



Independent Stock Idea

October 30, 2008

rating: hold
s&p 500: 930

Royal Dutch Shell plc (RDS) Secure Dividend 5.7%

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	49,600
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	55.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date</i>	10/29/08	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Shares (mm)</i>	3080	<i>EV/Ebitda</i>	4.3
<i>Market Capitalization (US\$mm)</i>	172,000	<i>PV/Ebitda</i>	6.6
<i>Debt (US\$mm)</i>	43,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	215,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.70
<i>Present Value (PV) (US\$mm)</i>	326,000	<i>Present Value Proven Reserves(US\$/boe)</i>	17.50
<i>Net Present Value (US\$/share)</i>	92	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.92
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.99
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	5.7	<i>Indicated Annual Dividend (US\$/sh)</i>	3.20
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/lrd.htm			

Summary and Recommendation

Hold-rated **Royal Dutch Shell plc (RDSA)** offers unlevered appreciation potential of 52% to estimated net present value (NPV) of \$92 a share. On October 28, we reset NPV from \$120 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as RDS-A stock price remains below the 200-day average of \$69. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Downstream operations, 31% of NPV for RDS compared to 21% for its peer group, track the industry trend (see chart [Oil and Gas Downstream Cash Flow](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Strong cash flow even in a lower price environment provides ample coverage for a dividend that implies a tempting 5.7% yield at current stock price. Finally, Chief Financial Officer Peter Voser, a Swiss whose oil career at Shell included an interlude as Chief Executive of machinery giant ABB, has been named to be Chief Executive of RDS on July 1, 2009.

Kurt H. Wulff, CFA



Independent Stock Idea

October 30, 2008

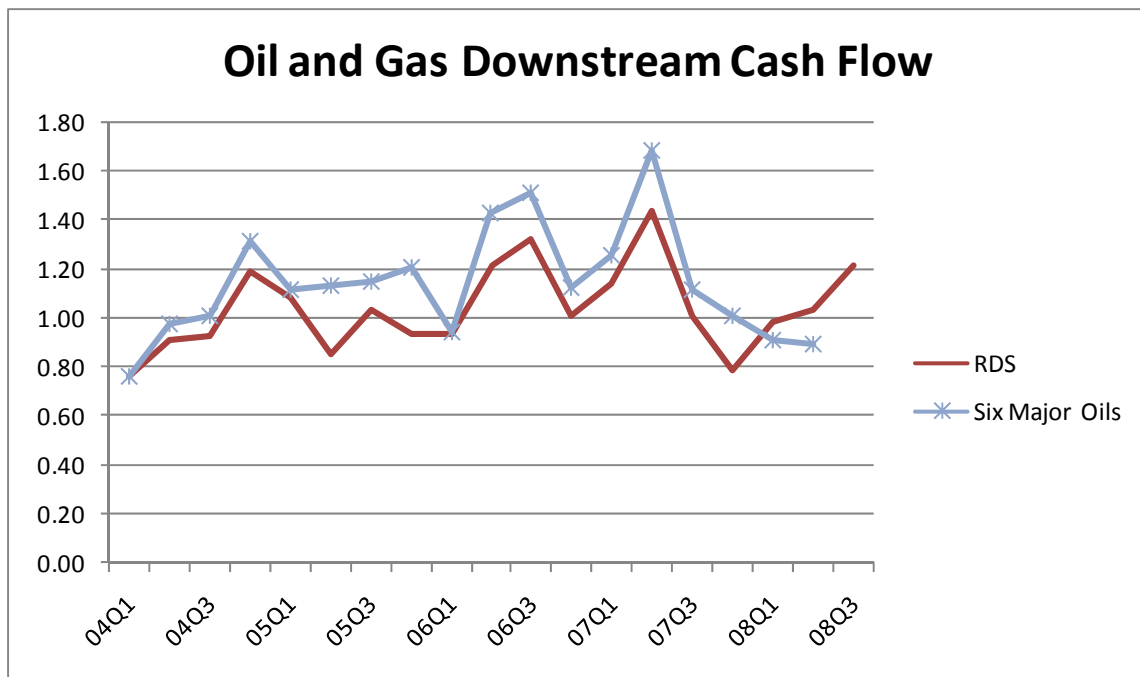
Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
Volume									
Natural Gas (mmcf)									
U.S.	1,131	1,096	942	942	1,021	942	942	942	942
Overseas (or Int'l)	6,198	6,693	6,265	8,047	7,412	8,650	6,693	6,265	7,409
Total	7,329	7,789	7,207	8,989	8,433	9,592	7,635	7,207	8,351
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	1,874	1,783	1,689	1,689	1,750	1,689	1,689	1,689	1,689
Total gas & oil (mbd)	3,096	3,081	2,890	3,187	3,155	3,288	2,962	2,890	3,081
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.73
U.S.	6.53	11.89	10.82	7.02	9.87	7.02	7.35	7.68	7.27
Overseas (or Int'l)	4.21	6.55	6.16	5.79	6.14	6.14	6.55	6.16	6.14
Total	4.57	7.30	6.77	5.92	6.59	6.22	6.65	6.36	6.27
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
Worldwide	70.69	112.09	111.30	63.69	94.50	60.59	62.08	63.41	62.45
Total gas & oil (\$/bbl)	53.62	83.32	81.93	50.46	70.03	49.29	52.54	52.92	51.23
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.71	10.02	5.31	10.44	8.40	7.47
Revenue (\$mm)									
Natural Gas									
U.S.	679	1,186	938	608	3,689	595	630	666	2,500
Overseas (or Int'l)	2,402	3,988	3,551	4,290	16,660	4,777	3,988	3,551	16,607
Total	3,081	5,174	4,489	4,898	20,349	5,373	4,618	4,217	19,107
Oil	12,188	18,187	17,295	9,897	60,527	9,211	9,541	9,854	38,502
Other	75,434	108,057	109,783	109,783	420,990	109,783	109,783	109,783	439,132
Total	90,703	131,419	131,567	124,578	501,866	124,366	123,942	123,853	496,740
Expense	77,597	113,962	115,094	112,967	440,710	111,939	111,535	110,652	447,093
Ebitda (\$mm)									
Exploration and Production	8,426	12,697	10,869	7,990	42,618	7,875	7,646	7,598	31,109
Other	4,681	4,761	5,604	3,622	18,538	4,552	4,761	5,604	18,538
Total Ebitda	13,106	17,457	16,473	11,611	61,156	12,427	12,407	13,202	49,647
Exploration	608	408	538	538	1,809	538	600	600	2,276
Deprec., Deplet., & Amort.	2,842	3,439	3,387	3,387	13,359	3,387	3,387	3,387	13,548
Other non cash	(408)				-				-
Ebit	10,064	13,610	12,548	7,686	45,988	8,502	8,420	9,215	33,823
Interest	200	269	178	178	825	178	178	178	712
Ebt	9,864	13,341	12,370	7,508	45,163	8,324	8,242	9,037	33,111
Income Tax	3,452	4,669	4,329	2,628	15,807	2,913	2,885	3,163	11,589
Net Income (\$mm)									
Exploration and Production	3,380	6,134	5,272						
Other	2,444	2,333	2,931						
Unallocated	588	205	(163)						
Total	6,412	8,672	8,040	4,880	29,356	5,411	5,357	5,874	21,522
Shares (millions)	3,143	3,095	3,080	3,080	3,091	3,080	3,080	3,080	3,080
Per share (\$)	2.04	2.80	2.61	1.58	9.50	1.76	1.74	1.91	6.99
Ebitda Margin (E&P)	55%	54%	50%	54%	53%	54%	54%	54%	54%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

October 30, 2008

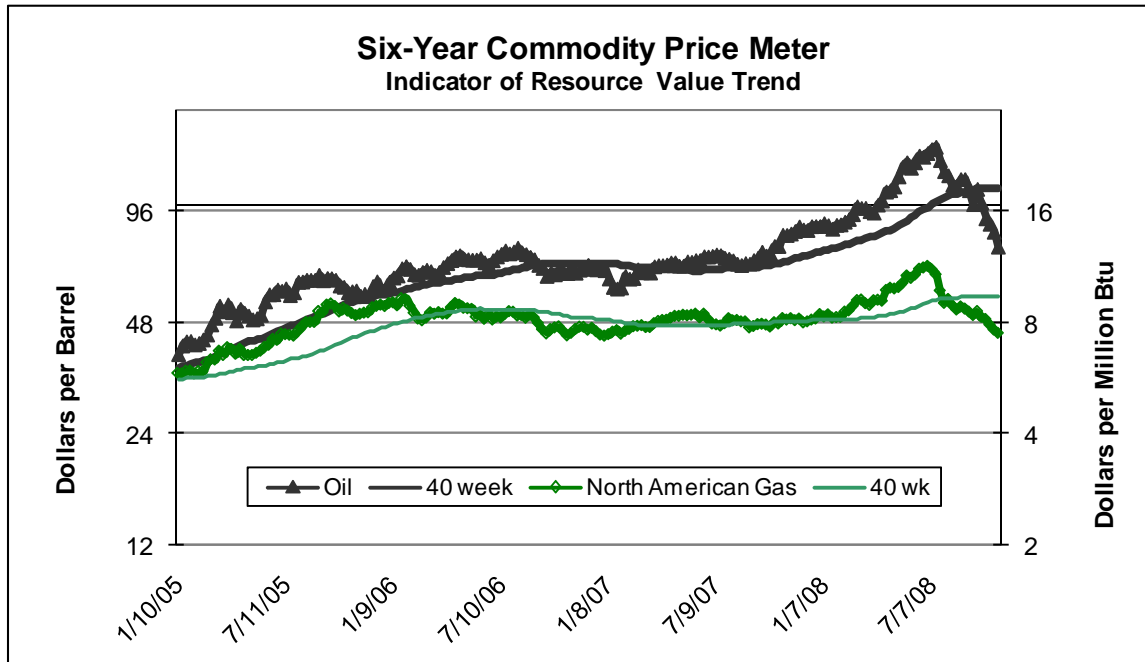
Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$m)	R/P	Ebitda	Value	
				(US\$m)	
North American Natural Gas	1,350	5.5	6.7	9,000	3%
Rest of World Natural Gas	8,970	10.4	8.4	75,000	23%
Oil	20,790	6.2	6.8	142,000	44%
Downstream	18,540		5.4	100,000	31%
	49,650	7.9	6.6	326,000	100%
Debt (US\$m)					43,000
Net Present Value (US\$m)					283,000
Shares (mm)					3,080
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					93





Independent Stock Idea

October 30, 2008



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. 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 LLC 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.