



Independent Stock Idea

July 30, 2009

rating: buy
s&p 500: 975

Royal Dutch Shell plc (RDS) Gaining Efficiency in Exploration and Production

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	39,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	52.46	<i>Natural Gas and Oil Production/Ebitda (%)</i>	71
<i>Pricing Date</i>	7/29/09	<i>Adjusted Reserves/Production NTM</i>	7.9
<i>Shares (mm)</i>	3065	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$mm)</i>	161,000	<i>PV/Ebitda</i>	7.6
<i>Debt (US\$mm)</i>	56,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	217,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	25.00
<i>Present Value (PV) (US\$mm)</i>	298,000	<i>Present Value Proven Reserves(US\$/boe)</i>	18.10
<i>Net Present Value (US\$/share)</i>	79	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.02
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.78
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	6.4	<i>Indicated Annual Dividend (US\$/sh)</i>	3.36
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, \$8 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/1rd.htm			

Summary and Recommendation

Buy-recommended **Royal Dutch Shell plc (RDSA)** offers unlevered appreciation potential of 37% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$79 a share. On July 14 we reduced NPV from \$80 when we reduced estimated Present Value of North American Natural Gas by 20%. Second quarter results released today exceeded our estimates for unlevered cash flow (Ebitda) from three months ago on the strength of higher oil price. Higher cash flow margin upstream, an indicator of efficiency, offset lower natural gas price outside North America and greater decline in downstream (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Downstream operations are depressed currently along with global economic activity (see chart [Downstream Cash Flow](#)). On the production side, RDS sees more seasonality in its volume stemming from European natural gas sales (see chart [Volume per Share, Debt-Adjusted](#)). The trend in production cash flow per barrel tells the same story as oil price and global equity prices, which declined last year and appear to be recovering now (see chart [Cash Flow per Barrel](#)). Pointing to possible further gains, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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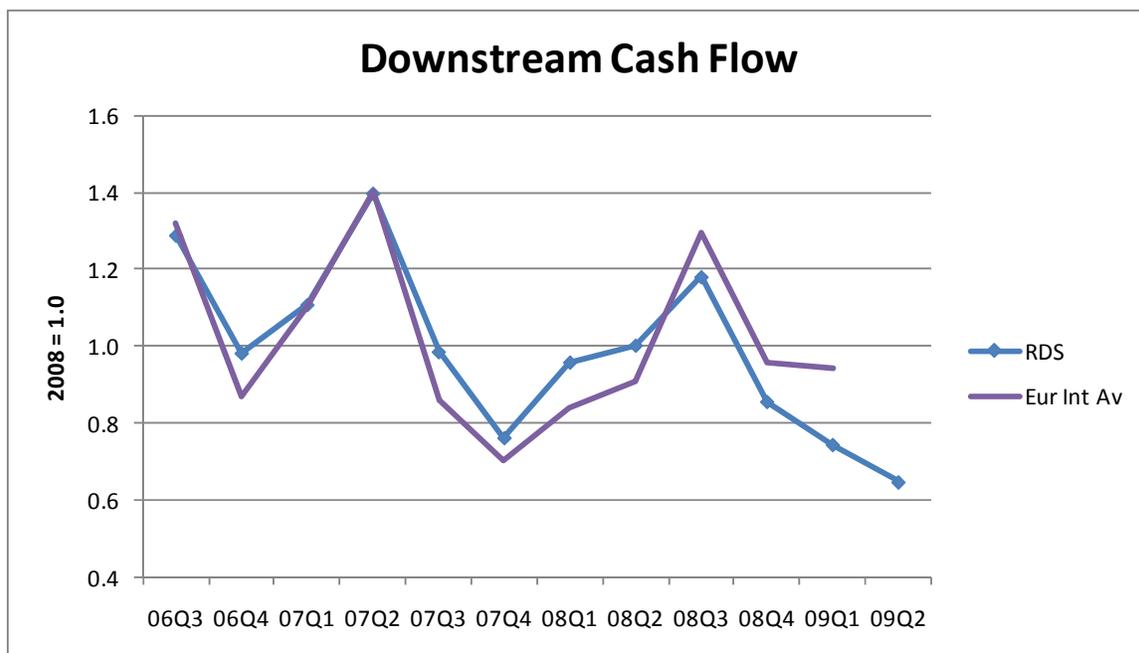
Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	Twelve Months 6/30/10
Volume									
Natural Gas (mmcf)									
U.S.	1,096	1,110	1,056	1,056	1,056	1,069	1,056	1,056	1,056
Overseas (or Int'l)	6,693	8,641	6,558	6,265	8,460	7,477	8,641	6,558	7,477
Total	7,789	9,751	7,614	7,321	9,516	8,546	9,697	7,614	8,533
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	1,783	1,714	1,647	1,647	1,647	1,664	1,647	1,647	1,647
Total gas & oil (mmb)	280	301	265	264	297	1,127	294	265	1,120
Total gas & oil (mbd)	3,081	3,339	2,916	2,867	3,233	3,088	3,263	2,916	3,069
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	4.22	5.65	5.61	4.93
U.S.	11.89	4.80	3.82	4.13	5.13	4.47	6.17	6.12	5.38
Overseas (or Int'l)	6.55	5.67	3.88	6.16	6.85	5.72	5.67	3.88	5.72
Total	7.30	5.57	3.87	5.87	6.66	5.56	5.72	4.19	5.68
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Worldwide	112.09	41.98	52.68	59.35	63.14	54.24	65.37	66.90	63.67
Total gas & oil (\$/bbl)	83.32	37.81	39.86	49.08	51.77	44.61	50.00	48.73	49.95
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
Revenue (\$mm)									
Natural Gas									
U.S.	1,186	480	367	401	498	1,746	586	589	2,074
Overseas (or Int'l)	3,988	4,409	2,314	3,551	5,335	15,609	4,409	2,314	15,609
Total	5,174	4,888	2,681	3,952	5,833	17,355	4,995	2,903	17,683
Oil	18,187	6,475	7,896	8,993	9,567	32,931	9,690	10,027	38,277
Other	108,057	16,859	53,305	53,305	53,305	176,773	53,305	53,305	213,220
Total	131,419	28,222	63,882	66,250	68,705	227,059	67,990	66,234	269,179
Expense	113,962	19,804	54,867	56,816	58,499	189,986	57,914	56,694	229,923
Ebitda (\$mm)									
Exploration and Production	12,697	4,882	6,042	6,473	7,700	25,096	7,343	6,465	27,980
Other	4,761	3,536	2,974	2,961	2,506	11,977	2,734	3,075	11,276
Total Ebitda	17,457	8,418	9,015	9,434	10,206	37,073	10,076	9,540	39,256
Exploration	408	496	606	606	606	2,314	606	600	2,418
Deprec., Deplet., & Amort.	3,439	3,090	3,279	3,279	3,279	12,927	3,279	3,279	13,116
Other non cash						-			-
Ebit	13,610	4,832	5,130	5,549	6,321	21,832	6,191	5,661	23,722
Interest	269	262	301	301	301	1,165	301	301	1,204
Ebt	13,341	4,570	4,829	5,248	6,020	20,667	5,890	5,360	22,518
Income Tax	4,669	1,600	1,690	1,837	2,107	7,233	2,062	1,876	7,881
Net Income (\$mm)									
Exploration and Production	6,134	1,310	1,443						
Other	2,333	1,702	1,116						
Unallocated	205	(42)	580						
Total	8,672	2,971	3,139	3,411	3,913	13,434	3,829	3,484	14,637
Shares (millions)	3,095	3,063	3,065	3,065	3,065	3,064	3,065	3,065	3,065
Per share (\$)	2.80	0.97	1.02	1.11	1.28	4.38	1.25	1.14	4.78
Ebitda Margin (E&P)	54%	43%	57%	50%	50%	50%	50%	50%	50%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

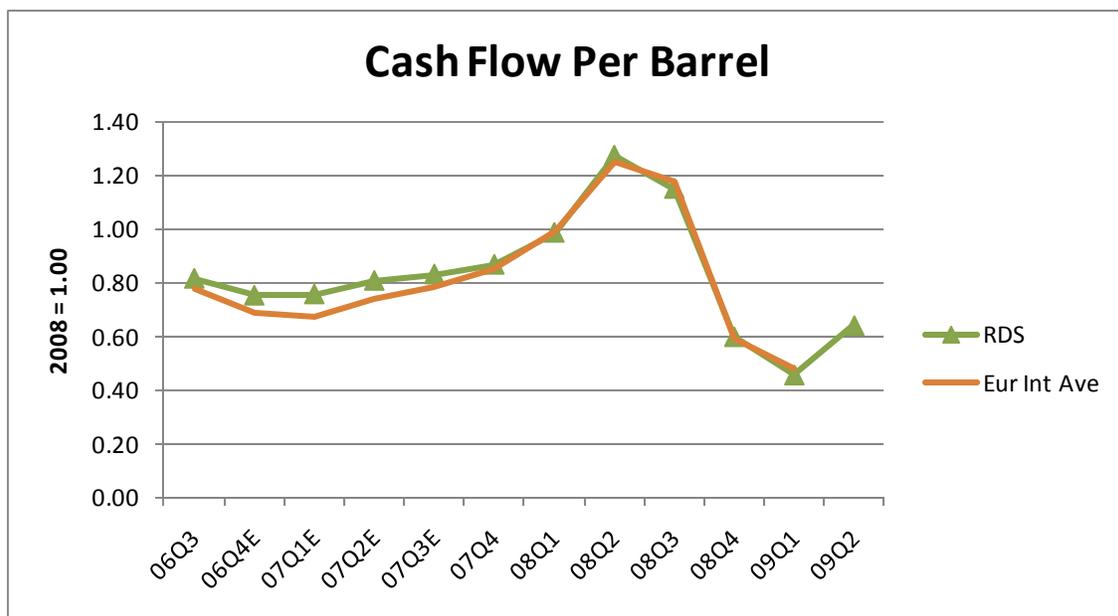
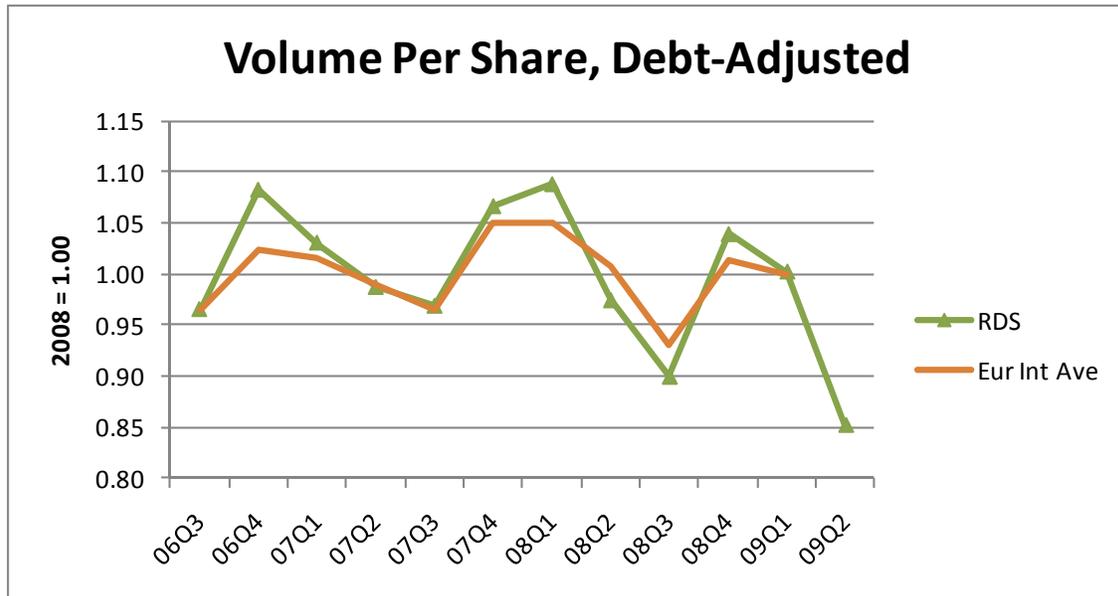


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Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
	(US\$mm)			(US\$mm)	
North American Natural Gas	1,040	4.7	6.7	7,000	2%
Rest of World Natural Gas	7,800	11.0	8.5	66,000	22%
Oil	19,140	5.9	6.7	129,000	43%
Downstream	11,280		8.5	96,000	32%
	39,260	7.9	7.6	298,000	100%
Debt (US\$mm)					56,000
Net Present Value (US\$mm)					242,000
Shares (mm)					3,065
Net Present Value - Standard Estimate (US\$/sh)					79
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71

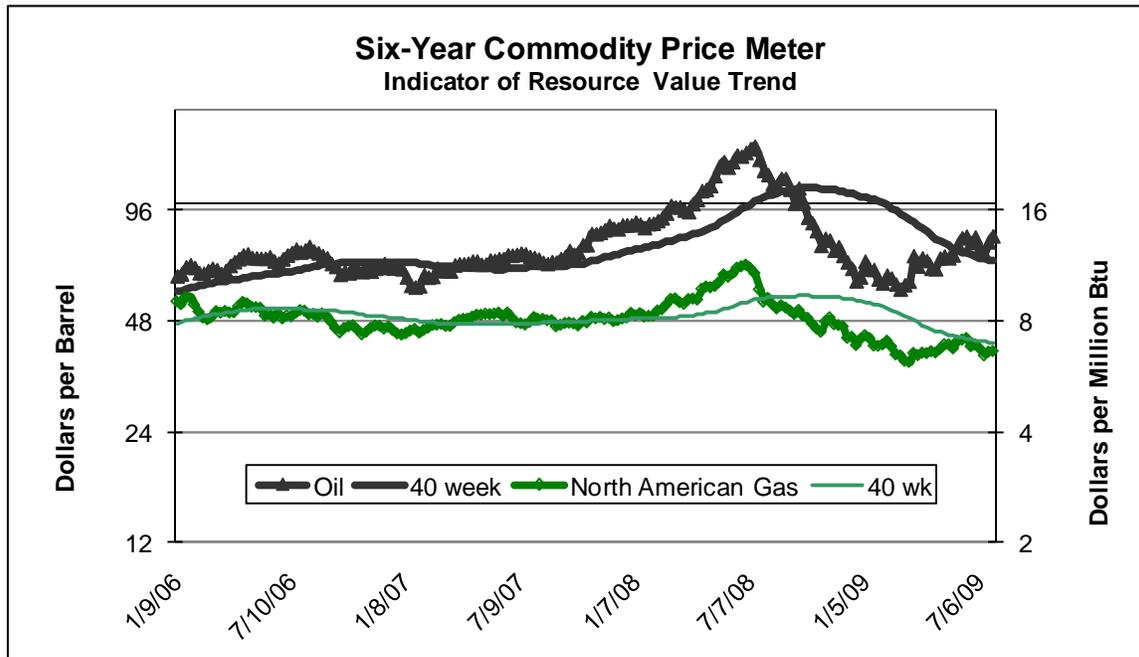






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