

Rating: Buy
S&P 500: 1105

Norsk Hydro ASA High Cash Flow

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 9/30/05 (US\$m)</i>	5,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	73.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	68
<i>Pricing Date</i>	10/18/04	<i>Adjusted Reserves/Production NTM</i>	9.4
<i>Shares (mm)</i>	254	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (\$mm)</i>	18,700	<i>PV/Ebitda</i>	4.8
<i>Debt (\$mm)</i>	4,600	<i>Undeveloped Reserves (%)</i>	36
<i>Enterprise Value (EV) (\$mm)</i>	23,300	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	19.00
<i>Present Value (PV) (\$mm)</i>	27,400	<i>Present Value Proven Reserves(\$/boe)</i>	7.90
<i>Net Present Value (\$/share)</i>	90	<i>Present Value Proven Reserves(\$/mcf)</i>	1.30
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.26
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.2	<i>Indicated Annual Dividend (US\$/sh)</i>	1.65

Note: Estimated cash flow and earnings tied to one-year futures prices for oil.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

The Norwegian government owns 44% of the shares in Norsk Hydro.

Summary and Recommendation

Taking account of latest quarterly disclosures, buy-recommended **Norsk Hydro ASA (NHY)** remains an undervalued representation in growing volume and rising value of politically safe Norwegian oil and gas production. Though the stock price is up since August 10, the cash flow multiple, EV/Ebitda, is lower at only 4.1 years. Cash flow, as we define it, excludes taxes above the rate of 35%. The US\$90 net present value per unit relates to a constant real oil price of US\$35 a barrel compared to recent average futures price for oil delivered over the next six years above US\$40 a barrel. Stock price could rise 22% to reach net present value within the next year or two.

Cash Flow Estimate Boosted by Oil Price

Though taxes are high at an overall corporate rate of 70%, cash flow still grows with higher oil price. Price gains are shared by the company and the government by a fixed percentage that does not change simply because of price as we understand it. One could say that the traditional low cash flow multiple for Norsk Hydro stock reflects the high tax rate. The multiple that we calculate is still low after we decrease cash flow by an amount to reflect the difference above a 35% tax rate.

Discussing Norwegian taxes with an industry executive recently we got the response, "Ah, but the government is our partner in new investment." Incentives apparently allow more than full expensing against a high tax rate such that the after-tax return is higher than the pre-tax return.

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Please see disclosures on the final page.

Norsk Hydro
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>3/31/04</i>	<i>6/30/04</i>	<i>9/30/04</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>9/30/05</i>
Volume									
Natural Gas (mmcf)	1,038	882	738	996	913	1,038	882	738	913
Oil (mbd)	442	422	391	422	419	422	422	380	411
Total gas & oil (mbd)	615	569	514	588	571	595	569	503	564
Price									
Natural gas (NOK/mcf)	31	28	30	30	30	30	30	30	30
Natural gas (NOK/Sm ³)	1.10	0.98	1.07	1.07	0.85	1.07	1.07	1.07	0.86
Oil									
WTI Cushing US\$/bbl)	35.23	38.34	43.89	53.88	42.83	52.77	50.63	48.59	51.47
Kroner/\$	6.91	6.85	6.87	6.59	6.80	6.59	6.59	6.59	6.59
WTI Cushing (NOK/bbl)	243	263	302	355	291	348	334	320	339
NHY (NOK/bbl)	218	238	286	337	269	330	317	304	322
Total gas & oil (NOK/bb)	209	220	261	293	245	287	282	274	284
Revenue (NOKmm)									
Natural Gas	2,911	2,253	2,058	2,778	9,999	2,832	2,460	2,058	10,127
Oil	8,684	9,240	10,295	13,077	41,296	12,530	12,289	10,621	48,517
Other	30,914	29,010	28,233	28,233	116,390	28,233	23,233	23,233	102,931
Total	39,598	38,250	38,528	44,088	160,464	43,594	37,982	35,912	161,576
Expense									
Production	5,047	6,863	7,510	8,574	27,994	8,441	8,273	7,692	32,980
Other	27,792	25,769	25,521	25,208	104,290	25,208	20,208	20,208	90,831
Total	32,838	32,632	33,031	33,782	132,284	33,649	28,481	27,900	123,812
Ebitda (NOKmm)									
Exploration and Production	6,548	4,630	4,843	7,280	23,302	6,920	6,476	4,987	25,664
Other	3,122	3,241	2,711	3,025	12,100	3,025	3,025	3,025	12,100
Total Ebitda	9,671	7,871	7,555	10,305	35,401	9,945	9,501	8,012	37,764
Exploration	249	199	298	298	1,044	298	298	298	1,192
Deprec., Deplet., & Amort.	3,696	3,592	3,533	3,533	14,354	3,533	3,533	3,533	14,132
Ebit	5,726	4,080	3,724	6,474	20,003	6,114	5,670	4,181	22,440
Interest	433	434	316	316	1,499	316	316	316	1,264
Foreign Exchange	454	226	(424)						
Ebt	4,839	3,420	3,832	6,158	18,248	5,798	5,354	3,865	21,176
Income Tax	1,694	1,197	1,341	2,155	6,387	2,029	1,874	1,353	7,412
Net Income (NOKmm)									
Exploration and Production	7,082	7,184	7,521						
Other Operations	1,629	1,371	526						
Non operating deductions	(5,566)	(6,332)	(5,556)						
Total	3,145	2,223	2,491	4,003	11,861	3,769	3,480	2,512	13,764
Shares (millions)									
Total	256	256	254	254	255	254	254	254	254
Per share (NOK)	12.30	8.70	9.80	15.75	46.55	14.83	13.69	9.89	54.16

Please see disclosures on the final page.

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