



Divestments: why not sell all of non-core assets (rather than 49% stakes); and would pre-salt reserves be really sold at low valuations?

A relatively easy way for the Brazilian government to provide support to Petrobras would be letting the company sell all of its non-core assets (fuel distribution, natural gas distribution, power plants and international assets). We believe that the company could eventually raise as much as USD14bn with those (about USD6bn for fuel distribution, USD6bn for natural gas distribution and electricity assets, and USD2bn for international assets) at accretive to leverage valuations (EV to EBITDA above 5x). However, the company has thus far indicated its intention of selling only minority stakes in the domestic assets, which makes no sense to us except for fear of more aggressive layoffs (a macro rather than a company-specific concern).

But the key question about asset sales has to do with undeveloped pre-salt reserves. Wood Mackenzie estimated in 2014 that Petrobras could have about 25bn barrels of crude oil recoverable reserves in its pre-salt fields and estimated that they could be worth about USD6.6/boe while the Brent price was above USD90/bbl. Since Brazilian pre-salt reserves break even in the low 40s (USD/bbl), it is hard to imagine a large chunk of those selling at above USD2/bbl (or even less than that) in the near term due to the uncertainty about future oil prices and the increased risk premium associated with assets in Brazil. Moreover, finding buyers willing to pay cash in size today could prove quite challenging, as the major oil companies are dealing with their own capital structure issues and business plan revisions. We also view the political challenge of letting go of strategic energy reserves at low valuations as an important obstacle. In summary, we see the sale of pre-salt reserves as a binary call on oil prices and thus not really meaningful as a source of resources for the company in a bear scenario for the oil prices. Or, in other words, it is worth the least when the company needs it the most. But maybe the company will be able to raise at least USD10-15bn of those in the next four years.