

Rating: Buy
 S&P 500: 1483

Petro-Canada Raise NPV to US\$65 a Share

<i>Symbol</i>	PCZ	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	6,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	54.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	81
<i>Pricing Date</i>	7/26/07	<i>Adjusted Reserves/Production NTM</i>	6.6
<i>Shares (mm)</i>	498	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	27,200	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	5,700	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	33,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	40.30
<i>Present Value (PV) (US\$mm)</i>	38,100	<i>Present Value Proven Reserves(US\$/boe)</i>	30.00
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.00
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.60
<i>McDep Ratio - EV/PV</i>	0.87	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.50

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\$66 a barrel and natural gas, \$11 a million btu.

For historical research on PCZ since 2004 see www.mcdep.com/2pcz.htm

Summary and Recommendation

Buy-recommended **Petro-Canada (PCZ)** offers unlevered appreciation potential of 16% to estimated net present value (NPV) of \$65 a share revised up from \$55 following strong second quarter results reported on July 26. Earlier we revised NPV to \$55 from \$49 on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Upstream volume gains and downstream margins are contributing to more than a 40% gain in estimated unlevered cash flow (Ebitda) for the next twelve months compared to the year 2006 (see table [Next Twelve Months Operating and Financial Estimates](#)). Even after the upward revision, NPV for the large cap stock looks low compared to our estimates for some thirty other producers (see table [Functional Cash Flow and Present Value](#)). Strong performance for the company may reinforce chief executive Ron Brenneman in his June 28 commitment to proceed with detailed engineering for the \$18 billion Fort Hills oil sands project (55% PCZ). Calculating that Fort Hills needs an oil price of \$54 a barrel for an adequate profit, the chief executive probably takes confidence from the current long-term quote of \$71 and rising (see chart [Six-Year Commodity Price Meter](#)). Finally, PCZ stock also has positive momentum as it trades above its 200-day average.

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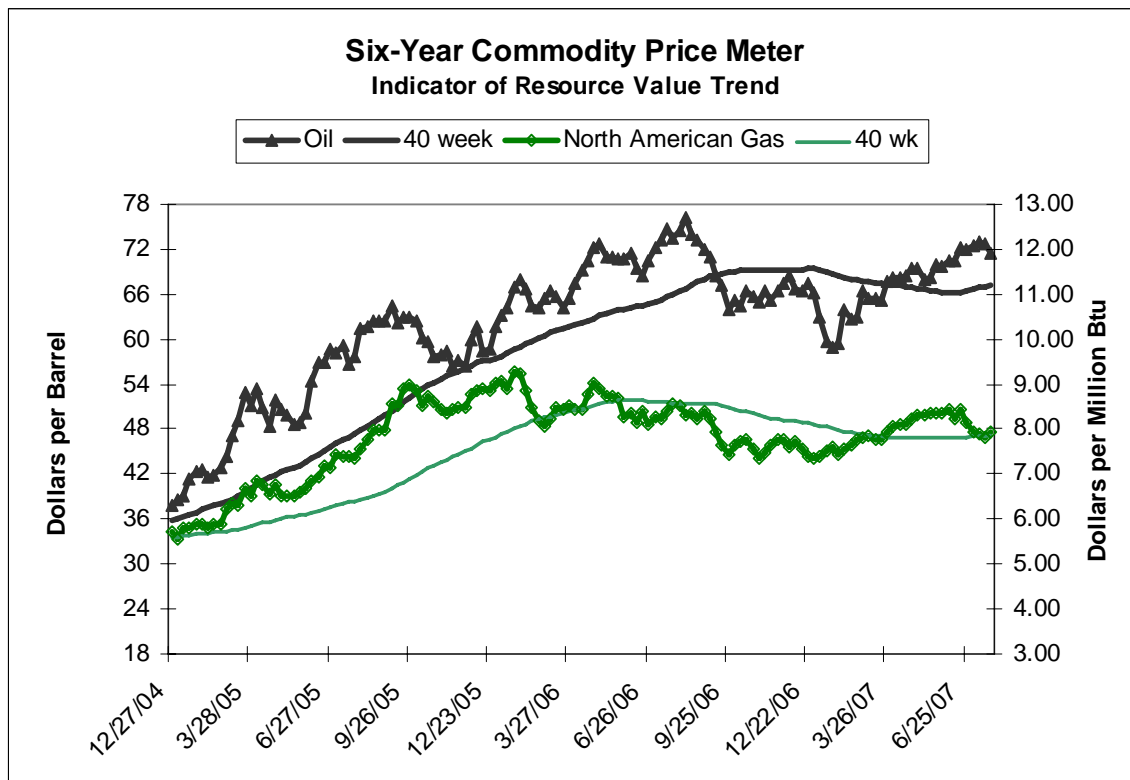
Petro-Canada
Next Twelve Months Operating and Financial Estimates
 (Canadian Dollars)

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>6/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	487	481	492	477	470	470	470	472	470
Overseas	144	91	104	118	86	84	91	95	95
Total	631	572	596	595	556	554	561	566	565
Oil (mbd)	205	232	206	258	279	279	279	274	279
Total gas & oil (mbd)	310	328	305	357	372	371	373	368	373
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	8.97	6.57	7.23	6.81	7.56	6.36	7.22	6.99	7.49
Currency (US\$/C\$)	0.87	0.88	0.88	0.85	0.91	0.96	0.96	0.92	0.96
Henry Hub (C\$/mmbtu)	10.31	7.48	8.19	7.97	8.29	6.63	7.52	7.58	7.80
U.S. (or North America)	8.69	6.52	6.82	7.39	6.87	5.49	6.23	6.49	6.45
Overseas	8.48	7.24	7.51	7.00	6.79	5.49	6.23	6.43	6.53
Total	8.64	6.63	6.94	7.31	6.86	5.49	6.23	6.48	6.46
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	63.33	59.99	66.05	58.08	64.91	74.48	74.58	68.01	74.07
WTI Cushing (C\$/bbl)	72.79	68.33	74.77	68.01	71.25	77.57	77.68	73.63	77.15
Worldwide	64.18	62.37	67.31	63.46	70.14	76.37	76.48	71.81	75.95
Total gas & oil (\$/bbl)	56.06	53.80	56.40	55.71	61.34	64.32	65.14	61.72	64.92
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	10.50	11.68	24.96	14.68	10.24	15.39	13.10
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	381	289	1,225	317	294	237	269	1,118	1,107
Overseas	110	61	284	74	53	42	52	222	226
Total	491	349	1,509	392	347	280	321	1,340	1,332
Oil	1,184	1,334	5,058	1,474	1,781	1,960	1,963	7,177	7,735
Downstream	2,757	2,934	12,381	3,088	3,334	3,334	3,334	13,090	13,336
Other	(244)	(67)	(279)	(112)	16	16	16	(63)	65
Total	4,188	4,550	18,669	4,841	5,478	5,590	5,635	21,544	22,468
Expense									
Upstream	606	586	2,569	687	700	829	845	3,061	3,355
Downstream	2,589	2,733	11,399	2,737	2,864	2,992	3,133	11,726	11,972
Other	(244)	(67)	(279)	(112)	16	16	16	(63)	65
Total	2,951	3,252	13,689	3,312	3,580	3,837	3,994	14,724	15,392
Ebitda (\$mm)									
Upstream	1,069	1,097	3,998	1,178	1,428	1,411	1,439	5,456	5,712
Downstream	168	201	982	351	470	342	201	1,364	1,364
Total	1,237	1,298	4,980	1,529	1,898	1,753	1,640	6,820	7,076
Exploration	97	107	339	142	100	100	100	442	380
Deprec., Deplet., & Amort.									
Upstream	282	322	1,099	372	444	444	444	1,704	1,776
Downstream	53	81	262	69	72	72	72	285	288
Other									
Total	335	403	1,361	441	516	516	516	1,989	2,064
Ebit	805	788	3,280	946	1,282	1,137	1,024	4,389	4,632
Interest	45	37	165	42	41	41	41	165	164
Ebt	760	751	3,115	904	1,241	1,096	983	4,224	4,468
Income Tax	266	263	1,090	316	434	384	344	1,478	1,564
Net Income (\$mm)									
Upstream	68	440	1,367	440	644				
Downstream	75	78	468	183	259				
Other	351	(30)	190	(36)	(96)				
Total	494	488	2,025	587	807	712	639	2,746	2,904
Shares (millions)	520	498	509	502	498	498	498	499	498
Per share (\$)	0.95	0.98	3.98	1.17	1.62	1.43	1.28	5.50	5.83
Ebitda Margin (E&P)	64%	65%	61%	63%	67%	63%	63%	64%	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>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	669	7.2	6.7	4,500	12%
Rest of World Natural Gas	136	6.1	5.9	800	2%
Oil	4,678	6.4	5.7	26,800	70%
Downstream	1,309		4.6	6,000	16%
	6,794	6.6	5.6	38,100	100%
Debt (US\$mm)					5,700
Net Present Value (US\$mm)					32,400
Shares (mm)					498
Net Present Value - Standard Estimate (US\$/sh)					65
Net Present Value - Approximation by Correlation (US\$/sh)					72



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