

Rating: Buy
 S&P 500: 1439
 Intraday

CNOOC Limited

Making Money Offshore China

<i>Symbol</i>	CEO	<i>Ebitda Twelve Months ending 6/30/08 (US\$m)</i>	7,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	117.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/29/07	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	439	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$m)</i>	51,400	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$m)</i>	51,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	41.19
<i>Present Value (PV) (US\$m)</i>	47,400	<i>Present Value Proven Reserves(US\$/boe)</i>	18.81
<i>Net Present Value (US\$/share)</i>	108	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.13
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.50
<i>McDep Ratio - EV/PV</i>	1.08	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	3.0	<i>Indicated Annual Dividend (US\$/sh)</i>	3.46

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\$66 a barrel and natural gas, \$11 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

Despite stock price above estimated net present value (NPV) of \$108 a share, we keep our buy rating for **CNOOC Limited (CEO)** because of the potential for positive surprise in a business we like long-term. First half results reported today exceeded our projections for cash flow and earnings with higher oil price relative to the benchmark and lower corporate tax rate (see table [Half-Year Financial Results](#)). Production volume remains steady for now ahead of anticipated renewed growth reinforced with favorable recent exploration results (see table [Quarterly Operations](#)). NPV matches our analysis of other companies considering reserve life (Adjusted R/P), cash flow (Ebitda) and our long-term oil price assumption of \$66 a barrel (see table [Functional Cash Flow and Present Value](#)). Natural gas resources could be worth twice the current 8% of NPV if we projected world pricing for the clean fuel that China holds at an artificially low price. Above its 200-day average, stock price is in an uptrend. Potential easing of restrictions on investment by Chinese citizens may increase demand for CNOOC stock over the next year. Finally, with a McDep Ratio above 1.0, we recommend that investors limit holdings of CNOOC to a target portfolio weight.

Kurt H. Wulff, CFA

Please see disclosures on the final page.

CNOOC Limited
Half-Year Financial Results

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>Twelve</i>
	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>	<i>Months</i>
								<i>6/30/08</i>
Revenue (mmRMB)								
Natural Gas (from Q table)	1,975	2,305	4,279	2,473	2,485	4,958	2,444	4,929
Oil (from Q table)	34,213	29,701	63,914	30,924	31,648	62,572	34,149	65,796
Other	(713)		(713)	(175)		(175)	-	-
Total	35,475	32,006	67,481	33,222	34,133	67,355	36,593	70,726
Expense	7,781	5,932	13,712	5,502	8,533	14,035	9,148	17,681
Ebitda	27,694	26,074	53,768	27,720	25,599	53,320	27,445	53,044
Exploration	709	996	1,705	1,221	1,221	2,442	1,221	2,442
Deprec., Deplet., & Amort.	3,366	3,567	6,933	3,536	3,536	7,072	3,536	7,072
Ebit	23,619	21,511	45,130	22,963	20,842	43,806	22,688	43,530
Interest	-	-	-	-	-	-	-	-
Ebt	23,619	21,511	43,217	22,963	20,842	41,230	22,688	43,530
Income Tax	7,581	5,615	13,196	5,462	7,295	12,757	7,941	15,236
Net Income	16,038	13,982	30,021	14,926	13,548	28,474	14,747	28,295
Shares (millions)	41,124	41,124	41,124	43,900	43,900	43,900	43,900	43,900
Per share (RMB)	0.39	0.34	0.73	0.34	0.31	0.65	0.34	0.64
Ebitda Margin	78%	81%	80%	83%	75%	79%	75%	75%
Tax Rate	32%	26%	31%	24%	35%	31%	35%	35%

CNOOC Limited
Quarterly Operations

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</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>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>Months E</i>
									<i>6/30/08</i>
Volume									
Natural gas (bcf)	46	55	179	50	50	51	51	201	201
Natural Gas (mmcf)	505	597	490	550	552	552	552	551	552
Days	92	92	365	90	91	92	92	365	365
Oil (mmb)	34	33	136	34	34	34	34	137	136
Oil (mbd)	372	364	373	379	374	374	374	375	374
Total gas & oil (bcf)	252	256	995	254	254	257	257	1,022	1,019
Total gas & oil (mbd)	456	463	454	471	465	465	465	467	465
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	6.57	7.23	6.81	7.56	6.61	7.82	7.20	7.82
Company	3.39	2.43	3.00	3.19	3.23	3.23	3.23	3.22	3.23
Oil (\$/bbl)									
WTI Cushing	70.42	59.99	66.05	58.08	64.91	72.67	70.94	66.65	70.73
Company	61.78	48.84	58.90	52.45	69.94	63.75	57.75	59.78	63.67
Total gas & oil (\$/mcf)	9.02	6.91	8.59	7.66	9.35	9.16	8.36	8.64	9.15
Revenue (\$mm)									
Natural Gas	157	134	537	158	162	164	164	648	650
Oil	2,114	1,635	8,010	1,789	2,215	2,191	1,984	8,179	8,680
Total	2,272	1,768	8,547	1,947	2,377	2,355	2,148	8,827	9,331
RMB/\$	7.97	7.86	7.97	7.78	7.68	7.58	7.58	7.65	7.65
Revenue (RMB)									
Natural Gas	1,255	1,049	4,279	1,228	1,245	1,242	1,242	4,958	4,929
Oil	16,851	12,850	63,914	13,911	17,013	16,606	15,041	62,572	65,796
Total	18,107	13,899	68,193	15,139	18,258	17,849	16,284	67,530	70,726

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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	490	21.6	8.0	3,900	8%
Oil	6,510	8.1	6.7	43,500	92%
	7,000	10.7	6.8	47,400	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					47,400
Shares (mm)					439
Net Present Value - Standard Estimate (US\$/sh)					108
Net Present Value - Approximation by Correlation (US\$/sh)					110

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