



Independent Stock Idea

January 29, 2009

rating: hold
s&p 500: 874

Royal Dutch Shell plc (RDS) Dividend Trend Beats Inflation

<i>Symbol</i>	RDS-B	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	39,200
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	49.23	<i>Natural Gas and Oil Production/Ebitda (%)</i>	71
<i>Pricing Date</i>	1/28/09	<i>Adjusted Reserves/Production NTM</i>	7.6
<i>Shares (mm)</i>	3064	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	150,800	<i>PV/Ebitda</i>	8.4
<i>Debt (US\$mm)</i>	46,500	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	197,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.80
<i>Present Value (PV) (US\$mm)</i>	328,400	<i>Present Value Proven Reserves(US\$/boe)</i>	50.00
<i>Net Present Value (US\$/share)</i>	92.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	8.33
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.45
<i>McDep Ratio - EV/PV</i>	0.60	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	6.8	<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\$80 a barrel and natural gas, \$11 a million btu.			
For historical analysis of RDS since 2001 see www.mcdep.com/1sc.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$92 a share is more than 80% above stock price for low-debt, hold-rated **Royal Dutch Shell plc (RDSB)**. Announced today, an expected 5% increase in the dividend in 2009 continues a tradition of beating inflation. As a result, we can look at the 6.8% dividend yield as a real return without counting the stock price appreciation implied by our analysis. Also released today, fourth quarter results displayed volume gains and downstream resilience thereby dampening the reduction in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (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, and to an industry multiple for downstream. Latest calculations build to NPV concentrated 26% on natural gas, 45% on oil and 29% on downstream (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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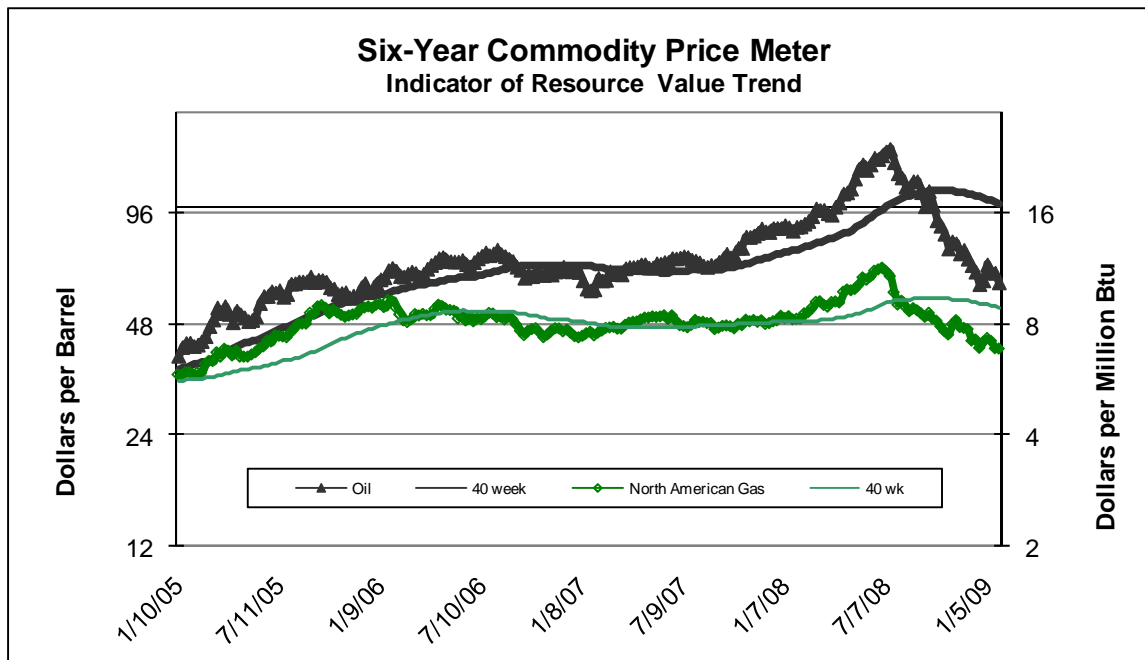
Royal Dutch/Shell									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
Volume									
Natural Gas (mmcf)									
U.S.	1,138	942	1,071	1,053	1,071	1,071	1,071	1,071	1,071
Overseas (or Int'l)	8,047	6,265	8,460	7,516	8,650	6,693	6,265	8,460	7,513
Total	9,185	7,207	9,531	8,569	9,721	7,764	7,336	9,531	8,584
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	1,853	1,689	1,772	1,771	1,772	1,772	1,772	1,772	1,772
Total gas & oil (mbd)	3,384	2,890	3,361	3,199	3,392	3,066	2,995	3,361	3,203
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.03	4.62	4.93	5.73	5.08
U.S.	7.45	10.82	6.37	9.62	4.60	4.92	5.25	6.10	5.22
Overseas (or Int'l)	5.79	6.16	6.85	6.44	6.14	6.55	6.16	6.85	6.44
Total	6.00	6.77	6.80	6.83	5.97	6.32	6.03	6.77	6.29
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	44.74	49.86	52.65	54.65	50.48
Worldwide	82.62	111.30	57.14	92.49	43.74	48.74	51.48	53.43	49.38
Total gas & oil (\$/bbl)	61.53	81.93	49.42	69.49	39.95	44.18	45.22	47.37	44.17
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	7.57	7.78	6.23	3.44	6.26
Revenue (\$mm)									
Natural Gas									
U.S.	780	938	628	3,708	444	479	517	601	2,041
Overseas (or Int'l)	4,290	3,551	5,335	17,705	4,777	3,988	3,551	5,335	17,652
Total	5,070	4,489	5,963	21,413	5,221	4,468	4,068	5,936	19,693
Oil	14,084	17,295	9,315	59,945	6,975	7,860	8,392	8,710	31,937
Other	87,548	109,783	65,795	377,003	65,795	65,795	65,795	65,795	263,182
Total	106,703	131,567	81,073	458,361	77,992	78,123	78,255	80,441	314,811
Expense	93,476	115,094	70,423	398,165	68,672	68,391	68,565	70,027	275,655
Ebitda (\$mm)									
Exploration and Production	9,606	10,869	6,583	41,212	6,586	6,657	6,728	7,909	27,880
Other	3,622	5,604	4,067	18,984	2,734	3,075	2,961	2,506	11,276
Total Ebitda	13,227	16,473	10,650	60,196	9,320	9,732	9,690	10,415	39,156
Exploration	382	538	778	2,049	778	600	600	600	2,578
Deprec., Deplet., & Amort.	3,840	3,387	3,684	13,656	3,684	3,684	3,684	3,684	14,736
Other non cash	(1,482)			-					-
Ebit	10,487	12,548	6,188	44,491	4,858	5,448	5,406	6,131	21,842
Interest	200	178	215	862	215	215	215	215	859
Ebt	10,287	12,370	5,974	43,629	4,643	5,233	5,191	5,916	20,983
Income Tax	3,600	4,329	2,091	15,270	1,625	1,832	1,817	2,071	7,344
Net Income (\$mm)									
Exploration and Production	4,140	5,272	2,377	19,241					
Other	1,731	2,931	1,854	9,472					
Unallocated	815	(163)	(348)	(354)					
Total	6,686	8,040	3,883	28,359	3,018	3,402	3,374	3,845	13,639
Shares (millions)	3,125	3,080	3,064	3,089	3,064	3,064	3,064	3,064	3,064
Per share (\$)	2.14	2.61	1.27	9.18	0.99	1.11	1.10	1.25	4.45
Ebitda Margin (E&P)	50%	50%	43%	51%	54%	54%	54%	54%	54%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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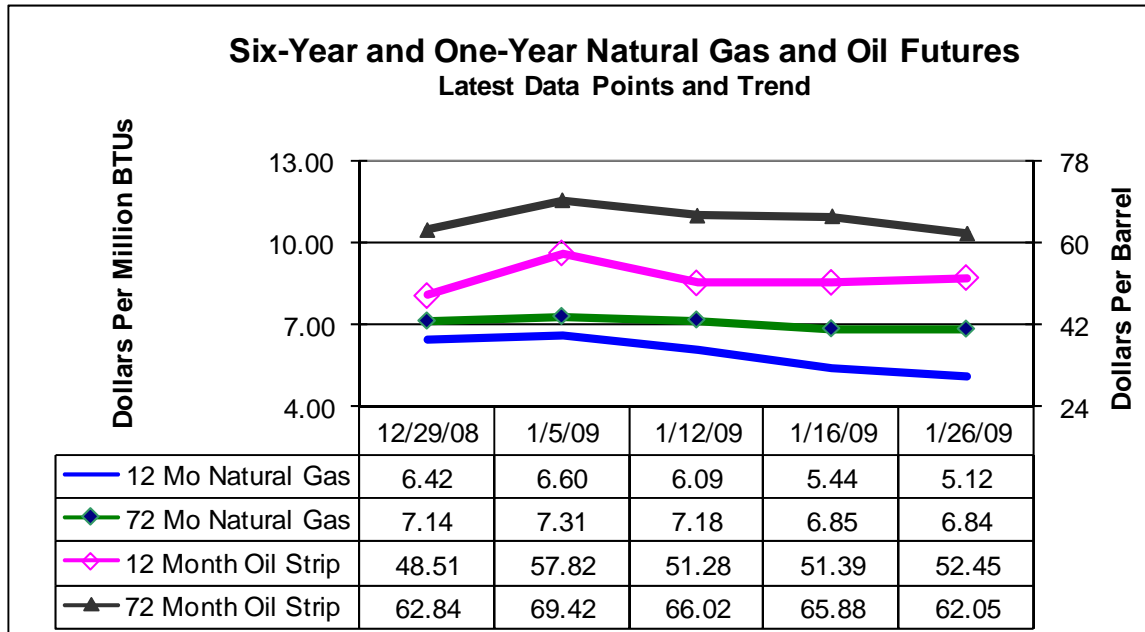
Royal Dutch Shell plc					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	1,100	4.9	8.2	9,000	3%
Rest of World Natural Gas	9,530	10.3	8.1	77,000	23%
Oil	17,250	5.9	8.5	146,000	45%
Downstream	11,280		8.5	96,000	29%
	39,160	7.6	8.4	328,000	100%
Debt (US\$mm)					46,000
Net Present Value (US\$mm)					282,000
Shares (mm)					3,064
Net Present Value - Standard Estimate (US\$/sh)					92
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					92





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