



# Independent Stock Idea

September 3, 2009

rating: buy  
s&p 500: 995

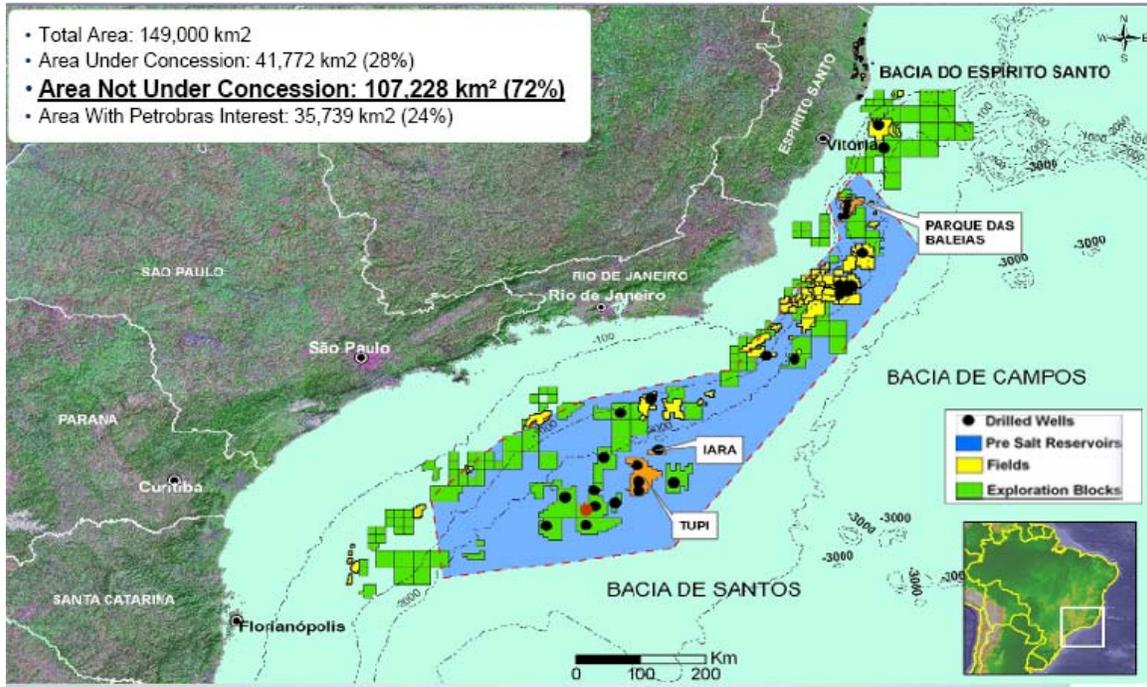
## Petroleo Brasileiro SA New Regulatory Model Points to Stock Issue

<i>Symbol</i>	PBR	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$m)</i>	26,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	40.07	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	9/2/09	<i>Adjusted Reserves/Production NTM</i>	9.4
<i>Shares (mm)</i>	4387	<i>EV/Ebitda</i>	7.9
<i>Market Capitalization (US\$m)</i>	176,000	<i>PV/Ebitda</i>	10.9
<i>Debt (US\$m)</i>	37,000	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$m)</i>	213,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.60
<i>Present Value (PV) (US\$m)</i>	291,000	<i>Present Value Proven Reserves(US\$/boe)</i>	21.75
<i>Net Present Value (US\$/share)</i>	58	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.62
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.75
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	4.1	<i>Indicated Annual Dividend (US\$/sh)</i>	1.65
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.			
The Brazilian Government has voting control and with public sector entities owns 40% of Petrobras' equity.			

### Summary and Recommendation

Buy-recommended **Petrobras (PBR)** offers unlevered appreciation potential of 37% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$58 a share. The President of Brazil, Mr. Lula da Silva, has proposed an equity injection into Petrobras as part of a new model to regulate areas currently unleased in the offshore Pre-Salt trend (see map from company presentation on September 2). The federal government would pay for its one-third in oil while other shareholders would pay cash. A new government company, Petrosal, would own the government's share of new leases while Petrobras would be the operator and have a minimum interest of 30% (see slide). The details to assure fair treatment to all parties remain to be determined and the proposal is subject to legislative approval or rejection, apparently within 90 days. The multi-billion dollar stock offering would be in the first half of 2010. Petrobras is unlikely to be treated negatively in the new regulatory regime as the president's chief of staff and candidate to succeed him in an upcoming election, Ms. Dilma Rousseff, is Chair of Petrobras. Meanwhile, as we wait for second quarter results under U.S. accounting we take actual volumes and prices from disclosures made when results under Brazilian accounting were released in mid August (see table Next Twelve Months Operating and Financial Estimates). We make no change in NPV since the new regulatory program covers areas yet to be explored. Offering long-term appeal, subject to challenges from time to time, PBR stock may be timely as it trades at no premium to its 50-day average and above its 200-day average.

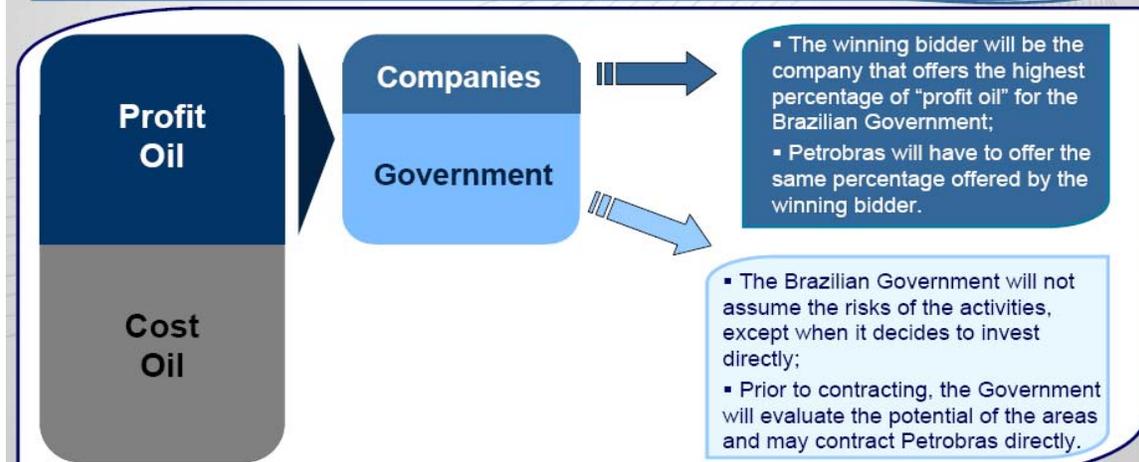
Kurt H. Wulff, CFA



## PRODUCTION SHARING AGREEMENTS

### Production sharing agreements

- Petrobras will operate all blocks under this regime, with a minimum stake of 30%;
- Consortium between Petrobras, Petro-sal and the winning bidder will be managed by the Operational Committee;
- Petrobras will be able to participate in the bidding process to increase its stake.





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Petrobras									
Next Twelve Months Operating and Financial Estimates									
(U.S. Accounting, US\$)									
									<i>Next</i>
	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Months</i>
	<i>6/30/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>
<b>Volume</b>									
Natural Gas (mmcf)	2,508	<b>2,526</b>	2,424	2,520	2,838	2,825	<b>2,653</b>	2,424	<b>2,653</b>
Days	91	<b>366</b>	90	91	92	92	<b>365</b>	90	<b>365</b>
Oil (mbd)	1,971	<b>1,979</b>	2,078	2,104	2,208	2,200	<b>2,148</b>	2,200	<b>2,202</b>
Total gas & oil (mmb)	217	<b>878</b>	223	230	247	246	<b>945</b>	234	<b>965</b>
Total gas & oil (mbd)	2,389	<b>2,400</b>	2,482	2,524	2,681	2,671	<b>2,590</b>	2,604	<b>2,644</b>
<b>Price</b>									
Natural gas (\$/mcf)	5.69	<b>5.84</b>	4.52	3.47	3.47	3.47	<b>3.71</b>	3.47	<b>3.47</b>
Oil (\$/bbl)									
WTI Cushing	123.97	<b>99.59</b>	42.96	59.52	68.39	70.67	<b>60.38</b>	72.59	<b>71.46</b>
Brent	121.00	<b>96.98</b>	44.00	59.00	67.80	70.05	<b>60.21</b>	71.96	<b>70.84</b>
Company	103.86	<b>83.58</b>	32.62	48.93	56.22	58.09	<b>49.29</b>	59.67	<b>58.73</b>
Total gas & oil (\$/bbl)	91.66	<b>75.06</b>	31.72	44.25	49.98	51.52	<b>44.67</b>	53.64	<b>52.39</b>
NY Harbor 3-2-1 (\$/bbl)	14.94	<b>9.86</b>	9.18	9.49	10.67	5.82	<b>8.79</b>	6.14	<b>7.79</b>
<b>Revenue (mm\$)</b>									
Natural gas	1,299	<b>5,396</b>	985	796	906	902	<b>3,588</b>	757	<b>3,360</b>
Oil	18,629	<b>60,538</b>	6,100	9,368	11,419	11,758	<b>38,645</b>	11,815	<b>47,205</b>
Total production	19,928	<b>65,933</b>	7,085	10,164	12,325	12,659	<b>42,233</b>	12,572	<b>50,565</b>
Other	13,567	<b>52,324</b>	11,127	11,162	11,162	11,162	<b>44,613</b>	11,162	<b>44,648</b>
Total	33,495	<b>118,257</b>	18,212	21,326	23,487	23,821	<b>86,846</b>	23,734	<b>95,213</b>
<b>Expense</b>									
Production	7,778	<b>28,246</b>	4,233	4,036	6,779	6,963	<b>22,010</b>	6,915	<b>27,811</b>
Other	15,124	<b>58,703</b>	8,182	9,301	10,162	10,162	<b>37,806</b>	10,162	<b>40,648</b>
<b>Ebitda (mm\$)</b>									
Production	12,149	<b>37,687</b>	2,852	6,128	5,546	5,697	<b>20,223</b>	5,657	<b>22,754</b>
Other	(1,556)	<b>(6,379)</b>	2,945	1,861	1,000	1,000	<b>6,807</b>	1,000	<b>4,000</b>
Total Ebitda	10,593	<b>31,308</b>	5,797	7,989	6,546	6,697	<b>27,030</b>	6,657	<b>26,754</b>
Exploration	363	<b>1,775</b>	420	368	368	368	<b>1,523</b>	368	<b>1,470</b>
Deprec., Deplet., & Amort.	1,531	<b>5,928</b>	1,328	1,677	1,677	1,677	<b>6,360</b>	1,677	<b>6,709</b>
Other non cash	(885)	<b>(5,417)</b>							
<b>Ebit</b>	9,584	<b>29,022</b>	4,050	5,944	4,501	4,652	<b>19,147</b>	4,613	<b>18,575</b>
<b>Ebt</b>	9,584	<b>29,022</b>	4,050	5,944	4,501	4,652	<b>19,147</b>	4,613	<b>18,575</b>
Income Tax	3,354	<b>10,158</b>	1,417	2,081	1,576	1,628	<b>6,702</b>	1,614	<b>6,501</b>
<b>Net Income (mm\$)</b>									
Production	7,064	<b>21,031</b>	1,063	3,090					
Other	(834)	<b>(2,167)</b>	1,569	774					
Total Net Income	6,230	<b>18,864</b>	2,632	3,864	2,926	3,024	<b>12,446</b>	2,998	<b>12,074</b>
<b>Shares (millions)</b>	4,387	<b>4,387</b>	4,387	4,387	4,387	4,387	<b>4,387</b>	4,387	<b>4,387</b>
Per share (\$)	1.42	<b>4.30</b>	0.60	0.88	0.67	0.69	<b>2.84</b>	0.68	<b>2.75</b>
Ebitda Margin (E&P)	61%	<b>57%</b>	40%	60%	45%	45%	<b>48%</b>	45%	<b>45%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>



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<b>Petrobras</b>					
<b>Functional Cash Flow and Present Value</b>					
				<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>	
Rest of World Natural Gas	1,510	9.7	9.9	15,000	5%
Oil	21,240	9.3	7.7	163,000	56%
Downstream	4,000		8.8	35,000	12%
Pre Salt Deep Water Oil				78,000	27%
	26,750	9.4	10.9	291,000	100%
Debt (US\$mm)					37,000
Net Present Value (US\$mm)					254,000
Shares (mm)					4,387
Net Present Value - Standard Estimate (US\$/sh)					58
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					58

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