



Independent Stock Idea

May 5, 2009

rating: buy
s&p 500: 907

Petroleo Brasileiro SA New Buy on Oil Growth

<i>Symbol</i>	PBR	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	24,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	37.67	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	5/4/09	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	4387	<i>EV/Ebitda</i>	8.1
<i>Market Capitalization (US\$m)</i>	165,000	<i>PV/Ebitda</i>	11.7
<i>Debt (US\$m)</i>	34,000	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$m)</i>	199,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.50
<i>Present Value (PV) (US\$m)</i>	288,000	<i>Present Value Proven Reserves(US\$/boe)</i>	22.84
<i>Net Present Value (US\$/share)</i>	58	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.81
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.55
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	2.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.97
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, \$10 a million btu.			
The Brazilian Government has voting control and with public sector entities owns 40% of Petrobras' equity.			

Summary and Recommendation

We initiate a buy recommendation on the common or preferred shares of **Petrobras (PBR)** for participation in the development of one million barrels daily of new crude oil production in the deep waters offshore Brazil. The giant discoveries unfolding in the Pre-Salt Formation under miles-deep water contribute to a doubling of total company oil and gas production by 2020 by management's estimate. The stock offers unlevered appreciation potential of 45% to a McDep Ratio of 1.0 and levered appreciation potential of 54% to Net Present Value (NPV) of \$58 a share. We count the unproven discoveries as 27% of estimated Net Present Value (NPV) of \$58 a share (see table Functional Cash Flow and Present Value). Rapid oil volume growth is already underway with our projection of a 10% gain in 2009 (see table Next Twelve Months Operating and Financial Estimates). At the same time, the technological challenges are daunting, the capital requirements formidable and the politics uncertain. Meanwhile, advancing oil price may reflect an improving economic outlook that also supports increased confidence in Brazilian oil. Futures prices for the next six years averaged almost \$71 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures).

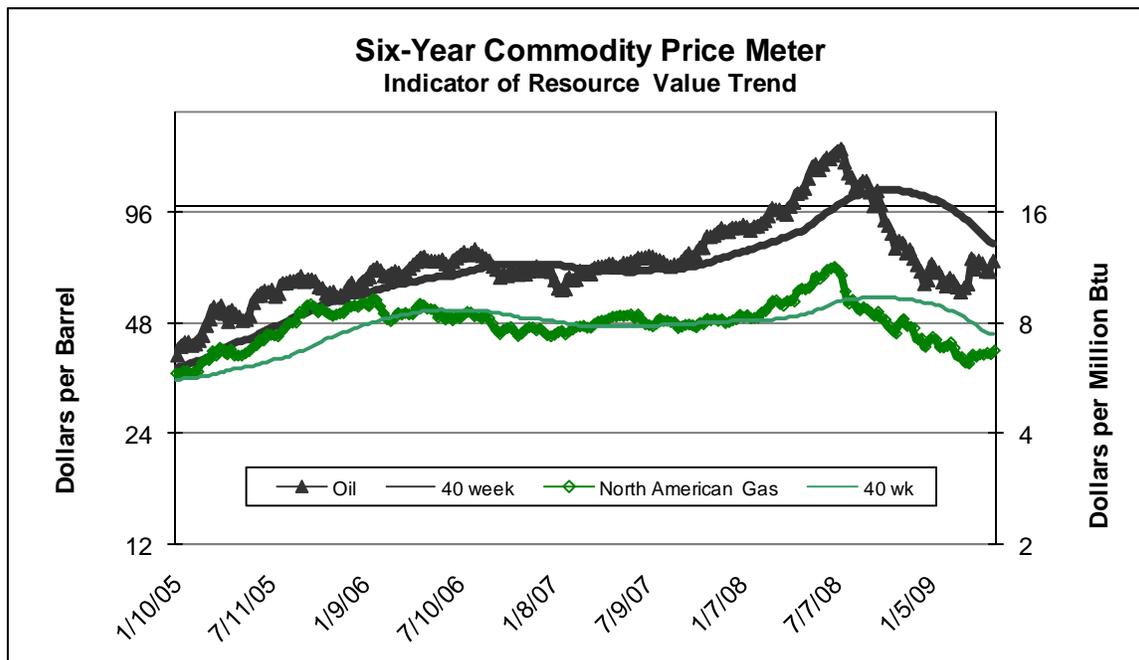
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Petrobras					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	Adjusted	PV/	Value	
	(US\$mm)	R/P	Ebitda	(US\$mm)	
Rest of World Natural Gas	2,670	9.1	7.5	20,000	7%
Oil	19,540	9.2	8.7	170,000	59%
Downstream	2,400		8.3	20,000	7%
Pre Salt Deep Water Oil				78,000	27%
	24,610	9.2	11.7	288,000	100%
Debt (US\$mm)					34,000
Net Present Value (US\$mm)					254,000
Shares (mm)					4,387
Net Present Value - Standard Estimate (US\$/sh)					58





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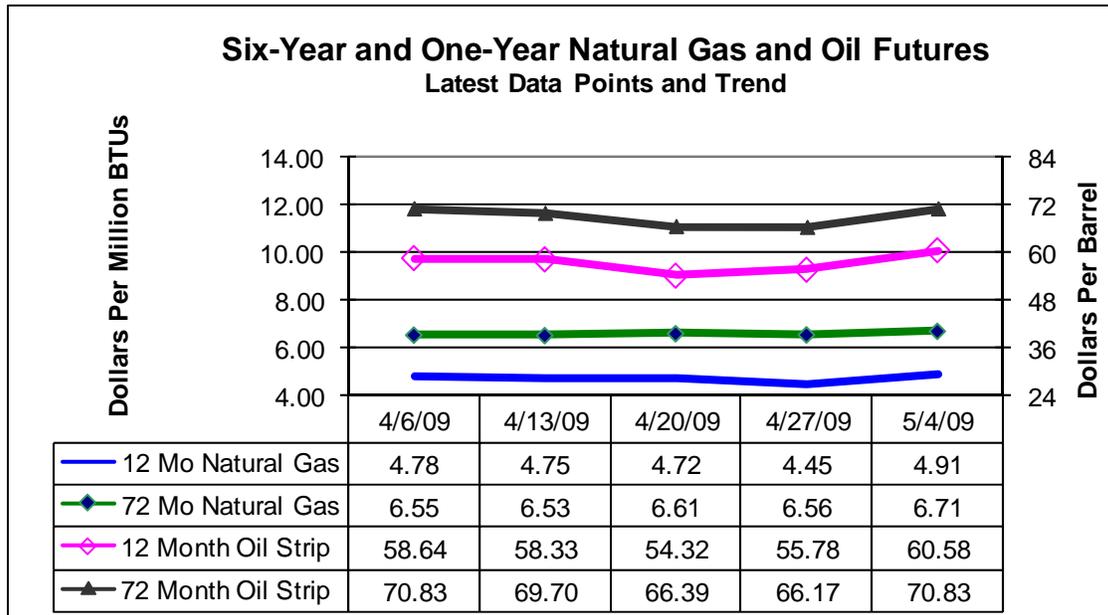
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Petrobras									
Next Twelve Months Operating and Financial Estimates									
(U.S. Accounting, US\$)									
									Next
	Q1	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Twelve
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	Months
									3/31/10
Volume									
Natural Gas (mmcf)	2,448	2,568	2,526	2,693	2,759	2,838	2,825	2,779	2,846
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	1,937	2,000	1,979	2,131	2,168	2,208	2,200	2,177	2,229
Total gas & oil (mmb)	213	223	878	232	239	247	246	964	987
Total gas & oil (mbd)	2,345	2,428	2,400	2,580	2,628	2,681	2,671	2,640	2,704
Price									
Natural gas (\$/mcf)	5.34	5.14	5.84	5.14	5.14	5.14	5.14	5.14	5.14
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	99.59	42.96	52.92	57.55	60.64	53.52	58.51
Brent	96.90	55.00	96.98	40.42	49.80	54.15	57.07	50.36	55.05
Company	84.22	47.91	83.58	35.22	43.38	47.18	49.72	43.99	48.03
Total gas & oil (\$/bbl)	75.14	44.91	75.06	34.46	41.19	44.30	46.39	41.69	45.02
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	9.86	9.18	8.97	8.24	3.89	7.57	6.40
Revenue (mm\$)									
Natural gas	1,190	1,215	5,396	1,247	1,291	1,343	1,337	5,218	5,343
Oil	14,845	8,816	60,538	6,753	8,559	9,582	10,062	34,957	39,083
Total production	16,035	10,032	65,933	8,000	9,850	10,925	11,399	40,175	44,426
Other	10,307	12,305	52,324	12,305	12,305	12,305	12,305	49,221	49,221
Total	26,342	22,337	118,257	20,305	22,156	23,230	23,705	89,396	93,647
Expense									
Production	6,400	5,704	28,246	4,000	4,925	5,463	5,700	20,087	22,213
Other	12,223	12,673	58,703	11,705	11,705	11,705	11,705	46,821	46,821
Ebitda (mm\$)									
Production	9,635	4,328	37,687	4,000	4,925	5,463	5,700	20,087	22,213
Other	(1,916)	(368)	(6,379)	600	600	600	600	2,400	2,400
Total Ebitda	7,719	3,960	31,308	4,600	5,525	6,063	6,300	22,487	24,613
Exploration	380	569	1,775	569	569	569	569	2,276	2,276
Deprec., Deplet., & Amort.	1,450	1,285	5,928	1,285	1,285	1,285	1,285	5,140	5,140
Other non cash	(995)	(1,269)	(5,417)						
Ebit	6,884	3,375	29,022	2,746	3,671	4,209	4,446	15,071	17,197
Ebt	6,884	3,375	29,022	2,746	3,671	4,209	4,446	15,071	17,197
Income Tax	2,409	1,181	10,158	961	1,285	1,473	1,556	5,275	6,019
Net Income (mm\$)									
Production	5,450	1,942	21,031						
Other	(975)	252	(2,167)						
Total Net Income	4,475	2,194	18,864	1,785	2,386	2,736	2,890	9,796	11,178
Shares (millions)									
Per share (\$)	1.02	0.50	4.30	0.41	0.54	0.62	0.66	2.23	2.55
Ebitda Margin (E&P)	60%	43%	57%	50%	50%	50%	50%	50%	50%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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