



Independent Stock Idea

July 24, 2008

rating: buy
s&p 500: 1266 intraday

Petro-Canada (PCZ) Construction Challenge

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	9,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	45.19	<i>Natural Gas and Oil Production/Ebitda (%)</i>	88
<i>Pricing Date</i>	7/24/08	<i>Adjusted Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	484	<i>EV/Ebitda</i>	3.0
<i>Market Capitalization (US\$mm)</i>	21,900	<i>PV/Ebitda</i>	5.3
<i>Debt (US\$mm)</i>	5,700	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	27,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	66.60
<i>Present Value (PV) (US\$mm)</i>	49,300	<i>Present Value Proven Reserves(US\$/boe)</i>	40.00
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves(US\$/mcfe)</i>	6.70
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.98
<i>McDep Ratio - EV/PV</i>	0.56	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	1.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.79
Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.			
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical research on PCZ since 2004 see www.mcdep.com/2pcz.htm			

Summary and Recommendation

Buy-recommended **Petro-Canada (PCZ)** offers unlevered appreciation potential of 79% to estimated net present value (NPV) of \$90 a share. On May 13 we raised NPV from \$72 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as PCZ stock price has entered a downtrend defined by current quote below the 200-day average of \$51. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price along with dampened downstream refining and marketing where higher price was not fully passed through to consumers. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). In the fourth quarter of 2008, management will have its latest estimate of expected spending for the Fort Hills oil sands mining project for which the company's share would be \$8.5 billion on earlier estimates. Illustrating the challenge, the budget for a refinery conversion project in Edmonton, Alberta was just increased 14% to \$2.5 billion even as construction is nearing completion this year. Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$126 a barrel for delivery over the next six years is above the 40-week average of \$103 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



Independent Stock Idea

July 24, 2008

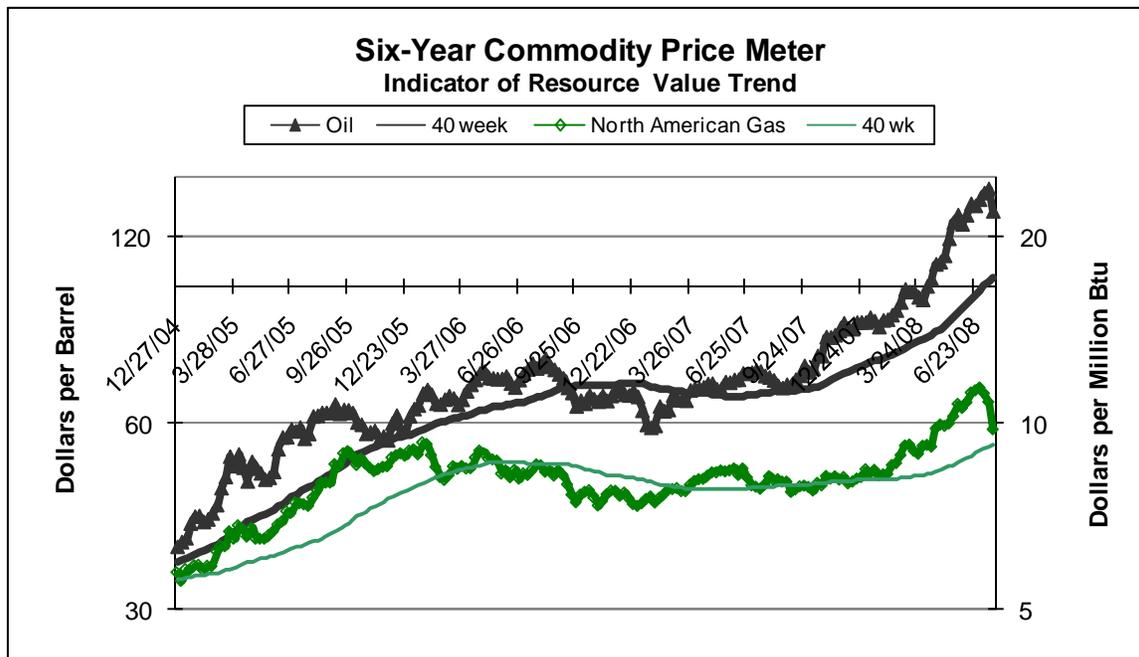
Petro-Canada									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/09</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	470	466	456	456	456	458	456	456	456
Overseas	86	126	123	91	104	111	126	123	111
Total	556	592	579	547	560	571	582	579	567
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	279	276	240	240	240	249	240	240	240
Total gas & oil (mbd)	372	375	336	331	333	344	337	336	334
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	7.56	8.02	10.93	11.40	11.05	10.35	11.54	10.78	11.19
Currency (US\$/C\$)	0.91	1.00	0.99	0.99	0.99	0.99	0.99	0.99	0.99
Henry Hub (C\$/mmbtu)	8.29	8.05	11.04	11.53	11.18	10.45	11.67	10.90	11.32
U.S. (or North America)	6.87	7.51	9.64	10.07	9.76	9.24	10.18	9.51	9.88
Overseas	6.79	7.59	9.55	10.07	9.76	9.15	10.18	9.51	9.87
Total	6.86	7.53	9.62	10.07	9.76	9.22	10.18	9.51	9.88
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	64.91	97.94	123.97	132.68	132.66	121.82	133.52	132.25	132.78
WTI Cushing (C\$/bbl)	71.25	98.40	125.23	134.20	134.18	123.00	135.04	133.76	134.30
Worldwide	70.14	93.38	117.22	125.62	125.60	114.70	126.41	125.21	125.71
Total gas & oil (\$/bbl)	61.34	78.13	96.64	104.87	103.75	95.35	103.78	102.17	103.64
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	11.34	9.63	10.87	11.32	15.94	12.06
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	294	318	400	422	409	1,550	418	395	1,644
Overseas	53	87	107	84	93	372	115	106	400
Total	347	405	507	507	503	1,922	533	501	2,044
Oil	1,781	2,345	2,556	2,769	2,769	10,439	2,726	2,730	10,994
Downstream	3,334	3,762	4,461	4,461	4,461	17,145	4,461	4,461	17,844
Other	16	73	242	242	242	800	242	242	969
Total	5,478	6,586	7,766	7,979	7,975	30,305	7,963	7,935	31,851
Expense (\$mm)									
Upstream	700	998	971	1,212	1,210	4,392	1,206	1,196	4,824
Downstream	2,864	3,404	4,076	4,227	4,264	15,972	4,103	4,076	16,671
Other	16	73	242	242	242	800	242	242	969
Total	3,580	4,476	5,290	5,682	5,717	21,164	5,551	5,514	22,464
Ebitda (\$mm)									
Upstream	1,428	1,752	2,091	2,064	2,061	7,968	2,053	2,036	8,214
Downstream	470	358	385	234	197	1,173	358	385	1,173
Total	1,898	2,110	2,476	2,297	2,258	9,141	2,411	2,420	9,387
Exploration	100	143	185	185	185	698	90	90	550
Deprec., Deplet., & Amort.									
Upstream	444	448	395	395	395	1,633	395	395	1,580
Downstream	72	75	77	77	77	306	77	77	308
Other									
Total	516	523	472	472	472	1,939	472	472	1,888
Ebit	1,282	1,444	1,819	1,640	1,601	6,504	1,849	1,858	6,949
Interest	41	48	47	47	47	189	47	47	188
Ebt	1,241	1,396	1,772	1,593	1,554	6,315	1,802	1,811	6,761
Income Tax	434	489	620	558	544	2,210	631	634	2,366
Net Income (\$mm)									
Upstream	644	897	957						
Downstream	259	184	200						
Other	(96)	(173)	(5)						
Total	807	908	1,152	1,036	1,010	4,105	1,172	1,177	4,394
Shares (millions)									
Per share (\$)	1.62	1.86	2.38	2.14	2.09	8.47	2.42	2.43	9.08
Ebitda Margin (E&P)	67%	64%	68%	63%	63%	64%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

July 24, 2008

Petro-Canada					
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	1,024	6.6	5.3	5,400	11%
Rest of World Natural Gas	249	4.8	6.4	1,600	3%
Oil	6,848	7.6	5.3	36,300	74%
Downstream	1,160		5.2	6,000	12%
	9,281	7.2	5.3	49,300	100%
Debt (US\$mm)					5,700
Net Present Value (US\$mm)					43,600
Shares (mm)					484
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					91





Independent Stock Idea

July 24, 2008

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.