



Rating: Buy
 S&P 500: 1352
 Intraday

Petrobras

Oil Growth at a Reasonable Price

<i>Symbol</i>	PBR	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$mm)</i>	34,600
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	97.17	<i>Natural Gas and Oil Production/Ebitda (%)</i>	84
<i>Pricing Date</i>	3/24/08	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	2194	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$mm)</i>	213,000	<i>PV/Ebitda</i>	8.7
<i>Debt (US\$mm)</i>	35,000	<i>Undeveloped Reserves (%)</i>	55
<i>Enterprise Value (EV) (US\$mm)</i>	248,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.40
<i>Present Value (PV) (US\$mm)</i>	302,000	<i>Present Value Proven Reserves(US\$/boe)</i>	22.34
<i>Net Present Value (US\$/share)</i>	122	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.72
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.02
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.70
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\$80 a barrel and natural gas, \$11 a million btu.			
The Brazilian Government has voting control and with public sector entities owns 40% of Petrobras' equity.			

Summary

The common stock of **Petroleo Brasileiro SA** also known as **Petrobras (PBR)** offers unlevered appreciation potential of 22% to estimated net present value (NPV) of \$122 a share. Concentration on oil production at a time of increased oil price generated a high level of unlevered cash flow (Ebitda) displayed in fourth quarter results according to U.S. accounting reported last week. Natural gas and downstream (Other) made additional contributions (see table Next Twelve Months Operating and Financial Estimates). On December 18 we increased NPV from \$105 a share prompted by an increase in long-term oil price for calculating present value to \$80 from \$66 a barrel. NPV includes 21% for offshore oil and gas in the early stages of discovery in addition to operations mostly supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). Take out that 21% and one could say that the price of Petrobras stock can be justified by NPV at \$80 oil without counting the world's most exciting new oil and gas discoveries of the past several years.

Kurt H. Wulff, CFA

McDep LLC
Independent Stock Idea
 March 24, 2008



Petrobras									
Next Twelve Months Operating and Financial Estimates									
(U.S. Accounting, US\$)									
									<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>2008E</i>
	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007</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>
Volume									
Natural Gas (mmcf)	2,310	2,280	2,285	2,280	2,286	2,310	2,310	2,297	2,304
Days	92	92	365	91	91	92	92	366	365
Oil (mbd)	1,908	1,905	1,907	2,000	2,000	2,000	2,000	2,000	2,000
Total gas & oil (mmb)	211	210	835	217	217	219	219	872	870
Total gas & oil (mbd)	2,293	2,285	2,288	2,380	2,381	2,385	2,385	2,383	2,384
Price									
Natural gas (\$/mcf)	5.13	4.99	4.92	5.00	5.00	5.00	5.00	5.00	5.00
Oil (\$/bbl)									
WTI Cushing	75.48	90.67	72.28	97.87	101.58	99.71	98.45	99.40	99.31
Brent	74.87	88.69	72.52	95.73	99.36	97.53	96.30	97.23	97.14
Company	63.82	75.63	60.89	81.63	84.73	83.17	82.12	82.91	82.84
Total gas & oil (\$/bbl)	58.27	68.04	55.68	73.39	75.97	74.58	73.71	74.41	74.33
NY Harbor 3-2-1 (\$/bbl)	12.64	8.19	14.37	7.48	13.17	12.87	9.83	10.84	11.81
Revenue (mm\$)									
Natural gas	1,090	1,048	4,106	1,037	1,040	1,063	1,063	4,203	4,205
Oil	11,203	13,255	42,395	14,857	15,421	15,303	15,110	60,690	60,470
Total production	12,293	14,303	46,502	15,894	16,461	16,365	16,173	64,893	64,675
Other	11,154	11,021	22,175	11,021	11,021	11,021	11,021	44,085	44,085
Total	23,447	25,324	48,771	26,916	27,482	27,386	27,194	108,978	108,760
Expense									
Production			25,451	8,742	9,053	9,001	8,895	35,691	35,571
Other			16,699	9,652	9,652	9,652	9,652	38,609	38,609
Ebitda (mm\$)									
Production			21,050	7,152	7,407	7,364	7,278	29,202	29,104
Other			5,476	1,369	1,369	1,369	1,369	5,476	5,476
Total Ebitda	7,081	6,846	26,526	8,521	8,776	8,733	8,647	34,678	34,580
Exploration	283	634	1,423	356	356	356	356	1,423	1,423
Deprec., Deplet., & Amort.	1,277	1,728	5,544	1,386	1,386	1,386	1,386	5,544	5,544
Ebit	5,521	4,484	19,559	6,780	7,035	6,992	6,905	27,711	27,613
Interest	115	(21)	554	139	139	139	139	554	554
Ebt	5,406	4,505	19,005	6,641	6,896	6,853	6,766	27,157	27,059
Income Tax	1,589	1,697	5,888	2,324	2,414	2,399	2,368	9,505	9,471
Net Income (mm\$)	3,817	2,808	13,117	4,317	4,482	4,454	4,398	17,652	17,588
Shares (millions)	2,194	2,194	2,194	2,194	2,194	2,194	2,194	2,194	2,194
Per share (\$)	1.74	1.28	5.98	1.97	2.04	2.03	2.01	8.05	8.02
Ebitda Margin (E&P)			45%	45%	45%	45%	45%	45%	45%
Tax Rate	29%	38%	31%	35%	35%	35%	35%	35%	35%



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	1,892	10.5	7.9	15,000	5%
Oil	27,212	9.3	7.1	193,000	64%
Downstream	5,476		5.5	30,000	10%
Pre Salt Deep Water Oil				65,000	21%
	34,580	9.5	8.8	303,000	100%
Debt (US\$mm)					35,000
Net Present Value (US\$mm)					268,000
Shares (mm)					2,194
Net Present Value - Standard Estimate (US\$/sh)					122
Net Present Value - Approximation by Correlation (US\$/sh)					110

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.

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