Deutsche Bank
Markets Research

Rating
Hold

Global Emerging Markets
Brazil

Oil & Gas

Company
Petrobras

Reuters	Bloomberg	Exchange	Ticker
PBR.N	PBR UN	NYS	PBR

Date
28 April 2013

Results

Price at 26 Apr 2013 (USD)	18.03
Target price	19.00
52-week range	24.18 - 14.45

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Petrobras' 1Q13 figures should be well received by the market. EBITDA topped our estimates by 10%, led by lower losses in refining. That was partially due to higher domestic output. Absent of a strong increase in demand, higher capacity should continue to result in lower higher priced imports going forward. In E&P, production remains weak but expected to improve in 2H. Finally, we note the reduction in operating costs. Are we at an inflection point? We hope so, but we are still unsure. We are retaining our Hold rating due to many challenges facing Petrobras: weak short/medium term production outlook and the negative interference from the government.

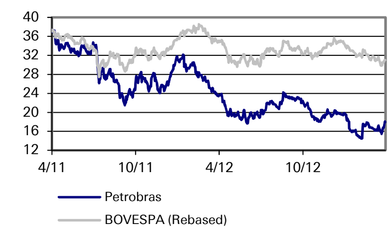
Management doing its homework on costs - we wait for it to become a trend
According to management, the PROCOP (cost cutting initiative) delivered BRL1.3bn in cost savings versus the BRL0.6bn target (BRL3.8bn target for the year). While that is an encouraging outcome, we prefer to wait until lower costs become a trend to incorporate them in our estimates. We note that on the E&P segment, lower expenses were a function of lower exploration write offs (a non controllable expense), while on refining opex actually increased QoQ. The decline came from international and distribution and reflected mostly provisions made in the previous quarter. Corporate opex stayed flat QoQ.

E&P: weak on lower production and prices, partially offset by lower opex
EBITDA of BRL18.9bn was 12% below our estimates and below QoQ and YoY figures by 10% and 13%, respectively. Main variances versus our estimates were: lower exploration expenses, lower domestic oil production, lower average oil realization price, lower lifting costs. Outlook: Management reiterated that the average production of oil and natural gas in 2013 should be similar to that of 2012, with lower levels in 1H13 due to a higher rate of maintenance stoppages.

Refining: better than expected on higher domestic output
Negative EBITDA of BRL5.3bn was better than our EBITDA loss estimate of BRL6.6bn. Main variances versus our estimates were: increase in refining capacity, utilization and throughput ratios, leading to lower imports. Outlook is turning more positive, but demand remains the main risk.

Valuation: DCF based PT of $19. Upside risks: increased production and prices; downside risk: more government interference. Please see details on page 10.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	7.6	-9.0	-23.7
BOVESPA	-2.5	-11.3	-12.8

Forecasts And Ratios

Year End Dec 31	2011A	2012A	2013E	2014E	2015E
P/E (x)	10.9	14.0	11.1	9.3	7.7
EV/EBITDA (x)	7.2	8.1	8.1	7.5	6.8
Dividend yield (%)	2.9	2.1	2.2	3.1	3.8

Source: Deutsche Bank estimates, company data

Deutsche Bank Securities Inc.

1Q13 earnings review

Signs of an inflection point

Petrobras reported 1Q13 results came in better than our estimates and consensus. Net revenues of BRL 72.5bn came in line with our estimates as lower than expected sales in E&P and refining were offset by better performance in the Gas and Energy segment. EBITDA of BRL 16.2bn was 10% above our estimates as lower losses in the refining segment and better results in distribution helped mitigate earnings shortfall in E&P.

Reported net income of BRL 7.7bn (EPADR of USD0.60) came in 25% above our estimates due to better operating results, better non cash FX gains and positive equity income which offset higher than estimated effective tax rate.

Figure 1: Petrobras – income statement

BRL mn					**1Q13A**		
	1Q13A	**1Q13E**	**1Q12A**	**4Q12A**	**1Q13E**	**1Q12A**	**4Q12A**
E&P	34,692	36,817	36,237	37,945	-6%	-4%	-9%
Refining	56,839	57,150	55,027	57,628	-1%	3%	-1%
Gas & Energy	8,149	6,171	4,420	7,187	32%	84%	13%
International	8,679	10,058	8,363	8,838	-14%	4%	-2%
Distribution	21,346	19,159	18,247	22,419	11%	17%	-5%
Eliminations	(57,170)	(58,058)	(56,160)	(60,612)	-2%	2%	-6%
Net sales	**72,535**	**71,298**	**66,134**	**73,405**	**2%**	**10%**	**-1%**
COGS (incl. D&A)	53,679	53,639	45,890	56,843	0%	17%	-6%
Gross Profit	**18,856**	**17,658**	**20,244**	**16,562**	**7%**	**-7%**	**14%**
Gross margin	*26.0%*	*24.8%*	*30.6%*	*22.6%*	*5%*	*-15%*	*15%*
Exploration expenses	1,282	1,654	1,011	2,152	-22%	27%	-40%
SG&A expenses	4,765	4,664	4,553	4,975	2%	5%	-4%
R&D expenses	673	566	518	703	19%	30%	-4%
Taxes	223	217	148	271	3%	51%	-18%
Other	2,064	1,515	2,243	2,722	36%	-8%	-24%
Operating expenses	**9,007**	**8,615**	**8,473**	**10,823**	**5%**	**6%**	**-17%**
Operating profit	**9,849**	**9,043**	**11,771**	**5,739**	**9%**	**-16%**	**72%**
Operating margin	*13.6%*	*12.7%*	*17.8%*	*7.8%*			
EBITDA	**16,231**	**14,813**	**16,521**	**11,663**	**10%**	**-2%**	**39%**
EBITDA Margin	*22.4%*	*20.8%*	*25.0%*	*15.9%*			
Net interest results	(227)	(44)	331	2,308			
Net FX gain / (loss)	1,617	(578)	134	480			
Equity income	156	(50)	136	182			
Pre-tax profit	**11,395**	**8,371**	**12,372**	**8,709**	**36%**	**-8%**	**31%**
Taxes	(3,560)	(2,260)	(2,944)	(942)			
Minority Interest	(142)	50	(214)	(20)			
Net earnings	**7,693**	**6,161**	**9,214**	**7,747**	**25%**	**-17%**	**-1%**
EPS	**0.59**	**0.47**	**0.71**	**0.59**			

Source: Deutsche Bank and company reports.

Segment Performance

The breakdown of Petrobras' reported revenues, EBITDA and net income is shown on Figure 2. In this section we discuss the performance of all the segments.

Figure 2: Petrobras – segment results

BRL bn	Revenues					EBITDA					Net Income				
	1Q13A	1Q12A	4Q12A	YoY	QoQ	1Q13A	1Q12A	4Q12A	YoY	QoQ	1Q13A	1Q12A	4Q12A	YoY	QoQ
E&P	34,692	36,237	37,945	-4%	-9%	18,898	21,718	20,940	-13%	-10%	9,953	12,440	11,533	-20%	-14%
Refining	56,839	55,027	57,628	3%	-1%	(5,316)	(6,328)	(7,513)	-16%	-29%	(4,256)	(4,599)	(5,650)	-7%	-25%
Gas & Energy	8,149	4,420	7,187	84%	13%	1,658	1,410	1,024	18%	62%	904	735	534	23%	69%
International	8,679	8,363	8,838	4%	-2%	1,777	1,874	522	-5%	240%	773	1,018	(627)	-24%	-223%
Distribution	21,346	18,247	22,419	17%	-5%	1,194	618	930	93%	28%	716	364	544	97%	32%
Corporate & Elim	(57,170)	(56,160)	(60,612)	2%	-6%	(1,980)	(2,771)	(4,240)	-29%	-53%	(397)	(2,211)	1,413	-82%	-128%
Total	**72,535**	**66,134**	**73,405**	**10%**	**-1%**	**16,231**	**16,521**	**11,663**	**-2%**	**39%**	**7,693**	**7,747**	**7,747**	**-1%**	**-1%**

Source: Deutsche Bank and company reports.

E&P review: weak on lower production and prices, partially offset by lower opex

The E&P segment reported EBITDA of BRL18.9bn was 12% below our estimates and below QoQ and YoY figures by 10% and 13%, respectively.

The main items affecting the performance of this segment were:

(+) Lower than expected exploration expenses of BRL1.2bn versus our estimate of BRL1.5bn

(+) Lower operating expenses of BRL2.2bn versus estimates of BRL2.5bn, led by lower exploration expenses, other operating expenses and to a lesser extent, lower SG&A, probably reflecting lower sales

(-) Lower domestic oil production of 1.910mn bpd (1% below DBe, 4% lower QoQ and 8% lower YoY). Natural gas production of 2.424bn cf/d was 5% ahead of our estimates, flat QoQ and +10% YoY – the reduction in output was a function of maintenance shutdown of important platforms during the period, the natural decline of existing fields, mitigated by the start up of new units FPSO Cidade de Itajai, FPSO Cidade de São Paulo and FPSO Cidade de São Vicente. Petrobras also noted the increase in production in the FPSO Cidade de Anchieta.

(-) Lower average oil realization price of USD102.91/bbl versus our estimate of USD106.11/bbl and 1Q12 level of USD111.56/bbl, though better than 4Q12 level of USD100.56/bbl. We estimated a lower discount of Brazilian crude in line with trends seen in other heavy Latin American crudes but that expectation did not materialize.

(-) Lifting costs rose in the quarter, but not as much as expected. Lifting costs reached USD14.76/BOE an increase of 6%QoQ and 14% YoY due to lower production volumes and higher maintenance costs due to the scheduled shutdowns. Government take was also much lower than expected due to lower reference price and production from important fields.

E&P's key operating / financial figures are shown in Figure 3.

Figure 3: Petrobras – key E&P operating / financial figures

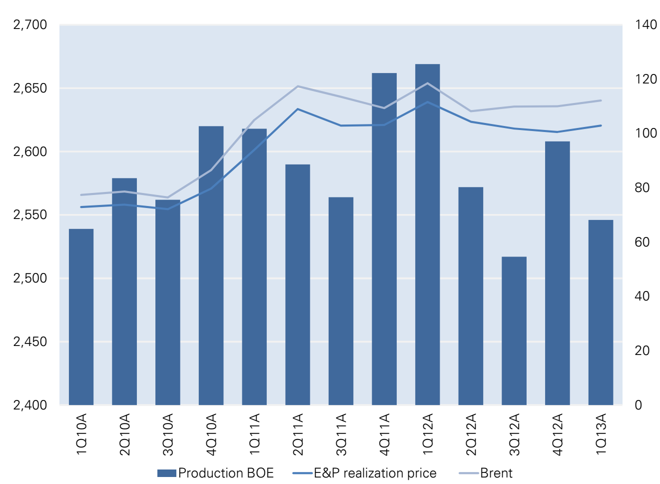
					1Q13A		
	1Q13A	**1Q13E**	**1Q12A**	**4Q12A**	**1Q13E**	**1Q12A**	**4Q12A**
Crude Brent $/bbl	112.11	112.11	118.49	110.00	0%	-5%	2%
EOP FX rate (BRL/USD)	2.02	2.02	1.83	2.05	0%	-10%	1%
AOP FX rate (BRL/USD)	1.96	1.96	1.77	2.06	0%	-10%	5%
Upstream Volumes mboe/d							
Crude Oil Production	**2,053**	**2,071**	**2,207**	**2,113**	**-1%**	**-7%**	**-3%**
Domestic	1,910	1,928	2,066	1,980	-1%	-8%	-4%
International	143	143	141	133	0%	1%	8%
Natural Gas Production	**493**	**393**	**462**	**495**	**25%**	**7%**	**0%**
Domestic	400	380	364	398	5%	10%	1%
International	93	93	98	97	0%	-5%	-4%
Total Production	**2,546**	**2,464**	**2,669**	**2,608**	**3%**	**-5%**	**-2%**
Average Crude Realized Price ($/bbl)	102.91	106.11	111.56	100.56	-3%	-8%	2%
Average Discount to Brent ($/bbl)	-9.20	-6.00	-6.93	-9.44	53%	33%	-3%
Lifting Cost - Brazil	14.76	15.01	12.98	13.94	-2%	14%	6%
Government take	14.73	18.92	22.70	19.31	-22%	-35%	-24%
Total lifting costs	**29.49**	**33.93**	**35.68**	**33.25**	**-13%**	**-17%**	**-11%**

Source: Deutsche Bank and company reports.

In March, Petrobras' domestic oil production was 1.846mn bpd down 3.8% MoM. The decrease was primarily due to scheduled stoppages in Campos basin platforms P-9, PCE-1 and FPSO-Espirito Santo and the continued scheduled stoppage of P-54, which started late February but had a more significant impact in March. The ramp up of the FPSO Cidade de Itajai, in the Bauna field, and FPSO Cidade de Anchieta, in the Baleia Azul field helped mitigate the maintenance shutdowns and natural fields' decline.

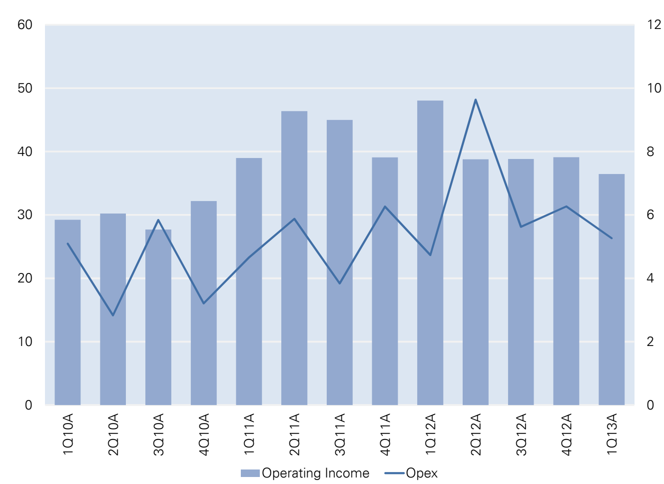
Operating income per dropped to USD36.45/BOE during the quarter versus USD39.12/BOE in 4Q12 and USD40.76/BOE in 1Q12.

Figure 4: Total O&G production and oil price trends



Source: Deutsche Bank and company reports.

Figure 5: Operating income and opex – USD/BOE



Source: Deutsche Bank and company reports.

E&P outlook: improvement in 2H13

Management reiterated that the average production of oil and natural gas in 2013 should be similar to that of 2012, with lower levels in 1H13 due to a higher rate of maintenance stoppages. For the remainder of the year, production should continue be a function of: (1) maintenance stoppages – management has not released a list with the platforms expected to undergo maintenance, (2) increased efficiency in the Campos basin as a result of the PROEX, (3) natural decline of production in the existing fields and (4) the start up of the new producing units, as shown below.

Figure 6: Producing units expected to start up in 2013 and 2014

	Platform	Project	Capacity	OBS
2013				
	FPSO Cidade de Sao Paulo	Sapinhoa Pilot	120	Started Jan 7
	FPSO Cidade de Itajai	Bauna & Piracaba	80	Delayed from late 2012 – started up Feb 19
	SS P-55	Roncador III	180	
	FPSO Cidade de Parati	Lula NE	120	Due to start on May 28
	FPSO P-63	Papa Terra	140	
	TLWP P-61	Papa Terra	140	
	FPSO P-58	Parque das Baleias	180	Anticipated to 2013

Source: Deutsche Bank and company reports.

Refining review: better than expected on higher domestic output

Petrobras reported negative EBITDA of BRL5.3bn in the refining segment. That figure was better than our EBITDA loss estimate of BRL6.6bn.

The main items affecting this segment's results were:

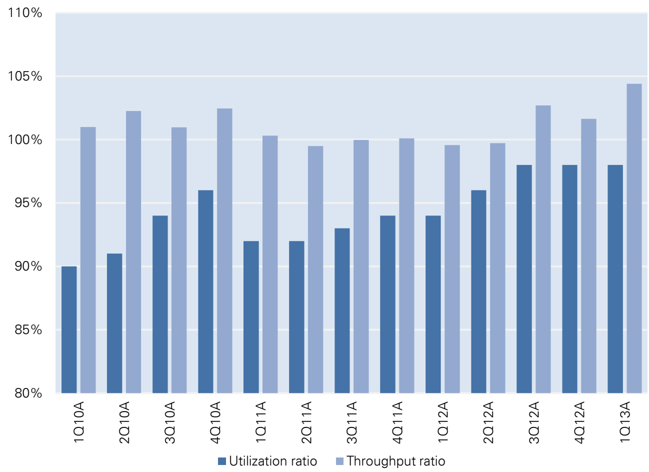
(+) Increase in refining capacity by 61tbpd – an important fundamental improvement for Petrobras, as indicated in the 4Q12 conference call, this increase in domestic production should continue to lead to lower imports going forward

(+) High refining utilization ratio of 98% (in line with our estimate, previous quarter figure but higher than 1Q12' 94%) and **higher than expected throughput ratio** of 104% (versus DBe of 102%)

(+) Decline in refined product sales of 2%QoQ leading to lower imports

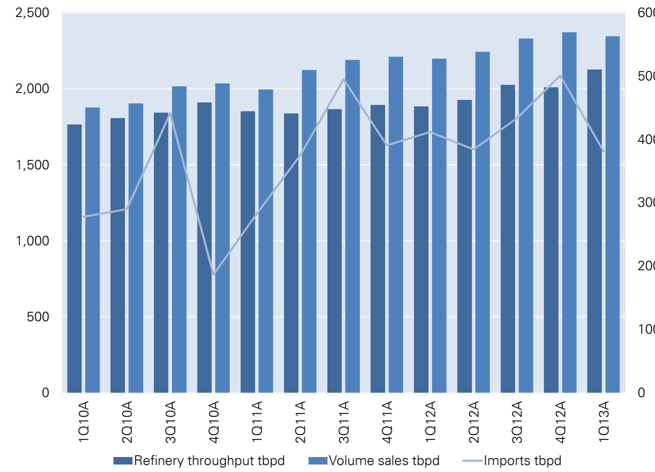
(+) Lower refined product imports – as a consequence of the three items above

Figure 7: Petrobras – utilization and throughput ratio



Source: Deutsche Bank and company reports.

Figure 8: Throughput sales and imports



Source: Deutsche Bank and company reports.

(+) Lower refining costs of USD3.14/bbl versus our estimate of USD4.20/bbl

(-) Lower average realization prices and lower refining margin – despite the increase in diesel and gasoline domestic prices in January and March

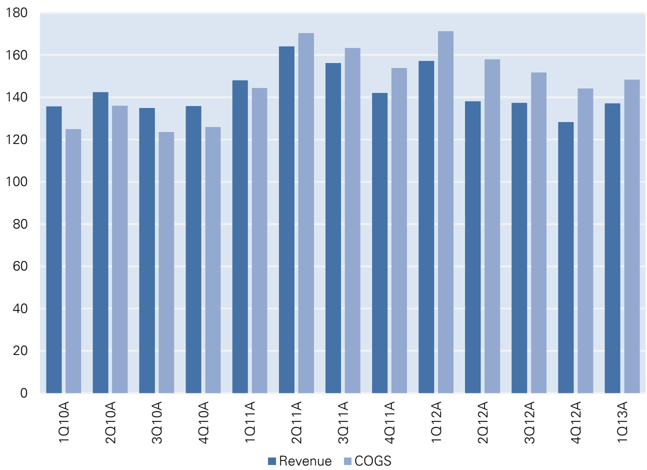
Figure 9: Petrobras – key refining operating / financial figures

					1Q13A		
Downstream Volumes mboe/d	**1Q13A**	**1Q13E**	**1Q12A**	**4Q12A**	**1Q13E**	**1Q12A**	**4Q12A**
Refining revenues (US$)	28,951	29,109	31,110	27,992	-1%	-7%	3%
Refining gross profit (US$)	-2,360	-3,108	-2,787	-3,469	-24%	-15%	-32%
Refining gross margin	-8.2%	-10.7%	-9.0%	-12.4%			
Refined prod sales (MM bbl)	256	235	225	261	9%	14%	-2%
Average Realized Price (US$/bbl)	$113.23	$123.84	$138.31	$107.26	-9%	-18%	6%
Average crude oil cost	$102.91	$106.11	$111.56	$100.56	-3%	-8%	2%
Refining Margin (US$/bbl)	$10.32	$17.73	$26.75	$6.70	-42%	-61%	54%
Gross Profit/bbl	-$9.23	-$13.22	-$12.39	-$13.29	-30%	-26%	-31%
Crude oil exports	215	384	497	236	-44%	-57%	-9%
Crude oil imports	484	316	358	301	53%	35%	61%
Refined product exports	408	227	217	378	80%	88%	8%
Refined product imports	376	475	406	505	-21%	-7%	-26%
Net export (import) position	**(237)**	**(181)**	**(50)**	**(192)**	**31%**	**374%**	**23%**

Source: Deutsche Bank and company reports.

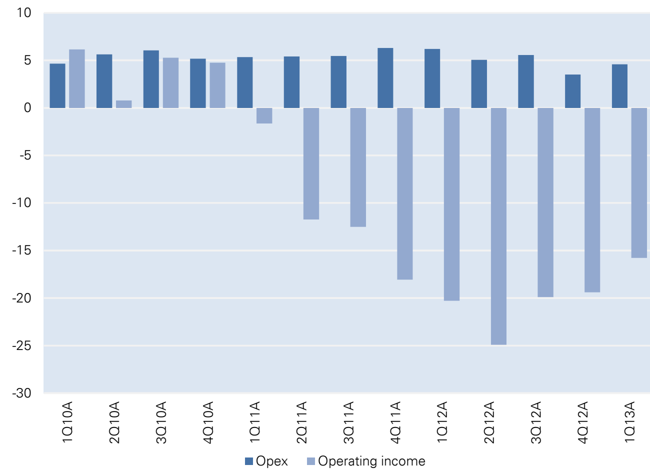
Revenues per bbl of sales have increase due to the last price increases in the gasoline and diesel but COGS per bbl have risen as well, not as much as we had anticipated due to lower imports. However, in the refining segment, opex have not decreased yet, as shown on Figure 11.

Figure 10: Revenues and COGS – USD/BBL of sales



Source: Deutsche Bank and company reports.

Figure 11: Opex and operating income USD/BBL

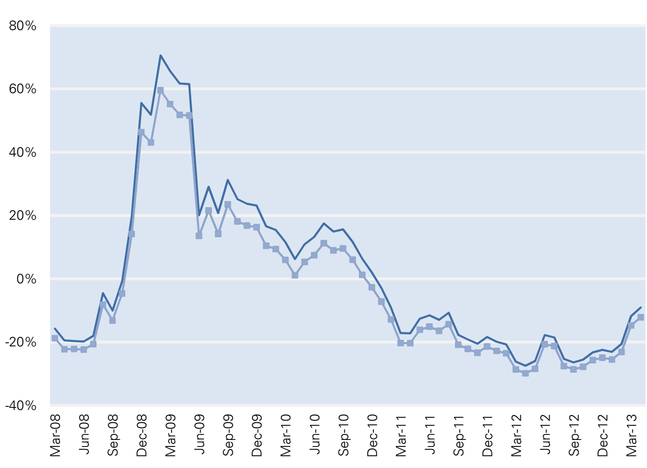


Source: Deutsche Bank and company reports.

Refining outlook: structural improvement; demand remains main risk

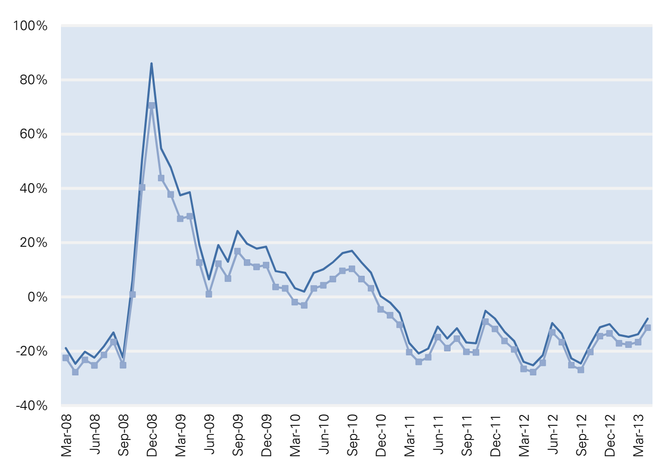
The main items expected to improve operating performance in this segment are: (1) increase in refining output (as promised during the 4Q conference call – 5% increase in the domestic production of diesel). We are unsure if all the capacity increase was already running in 1Q, (2) increase in ethanol content in gasoline (in May), which should decrease import need of gasoline and (3) trends in international gasoline prices, which are expected to decline in 2H13. Demand is another important variable: demand of gasoline grew 6%YoY and of diesel rose 7%YoY in 1Q13. We note that demand of gasoline and diesel declined on a QoQ basis by 5% and 7%, respectively but it is important to stress that 1Q is seasonally weak. If demand remains high, it could offset the positive impact of the initiatives described above.

Figure 12: Diesel prices – domestic and international



Source: Deutsche Bank and company reports.

Figure 13: Gasoline prices – domestic and international



Source: Deutsche Bank and company reports.

Other segments: G&E, International and Distribution

Gas & Energy – EBITDA of BRL1.7bn came in line with our estimates but showed a sharp improvement QoQ and YoY. Even though electricity sales volumes decreased QoQ, spot electricity prices were higher, driven by the lower rainfall and reservoir levels in the period. LNG and Bolivian natural gas import volumes increased to meet the domestic thermoelectric demand.

International – EBITDA of BRL1.8bn was 10% below expectation due to lower Argentine gas sales and poorer results from refining (lower feedstock processed in the United States, delay in crude oil supply and inventory bottleneck in Japan and 8-day operating stoppage in Baia Blanca, Argentina). On the positive side, lifting costs improved QoQ due to maintenance in Argentina and in the US and crude oil production recovered as the maintenance performed in the Akpo field was concluded.

Distribution – EBITDA of BRL1.2bn was well above our estimate, previous year and previous quarter numbers due lower contingencies and advertising expenses.

Balance sheet – debt ratio deteriorates only slightly

Cash burn was 5% in the quarter, while debt levels remained unchanged QoQ – positive. As a result, net debt / EBITDA ratio improved sharply QoQ – also due to the improvement in operating results in the quarter.

Net debt to net cap ratio deteriorated slightly in the quarter due to a BRL14.9bn adjustment to shareholders' equity.

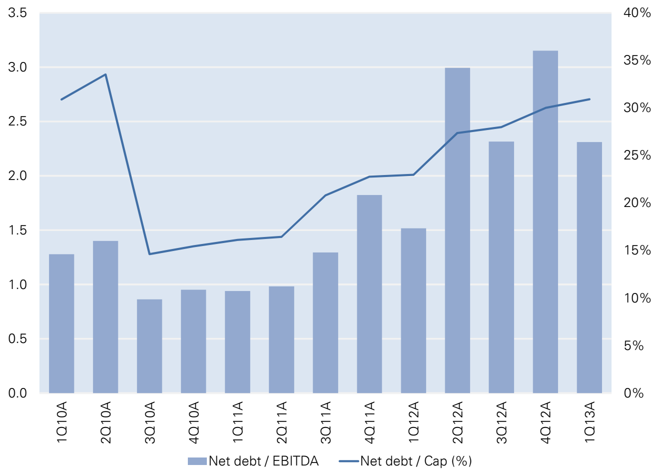
Figure 14: Balance sheet highlights

				1Q13A	
	1Q13A	**1Q12A**	**4Q12A**	**1Q12A**	**4Q12A**
Cash and equivalents	27,235	39,904	27,628		
Government securities	19,302	18,003	21,316		
Total cash and equivalents	**46,537**	**57,907**	**48,944**	**-20%**	**-5%**
Short term debt	14,565	18,018	15,320	-19%	-5%
Long term debt	182,370	146,118	180,994	25%	1%
Total debt	**196,935**	**164,136**	**196,314**	**20%**	**0%**
Net debt	**150,398**	**106,229**	**147,370**	**42%**	**2%**
Shareholders' equity	337,665	338,822	345,433		
Net debt / net equity	*30.8%*	*23.9%*	*29.9%*	*29%*	*3%*
Total debt / total equity	*36.8%*	*32.6%*	*36.2%*	*13%*	*2%*
Net debt / EBITDA	2.3	1.6	3.2	*44%*	*-27%*

Source: Deutsche Bank

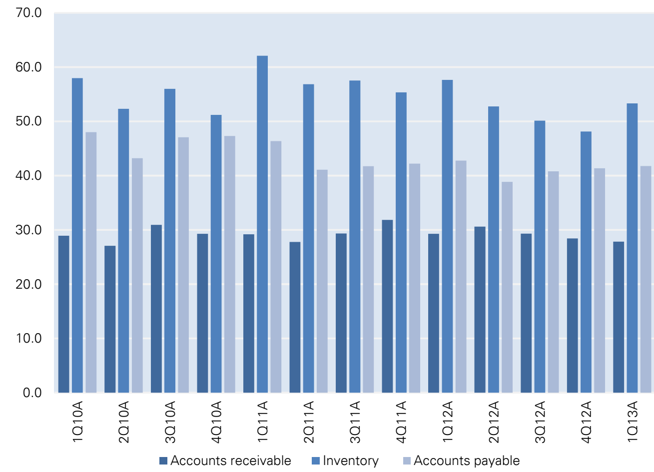
Historical debt ratios and inventory, payable and receivables turnover numbers are presented in Figure 15 and Figure 16.

Figure 15: Debt ratios



Source: Deutsche Bank and company reports.

Figure 16: Turnover figures



Source: Deutsche Bank and company reports.

Cash flow improves but should reflect higher spending in upcoming quarters

Operating cash flow remained flat YoY but improved 27%QoQ. Capex (on a cash basis) declined QoQ by 24% - we expect spending to pick up steam in upcoming quarters.

Figure 17: Petrobras – summary cash flow statement

BRL mn				**1Q13A**	
	1Q13A	**1Q12A**	**4Q12A**	**1Q12A**	**4Q12A**
Net operating cash flow	**14,879**	**15,086**	**11,677**	**-1%**	**27%**
Capex	**(18,283)**	**(15,723)**	**(23,969)**	**16%**	**-24%**
E&P	(10,194)	(8,625)	(11,867)	18%	-14%
Refining	(5,908)	(5,495)	(8,653)	8%	-32%
Gas and Energy	(946)	(671)	(1,404)	41%	-33%
Distribution	(184)	(286)	(391)	-36%	-53%
International	(1,049)	(643)	(1,395)	63%	-25%
Bio fuels	(3)	(2)	(259)		
Other investments	1,963	(1,595)	2,848	-223%	-31%
Free cash flow	**(1,441)**	**(2,232)**	**(9,444)**	**-35%**	**-85%**
Financing	1,133	8,583	6,968	-87%	-84%
Others	(105)	(2,162)	(1)	-95%	10400%
Net Cash generated in the period	**(413)**	**4,189**	**(2,477)**	**-110%**	**-83%**

Source: Deutsche Bank and company reports.

Valuation & Risks

Our PT is derived using DCF analysis. Our DCF assumptions include a US$110/barrel long term oil price forecast. We use the DCF methodology because we consider it a superior indicator of value to multiples, as it relies on free cash flows generated over a longer period of time rather than the profitability of a single year. Our WACC of 10.1% is based on 30% leverage and 9.2% after-tax cost of debt. We also assume 10.4% cost of equity based on a 1.9% sovereign risk premium that reflects Brazil's risk improvement over the past year, a 3.0% risk free rate and a 5.5% equity risk premium (historical average), along with a 1.0 Beta to the local market and a 3.0% terminal growth rate (which is below long term inflation expectations for Brazil).

Upside risks to our target price being achieved include: 1) sooner-than-expected recovery in oil prices and 2) increased flows into Emerging markets, which tend to benefit Petrobras due to its high liquidity. Downside risks include: 1) lower-than-expected oil prices, 2) delays in Petrobras execution of the production schedule, 3) interference from Petrobras' main shareholder, the Brazilian government, and 4) Brazilian macroeconomic factors.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Petrobras	PBR.N	18.03 (USD) 26 Apr 13	7,8,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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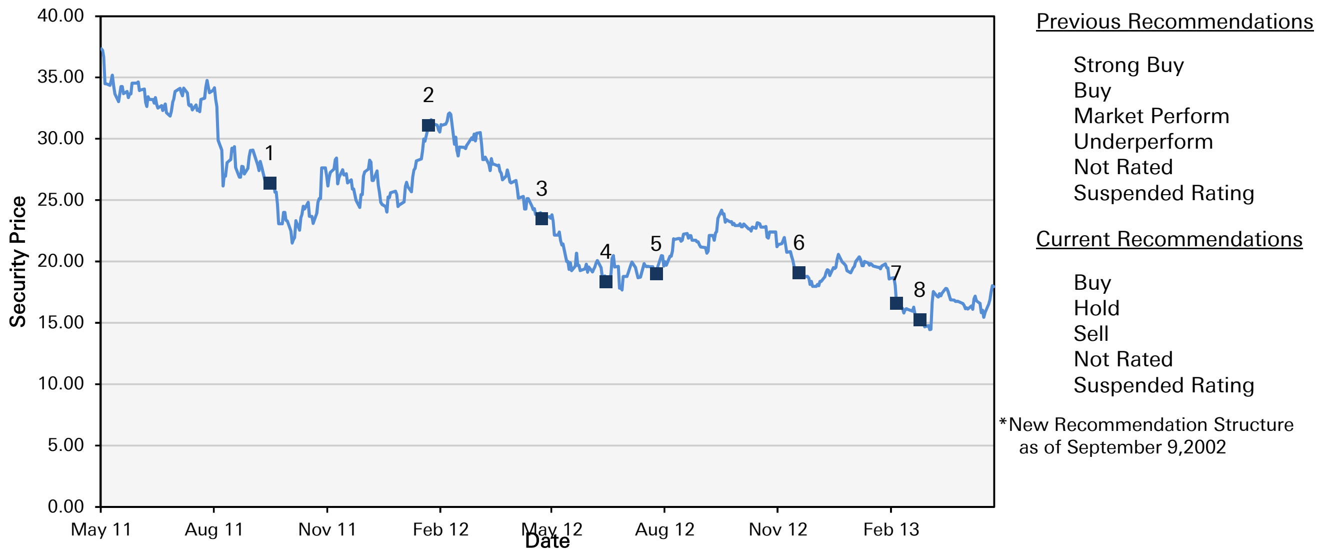
Historical recommendations and target price: Petrobras (PBR.N)

(as of 4/26/2013)



1.	16/09/2011:	Hold, Target Price Change USD40.00	5.	26/07/2012:	Hold, Target Price Change USD26.00
2.	23/01/2012:	Hold, Target Price Change USD35.00	6.	19/11/2012:	Hold, Target Price Change USD24.00
3.	24/04/2012:	Hold, Target Price Change USD32.00	7.	06/02/2013:	Hold, Target Price Change USD21.00
4.	15/06/2012:	Hold, Target Price Change USD27.00	8.	25/02/2013:	Hold, Target Price Change USD19.00

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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Notes:

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2. Ratings definitions prior to 27 January, 2007 were:

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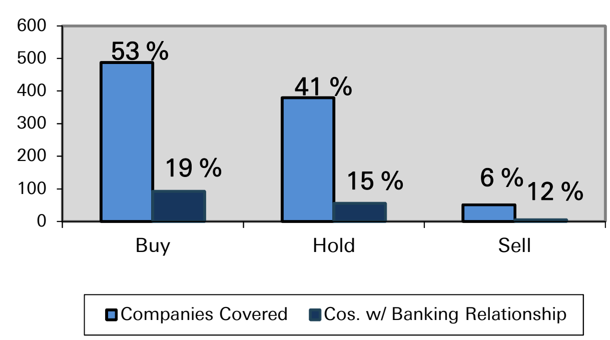
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Global Universe

Regulatory Disclosures

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