

Rating: Hold  
S&P 500: 1534  
Intraday

## **Norsk Hydro (NHY)** **Real Growth in Materials**

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$m)</i>	2,620
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	
<i>Price (\$/sh)</i>	14.64	<i>Natural Gas and Oil Production/Ebitda (%)</i>	
<i>Pricing Date</i>	10/30/07	<i>Adjusted Reserves/Production NTM</i>	
<i>Shares (mm)</i>	1223	<i>EV/Ebitda</i>	7.1
<i>Market Capitalization (\$mm)</i>	17,900	<i>PV/Ebitda</i>	6.4
<i>Debt (\$mm)</i>	700	<i>Undeveloped Reserves (%)</i>	
<i>Enterprise Value (EV) (\$mm)</i>	18,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	
<i>Present Value (PV) (\$mm)</i>	16,600	<i>Present Value Proven Reserves(\$/boe)</i>	
<i>Net Present Value (\$/share)</i>	13	<i>Present Value Proven Reserves(\$/mcfe)</i>	
<i>Debt/Present Value</i>	0.04	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.22
<i>McDep Ratio - EV/PV</i>	1.12	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	1.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.19

Note: 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.  
For historical analysis of NHY since 2004 see [www.mcdep.com/2nhy.htm](http://www.mcdep.com/2nhy.htm)

### **Summary and Recommendation**

Trading in New York as a newly independent aluminum company since October 11, hold-rated **Norsk Hydro (NHY)** offers sound participation in a materials business that should grow its real worth in a climate of declining value for financial assets. A low market unlevered cash flow multiple (EV/Ebitda) of 7.1 times, or years, relies on our projection of unlevered cash flow (Ebitda) taking account of third quarter results reported today (see table [Next Twelve Months Operating and Financial Estimates](#)). The latest quarter was the last to include oil and gas operations transferred to buy-recommended **StatoilHydro (STO)** in exchange for STO stock distributed to NHY shareholders. Though we have tracked NHY's aluminum operations for more than a decade, we are not sure what net present value (NPV) should be for the pure aluminum company. We think the stock might readily be worth more than our tentative NPV of \$13 a share. Moreover, we have had good experience with NHY management over the years, though there were times one had to patient. Finally, an impending delisting of NHY stock from the New York Stock Exchange should not cause much concern as U.S. investors can expect to trade the shares over-the-counter at prices close to the dollar equivalent of transactions in Oslo, Norway or London.

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**Norsk Hydro**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/06</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
<b>Volume</b>									
Natural gas (bcf)	109	104	90	85					
Natural Gas (mmcf)	1,182	1,152	984	924					
Days	92	90	91	92					
Oil (mmb)	37	38	36	36					
Oil (mbd)	398	418	394	386					
Total gas & oil (mbd)	595	610	558	540					
<b>Price</b>									
Natural gas (NOK/mcf)	56	54	46	46					
Natural gas (NOK/Sm <sup>3</sup> )	1.97	1.90	1.62	1.64					
<b>Oil</b>									
WTI Cushing US\$/bbl)	59.99	58.08	64.91	75.48					
Kroner/\$	6.39	6.22	6.00	5.76					
WTI Cushing (NOK/bbl)	383	361	389	435					
NHY (NOK/bbl)	369	348	403	424					
Total gas & oil (NOK/bt)	358	340	366	383					
Aluminum (US\$/tonne)	2,725	2,797	2,766	2,553					
<b>Revenue (NOKmm)</b>									
Natural Gas	6,069	5,581	4,109	3,949					
Oil	13,519	13,084	14,460	15,054					
Other	32,196	37,030	32,069	29,855	25,000	25,000	25,000	25,000	100,000
Total	45,715	50,114	46,529	44,909	25,000	25,000	25,000	25,000	100,000
<b>Expense</b>									
Production	11,011	10,876	9,694	9,439					
Other	27,396	31,267	26,996	25,685	21,500	21,500	21,500	21,500	86,000
Total	38,407	42,144	36,691	35,123	21,500	21,500	21,500	21,500	86,000
<b>Ebitda (NOKmm)</b>									
Exploration and Production	8,577	7,788	8,875	9,564					
Other	4,800	5,762	5,073	4,171	3,500	3,500	3,500	3,500	14,000
Total Ebitda	13,377	13,551	13,948	13,735	3,500	3,500	3,500	3,500	14,000
Exploration	2,093	786	653	1,229					
Deprec., Deplet., & Amort.	9,899	4,703	4,651	4,632	800	800	800	800	3,200
<b>Ebit</b>									
Interest	1,385	8,062	8,644	7,874	2,700	2,700	2,700	2,700	10,800
Foreign Exchange	208	140	107	74	10	10	10	10	40
<b>Ebt</b>									
Income Tax	(714)	(566)	(713)	(1,984)					
Total	1,891	8,488	9,250	9,784	2,690	2,690	2,690	2,690	10,760
<b>Net Income (NOKmm)</b>									
Exploration and Production	662	2,971	3,237	3,424	699	699	699	699	2,798
Other Operations	5,647	11,166	11,455	11,041					
Non operating deductions	(1,073)	3,656	2,743	1,542					
Total	(3,345)	(9,305)	(8,186)	(6,223)					
Total	1,229	5,517	6,012	6,360	1,991	1,991	1,991	1,991	7,962
<b>Shares (millions)</b>									
Per share (NOK)	1,229	1,226	1,227	1,223	1,223	1,223	1,223	1,223	1,223
Ebitda Margin (E&P)	1.00	4.50	4.90	5.20	1.63	1.63	1.63	1.63	6.51
Ebitda Margin	44%	42%	48%	50%					
Ebitda Margin					14%	14%	14%	14%	14%
Tax Rate	35%	35%	35%	35%	26%	26%	26%	26%	26%

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