a share is amply justified (see table, [Functional Cash Flow and Present Value](#)). Holding the resource rights to practically all of offshore China, CNOOC benefits from others taking risks and absorbing costs in return for a share of the rewards. As a result, Ebitda Margin that we project at 76% is among the highest of oil and gas producers (see table, [Half-Year Financial Results](#)). Despite a flat year in volume expected for 2007, Mr. Yang reaffirms the target of 7-11% per year growth that Chairman Fu Chengyu has articulated. Finally, we add our hope that recently established positive momentum on a 40-week or 200 day basis in six-year oil price, six-year natural gas price and in CEO stock price can persist for a few years. CEO stock has a full weight in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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

**CNOOC Limited**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
Natural Gas	500	19.8	8.6	4,300	11%
Oil	6,100	8.8	5.9	36,000	89%
	6,600	11.1	6.1	40,300	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					40,300
Shares (mm)					411
Net Present Value - Standard Estimate (US\$/sh)					98
Net Present Value - Approximation by Correlation (US\$/sh)					111

**CNOOC Limited**  
**Half-Year Financial Results**

	<i>H2</i> <i>12/31/05</i>	<i>H1</i> <i>6/30/06</i>	<i>H2</i> <i>12/31/06</i>	<i>Year</i> <i>2006</i>	<i>H1E</i> <i>6/30/07</i>	<i>H2E</i> <i>12/31/07</i>	<i>Year</i> <i>2007E</i>	<i>Twelve</i> <i>Months</i> <i>6/30/08</i>
<b>Revenue (mmRMB)</b>								
Natural Gas (from Q table)	1,714	1,975	2,305	<b>4,279</b>	2,510	2,551	<b>5,061</b>	<b>5,061</b>
Oil (from Q table)	27,990	34,213	29,701	<b>63,914</b>	27,602	30,860	<b>58,462</b>	<b>61,844</b>
Other	762	(713)		<b>(713)</b>	-		-	-
Total	30,466	35,475	32,006	<b>67,481</b>	30,112	33,412	<b>63,523</b>	<b>66,905</b>
<b>Expense</b>								
Fixed	3,483	4,247	3,210	<b>7,456</b>	3,764	3,764	<b>7,528</b>	<b>7,528</b>
Variable	3,483	4,247	3,210	<b>7,456</b>	3,764	4,176	<b>7,940</b>	<b>8,363</b>
<b>Ebitda</b>	22,738	27,694	25,586	<b>53,280</b>	22,584	25,471	<b>48,055</b>	<b>51,014</b>
Exploration	600	709	709	<b>1,418</b>	709	709	<b>1,418</b>	<b>1,418</b>
Deprec., Deplet., & Amort.	2,732	3,366	3,366	<b>6,732</b>	3,366	3,366	<b>6,732</b>	<b>6,732</b>
<b>Ebit</b>	19,406	23,619	21,511	<b>45,130</b>	18,509	21,396	<b>39,905</b>	<b>42,864</b>
Interest	-	-	-	-	-	-	-	-
<b>Ebt</b>	19,406	23,619	21,511	<b>45,130</b>	18,509	21,396	<b>39,905</b>	<b>42,864</b>
Income Tax	5,835	7,581	7,529	<b>15,110</b>	6,478	7,489	<b>13,967</b>	<b>15,003</b>
<b>Net Income</b>	13,571	16,038	13,982	<b>30,021</b>	12,031	13,908	<b>25,938</b>	<b>27,862</b>
<b>Shares (millions)</b>	41,124	41,124	41,124	<b>41,124</b>	41,124	41,124	<b>41,124</b>	<b>41,124</b>
Per share (RMB)	0.33	0.39	0.34	<b>0.73</b>	0.29	0.34	<b>0.63</b>	<b>0.68</b>
Ebitda Margin	75%	78%	80%	<b>79%</b>	75%	76%	<b>76%</b>	<b>76%</b>
Tax Rate	30%	32%	35%	<b>33%</b>	35%	35%	<b>35%</b>	<b>35%</b>

Please see disclosures on the final page.

**CNOOC Limited**  
**Quarterly Operations**

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>Months E</i>
									<i>6/30/08</i>
<b>Volume</b>									
Natural gas (bcf)	40	46	55	<b>179</b>	54	54	55	<b>218</b>	<b>218</b>
Natural Gas (mmcf)	433	505	597	<b>490</b>	597	597	597	<b>597</b>	<b>597</b>
Days	92	92	92	<b>365</b>	90	91	92	<b>365</b>	<b>365</b>
Oil (mmb)	34	34	33	<b>136</b>	33	33	33	<b>133</b>	<b>133</b>
Oil (mbd)	365	372	364	<b>373</b>	364	364	364	<b>364</b>	<b>364</b>
Total gas & oil (bcf)	241	252	256	<b>995</b>	250	253	256	<b>1,015</b>	<b>1,015</b>
Total gas & oil (mbd)	437	456	463	<b>454</b>	463	463	463	<b>463</b>	<b>463</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	<b>7.23</b>	6.81	7.39	8.62	<b>7.65</b>	<b>8.44</b>
Company	2.52	3.39	2.43	<b>3.00</b>	3.00	3.00	3.00	<b>3.00</b>	<b>3.00</b>
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	<b>66.05</b>	57.97	63.45	67.39	<b>63.75</b>	<b>67.47</b>
Company	51.67	61.78	48.84	<b>58.90</b>	51.69	56.58	60.09	<b>56.87</b>	<b>60.16</b>
Total gas & oil (\$/mcf)	7.61	9.02	6.91	<b>8.59</b>	7.41	8.05	8.51	<b>8.09</b>	<b>8.52</b>
<b>Revenue (\$mm)</b>									
Natural Gas	100	157	134	<b>537</b>	161	163	165	<b>654</b>	<b>654</b>
Oil	1,735	2,114	1,635	<b>8,010</b>	1,693	1,873	2,012	<b>7,553</b>	<b>7,990</b>
Total	1,836	2,272	1,768	<b>8,547</b>	1,854	2,036	2,176	<b>8,207</b>	<b>8,644</b>
RMB/\$	8.08	7.97	7.86	<b>7.97</b>	7.74	7.74	7.74	<b>7.74</b>	<b>7.74</b>
<b>Revenue (RMB)</b>									
Natural Gas	812	1,255	1,049	<b>4,279</b>	1,248	1,262	1,276	<b>5,061</b>	<b>5,061</b>
Oil	14,020	16,851	12,850	<b>63,914</b>	13,102	14,500	15,569	<b>58,462</b>	<b>61,844</b>
Total	14,831	18,107	13,899	<b>68,193</b>	14,350	15,762	16,845	<b>63,523</b>	<b>66,905</b>

**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.**