



Meter Reader Flash

Large Cap Oil and Gas Stocks
April 30, 2010

Remove Buys on PBR, BG, APC and BP Accident May Delay Deep Water Oil Progress

Summary and Recommendation

Worried about the value of deep water oil prospects and the negative consequences of a growing disaster, we remove our buy recommendations on **Petrobras (PBR)**, **BG Group (BRGXF)**, **Anadarko (APC)** and **BP plc (BP)** (see Table 1). A vast oil spill expanding in the Gulf of Mexico casts a dark cloud over the prospects for oil production in deep water, heretofore the most promising source of new conventional oil supply. The resource is too important not to be developed, but costs may be higher, lead times longer and access more restricted.

We think first of PBR, the Brazilian giant planning the world's largest stock offering to finance oil production in water depths of a couple miles. In advance of the deal, PBR stock has been below the 200-day average. The challenge of placing all that stock in the wake of heightened offshore drilling risk makes us want to wait before encouraging investors to add more to the moderate position we previously advocated. Deep water oil counts for about a third of estimated Net Present Value (NPV) for PBR (see table Functional Cash Flow and Present Value).

We think next of BG Group with a fifth of estimated NPV represented in Offshore Brazil (see table Functional Cash Flow and Present Value). Also trading at a price below its 200-day average, BG stock may take longer to resume an uptrend. As a result, we would not add now to any modest position previously supported by our recommendation. PBR and BG are the only stocks in our large cap coverage where we have allocated any portion of NPV to deep water oil not yet producing cash flow.

We also remove our buy recommendation on APC, a leading independent deep water explorer and 35% owner of the well flowing uncontrollably in mile deep water. Bad news and a McDep Ratio above 1.0 are not a good combination for Anadarko stock.

Finally, BP as the operator and 65% owner of the wild well may face the greatest unknown direct consequences. Just two days ago we raised our estimate of NPV after the company reported first quarter results. Since then the worsening oil spill has contributed to a steep drop in price that takes BP's stock below the 200-day average. A McDep Ratio of 0.69, among the lowest in our large cap coverage, and a 6.4% dividend yield help justify holding the stock, but the prospects of the stock price resuming an uptrend soon appear murky.

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Petrobras					
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>	
Rest of World Natural Gas	1,090	9.9	8.3	9,000	3%
Oil	30,460	9.0	5.7	174,000	55%
Downstream	4,553		7.2	33,000	11%
Pre Salt Deep Water Oil				98,000	31%
	36,100	9.1	8.7	314,000	100%
Debt (US\$mm)					60,000
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)					60

BG Group plc					
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>	
Rest of World Natural Gas	2,910	8.1	6.2	18,000	21%
Oil	3,610	8.9	6.1	22,000	26%
Downstream	3,480		7.5	26,000	31%
Offshore Brazil				18,000	21%
	10,000	8.3	8.4	84,000	100%
Debt (US\$mm)					9,000
Net Present Value (US\$mm)					75,000
Shares (mm)					3,400
Net Present Value - Standard Estimate (US\$/sh)					22
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					23



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