



Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

November 16, 2010

Petrobras Digesting Record Stock Offering

<i>Symbol</i>	PBR	<i>Ebitda Next Twelve Months ending 9/30/11 (US\$mm)</i>	38,400
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	33.69	<i>Natural Gas and Oil Production/Ebitda (%)</i>	81
<i>Pricing Date</i>	11/15/10	<i>Adjusted Reserves/Production NTM</i>	10.0
<i>Shares (mm)</i>	6428	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (US\$mm)</i>	217,000	<i>PV/Ebitda</i>	9.9
<i>Debt (US\$mm)</i>	51,000	<i>Undeveloped Reserves (%)</i>	40
<i>Enterprise Value (EV) (US\$mm)</i>	268,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.90
<i>Present Value (PV) (US\$mm)</i>	379,000	<i>Present Value Proven Reserves(US\$/boe)</i>	25.36
<i>Net Present Value (US\$/share)</i>	51	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.23
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.76
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	3.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.18
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 48% of Petrobras' equity.			

Summary and Recommendation

We like the common and preferred stock of **Petrobras (PBR)** for unlevered appreciation potential of 42% to a McDep Ratio of 1.0 where price would equal Net Present Value (NPV) of \$51 a share. On a medium-term timing basis we are waiting for the 200-day average of stock price to stop declining as a signal that the market has fully digested the largest equity offering in history (see chart of stock price on page 2). A record sale of some \$70 billion of new stock at the end of September expanded share count by nearly a half. Taking account of subsequent financial disclosure for the third quarter released after the market close on November 11, we make a neutral adjustment for dilution to reduce NPV from \$58. McDep Ratio remains low and nearly unchanged at 0.71, while debt has declined until the new capital can be invested. Meanwhile, current cash flow and proven reserves support some 71% of NPV (see tables [Functional Cash Flow and Present Value](#) on page 2 and [Next Twelve Months Operating and Financial Estimates](#) on page 3). As part of the equity offering, some \$40 billion of new shares was issued to the Brazilian government in exchange for the rights to 5 billion barrels of oil on offshore prospects not yet leased. When combined with undeveloped resources Petrobras has already captured, "Pre-Salt Deep Water Oil" potential may be worth 29% of NPV. That amount would increase further in present value with time, as Petrobras works to double oil production in the next ten years while facing economic, technical and environmental challenges. Finally, the political outlook may be stable with the completed election of Ms. Dilma Rousseff, past chair of Petrobras, as Brazil's new president and successor to her sponsor, Mr Luiz Inacio Lula da Silva.

Kurt H. Wulff, CFA



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PBR US \$ 1 **33.69** - .18 N P 33.73/33.72 N 55x28 **EquityG**
 At 16:15 Vol 14,006,253 Op 34.19 N Hi 34.25 P Lo 33.65 T ValTrd 476.386m
 PBR US Equity Edit Actions Bookmarks Show G 45 - Brazil, China, Russia
 << < > >> Play PBR US Equity : PETROLEO BRASILEIRO S.A. -ADR daily 4/10/2008 - 11/15/2010



Petrobras					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Natural Gas	1,100	9.0	8.2	9,000	2%
Oil	30,080	10.1	6.8	206,000	54%
Downstream	7,200		7.5	54,000	14%
Pre Salt Deep Water Oil				110,000	29%
	38,380	10.0	9.9	379,000	100%
Debt (US\$mm)					51,000
Net Present Value (US\$mm)					328,000
Shares (mm)					6,428
Net Present Value - Standard Estimate (US\$/sh)					51



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Petrobras									
Next Twelve Months Operating and Financial Estimates									
(U.S. Accounting through 2009, International Financial Reporting Standards 2010, US\$)									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/09	6/30/10	9/30/10	12/31/10	2010E	3/31/11	6/30/11	9/30/11	9/30/11
Volume									
Natural Gas (mmcf)	2,478	2,538	2,562	2,746	2,580	2,472	2,538	2,562	2,580
Oil (mbd)	2,121	2,156	2,135	2,250	2,167	2,250	2,250	2,250	2,250
Total gas & oil (mmb)	233	235	236	249	948	240	243	246	978
Total gas & oil (mbd)	2,534	2,579	2,562	2,708	2,597	2,662	2,673	2,677	2,680
Price									
Natural gas (\$/mcf)	3.00	3.11	2.36	2.54	2.61	2.41	3.11	2.36	2.61
Oil (\$/bbl)									
WTI Cushing	68.22	77.85	76.08	86.07	79.67	85.83	86.86	87.52	86.57
Brent	68.00	78.30	76.86	86.95	79.59	86.70	87.75	88.42	87.46
Company	63.56	72.30	71.51	80.90	74.33	80.67	81.64	82.27	81.37
Total gas & oil (\$/bbl)	56.13	63.50	61.95	69.81	64.61	70.43	71.67	71.40	70.82
NY Harbor 3-2-1 (\$/bbl)	9.45	12.13	8.31	8.39	8.99	8.59	11.09	10.75	9.70
Revenue (mm\$)									
Natural gas	684	718	556	643	2,454	537	718	556	2,454
Oil	12,402	14,184	14,046	16,746	58,796	16,336	16,716	17,029	66,826
Total production	13,086	14,903	14,602	17,389	61,250	16,873	17,434	17,585	69,280
Other	12,789	15,059	16,678	16,678	62,064	16,678	16,678	16,678	66,711
Total	25,875	29,961	31,279	34,067	123,314	33,551	34,112	34,262	135,991
Expense									
Production	7,328	7,326	8,052	9,564	32,897	9,280	9,589	9,672	38,104
Other	11,314	13,738	14,807	14,878	55,099	14,878	14,878	14,878	59,511
Ebitda (mm\$)									
Production	5,758	7,577	6,549	7,825	28,354	7,593	7,845	7,913	31,176
Other	1,475	1,321	1,871	1,800	6,965	1,800	1,800	1,800	7,200
Total Ebitda	7,233	8,898	8,421	9,625	35,319	9,393	9,645	9,713	38,376
Exploration	396	350	458	458	1,822	458	458	458	1,831
Deprec., Deplet., & Amort.	2,013	2,025	2,322	2,322	8,482	2,322	2,322	2,322	9,287
Other non cash	(815)	132	(1,359)						
Ebit	5,639	6,391	7,000	6,846	26,159	6,613	6,866	6,934	27,258
Ebt	5,639	6,391	7,000	6,846	26,159	6,613	6,866	6,934	27,258
Income Tax	1,866	1,735	2,137	2,396	7,900	2,315	2,403	2,427	9,540
Net Income (mm\$)									
Production	2,700	4,376	4,426						
Other	1,073	281	438						
Total Net Income	3,773	4,657	4,863	4,450	18,259	4,299	4,463	4,507	17,718
Shares (millions)									
Per share (\$)	0.86	1.06	1.11	0.69	3.84	0.67	0.69	0.70	2.76
Ebitda Margin (E&P)	44%	51%	45%	45%	46%	45%	45%	45%	45%
Tax Rate	33%	27%	31%	35%	30%	35%	35%	35%	35%



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			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		15-Nov 2010	(mm)				
	B = Buy, CB (see below)							
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	70.48	5,089	359,000	89.00	0.13	0.82
Chevron Corporation	CVX	B	84.86	2,007	170,000	116.00	0.10	0.76
ConocoPhillips	COP	B	62.07	1,400	87,000	95.00	0.23	0.73
Marathon Oil Corporation	MRO	B	33.67	712	23,970	53.00	0.23	0.72
	<i>Total or Median</i>				640,000		0.18	0.75
Europe								
BG Group plc	BRGXF		20.19	3,402	68,700	22.00	0.13	0.93
Royal Dutch Shell plc	RDS-A	B	65.45	3,069	201,000	79.00	0.22	0.87
BP plc	BP		43.04	3,156	136,000	72.00	0.29	0.71
Statoil ASA (33%)	STO	CB	21.25	1,050	22,300	35.00	0.24	0.70
Total S.A.	TOT	B	53.68	2,245	121,000	90.00	0.16	0.66
	<i>Total or Median</i>				549,000		0.22	0.71
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		220.92	152	33,700	170.00	0.05	1.28
Woodside Petroleum Ltd.	WOPEY	B	41.85	782	32,700	44.00	0.13	0.96
PetroChina Company Ltd (14%)	PTR	B	129.25	256	33,100	170.00	0.13	0.79
Petrobras	PBR		33.69	6,428	216,600	51.00	0.13	0.71
Lukoil Oil Company	LUKOY	B	56.44	848	47,900	135.00	0.05	0.45
Gazprom (50%)	OGZPY	B	22.24	2,865	63,700	64.00	0.09	0.40
	<i>Total or Median</i>				428,000		0.11	0.75
U.S. Independent								
Southwestern Energy Company	SWN		38.01	349	13,300	35.00	0.09	1.08
Anadarko Petroleum Corp.	APC		64.60	496	32,000	60.00	0.41	1.04
Occidental Petroleum Corp.	OXY	B	87.75	814	71,400	95.00	0.06	0.93
Chesapeake Energy Corp.	CHK		22.31	744	16,600	31.00	0.38	0.83
EOG Resources	EOG	CB	92.43	251	23,200	120.00	0.14	0.80
Devon Energy Corporation	DVN	B	71.43	436	31,100	98.00	0.09	0.75
	<i>Total or Median</i>				187,600		0.12	0.88
Canada								
Cenovus Energy Inc.	CVE	B	29.18	752	21,900	37.00	0.20	0.83
Canadian Natural Resources	CNQ	B	39.21	1,089	42,700	50.00	0.16	0.82
Imperial Oil Limited (30%)	IMO	CB	37.70	257	9,700	48.00	0.08	0.80
Suncor Energy	SU	B	34.06	1,572	53,500	48.00	0.18	0.76
Canadian Oil Sands Trust	COSWF	B	27.32	484	13,200	38.00	0.08	0.74
EnCana Corporation	ECA	CB	28.72	736	21,100	50.00	0.19	0.65
	<i>Total or Median</i>				162,000		0.17	0.78
CB=Contrarian Buy, Stock Price may in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.								



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Table 3								
McDep Large Cap Energy Portfolio								
Value Multiples and Distribution Yield								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Divd or Distrib NTM
	Symbol/Rating		15-Nov 2010	NTM	NTM	NTM	NTM	(%)
B = Buy, CB (see below)								
U.S. Integrated								
Exxon Mobil Corporation	XOM	B	70.48	13.3	7.8	6.4	11	2.5
ConocoPhillips	COP	B	62.07	10.4	7.7	5.6	12	3.5
Marathon Oil Corporation	MRO	B	33.67	9.2	6.9	5.0	11	3.0
Chevron Corporation	CVX	B	84.86	9.2	6.2	4.7	10	3.4
<i>Total or Median</i>				9.8	7.3	5.3	11	3.2
Europe								
BG Group plc	BRGXF		20.19	14.9	9.0	8.4	16	1.0
Royal Dutch Shell plc	RDS-A	B	65.45	8.6	6.5	5.6	11	5.1
BP plc	BP		43.04	10.2	7.4	5.3	7	-
Total S.A.	TOT	B	53.68	9.5	6.9	4.6	8	5.8
Statoil ASA (33%)	STO	CB	21.25	7.0	5.9	4.2	8	4.7
<i>Total or Median</i>				9.5	6.9	5.3	8	4.7
Australia/Brazil/China/Russia								
Woodside Petroleum Ltd.	WOPEY	B	41.85	18.0	11.4	10.9	20	2.4
Petrobras	PBR		33.69	10.0	9.9	7.0	12	3.5
CNOOC Limited (34%)	CEO		220.92	5.6	4.9	6.3	12	2.5
PetroChina Company Ltd (14%)	PTR	B	129.25	13.6	6.9	5.5	11	3.4
Gazprom (50%)	OGZPY	B	22.24	30.2	9.3	3.7	5	0.2
Lukoil Oil Company	LUKOY	B	56.44	15.8	7.4	3.3	5	3.0
<i>Total or Median</i>				14.7	8.3	5.9	11	2.7
U.S. Independent								
Southwestern Energy Company	SWN		38.01	6.0	11.0	11.9	28	-
Chesapeake Energy Corp.	CHK		22.31	10.2	12.3	10.1	20	1.3
Anadarko Petroleum Corp.	APC		64.60	8.5	7.8	8.2		0.6
EOG Resources	EOG	CB	92.43	8.9	9.9	7.9	54	0.7
Devon Energy Corporation	DVN	B	71.43	10.1	9.7	7.3	14	0.9
Occidental Petroleum Corp.	OXY	B	87.75	10.4	6.9	6.4	14	1.7
<i>Total or Median</i>				9.5	9.8	8.0	20	0.8
Canada								
EnCana Corporation	ECA	CB	28.72	13.9	15.1	9.9	34	2.8
Cenovus Energy Inc.	CVE	B	29.18	18.3	11.7	9.7	26	2.7
Canadian Oil Sands Trust	COSWF	B	27.32	30.1	12.2	9.0	16	6.2
Imperial Oil Limited (30%)	IMO	CB	37.70	21.1	10.6	8.5	15	1.2
Canadian Natural Resources	CNQ	B	39.21	18.2	9.9	8.1	22	0.8
Suncor Energy	SU	B	34.06	21.9	10.1	7.7	22	1.2
<i>Total or Median</i>				19.7	11.2	8.8	22	1.9
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2011; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								



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Table 4								
McDep Large Cap Energy Portfolio								
Rank by Enterprise Value to 200 Day Average								
			Price	Enterprise Value/				
	Symbol		(\$/sh)	15-Nov	52Wk	52Wk	50 Day	200 Day
		Ratin.	2010	High	Low	Avg.	Avg.	McDep
								Ratio
U.S. Integrated								
ConocoPhillips	COP	B	62.07	0.99	1.21	1.04	1.09	0.73
Chevron Corporation	CVX	B	84.86	0.99	1.23	1.03	1.09	0.76
Exxon Mobil Corporation	XOM	B	70.48	0.93	1.21	1.08	1.09	0.82
Marathon Oil Corporation	MRO	B	33.67	0.95	1.14	1.00	1.03	0.72
	<i>Median</i>			<i>0.97</i>	<i>1.21</i>	<i>1.03</i>	<i>1.09</i>	<i>0.75</i>
Europe								
BG Group plc	BRGXF		100.97	0.96	1.36	1.08	1.15	0.93
Royal Dutch Shell plc	RDS-A	B	65.45	0.97	1.23	1.04	1.10	0.87
Total S.A.	TOT	B	53.68	0.84	1.18	1.01	1.02	0.66
Statoil ASA (33%)	STO	CB	21.25	0.86	1.10	1.00	0.99	0.70
BP plc	BP		43.04	0.79	1.29	1.04	0.98	0.71
	<i>Median</i>			<i>0.91</i>	<i>1.22</i>	<i>1.04</i>	<i>1.05</i>	<i>0.73</i>
Australia/Brazil/China/Russia								
CNOOC Limited (34%)	CEO		220.92	0.95	1.55	1.09	1.25	1.28
PetroChina Company Ltd (14%)	PTR	B	129.25	0.96	1.24	1.06	1.10	0.79
Woodside Petroleum Ltd.	WOPEY	B	41.85	0.90	1.23	0.98	1.04	0.96
Lukoil Oil Company	LUKOY	B	56.44	0.90	1.24	0.99	1.02	0.45
Gazprom (50%)	OGZPY	B	22.24	0.86	1.18	1.02	1.02	0.40
Petrobras	PBR		33.69	0.68	1.06	0.97	0.90	0.71
	<i>Median</i>			<i>0.90</i>	<i>1.23</i>	<i>1.01</i>	<i>1.03</i>	<i>0.75</i>
U.S. Independent								
Occidental Petroleum Corp.	OXY	B	87.75	0.97	1.20	1.09	1.08	0.93
Devon Energy Corporation	DVN	B	71.43	0.94	1.19	1.07	1.08	0.75
Anadarko Petroleum Corp.	APC		64.60	0.91	1.39	1.06	1.07	1.04
Southwestern Energy Company	SWN		44.31	0.74	1.22	1.11	0.99	1.08
Chesapeake Energy Corp.	CHK		22.31	0.86	1.07	1.01	0.98	0.83
EOG Resources	EOG	CB	92.43	0.83	1.08	0.99	0.95	0.80
	<i>Median</i>			<i>0.88</i>	<i>1.19</i>	<i>1.07</i>	<i>1.03</i>	<i>0.88</i>
Canada								
Canadian Natural Resources	CNQ	B	39.21	0.97	1.23	1.07	1.09	0.82
Cenovus Energy Inc.	CVE	B	29.18	0.96	1.20	1.01	1.05	0.83
Suncor Energy	SU	B	34.06	0.91	1.17	1.02	1.05	0.76
Canadian Oil Sands Trust	COSWF	B	27.32	0.85	1.16	1.06	1.01	0.74
Imperial Oil Limited (30%)	IMO	CB	37.70	0.88	1.06	0.99	0.98	0.80
EnCana Corporation	ECA	CB	28.72	0.85	1.07	0.99	0.95	0.65
	<i>Median</i>			<i>0.90</i>	<i>1.16</i>	<i>1.02</i>	<i>1.03</i>	<i>0.78</i>
CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average.								



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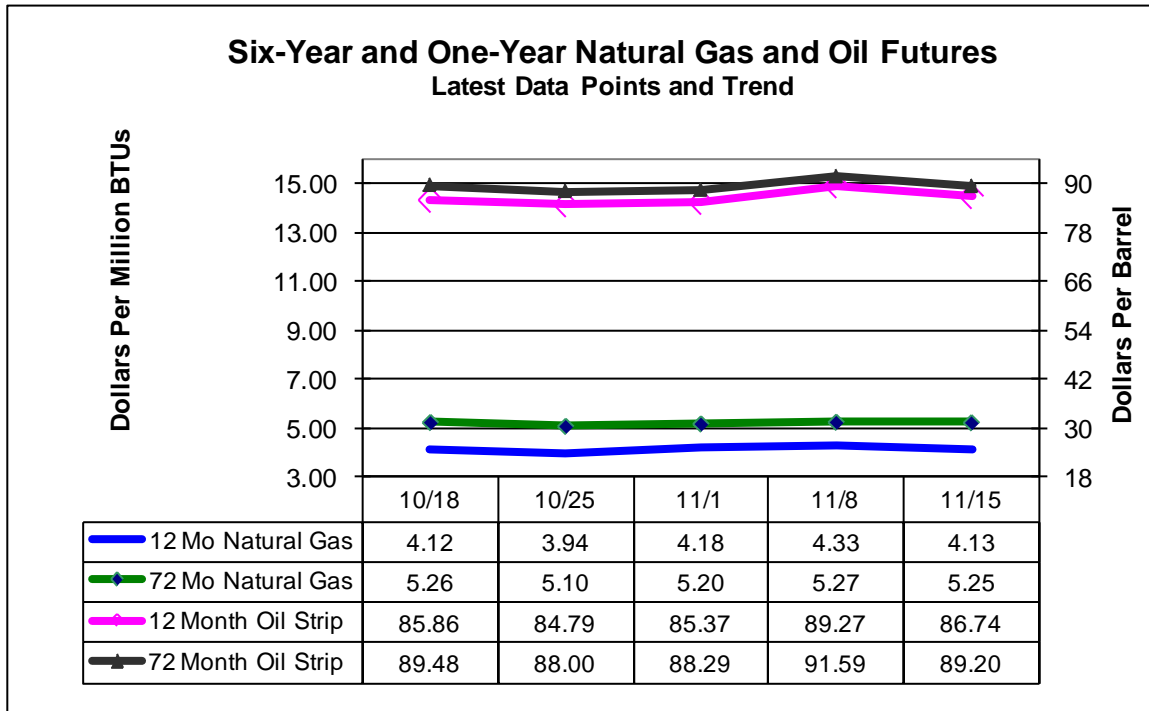
Index of Recent Research			
Stock Ideas			
<i>Date</i>	<i>Symbol</i>	<i>Subject</i>	<i>Theme</i>
9-Nov	OGZPY	Gazprom	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	SU	Suncor Energy	Breakout from a Long Stock Price Base (Meter Reader)
9-Nov	DVN	Devon Energy Corporation	Breakout from a Long Stock Price Base (Meter Reader)
4-Nov	EOG	EOG Resources	Buy on Stock Price Drop
2-Nov	XOM	ExxonMobil	Political Trends Turning (Meter Reader)
29-Oct	HGT	Hugoton Royalty Trust	Natural Gas Income at Low Price (Income and SC Weekly)
29-Oct	SJT	San Juan Basin Royalty Trust	Natural Gas Income at Low Price (Income and SC Weekly)
29-Oct	COSWF	Canadian Oil Sands Trust	Oil Value amid Political Turmoil
28-Oct	PTR	PetroChina	Raise NPV to \$170 from \$150 on Natural Gas and Downstream
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale (Meter Reader)
8-Oct	DMLP	Dorchester Minerals	Golden Stocks (Income and Small Cap Weekly)
28-Sep	CVX	Chevron Corporation	Reload Oil Stock Classics (Meter Reader)
28-Sep	MRO	Marathon Oil Company	Reload Oil Stock Classics (Meter Reader)
28-Sep	COP	ConocoPhillips	Reload Oil Stock Classics (Meter Reader)
21-Sep	PBR	Petrobras	Record Deal, Reasonable Price (Meter Reader)
7-Sep	LUKOY	Lukoil	Russian Growth in Oil (Meter Reader)
7-Sep	OGZPY	Gazprom	Russian Growth in Natural Gas (Meter Reader)
24-Aug	CEO	CNOOC Ltd	Raise NPV on Volume and Profit (Meter Reader)
17-Aug	ECA, CNQ	Encana, Canadian Natural	Raise NPV for ECA and CNQ on Probable Reserves (MR)
13-Aug	PEYUF	Peyto Energy Trust	Raise NPV to US\$18 from \$15 (Income and Small Cap Weekly)
13-Aug	BIREF	Birchcliff Energy Ltd.	Alberta Small Cap Natural Gas Growth
5-Aug	XEC	Cimarex Energy Company	Raise NPV to \$80 from \$75
27-Jul	WOPEY	Woodside Petroleum	Double WOPEY LNG in 2011 (Meter Reader)
For historical research by stock, go to mcdep.com , click on Stock Ideas , click on stock by name.			
Meter Reader			
9-Nov	DVN, SU, OGZPY		Breakout from a Long Stock Price Base
2-Nov	XOM	ExxonMobil	Political Trends Turning
26-Oct	TOT, STO, RDS		Euro Oil Income Buys
19-Oct	Weekly Valuation		Invest 30-40% in Natural Gas, Half in Oil
12-Oct	EOG	EOG Resources	Leads in Eagle Ford Shale
5-Oct	COSWF	Canadian Oil Sands Trust	Investment Appeal and Cross Currents
For earlier editions, go to mcdep.com , click on Meter Reader .			
Income and Small Cap Weekly			
12-Nov	DMLP	Dorchester Minerals, L.P.	volume Trend Strengthening
5-Nov	Weekly Valuation		Frac Shortage Limits Energy Supply
29-Oct	SJT, HGT	San Juan RT, Hugoton RT	Natural Gas Income at Low Price
22-Oct	Weekly Valuation		Natural Gas Explorers Reduce Drilling
15-Oct	XEC, BIREF	Cimarex, Birchcliff	Looking for Latent Riches in Land
8-Oct	Top Line Cash Payers		Golden Stocks
For earlier editions, go to mcdep.com , click on Energy Income .			



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