



# Independent Stock Idea

July 30, 2009

rating: buy  
s&p 500: 994 intraday

## Petro-Canada (PCZ) Good Bye Petro-Canada, Hello Suncor

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	4,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	40.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	84
<i>Pricing Date</i>	7/30/09	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	488	<i>EV/Ebitda</i>	5.6
<i>Market Capitalization (US\$mm)</i>	20,000	<i>PV/Ebitda</i>	7.6
<i>Debt (US\$mm)</i>	6,600	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	26,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.10
<i>Present Value (PV) (US\$mm)</i>	35,900	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	60	<i>Present Value Proven Reserves(US\$/mcfe)</i>	5.00
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.28
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	148
<i>Dividend Yield (%/year)</i>	1.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.74
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, \$8 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

Buy-recommended **Petro-Canada (PCZ)** becomes part of buy-recommended **Suncor (SU)** on August 1. As a result, the main purpose of analyzing PCZ on the next to last day of its independent existence is to provide a basis for estimates of performance for the newly combined company. Each share of PCZ will become 1.28 share of SU. Until then Net Present Value (NPV) for PCZ is US\$60 a share. Released today, second quarter results exceeded our estimate for unlevered cash flow (Ebitda) from three months ago on the strength of higher oil price (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 (see table Functional Cash Flow and Present Value).

Since being privatized in 1991, Petro-Canada stock has multiplied almost eight times with reinvested dividends for a total return of 12.7% a year in U.S. dollars according to Bloomberg. We have enjoyed analyzing the stock since it was first publicly traded 18 years ago and appreciate the friendship of the people of the company and their hospitality in meetings and tours. Earlier we remember fun times working in Algeria with the late Bill Hopper in the years before he returned to his native Canada. Back home, he helped in the founding of Petro-Canada and was chief executive from 1975. We wish the people of the new Suncor good luck and success.

Kurt H. Wulff, CFA



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Petro-Canada									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	6/30/10
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	456	474	471	471	471	472	471	471	471
Overseas	123	130	86	114	108	109	130	86	109
Total	579	604	557	585	579	581	601	557	580
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	240	245	221	221	221	227	221	221	221
Total gas & oil (mbd)	336	346	314	319	318	324	321	314	318
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	4.22	5.65	5.61	4.93
Currency (US\$/C\$)	0.99	0.80	0.86	0.92	0.92	0.88	0.92	0.92	0.92
Henry Hub (C\$/mmbtu)	11.04	6.09	4.08	4.09	5.08	4.80	6.11	6.06	5.33
U.S. (or North America)	9.64	5.14	3.29	3.30	4.10	3.95	4.93	4.89	4.30
Overseas	9.55	5.62	3.44	3.44	3.44	4.08	3.44	3.44	3.44
Total	9.62	5.24	3.31	3.33	3.97	3.98	4.61	4.67	4.14
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
WTI Cushing (C\$/bbl)	125.23	53.43	69.38	72.53	77.16	68.12	79.89	81.76	77.83
Worldwide	117.22	52.08	65.37	68.34	72.70	64.36	75.28	77.24	73.37
Total gas & oil (\$/bbl)	96.64	43.96	50.97	52.30	56.68	50.87	59.03	61.74	57.40
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	400	219	141	143	178	681	209	210	739
Overseas	107	66	27	36	34	163	40	27	137
Total	507	285	168	179	212	844	249	237	877
Oil	2,556	1,148	1,315	1,390	1,478	5,331	1,497	1,553	5,918
Downstream	4,461	2,502	2,682	2,682	2,682	10,548	2,682	2,682	10,728
Other	242	36	106	106	106	355	106	106	426
Total	7,766	3,971	4,271	4,357	4,478	17,077	4,535	4,578	17,949
<b>Expense (\$mm)</b>									
Upstream	971	742	401	580	625	2,348	646	662	2,514
Downstream	4,076	2,276	2,393	2,518	2,533	9,720	2,456	2,393	9,900
Other	242	36	106	106	106	355	106	106	426
Total	5,290	3,053	2,900	3,205	3,264	12,423	3,208	3,162	12,839
<b>Ebitda (\$mm)</b>									
Upstream	2,091	691	1,082	988	1,065	3,826	1,100	1,128	4,281
Downstream	385	226	289	164	149	828	226	289	828
Total	2,476	918	1,371	1,152	1,214	4,655	1,326	1,417	5,109
Exploration	185	108	128	128	128	492	128	128	512
<b>Deprec., Deplet., &amp; Amort.</b>									
Upstream	395	460	913	913	913	3,199	913	913	3,652
Downstream	77	100	103	103	103	409	103	103	412
Other									
Total	472	560	1,016	1,016	1,016	3,608	1,016	1,016	4,064
<b>Ebit</b>	1,819	250	227	8	70	555	182	273	533
Interest	47	78	77	77	77	309	77	77	308
<b>Ebt</b>	1,772	172	150	(69)	(7)	246	105	196	225
Income Tax	620	60	53	(24)	(2)	86	37	69	79
<b>Net Income (\$mm)</b>									
Upstream	957	75	92						
Downstream	200	82	121						
Other	(5)	(45)	(116)						
Total	1,152	112	98	(45)	(5)	160	69	127	146
<b>Shares (millions)</b>									
Per share (\$)	484	485	488	488	488	486	488	488	488
	2.38	0.23	0.20	(0.09)	(0.01)	0.33	0.14	0.26	0.30
Ebitda Margin (E&P)	68%	48%	73%	63%	63%	62%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

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<b>Petro-Canada</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>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>	
North American Natural Gas	431	5.7	10.2	4,400	12%
Rest of World Natural Gas	80	3.6	12.5	1,000	3%
Oil	3,447	9.1	7.4	25,500	71%
Downstream	766		6.5	5,000	14%
	4,723	8.0	7.6	35,900	100%
Debt (US\$mm)					6,600
Net Present Value (US\$mm)					29,300
Shares (mm)					488
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					62

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