



# Independent Stock Idea

April 28, 2009

rating: hold  
s&p 500: 861

## Petro-Canada (PCZ) Suncor at a Discount

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	7,300
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	25.06	<i>Natural Gas and Oil Production/Ebitda (%)</i>	89
<i>Pricing Date</i>	4/27/09	<i>Adjusted Reserves/Production NTM</i>	12.1
<i>Shares (mm) - Pro-Forma</i>	1564	<i>EV/Ebitda</i>	7.4
<i>Market Capitalization (US\$mm)</i>	39,200	<i>PV/Ebitda</i>	13.2
<i>Debt (US\$mm)</i>	14,900	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	54,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.52
<i>Present Value (PV) (US\$mm)</i>	96,200	<i>Present Value Proven Reserves(US\$/boe)</i>	27.11
<i>Net Present Value (US\$/share)</i>	52	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.52
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.38
<i>McDep Ratio - EV/PV</i>	0.56	<i>Price/Earnings Next Twelve Months</i>	18
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.16
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, \$10 a million btu.			
For historical analysis of SU since 2004 see <a href="http://www.mcdep.com/2su.htm">www.mcdep.com/2su.htm</a>			

### Summary and Recommendation

Owners of hold-rated **Petro-Canada (PCZ)**, recently quoted at US\$30.96, essentially own stock of pro forma **Suncor (SU)** at a 3% discount to the recent quote for Suncor. That conclusion presumes the likely completion of the proposed merger in the third quarter at the exchange ratio of 1.28 share of SU for each share of PCZ. As a result, PCZ offers unlevered appreciation potential of 82% to a McDep Ratio of 1.0 and levered appreciation potential of 115% to Net Present Value (NPV) of US\$52 a share of Suncor after the merger. During the first quarter, according to results released today, Petro-Canada generated cash of about US\$18 a barrel equivalent as the difference between oil price of about US\$35 and cash operating costs of about US\$17. It looks like the first quarter was the low point from which results can build with rising volume and price before taking account of the Suncor deal (see table Next Twelve Months Operating and Financial Estimates). Petro-Canada brings a diverse spread of reserves to the new company (see table Production and Reserves, 2008). Those resources support our estimate of \$35 billion of Present Value for PCZ's oil, natural gas and downstream operations (see table Petro-Canada - Functional Cash Flow and Present Value). Next, we add the cash flow, reserve life and present value of Suncor for a picture of the proposed new company, concentrated 85% on oil (see table Suncor Pro Forma - Functional Cash Flow and Present Value). Finally, pointing to expected oil price recovery, futures prices for the next six years averaged US\$66 a barrel recently (see chart Six-Year Commodity Price Meter).

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Petro-Canada									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Twelve
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	Months
									3/31/10
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	466	479	467	474	474	474	474	474	474
Overseas	126	108	118	130	123	114	108	119	119
Total	592	587	586	604	597	588	582	593	593
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	276	251	255	245	245	245	245	245	245
Total gas & oil (mbd)	375	349	352	346	345	343	342	344	344
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	8.02	6.95	9.04	4.90	3.42	3.62	4.57	4.13	4.30
Currency (US\$/C\$)	1.00	0.83	0.94	0.80	0.82	0.82	0.82	0.82	0.82
Henry Hub (C\$/mmbtu)	8.05	8.40	9.58	6.09	4.16	4.42	5.56	5.05	5.24
U.S. (or North America)	7.51	6.61	8.02	5.14	3.51	3.73	4.70	4.27	4.42
Overseas	7.59	13.39	9.96	5.62	5.62	5.62	5.62	5.62	5.62
Total	7.53	7.86	8.41	5.24	3.95	4.09	4.87	4.54	4.66
Oil (\$/bbl)									
WTI Cushing (US\$/bbl)	97.94	58.45	99.59	42.96	49.97	52.66	55.70	50.32	54.12
WTI Cushing (C\$/bbl)	98.40	70.62	104.25	53.43	60.89	64.17	67.88	61.59	65.95
Worldwide	93.38	58.25	95.41	52.08	55.72	58.72	62.12	57.19	60.34
Total gas & oil (\$/bbl)	78.13	50.99	79.64	43.96	44.46	47.10	51.01	46.64	49.10
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	9.86	9.18	8.11	6.98	3.00	6.82	5.74
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	318	291	1,370	219	151	162	205	738	765
Overseas	87	133	429	66	63	59	56	243	243
Total	405	424	1,800	285	214	221	261	981	1,008
Oil	2,345	1,345	8,892	1,148	1,242	1,324	1,400	5,115	5,396
Downstream	3,762	3,239	16,345	2,502	2,502	2,502	2,502	10,008	10,008
Other	73	259	869	36	36	36	36	142	142
Total	6,586	5,267	27,905	3,971	3,994	4,083	4,198	16,246	16,555
<b>Expense (\$mm)</b>									
Upstream	998	366	3,021	742	656	572	614	2,584	2,486
Downstream	3,404	2,996	15,159	2,276	2,289	2,338	2,353	9,255	9,290
Other	73	259	869	36	36	36	36	142	142
Total	4,476	3,621	19,049	3,053	2,980	2,946	3,003	11,982	11,918
<b>Ebitda (\$mm)</b>									
Upstream	1,752	1,403	7,670	691	801	973	1,046	3,512	3,918
Downstream	358	243	1,186	226	213	164	149	753	718
Total	2,110	1,646	8,856	918	1,015	1,137	1,196	4,265	4,637
Exploration	143	116	587	108	108	108	108	432	414
Deprec., Deplet., & Amort.									
Upstream	448	555	1,830	460	460	460	460	1,840	1,840
Downstream	75	92	325	100	100	100	100	400	400
Other									
Total	523	647	2,155	560	560	560	560	2,240	2,240
<b>Ebit</b>	1,444	883	6,114	250	347	469	528	1,593	1,983
Interest	48	86	242	78	78	78	78	312	312
<b>Ebt</b>	1,396	797	5,872	172	269	391	450	1,281	1,671
Income Tax	489	279	2,055	60	94	137	157	448	585
<b>Net Income (\$mm)</b>									
Upstream	897	434	3,542	75					
Downstream	184	98	455	82					
Other	(173)	(14)	(180)	(45)					
Total	908	518	3,817	112	175	254	292	833	1,086
<b>Shares (millions)</b>	488	484	485	485	485	485	485	485	485
Per share (\$)	1.86	1.07	7.87	0.23	0.36	0.52	0.60	1.72	2.24
Ebitda Margin (E&P)	64%	79%	72%	48%	55%	63%	63%	58%	61%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

Page 2



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April 28, 2009

<b>Petro-Canada</b>									
<b>Production and Reserves, 2008</b>									
				<u>12/31/2008 Proven Reserves</u>			<u>Weighted</u>	<u>2008</u>	
		<u>2008 Production</u>	<u>Developed</u>	<u>Undeveloped</u>	<u>Weighted</u>	<u>Life Index</u>	<u>Adjusted</u>		
		<u>(daily)</u>	<u>(annual)</u>	<u>(bcf or mmb)</u>	<u>(bcf or mmb)</u>	<u>(years)</u>	<u>R/P</u>	<u>(years)</u>	
North American Natural Gas									
	Western Canada	399	146	850	34	867	6.0		
	U.S. Rockies	67	24	92	32	108	4.4		
	<b>Total</b>	<b>466</b>	<b>170</b>	<b>942</b>	<b>66</b>	<b>975</b>	<b>5.7</b>	<b>5.6</b>	
Rest of World Natural Gas									
	North Sea	56	20	42	9	47	2.3		
	Northern Latin America	63	23	36	120	96	4.2		
	<b>Total</b>	<b>119</b>	<b>43</b>	<b>78</b>	<b>129</b>	<b>143</b>	<b>3.3</b>	<b>3.3</b>	
Oil									
	Western Canada	8	3	23		23	7.7		
	East Coast	68	25	43	22	54	2.2		
	Oil Sands	25	9	52	204	154	17.1		
	U.S. Rockies	3	1	6	6	9	9.0		
	North Sea	88	32	95	68	129	4.0		
	North Africa/Near East	31	11	33		33	2.9		
	Syncrude	30	11	336	-	336	30.8		
	<b>Total</b>	<b>253</b>	<b>92</b>	<b>588</b>	<b>300</b>	<b>738</b>	<b>8.0</b>	<b>8.3</b>	
	<b>Total Oil Equivalent</b>	<b>350</b>	<b>128</b>	<b>758</b>	<b>333</b>	<b>924</b>	<b>7.2</b>	<b>7.4</b>	
Weighted Life Index counts undeveloped reserves at half stated value and is computed on latest calendar year volume.									
NTM Adjusted R/P also counts undeveloped reserves at half and is computed on next twelve months production.									

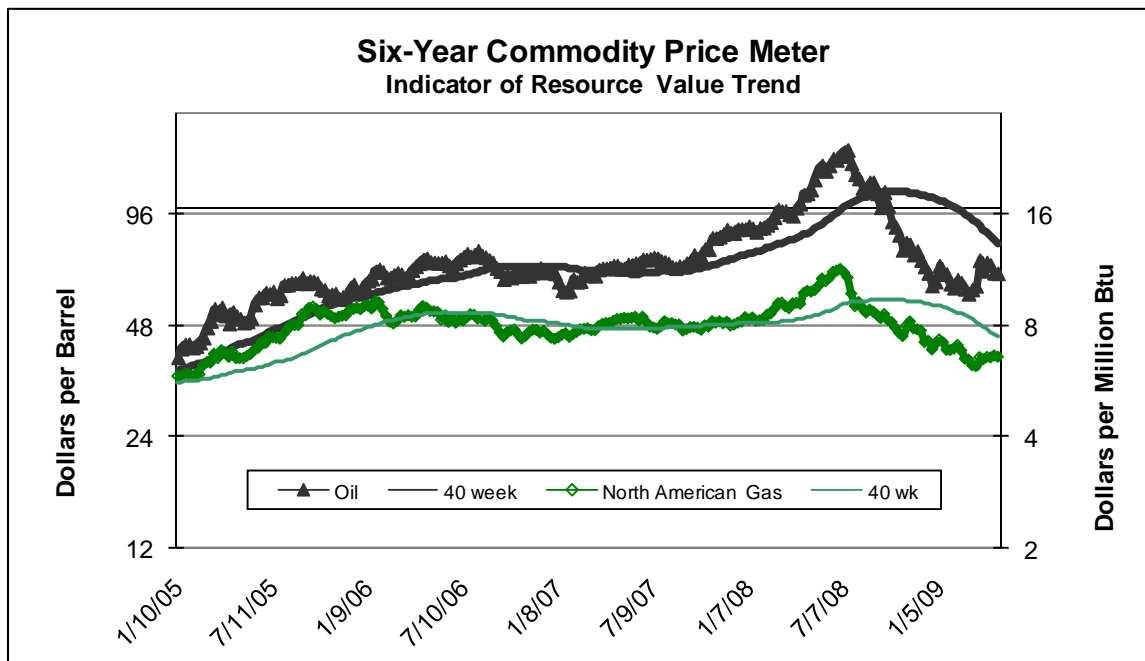
<b>Petro-Canada</b>					
<b>Functional Cash Flow and Present Value</b>					
	<u>NTM Ebitda</u>	<u>Adjusted</u>	<u>PV/</u>	<u>Present</u>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
				<u>(US\$mm)</u>	
North American Natural Gas	384	5.6	11.5	4,400	13%
Rest of World Natural Gas	122	3.3	8.2	1,000	3%
Oil	2,709	8.3	9.1	24,600	70%
Downstream	590		8.5	5,000	14%
	<b>3,805</b>	<b>7.4</b>	<b>9.2</b>	<b>35,000</b>	<b>100%</b>
Debt (US\$mm)					5,900
Net Present Value (US\$mm)					29,100
Shares (mm)					485
Net Present Value - Standard Estimate (US\$/sh)					60
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					61



# Independent Stock Idea

April 28, 2009

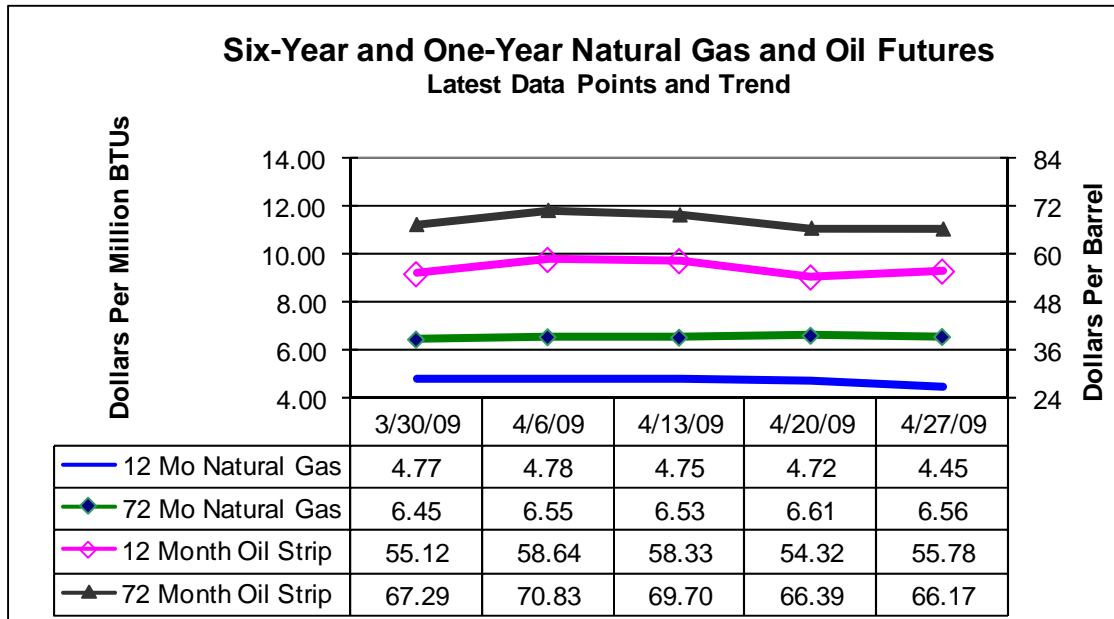
Suncor Pro-Forma					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	534	6.0	11.4	6,100	6%
Rest of World Natural Gas	122	3.3	8.2	1,000	1%
Oil	5,844	13.7	14.0	82,100	85%
Downstream	800		8.8	7,000	7%
	7,300	12.1	13.2	96,200	100%
Debt (US\$mm)					14,900
Net Present Value (US\$mm)					81,300
Shares (mm)					1,564
Net Present Value - Standard Estimate (US\$/sh)					52





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