

**Analyst: Kelvin Li**
**CNOOC LIMITED** (中國海洋石油)

Sector	: Energy and Petroleum	Chairman and CEO	: FU Chengyu
HKSE Code	: 0883		
Market Price	: HK\$8.87 (29/08/2007)		
HSI	: 23,020.60 (29/08/2007)		
Shares Issued	: 43,347.72 million		
Market Cap.	: HK\$384,494.3 million		
52-week Hi / Lo	: HK\$9.83 / HK\$6.14		

**SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE 2007**
**Interim Results Highlights**

	1H2007	1H2006	Change
	RMB million	RMB million	
• Revenue	42,219	48,338	-12.7%
• Total expenses	(21,938)	(24,528)	-10.6%
• Operating profit	20,280	23,810	-14.8%
• <b>Profit attributable to shareholders</b>	<b>14,551</b>	<b>16,278</b>	<b>-10.6%</b>
	RMB	RMB	
• EPS	0.34	0.39	-12.8%
• DPS – Interim	0.13	0.12	+8.3%

- CNOOC reported a 10.6% y-o-y fall in net profit to RMB14.55 billion for the six months ended 30<sup>th</sup> June 2007, slightly better than consensus forecast of RMB13.96 billion. The fall in net profit was mainly due to a drop in average realized crude oil prices.
- Revenue dropped 12.7% y-o-y to RMB42.2 billion in 1H07, driven by a 6.4% y-o-y drop in oil and gas sales and a 30.3% fall in marketing revenue. Total expense dropped 10.6% y-o-y to RMB21.9 billion, as crude oil & product purchases fell 10.0% y-o-y to RMB8.8 billion. The drop in third-party crude oil purchase was largely in line with the fall in the volume of oil marketing business. As a result, operating profit of CNOOC fell 14.8% y-o-y to RMB20.3 billion, while the operating margin slipped 1.2 percentage points to 48.0% from 49.3% a year earlier.
- EPS for 1H07 was RMB0.34, compared with RMB0.39 a year earlier. An interim dividend of RMB0.13 was declared, up from RMB0.12 a year earlier, representing a payout ratio of 37% (1H06: 30.8%).
- As of 30/06/2007, CNOOC had total debts of RMB22.1 billion (31/12/2006: RMB20.3 billion). With cash on hand of RMB26.9 billion, CNOOC was in a strong net cash position of more than RMB4.8 billion, compared with a net cash of RMB3.3 billion as at 31/12/2006.

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**Breakdown of revenue by segments**

	1H2007		1H2006		Change
	RMB million	%	RMB million	%	
Oil and gas sales	33,222	78.7%	35,475	73.4%	-6.4%
Marketing revenues	8,932	21.1%	12,822	26.5%	-30.3%
Other income	65	0.2%	41	0.1%	+50.5%
<b>Total</b>	<b>42,219</b>	<b>100.0%</b>	<b>48,338</b>	<b>100.0%</b>	<b>-12.7%</b>

- Oil and gas sales fell 6.4% y-o-y to RMB33.2 billion in 1H07, due to lower oil prices and a sluggish progress in oil production. CNOOC produced 68.1 million barrels of crude oil and 99.7 billion cubic feet (bcf) of natural gas during 1H2007, down 0.3% and up 28.5% y-o-y, respectively. Overall, the total net oil and gas output amounted to 85.4 million barrels of oil equivalent (BOE), up 4.5% y-o-y. The average realised oil price for 1H07 was US\$58.80 per barrel, down 5.8% y-o-y, while the average realised natural gas price increased 1.3% y-o-y to US\$3.21 per thousand cubic feet.
- Marketing revenues, mainly sales of oil purchased from foreign partners under production sharing contracts (PSC) and the revenues from the trading of oil via its wholly owned subsidiary China Offshore Oil (Singapore) International Pte Ltd, amounted to RMB8.9 billion, down 30.3% y-o-y. Netting off the cost of crude oil and oil products purchase, the segment generated a net marketing profit of RMB129 million, nearly halved from RMB243 million a year earlier.
- CNOOC's all-in unit production cost (commonly known as lifting cost) rose to US\$14.60 per BOE, compared with an all-in cost of US\$14.59 per BOE in FY06.

**Outlook & Prospect**

- **Liuhua 11-1 oilfield resumes production** The Liuhua 11-1 oilfield suspended production since May 2006 after the strike of Typhoon Pearl. After a year of output suspension, CNOOC revealed that the oil field has resumed temporary production since 27<sup>th</sup> June 2007. The Group restored the operation of the offshore facilities with its own techniques. The production restoration project last for about 1 year and consumed a total of 390,000 man-hours with no incident happening, highlighting the Group's sophisticated edge in deep-sea exploration and production. According to CNOOC, the oil field currently produces about 23,000 barrels per day (bpd).
- **FY2007 output may beat target** CNOOC produced 85.4 million BOE in the first half, completing more than 51% of its FY07 output target of 162-170 million BOE. Owing to concerns over further typhoon disruption and periodic close-down of oil fields for maintenance, CNOOC would manage to fulfil its full-year output target. However, with the resumption of the Liuhua 11-1 oil field, which accounts for about 6% of the Group's daily oil output and 5% of daily total output, the full-year output could reach near the top end of the output target range or even higher than the estimate.
- **Seven oil & gas discoveries in the first half** Efforts in exploration paid off during the first half. The Group made six independent and one PSC discoveries, compared with 7 independent and 3 PSC discoveries in the whole year of 2006.
- **A key discovery in the Bohai region** The Group said the Jinzhou 25-1 discovery in Bohai Bay, one of the six independent discoveries in the first half, contained rich and high-quality oil reserve. Three well drilled in the area showed abundant oil and gas supply, with initial test production of about 2,900 bpd of oil and 11.7 million cubic feet of gas per day. CNOOC said that the Jinzhou 25-1 will be developed into a large oil & gas field in the Bohai region, while it usually takes an average of three years for further exploration and appraisal before commencing full commercial operations.
- **Buy on strong growth potential beyond FY08** CNOOC seems to overcome its hardest time, as it has successfully resumed output in the Liuhua 11-1 field, laying solid grounds and experience for tackling any similar typhoon-related output distortion in the future. Trading at 13.6x FY07E and 12x FY08E P/E, valuations of CNOOC remain undemanding, and we give the counter a "Buy" recommendation.

**Recommendation: BUY**

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