

Rating: Hold  
 S&P 500: 1541

## CNOOC Limited Flourishing China Stock Market

<i>Symbol</i>	CEO	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	8,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	213.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/29/07	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	439	<i>EV/Ebitda</i>	10.7
<i>Market Capitalization (US\$m)</i>	93,600	<i>PV/Ebitda</i>	5.4
<i>Debt (US\$m)</i>	0	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$m)</i>	93,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	50.54
<i>Present Value (PV) (US\$m)</i>	47,400	<i>Present Value Proven Reserves(US\$/boe)</i>	18.81
<i>Net Present Value (US\$/share)</i>	108	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.13
<i>Debt/Present Value</i>	0.00	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.06
<i>McDep Ratio - EV/PV</i>	1.97	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	3.48

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\$66 a barrel and natural gas, \$11 a million btu.

The Peoples Republic of China holds 66% of the outstanding shares.

For historical research on CEO since 2001 see <http://www.mcdep.com/4ceo.htm>

### Summary and Recommendation

Though it could be a Sell on the McDep Ratio, Hold-rated **CNOOC Limited (CEO)** apparently looks attractive to investors in the multi-trillion dollar Shanghai stock market where CEO may soon have a share offering. Chinese investors are restricted in purchases of shares in CEO peers that trade at lower McDep Ratios in the global stock markets. Third quarter operating results reported today trace a gain in natural gas volume while natural gas price remains regulated at a low level (see table [Quarterly Operations](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) might support an increase of \$12 in estimated NPV (see table [Functional Cash Flow and Present Value](#)). Oil price also has moved beyond that assumed in calculating NPV (see chart [Six-Year Commodity Price Meter](#)). At a long-term oil price of \$150 a barrel that may be reached in 2010, we think NPV could be \$249 a share with only partial deregulation of natural gas (see <http://www.mcdep.com/mr71016.pdf>).

Kurt H. Wulff, CFA

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**CNOOC Limited**  
**Quarterly Operations**

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Twelve</i>
	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>Months E</i>
									<i>12/31/08</i>
<b>Volume</b>									
Natural gas (bcf)	46	55	<b>179</b>	50	50	55	55	<b>209</b>	<b>218</b>
Natural Gas (mmcf)	505	597	<b>490</b>	550	552	595	595	<b>573</b>	<b>595</b>
Days	92	92	<b>365</b>	90	91	92	92	<b>365</b>	<b>366</b>
Oil (mmb)	34	33	<b>136</b>	34	34	34	34	<b>137</b>	<b>137</b>
Oil (mbd)	372	364	<b>373</b>	379	374	373	373	<b>375</b>	<b>373</b>
Total gas & oil (bcf)	252	256	<b>995</b>	254	254	261	261	<b>1,030</b>	<b>1,037</b>
Total gas & oil (mbd))	456	463	<b>454</b>	471	465	472	472	<b>470</b>	<b>472</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	6.57	<b>7.23</b>	6.81	7.56	6.16	7.46	<b>7.00</b>	<b>8.22</b>
Company	3.39	2.43	<b>3.00</b>	3.19	3.23	3.42	3.42	<b>3.32</b>	<b>3.42</b>
Oil (\$/bbl)									
WTI Cushing	70.42	59.99	<b>66.05</b>	58.08	64.91	75.48	91.02	<b>72.37</b>	<b>88.55</b>
Company	61.78	48.84	<b>58.90</b>	52.45	69.94	67.37	74.09	<b>64.79</b>	<b>79.85</b>
Total gas & oil (\$/mcf)	9.02	6.91	<b>8.59</b>	7.66	9.35	9.59	10.47	<b>9.28</b>	<b>11.23</b>
<b>Revenue (\$mm)</b>									
Natural Gas	157	134	<b>537</b>	158	162	187	187	<b>694</b>	<b>745</b>
Oil	2,114	1,635	<b>8,010</b>	1,789	2,215	2,312	2,543	<b>8,859</b>	<b>10,901</b>
Total	2,272	1,768	<b>8,547</b>	1,947	2,377	2,499	2,730	<b>9,553</b>	<b>11,646</b>
RMB/\$	7.97	7.86	<b>7.97</b>	7.78	7.68	7.56	7.51	<b>7.63</b>	<b>7.63</b>
<b>Revenue (RMB)</b>									
Natural Gas	1,255	1,049	<b>4,279</b>	1,228	1,245	1,415	1,406	<b>5,294</b>	<b>5,593</b>
Oil	16,851	12,850	<b>63,914</b>	13,911	17,013	17,478	19,094	<b>67,496</b>	<b>81,866</b>
Total	18,107	13,899	<b>68,193</b>	15,139	18,258	18,893	20,500	<b>72,790</b>	<b>87,459</b>

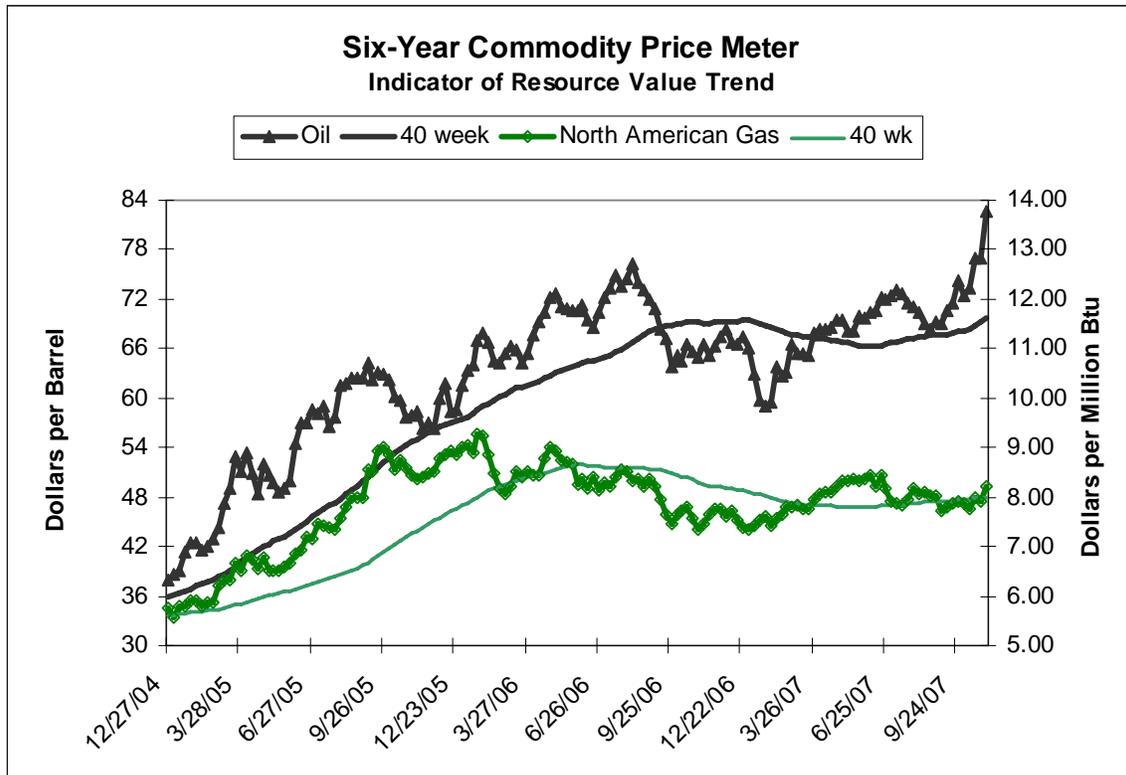
**CNOOC Limited**  
**Half-Year Financial Results**

	<i>H1</i>	<i>H2</i>	<i>Year</i>	<i>H1</i>	<i>H2E</i>	<i>Year</i>	<i>H1E</i>	<i>H2E</i>	<i>Twelve</i>
	<i>6/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>6/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>	<i>12/31/08</i>	<i>Months</i>
									<i>12/31/08</i>
<b>Revenue (mmRMB)</b>									
Natural Gas (from Q table)	1,975	2,305	<b>4,279</b>	2,473	2,821	<b>5,294</b>	2,781	2,812	<b>5,593</b>
Oil (from Q table)	34,213	29,701	<b>63,914</b>	30,924	36,572	<b>67,496</b>	44,106	37,761	<b>81,866</b>
Other	(713)		<b>(713)</b>	(175)		<b>(175)</b>	-		-
Total	35,475	32,006	<b>67,481</b>	33,222	39,393	<b>72,615</b>	46,887	40,573	<b>87,459</b>
<b>Expense</b>	7,781	5,932	<b>13,712</b>	5,502	9,848	<b>15,350</b>	11,722	10,143	<b>21,865</b>
<b>Ebitda</b>	27,694	26,074	<b>53,768</b>	27,720	29,545	<b>57,265</b>	35,165	30,429	<b>65,595</b>
Exploration	709	996	<b>1,705</b>	1,221	1,221	<b>2,442</b>	1,221	1,221	<b>2,442</b>
Deprec., Deplet., & Amort.	3,366	3,567	<b>6,933</b>	3,536	3,536	<b>7,072</b>	3,536	3,536	<b>7,072</b>
<b>Ebit</b>	23,619	21,511	<b>45,130</b>	22,963	24,788	<b>47,751</b>	30,408	25,672	<b>56,081</b>
Interest	-	-	-	-	-	-	-	-	-
<b>Ebt</b>	23,619	21,511	<b>43,217</b>	22,963	24,788	<b>45,176</b>	30,408	25,672	<b>56,081</b>
Income Tax	7,581	5,615	<b>13,196</b>	5,462	8,676	<b>14,138</b>	10,643	8,985	<b>19,628</b>
<b>Net Income</b>	16,038	13,982	<b>30,021</b>	14,926	16,112	<b>31,038</b>	19,765	16,687	<b>36,452</b>
<b>Shares (millions)</b>	41,124	41,124	<b>41,124</b>	43,900	43,900	<b>43,900</b>	43,900	43,900	<b>43,900</b>
Per share (RMB)	0.39	0.34	<b>0.73</b>	0.34	0.37	<b>0.71</b>	0.45	0.38	<b>0.83</b>
Ebitda Margin	78%	81%	<b>80%</b>	83%	75%	<b>79%</b>	75%	75%	<b>75%</b>
Tax Rate	32%	26%	<b>31%</b>	24%	35%	<b>31%</b>	35%	35%	<b>35%</b>

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**CNOOC Limited**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
Natural Gas	560	20.0	7.0	3,900	8%
Oil	8,140	8.1	5.3	43,500	92%
	8,700	10.6	5.4	47,400	100%
Debt (US\$mm)					-
Net Present Value (US\$mm)					47,400
Shares (mm)					439
Net Present Value - Standard Estimate (US\$/sh)					108
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					120



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