

## Petrobras

## In the crosshairs of the press; Remain Neutral

Maintain Rating: NEUTRAL | PO: 16.00 USD | Price: 14.54 USD

## Heavy newsflow over the past weeks on Petrobras

We downgraded PBR to neutral ([Sitting, waiting, wishing but no extra dividends came: Downgrading to Neutral](#)) following the company's decision of not paying extraordinary dividends. Although recent newsflow suggests that the discussions regarding the payment of dividends have not been concluded yet, there is other news that will likely bring volatility to the stock over the coming days. In this report, we highlight some of this news.

## Discussions on extraordinary distribution is not over yet

Last week *Lauro Jardim* newswire reported that the discussion regarding the payment of extraordinary dividends will continue over the next months. According to the news, Petrobras's management will meet with the Board of Directors (BoD) and Government participants to showcase that the company will be able to execute its capex plan (US\$102 billion between 2024-28) even with the distribution of the extraordinary amount. Notably, PBR allocated approximately R\$44 billion in the capital remuneration reserve after reporting the 4Q23 result. The news, however, mentioned that if both sides reach an agreement, this potential distribution should not occur before August.

## Creation of a reserve focused on investments

Last week *O Globo* newswire reported that Petrobras is studying the creation of a new reserve to receive extraordinary dividends with a focus on investments. According to the news, the idea was discussed at the meeting between the board of directors of Petrobras, led by the CEO Jean Paul Prates, and Brazilian president Lula. The Minister of Finance, Fernando Haddad, and the Minister of Mines and Energy were also present at the meeting. It is important to note that Petrobras has stated that there are no studies to create a new reserve – however, we believe that investors will closely monitor the developments of this news as the creation of such reserve would potentially impact extraordinary dividend distributions. We highlight that a major concern of the market has been Petrobras incorporating its capital remuneration reserve into the share capital. However, we note that the company can also use this reserve to pay a part of its ordinary dividends while reallocating its cash generated in retained profits (PBR incorporates the cash into reserves only by the end of each fiscal year) and using such cash for new investments or M&As while lowering capital remuneration reserve.

## Board of Directors – new election coming up in April

A Shareholder Meeting is expected to take place in April 25 to vote for the new members of the Board of Directors. Last week, the government announced that the Ministry of Finance will have a seat at the BoD. According to the local news, Fernando Haddad will nominate Rafael Dubeux. Mr. Dubeux is executive secretary of the Ministry of Finance and one of the main figures responsible for the ecological transformation agenda in the ministry. However, *O Globo* reported that the government has the intention of rotating directors among the state-owned companies – in other words, the government does not rule out changing more or nominating new candidates for PBR's BoD.

18 March 2024

## Equity

**Caio Ribeiro**  
Research Analyst  
BofAS  
[caio.ribeiro@bofa.com](mailto:caio.ribeiro@bofa.com)

**Leonardo Marcondes >>**  
Research Analyst  
Merrill Lynch (Brazil)  
[leonardo.marcondes@bofa.com](mailto:leonardo.marcondes@bofa.com)

## Stock Data

Price (Common ADR / Pref ADR)	14.54 USD / 14.44 USD
Price (Common / Pref)	36.67 BRL / 36.32 BRL
Price Objective (Common ADR / Pref ADR)	16.00 USD / 16.00 USD
Price Objective (Common / Pref)	38.00 BRL / 38.00 BRL
Date Established (Common ADR / Pref ADR)	8-Mar-2024 / 8-Mar-2024
Date Established (Common / Pref)	8-Mar-2024 / 8-Mar-2024
Investment Opinion	C-2-8 / C-2-8 / C-2-8 / C-2-8
52-Week Range	9.56 USD - 17.32 USD
Market Value (mn)	54,632 USD
Shares Outstanding (mn)	3721.2 / 6522.0 / 7442.5 / 13044.0
Average Daily Value (mn)	23.75 USD
BofA Ticker / Exchange	PBR / NYS
BofA Ticker / Exchange	PBRA / NYS
BofA Ticker / Exchange	PBRQF / SAO
BofA Ticker / Exchange	PTRBF / SAO
Bloomberg / Reuters	PBR US / PBR.N
ROE (2023E)	33.2%
Net Dbt to Eqty (Dec-2022A)	25.2%

CADE - Administrative Council for Economic Defense

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 18 March 2024 04:49AM EDT

In addition to that, the minorities will need to nominate a new member to replace Marcelo Mesquita, who cannot be reelected. According to EPBR newswire, two names are being discussed: Jerônimo Antunes and Aristóteles Nogueira.

Mr. Antunes is a former independent director and chairman of the audit committees of Petrobras and Petrobras Distribuidora. Mr. Nogueira has already worked at Brasil Plural, Opportunity, XP and Banco Safra. The other three independent board members are: José Abdalla Filho, Marcelo Gasparino and Francisco Petros. We expect them to be reelected.

Although the most recent news has not reported any additional changes, we highlight that investors will also monitor potential new names to be nominated by the government as discussed on page 1.

## Potential acquisition of a stake in Mataripe Refinery (RLAM)

On Friday, Petrobras announced that it is continuing discussions with Mubadala Capital regarding the creation of a downstream partnership in Brazil, which involves evaluating the acquisition of a stake in the Mataripe Refinery (formerly RLAM) as well as a project under development for an integrated biorefinery. The Mataripe refinery was sold by Petrobras in 2021 for US\$1.8 billion.

According to *O Globo*, Petrobras is expected to acquire between 70% and 80% of the shares in the Mataripe refinery – the exact stake will depend on discussions involving CADE. In addition to that, the valuation will also take into account the US\$500 million investment made by Mubadala on the refinery as well as the purchase of a solar park to generate energy. Notably, the acquisition (if concluded) will impact the company's potential of distributing extraordinary dividends and, in our view, further newsflow on this will be closely followed by investors.

## Andrade Gutierrez and Novonor back on projects with PBR

According to *Estadão* newswire, Andrade Gutierrez and Novonor (formerly Odebrecht), two construction companies that were involved in the Car Wash investigation in Brazil, are among the companies that made the largest bids in the tender carried out by Petrobras to work on the completion of the Abreu e Lima Refinery (RNEST), the refinery that was the pivot of the Car Wash operation.

*Estadão* reported that Consag, an Andrade Gutierrez company that operates in the private market, won two projects that amount around R\$3.7 billion. Tenenge, a company owned by Novonor, won three projects that are worth over R\$ 5 billion. A third company won two other projects.

Although the news has not been confirmed by Petrobras yet, we believe that this could be seen as negative by investors, given these companies' history with Petrobras's projects.

## Maintain Neutral Rating

As we have been flagging, we expect PBR's valuation to be driven by its total cash return prospects, especially given high yields that are being offered by global peers. In this regard, Petrobras' recent decision to pay only ordinary dividends heightens the risk perception at Petrobras particularly on the government influence regarding major capital allocation decisions.

In our view, it suggests that the company could be pivoting to an agenda more focused on growth in renewables (triggering higher capex with lower returns) and increases the probability that the company could pursue M&A (RLAM refinery, petrochemicals, fuel distribution). We also see an overall lack of catalysts ahead given: 1) the market is already working with production forecasts above PBR's guidance; 2) capex is already guided to increase in 2025; and 3) minimum dividend yields look lower than peers for 2025. Maintain Neutral Rating

## Price objective basis & risk

### Petrobras (PBRQF / PBR)

Our price objective of US\$16.0/ADR (R\$38.0/share) is based on a discounted cash flow (DCF)-based valuation using the BofA base case oil price scenario, which assumes a Brent price of US\$80/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 16.60% weighted-average cost of capital (WACC) and an long-term growth rate of 2.0%.

Upside and downside risks to achieving our price objective are more favorable or less favorable results from the following factors: (1) oil price trends, (2) political/economic developments in Brazil, (3) possible increase in global risk aversion/higher interest rate environment, and (4) operational delays in production/development projects.

### Petrobras PN (PTRBF / PBRA)

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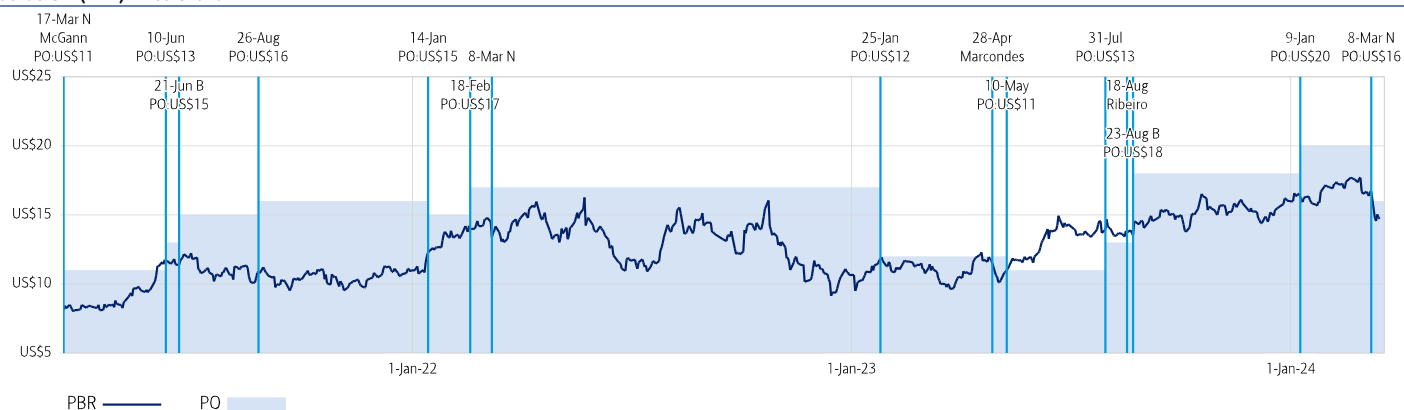
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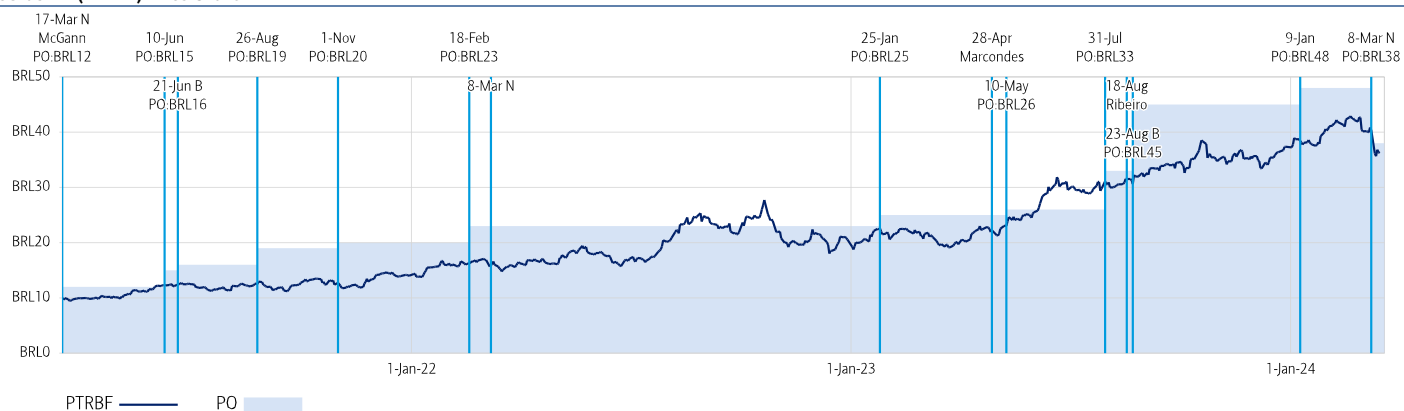
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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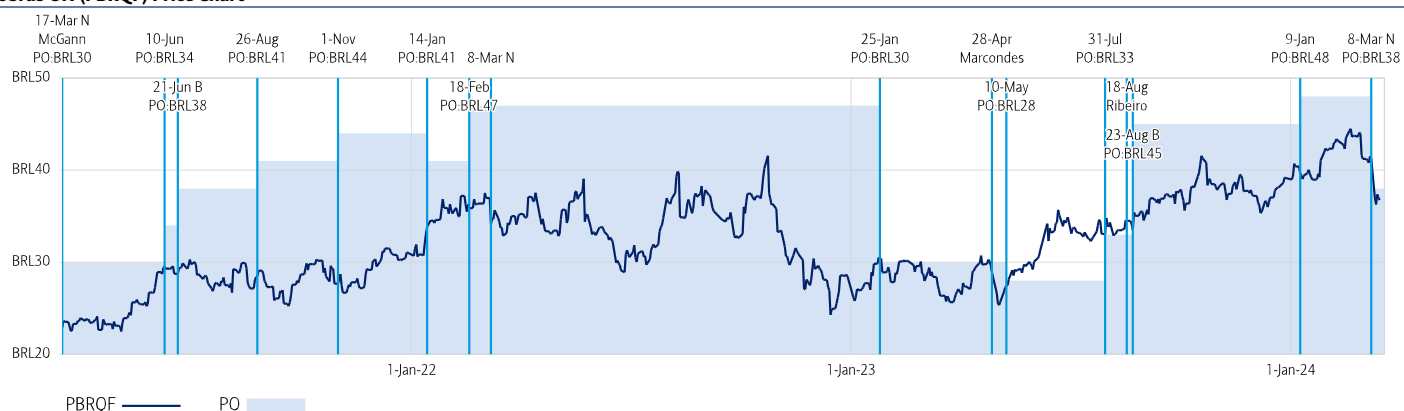
### Petrobras PN (PTRBF) Price Chart



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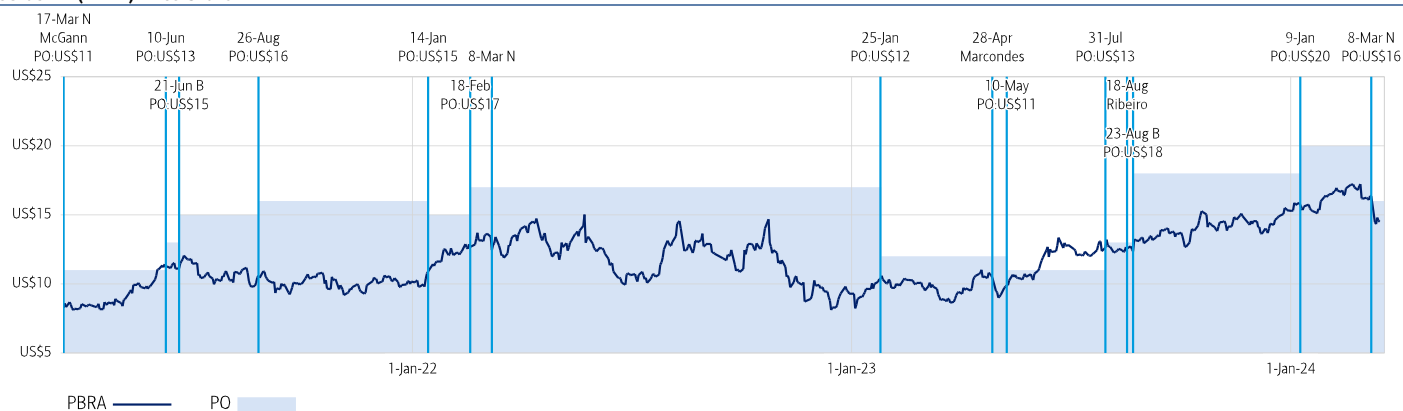
### Petrobras ON (PBRQF) Price Chart



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## Petrobras PN (PBRA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

## Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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