

Rating: Hold  
S&P 500: 1522  
Intraday

## **CNOOC Limited**

### **Revise Rating to Hold from Buy on Price**

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	7,400
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	165.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	9/24/07	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	439	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$m)</i>	72,600	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$m)</i>	72,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	43.57
<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>	9.12
<i>McDep Ratio - EV/PV</i>	1.53	<i>Price/Earnings Next Twelve Months</i>	18
<i>Dividend Yield (%/year)</i>	2.1	<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**

We revise our recommendation to Hold from Buy for the stock of **CNOOC Limited (CEO)** as a result of the nice positive surprise of intense investor interest in Chinese stocks. Stock price exceeds estimated net present value (NPV) of \$108 a share by more than any normal allowance for uncertainty in our industry estimates. Yet, we are the research source that thinks oil may reach \$150 a barrel in 2010 (no guarantees!). Nonetheless, we take a neutral stance on CEO for now and will see if the McDep Ratio drops back into buy range considering future stock price action and progress in company operations and industry conditions.

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>H2E</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>12/31/08</i>	<i>Months</i>
									<i>12/31/08</i>
<b>Revenue (mmRMB)</b>									
Natural Gas (from Q table)	1,975	2,305	<b>4,279</b>	2,473	2,465	<b>4,938</b>	2,438	2,465	<b>4,904</b>
Oil (from Q table)	34,213	29,701	<b>63,914</b>	30,924	33,751	<b>64,675</b>	37,143	32,374	<b>69,517</b>
Other	(713)		<b>(713)</b>	(175)		<b>(175)</b>	-		-
Total	35,475	32,006	<b>67,481</b>	33,222	36,216	<b>69,438</b>	39,581	34,839	<b>74,420</b>
<b>Expense</b>	7,781	5,932	<b>13,712</b>	5,502	9,054	<b>14,556</b>	9,895	8,710	<b>18,605</b>
<b>Ebitda</b>	27,694	26,074	<b>53,768</b>	27,720	27,162	<b>54,882</b>	29,686	26,129	<b>55,815</b>
Exploration	709	996	<b>1,705</b>	1,221	1,221	<b>2,442</b>	1,221	1,221	<b>2,442</b>
Deprec., Deplet., & Amort.	3,366	3,567	<b>6,933</b>	3,536	3,536	<b>7,072</b>	3,536	3,536	<b>7,072</b>
<b>Ebit</b>	23,619	21,511	<b>45,130</b>	22,963	22,405	<b>45,368</b>	24,929	21,372	<b>46,301</b>
Interest	-	-	-	-	-	-	-	-	-
<b>Ebt</b>	23,619	21,511	<b>43,217</b>	22,963	22,405	<b>42,793</b>	24,929	21,372	<b>46,301</b>
Income Tax	7,581	5,615	<b>13,196</b>	5,462	7,842	<b>13,304</b>	8,725	7,480	<b>16,205</b>
<b>Net Income</b>	16,038	13,982	<b>30,021</b>	14,926	14,563	<b>29,489</b>	16,204	13,892	<b>30,096</b>
<b>Shares (millions)</b>	41,124	41,124	<b>41,124</b>	43,900	43,900	<b>43,900</b>	43,900	43,900	<b>43,900</b>
Per share (RMB)	0.39	0.34	<b>0.73</b>	0.34	0.33	<b>0.67</b>	0.37	0.32	<b>0.69</b>
Ebitda Margin	78%	81%	<b>80%</b>	83%	75%	<b>79%</b>	75%	75%	<b>75%</b>
Tax Rate	32%	26%	<b>31%</b>	24%	35%	<b>31%</b>	35%	35%	<b>35%</b>

**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>12/31/08</i>
<b>Volume</b>									
Natural gas (bcf)	46	55	<b>179</b>	50	50	51	51	<b>201</b>	<b>202</b>
Natural Gas (mmcf)	505	597	<b>490</b>	550	552	552	552	<b>551</b>	<b>552</b>
Days	92	92	<b>365</b>	90	91	92	92	<b>365</b>	<b>366</b>
Oil (mmb)	34	33	<b>136</b>	34	34	34	34	<b>137</b>	<b>137</b>
Oil (mbd)	372	364	<b>373</b>	379	374	374	374	<b>375</b>	<b>374</b>
Total gas & oil (bcf)	252	256	<b>995</b>	254	254	257	257	<b>1,022</b>	<b>1,022</b>
Total gas & oil (mbd)	456	463	<b>454</b>	471	465	465	465	<b>467</b>	<b>465</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	6.57	<b>7.23</b>	6.81	7.56	6.16	7.30	<b>6.96</b>	<b>8.05</b>
Company	3.39	2.43	<b>3.00</b>	3.19	3.23	3.23	3.23	<b>3.22</b>	<b>3.23</b>
Oil (\$/bbl)									
WTI Cushing	70.42	59.99	<b>66.05</b>	58.08	64.91	75.23	79.37	<b>69.40</b>	<b>75.03</b>
Company	61.78	48.84	<b>58.90</b>	52.45	69.94	66.00	64.61	<b>62.07</b>	<b>67.62</b>
Total gas & oil (\$/mcf)	9.02	6.91	<b>8.59</b>	7.66	9.35	9.47	9.28	<b>8.94</b>	<b>9.68</b>
<b>Revenue (\$mm)</b>									
Natural Gas	157	134	<b>537</b>	158	162	164	164	<b>648</b>	<b>652</b>
Oil	2,114	1,635	<b>8,010</b>	1,789	2,215	2,268	2,220	<b>8,492</b>	<b>9,244</b>
Total	2,272	1,768	<b>8,547</b>	1,947	2,377	2,432	2,384	<b>9,140</b>	<b>9,896</b>
RMB/\$	7.97	7.86	<b>7.97</b>	7.78	7.68	7.52	7.52	<b>7.62</b>	<b>7.62</b>
<b>Revenue (RMB)</b>									
Natural Gas	1,255	1,049	<b>4,279</b>	1,228	1,245	1,233	1,233	<b>4,938</b>	<b>4,904</b>
Oil	16,851	12,850	<b>63,914</b>	13,911	17,013	17,055	16,696	<b>64,675</b>	<b>69,517</b>
Total	18,107	13,899	<b>68,193</b>	15,139	18,258	18,288	17,928	<b>69,613</b>	<b>74,420</b>

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**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	490	21.5	8.0	3,900	8%
Oil	6,910	8.0	6.3	43,500	92%
	7,400	10.7	6.4	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)					113

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