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.

Kurt H. Wulff, CFA



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				Table 1						
McDep Energy Portfolio										
	Geogr	aphic	Domic	cile and	l Busines	s Segm	ents			
						Proson	t Value by	Seamen	t (%)	
			Price			North	Rest	beginen	(/ 0)	
			(US\$/sh)	EV/	Enterprise	Amer.	of World			
	Symbol/		29-Apr	Market	Value	Natural	Natural	Oil	Down-	McDe
R – Ru	y, CB (see		2010	Cap	(\$mm)	Gas	Gas	Prod'n	stream	Rati
U.S. Integrated	у, сь (зес	ociow)	2010	Сир	(\psi nun)	Ous	Gus	1 Tou n	stream	Run
Exxon Mobil Corporation	XOM	СВ	68.66	1.17	420,000	9	17	56	17	0.8
Chevron Corporation	CVX	В	82.29	1.18	195,000	4	10	72	14	0.7
ConocoPhillips	COP	В	59.10	1.60	142,000	13	9	64	14	0.7
Marathon Oil Corporation	MRO	В	32.40	1.52	35,000	7	3	64	26	0.7
Total or Median *	31%	8%	15%	1.52	792,000	,	3	01	20	0.7.
Europe	5170	070	1570		7,72,000					0.72
Royal Dutch Shell plc	RDS-A	В	61.69	1.33	252,000	3	23	48	26	0.8
BG Group	BRGXF		17.00	1.24	71,600	3	20	51	29	0.8
Statoil ASA (33%)	STO	В	24.37	1.41	36,100		49	51	-	0.7
BP plc	BP	Б	52.56	1.35	225,000	6	12	61	21	0.6
Total S.A.	TOT	СВ	55.74	1.27	159,000	0	19	59	22	0.6
Total or Median *	29%	10%	12%	1.27	744.000		17	37		0.70
Australia/Brazil/China/Russi		1070	1270		711,000					0.70
CNOOC Limited (34%)	CEO	В	176.25	1.02	27,400		11	89	-	1.2
Woodside Petroleum Ltd.	WOPEY	В	42.45	1.17	40,000		74	26	_	0.9
PetroChina Company Ltd (14%		СВ	116.26	1.23	36,600		14	72	14	0.9
Petrobras	PBR	СБ	42.66	1.32	247,000		4	81	15	0.3
Lukoil Oil Company	LUKOY	В	57.50	1.13	55,200			68	32	0.4
Gazprom (50%)	OGZPY	В	23.93	1.32	92,000		77	23	- 32	0.4
Total or Median *	19%	12%	19%	1.32	498,000		11	23	_	0.80
U.S. Independent	19/0	12/0	19/0		490,000					0.80
Southwestern Energy Compan	SWN		40.38	1.08	15,200	100			-	1.2
EOG Resources	EOG	В	111.26	1.11	31,000	69	5	27	_	1.1
Anadarko Petroleum Corp.	APC	ъ	67.33	1.11	48,000	45	3	50	4	1.0
Occidental Petroleum Corp.	OXY	В	86.25	1.07	75,200	10	1	82	7	0.9
Chesapeake Energy Corp.	CHK	ъ	23.61	1.93	28,700	89	1	11	-	0.9
Devon Energy Corporation	DVN	В	67.35	1.04	31,700	57		43	_	0.7
Total or Median *	9%	12%	12%	1.04	230,000	31		43	_	0.97
Canada	270	12/0	12/0		250,000					0.57
Cenovus Energy Inc.	CVE	В	29.83	1.31	29,400	23		70	7	1.0
Imperial Oil Limited (30%)	IMO	В	43.06	1.08	11,900	5		81	15	0.9
Canadian Natural Resources	CNQ	В	77.28	1.28	53,700	13		87	-	0.8
Canadian Oil Sands Trust	COSWF	В	31.03	1.09	16,400	13		100	_	0.8
EnCana Corporation	ECA	В	32.78	1.36	33,400	95		5		0.8
Suncor Energy	SU	В	33.94	1.36	72,300	5		84	11	0.7
Total or Median *	8%	12%	23%	1.50	217,000	, ,		0-1	- 11	0.80
Income and Small Cap (see se					217,000					0.00
meonic and sman Cap (see se	3%	45%	19%		82,400	55		45		1.00
Composite	370	75/0	1970		02,700	33		7.7		1.00
Enterprise Value Weighting	100%				2,563,000	11	15	59	15	0.78
Equal Weighting	10070	100%			2,505,000	36	7	51	6	0.9.
Equal Weighted Buys		100/0	100%			25	12	55	8	0.82
										0.02



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	Petrobras						
Functional Cash Flow and Present Value							
				Present			
N	TM Ebitda	Adjusted	PV/	Value			
	(US\$mm)	<u>R/P</u>	<u>Ebitda</u>	<u>(US\$mm)</u>			
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)							
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)							

BG Group plc								
Functional Cash Flow and Present Value								
				Present				
	NTM Ebitda	Adjusted	PV/	Value				
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	(US\$mm)				
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)								
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)								



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