



# Independent Stock Idea

October 29, 2009

rating: buy  
s&p 500: 1066

## Royal Dutch Shell plc (RDS) Shedding Downstream Image

|   |          |  |        |
|---|----------|--|--------|
| <i>Symbol</i>   | RDS-A    | <i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i> | 44,100 |
| <i>Rating</i>   | Buy      | <i>North American Natural Gas/Ebitda (%)</i>             | 3      |
| <i>Price (US\$/sh)</i>  | 61.36    | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 83     |
| <i>Pricing Date</i>   | 10/29/09 | <i>Adjusted Reserves/Production NTM</i>                  | 7.9    |
| <i>Shares (mm)</i>  | 3066     | <i>EV/Ebitda</i>   | 5.6    |
| <i>Market Capitalization (US\$mm)</i>   | 188,000  | <i>PV/Ebitda</i>   | 6.8    |
| <i>Debt (US\$mm)</i>  | 59,000   | <i>Undeveloped Reserves (%)</i>                          | 49     |
| <i>Enterprise Value (EV) (US\$mm)</i>   | 247,000  | <i>Natural Gas and Oil Ebitda (US\$/boe)</i>             | 32.80  |
| <i>Present Value (PV) (US\$mm)</i>  | 301,000  | <i>Present Value Proven Reserves(US\$/boe)</i>           | 21.40  |
| <i>Net Present Value (US\$/share)</i>   | 79       | <i>Present Value Proven Reserves(US\$/mcfe)</i>          | 3.57   |
| <i>Debt/Present Value</i>   | 0.20     | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 4.98   |
| <i>McDep Ratio - EV/PV</i>  | 0.82     | <i>Price/Earnings Next Twelve Months</i>                 | 12     |
| <i>Dividend Yield (%/year)</i>  | 5.5      | <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 <a href="http://www.mcdep.com/1rd.htm">www.mcdep.com/1rd.htm</a>    |          |  |        |

### Summary and Recommendation

Analyzing third quarter results released today, we reaffirm estimated Net Present Value (NPV) of \$79 a share for buy-recommended **Royal Dutch Shell (RDSA)**. On that basis unlevered appreciation potential is 22% to a McDep Ratio of 1.0 where stock price would equal NPV. After the second quarter low point, the latest quarter looks like the start of a rising trend in unlevered cash flow (see table [Next Twelve Months Operating and Financial Estimates](#)). Unlevered cash flow (Ebitda) for the latest quarter came within 3% of our estimate from three months ago, which is as close as we could expect to see. However, the allocation between upstream and downstream has changed materially with integrated gas now reported as part of upstream instead of downstream. Integrated gas includes the production, liquefaction, transportation and marketing of liquefied natural gas (LNG), a major growth area. As testimony to that, Shell advanced production of LNG in the Russian Far East in the latest quarter. Without integrated gas, downstream's contribution to NPV falls to 22% from 32% in our valuation that capitalizes cash flow at multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table [Functional Cash Flow and Present Value](#)). Conversely, the new focus highlights more concentration on upstream with its higher rate of return on investment. The price trend indicators for upstream are positive with futures prices for the next six years for oil and gas above the 40-week average (see chart [Six-Year Commodity Price Meter](#)).

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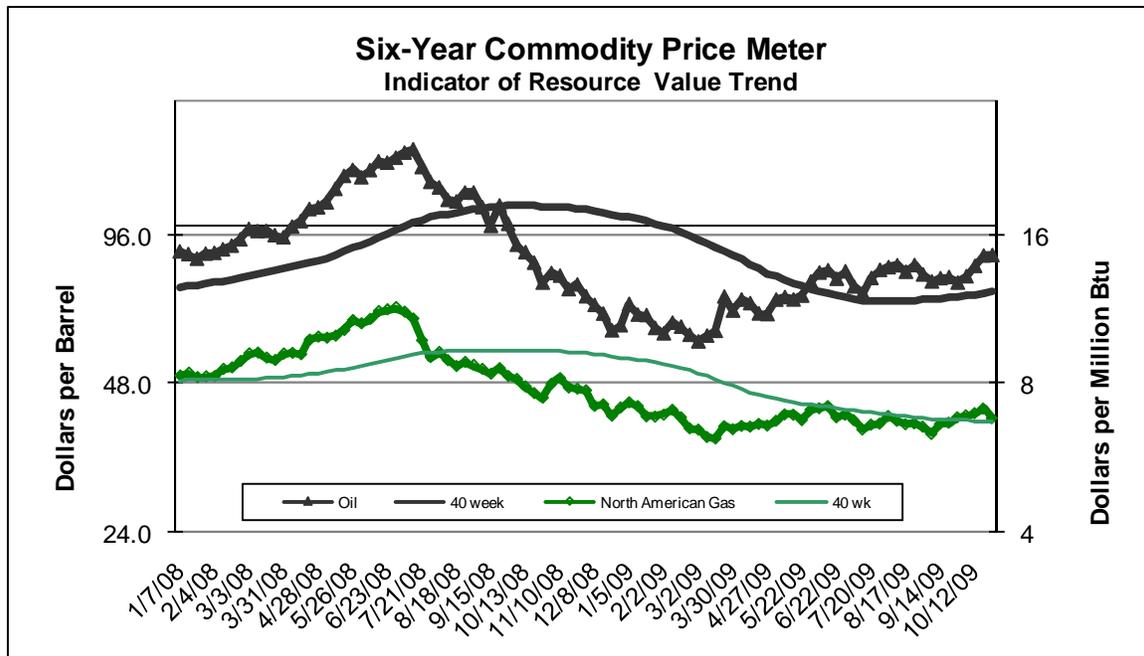
| Royal Dutch/Shell                                    |                |               |               |                 |                |                |                |                |                          |
|--|----------------|---------------|---------------|-----------------|----------------|----------------|----------------|----------------|--------------------------|
| Next Twelve Months Operating and Financial Estimates |                |               |               |                 |                |                |                |                |                          |
|  |                |               |               |                 |                |                |                |                | Next<br>Twelve<br>Months |
|  | Q3<br>9/30/08  | Q2<br>6/30/09 | Q3<br>9/30/09 | Q4E<br>12/31/09 | Year<br>2009E  | Q1E<br>3/31/10 | Q2E<br>6/30/10 | Q3E<br>9/30/10 | 9/30/10                  |
| <b>Volume</b>  |                |               |               |                 |                |                |                |                |                          |
| Natural Gas (mmcf)                                   |                |               |               |                 |                |                |                |                |                          |
| U.S.   | 942            | 1,056         | 1,017         | 1,017           | <b>1,050</b>   | 1,017          | 1,017          | 1,017          | <b>1,017</b>             |
| Overseas (or Int'l)                                  | 6,265          | 6,558         | 6,394         | 8,460           | <b>7,510</b>   | 8,641          | 6,558          | 6,394          | <b>7,510</b>             |
| Total  | 7,207          | 7,614         | 7,411         | 9,477           | <b>8,559</b>   | 9,658          | 7,575          | 7,411          | <b>8,527</b>             |
| Days   | 92             | 91            | 92            | 92              | <b>365</b>     | 90             | 91             | 92             | <b>365</b>               |
| Oil (mbd)  | 1,689          | 1,647         | 1,648         | 1,648           | <b>1,664</b>   | 1,648          | 1,648          | 1,648          | <b>1,648</b>             |
| Total gas & oil (mmb)                                | 266            | 265           | 265           | 297             | <b>1,128</b>   | 293            | 265            | 265            | <b>1,120</b>             |
| Total gas & oil (mbd)                                | 2,890          | 2,916         | 2,883         | 3,228           | <b>3,091</b>   | 3,258          | 2,911          | 2,883          | <b>3,069</b>             |
| <b>Price</b>   |                |               |               |                 |                |                |                |                |                          |
| Natural gas (\$/mcf)                                 |                |               |               |                 |                |                |                |                |                          |
| Henry Hub (\$/mmbtu)                                 | 10.25          | 3.50          | 3.39          | 4.48            | <b>4.07</b>    | 5.58           | 5.61           | 5.84           | <b>5.38</b>              |
| U.S.   | 10.82          | 3.82          | 3.53          | 4.48            | <b>4.17</b>    | 5.58           | 5.61           | 5.84           | <b>5.38</b>              |
| Overseas (or Int'l)                                  | 6.16           | 3.88          | 3.96          | 4.48            | <b>4.57</b>    | 5.58           | 5.61           | 5.84           | <b>5.33</b>              |
| Total  | 6.77           | 3.87          | 3.90          | 4.48            | <b>4.52</b>    | 5.58           | 5.61           | 5.84           | <b>5.34</b>              |
| Oil (\$/bbl)   |                |               |               |                 |                |                |                |                |                          |
| WTI Cushing  | 117.99         | 59.52         | 68.22         | 77.69           | <b>62.10</b>   | 80.00          | 81.52          | 82.60          | <b>80.45</b>             |
| Worldwide  | 111.30         | 52.68         | 63.02         | 71.77           | <b>57.31</b>   | 73.90          | 75.31          | 76.31          | <b>74.32</b>             |
| Total gas & oil (\$/bbl)                             | 81.93          | 39.86         | 46.05         | 49.81           | <b>43.39</b>   | 53.93          | 57.25          | 58.64          | <b>54.74</b>             |
| NY Harbor 3-2-1 (\$/bbl)                             | 11.84          | 9.49          | 9.45          | 7.51            | <b>8.91</b>    | 7.63           | 10.46          | 10.27          | <b>8.97</b>              |
| <b>Revenue (\$mm)</b>                                |                |               |               |                 |                |                |                |                |                          |
| Natural Gas  |                |               |               |                 |                |                |                |                |                          |
| U.S.   | 938            | 367           | 330           | 419             | <b>1,596</b>   | 511            | 519            | 547            | <b>1,996</b>             |
| Overseas (or Int'l)                                  | 3,551          | 2,314         | 2,329         | 3,488           | <b>12,540</b>  | 4,339          | 3,350          | 3,438          | <b>14,615</b>            |
| Total  | 4,489          | 2,681         | 2,659         | 3,907           | <b>14,136</b>  | 4,849          | 3,869          | 3,985          | <b>16,611</b>            |
| Oil  | 17,295         | 7,896         | 9,556         | 10,882          | <b>34,808</b>  | 10,961         | 11,294         | 11,569         | <b>44,707</b>            |
| Other  | 109,783        | 53,305        | 62,794        | 62,794          | <b>195,752</b> | 62,794         | 62,794         | 62,794         | <b>251,178</b>           |
| Total  | 131,567        | 63,882        | 75,009        | 77,583          | <b>244,696</b> | 78,605         | 77,958         | 78,349         | <b>312,495</b>           |
| <b>Expense</b>                                       | <b>115,094</b> | <b>54,867</b> | <b>65,791</b> | <b>67,224</b>   | <b>207,686</b> | <b>66,342</b>  | <b>66,983</b>  | <b>67,853</b>  | <b>268,403</b>           |
| <b>Ebitda (\$mm)</b>                                 |                |               |               |                 |                |                |                |                |                          |
| Exploration and Production                           | 10,869         | 7,139         | 8,055         | 8,873           | <b>29,709</b>  | 9,487          | 9,098          | 9,333          | <b>36,791</b>            |
| Other  | 5,604          | 1,877         | 1,163         | 1,486           | <b>7,302</b>   | 2,776          | 1,877          | 1,163          | <b>7,302</b>             |
| Total Ebitda   | 16,473         | 9,015         | 9,218         | 10,360          | <b>37,011</b>  | 12,263         | 10,975         | 10,496         | <b>44,093</b>            |
| Exploration  | 538            | 606           | 637           | 637             | <b>2,376</b>   | 637            | 600            | 600            | <b>2,474</b>             |
| Deprec., Deplet., & Amort.                           | 3,387          | 3,279         | 4,341         | 4,341           | <b>15,051</b>  | 4,341          | 4,341          | 4,341          | <b>17,364</b>            |
| Other non cash                                       |                |               |               |                 | -              |                |                |                | -                        |
| <b>Ebit</b>  | <b>12,548</b>  | <b>5,130</b>  | <b>4,240</b>  | <b>5,382</b>    | <b>19,584</b>  | <b>7,285</b>   | <b>6,034</b>   | <b>5,555</b>   | <b>24,255</b>            |
| Interest   | 178            | 301           | 189           | 189             | <b>941</b>     | 189            | 189            | 189            | <b>756</b>               |
| <b>Ebt</b>   | <b>12,370</b>  | <b>4,829</b>  | <b>4,051</b>  | <b>5,193</b>    | <b>18,643</b>  | <b>7,096</b>   | <b>5,845</b>   | <b>5,366</b>   | <b>23,499</b>            |
| Income Tax   | 4,329          | 1,690         | 1,418         | 1,817           | <b>6,525</b>   | 2,484          | 2,046          | 1,878          | <b>8,225</b>             |
| <b>Net Income (\$mm)</b>                             |                |               |               |                 |                |                |                |                |                          |
| Exploration and Production                           | 5,272          | 2,206         | 1,666         |                 |                |                |                |                |                          |
| Other  | 2,931          | 403           | 756           |                 |                |                |                |                |                          |
| Unallocated  | (163)          | 530           | 211           |                 |                |                |                |                |                          |
| Total  | 8,040          | 3,139         | 2,633         | 3,375           | <b>12,118</b>  | 4,612          | 3,799          | 3,488          | <b>15,274</b>            |
| <b>Shares (millions)</b>                             | <b>3,080</b>   | <b>3,065</b>  | <b>3,066</b>  | <b>3,066</b>    | <b>3,065</b>   | <b>3,066</b>   | <b>3,066</b>   | <b>3,066</b>   | <b>3,066</b>             |
| Per share (\$)                                       | 2.61           | 1.02          | 0.86          | 1.10            | <b>3.95</b>    | 1.50           | 1.24           | 1.14           | <b>4.98</b>              |
| Ebitda Margin (E&P)                                  | 50%            | 67%           | 66%           | 60%             | <b>61%</b>     | 60%            | 60%            | 60%            | <b>60%</b>               |
| Tax Rate   | 35%            | 35%           | 35%           | 35%             | <b>35%</b>     | 35%            | 35%            | 35%            | <b>35%</b>               |



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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) |         |
| North American Natural Gas  | 1,200      | 4.9      | 7.5    | 9,000    | 3%      |
| Rest of World Natural Gas   | 8,770      | 10.9     | 9.1    | 80,000   | 27%     |
| Oil   | 26,820     | 5.9      | 5.5    | 147,000  | 49%     |
| Downstream  | 7,300      |          | 8.9    | 65,000   | 22%     |
|   | 44,090     | 7.9      | 6.8    | 301,000  | 100%    |
| Debt (US\$mm)   |            |          |        |          | 59,000  |
| Net Present Value (US\$mm)  |            |          |        |          | 242,000 |
| Shares (mm)   |            |          |        |          | 3,066   |
| Net Present Value - Standard Estimate (US\$/sh)                             |            |          |        |          | 79      |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) |            |          |        |          | 74      |





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