



# Independent Stock Idea

January 29, 2009

rating: hold  
s&p 500: 845

## Petro-Canada (PCZ) Managing for \$50 to \$60 Oil in 2009

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	3,600
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	22.49	<i>Natural Gas and Oil Production/Ebitda (%)</i>	84
<i>Pricing Date</i>	1/29/09	<i>Adjusted Reserves/Production NTM</i>	6.9
<i>Shares (mm)</i>	484	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (US\$mm)</i>	10,900	<i>PV/Ebitda</i>	9.7
<i>Debt (US\$mm)</i>	5,700	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	16,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.40
<i>Present Value (PV) (US\$mm)</i>	34,700	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	60	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.00
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.21
<i>McDep Ratio - EV/PV</i>	0.48	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	2.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.65
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical research on PCZ since 2004 see <a href="http://www.mcdep.com/2pcz.htm">www.mcdep.com/2pcz.htm</a>			

### Summary and Recommendation

Estimated Net Present Value (NPV) of \$60 a share is 160% more than stock price for low-debt, hold-rated **Petro-Canada (PCZ)**. Released today, fourth quarter results displayed a reduction in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table [Next Twelve Months Operating and Financial Estimates](#)). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil, and to an industry multiple for downstream. Latest calculations result in NPV concentrated 14% on natural gas, 71% on oil and 14% on downstream (see table [Functional Cash Flow and Present Value](#)). Though we reduce NPV today from \$67 a share, the McDep Ratio remains among the lowest. Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). Until then, Chief Executive Ron Brenneman explains that PCZ has reduced capital spending for 2009 so that there would be no increase in an already low debt position within a range of US\$50 to US\$60 a barrel for Light, Sweet Crude Oil.

Kurt H. Wulff, CFA



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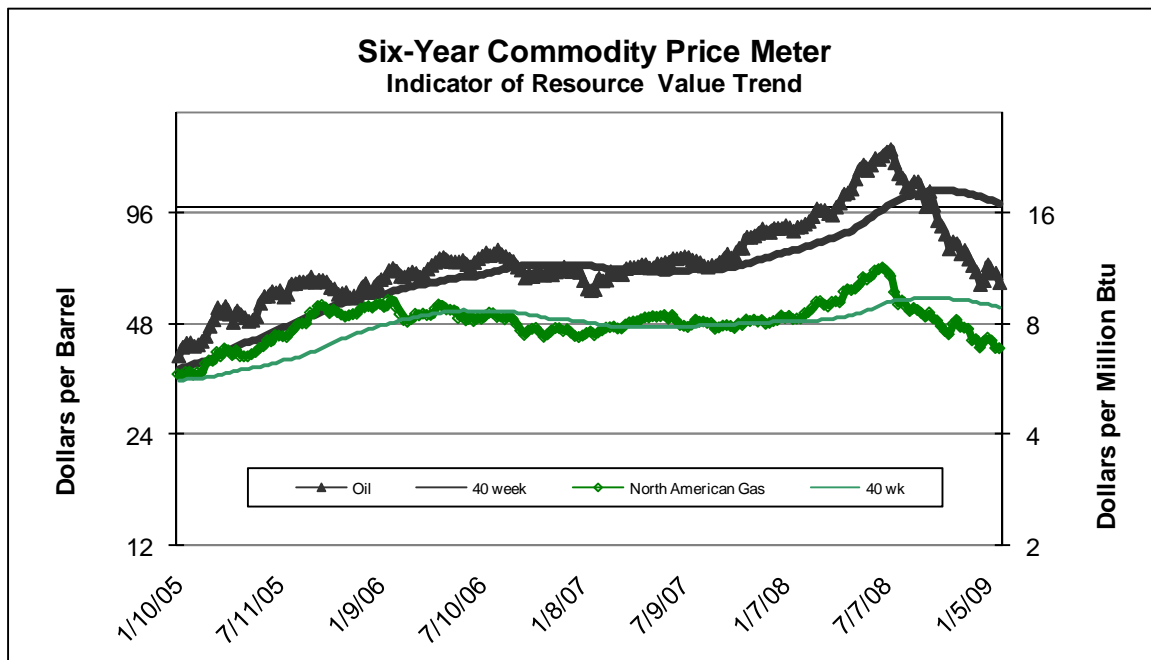
Petro-Canada									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	462	466	479	467	479	479	479	479	479
Overseas	104	114	108	118	126	123	114	108	118
Total	566	580	587	586	605	602	593	587	597
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	261	252	251	255	251	251	251	251	251
Total gas & oil (mbd)	355	349	349	352	352	351	350	349	350
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.97	10.25	6.95	9.04	5.03	4.62	4.93	5.73	5.08
Currency (US\$/C\$)	1.02	0.96	0.83	0.94	0.82	0.82	0.82	0.82	0.82
Henry Hub (C\$/mmbtu)	6.84	10.66	8.40	9.58	6.16	5.67	6.04	7.02	6.22
U.S. (or North America)	5.78	8.41	6.61	8.02	4.85	4.46	4.75	5.53	4.90
Overseas	6.48	9.75	13.39	9.96	7.00	7.00	7.00	7.00	7.00
Total	5.91	8.67	7.86	8.41	5.30	4.98	5.19	5.80	5.31
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	90.67	117.99	58.45	99.59	44.74	49.86	52.65	54.65	50.48
WTI Cushing (C\$/bbl)	88.91	122.77	70.62	104.25	54.86	61.14	64.57	67.01	61.89
Worldwide	82.71	114.11	58.25	95.41	45.25	50.43	53.25	55.27	51.09
Total gas & oil (\$/bbl)	68.27	93.71	50.99	79.64	38.88	42.10	44.72	47.36	43.28
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	7.57	7.78	6.23	3.44	6.26
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	246	361	291	1,370	209	194	210	244	856
Overseas	62	102	133	429	79	78	73	70	301
Total	308	463	424	1,800	288	273	283	313	1,157
Oil	1,986	2,646	1,345	8,892	1,022	1,152	1,230	1,276	4,680
Downstream	3,583	4,883	3,239	16,345	3,239	3,239	3,239	3,239	12,956
Other	(443)	295	259	869	259	259	259	259	1,034
Total	5,434	8,286	5,267	27,905	4,808	4,922	5,010	5,087	19,827
<b>Expense (\$mm)</b>									
Upstream	831	685	366	3,021	485	527	560	588	2,160
Downstream	3,386	4,683	2,996	15,159	3,047	3,026	3,075	3,090	12,238
Other	(443)	295	259	869	259	259	259	259	1,034
Total	3,775	5,663	3,621	19,049	3,790	3,811	3,894	3,936	15,432
<b>Ebitda (\$mm)</b>									
Upstream	1,463	2,423	1,403	7,670	826	897	953	1,001	3,677
Downstream	197	200	243	1,186	192	213	164	149	718
Total	1,659	2,623	1,646	8,856	1,018	1,111	1,117	1,151	4,396
Exploration	183	143	116	587	90	90	90	90	360
<b>Deprec., Deplet., &amp; Amort.</b>									
Upstream	567	432	555	1,830	555	555	555	555	2,220
Downstream	69	81	92	325	92	92	92	92	368
Other									
Total	636	513	647	2,155	647	647	647	647	2,588
<b>Ebit</b>	840	1,967	883	6,114	281	374	380	414	1,448
Interest	43	61	86	242	86	86	86	86	344
<b>Ebt</b>	797	1,906	797	5,872	195	288	294	328	1,104
Income Tax	279	667	279	2,055	68	101	103	115	386
<b>Net Income (\$mm)</b>									
Upstream	388	1,254	434	3,542					
Downstream	83	(27)	98	455					
Other	47	12	(14)	(180)					
Total	518	1,239	518	3,817	127	187	191	213	718
<b>Shares (millions)</b>									
	489	484	484	485	484	484	484	484	484
Per share (\$)	1.06	2.56	1.07	7.87	0.26	0.39	0.39	0.44	1.48
Ebitda Margin (E&P)	64%	78%	79%	72%	63%	63%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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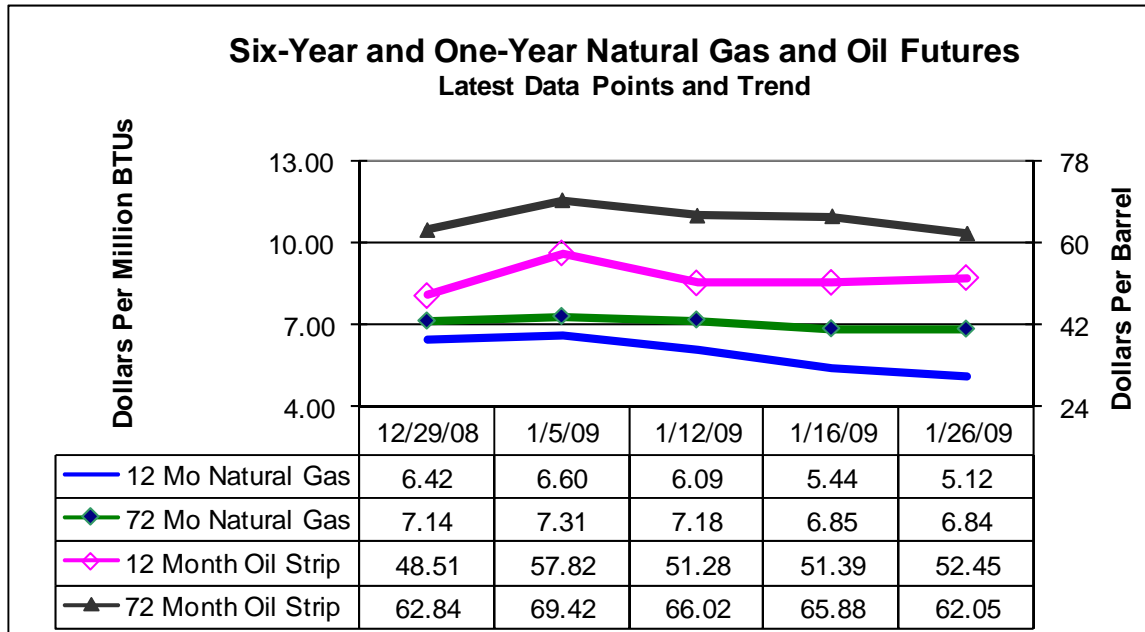
Petro-Canada					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	440	6.3	8.9	3,900	11%
Rest of World Natural Gas	154	4.5	6.5	1,000	3%
Oil	2,405	7.2	10.3	24,800	71%
Downstream	586		8.5	5,000	14%
	3,585	6.9	9.7	34,700	100%
Debt (US\$mm)					5,700
Net Present Value (US\$mm)					29,000
Shares (mm)					484
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					54





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