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# Petrobras: An Update On The Brazilian Oil Giant

Nov. 19, 2023 9:00 AM ET | **Petróleo Brasileiro S.A. - Petrobras (PBR), PBR.A** | 7 Comments | 4 Likes



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## Summary

- Petrobras and **Ecopetrol** continue to provide huge dividends and significant share price upside in a potential oil bull market.
- There are some parallels between Petrobras today and Berkshire's investment in PetroChina in the 2000s.
- Institutional money continues to flow into Petrobras stock due to its cheap valuation and asymmetric setup.
- I prefer the PBR.A shares to the PBR common shares due to the discount between the two.



Junior Pereira

I know I'm a bit late for the best value idea competition, but I figured I would share my thoughts on Petrobras (NYSE:[PBR](#)) (NYSE:[PBR.A](#)) as a potential idea for investors that are looking for asymmetric opportunities in an underfollowed area of the market. Oil has been volatile recently, but I'm expecting a longer term

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## About PBR

Symbol	Last Price	% Chg
<b>PBR</b>	<b>16.04</b>	<b>3.15%</b>
Post	16.10	0.37%

1D 5D 1M 6M 1Y 5Y 10Y



Market Cap	<b>\$101.63B</b>
PE (FWD)	<b>4.37</b>
Yield (TTM)	<b>2.00%</b>
Rev Growth (YoY)	<b>-18.65%</b>
Short Interest	-
Prev. Close	<b>\$15.55</b>

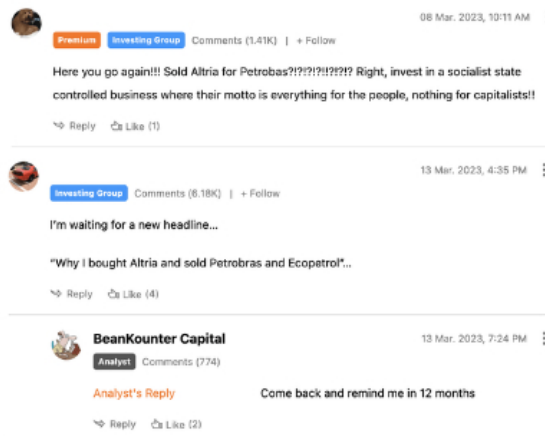
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More on PBR

volume recently, but I'm expecting a longer-term oil bull market over the next several years.

## Checking The Score

When I wrote my [original article](#) on Petrobras and [Ecopetrol \(EC\)](#), both Brazil and Colombia were dealing with the aftermath of turbulent presidential elections. I explained why I was selling Altria ([MO](#)) to buy Petrobras and [Ecopetrol](#), and the reaction in the comments section was predictable. I try to take a contrarian approach with my investments, and while some commenters agreed with my bullish thesis, there were a lot of negative comments as well.



The screenshot shows three comments from the Seeking Alpha website. The first comment, dated 08 Mar. 2023, 10:11 AM, is from a 'Premium Investing Group' and reads: 'Here you go again!!! Sold Altria for Petrobras????????? Right, invest in a socialist state controlled business where their motto is everything for the people, nothing for capitalists!'. The second comment, dated 13 Mar. 2023, 4:35 PM, is from an 'Investing Group' and says: 'I'm waiting for a new headline... "Why I bought Altria and sold Petrobras and Ecopetrol"...'. The third comment, dated 13 Mar. 2023, 7:24 PM, is from 'BeanKounter Capital' and says: 'Come back and remind me in 12 months'.

Comments (seekingalpha.com)

Now it has only been 8 months, so I could be wrong about the one-year timeframe, but I think the scoreboard is pretty lopsided two-thirds of the way to the one-year mark. Petrobras is up more than 58% since that article (\$9.42 to \$14.96), with dividends of \$1.70 per share, good for a total return of 77%. If you have owned the shares at each ex-dividend date, you have another \$1.16 per share on the way between now and the end of March.

(Note: I'm using PBR.A shares for my calculations).

[Ecopetrol](#) hasn't kept up with Petrobras but has still provided a solid total return. Shares are up just over 10% (\$11.11 to \$12.27), with dividends of \$1.81 per share, good for a 27% total return. They also pay another dividend before the end of the year of approximately \$1.00 (it could fluctuate based on exchange rates on the ex-dividend date). [Ecopetrol](#) was up almost 4% on Friday on



Under New Strategic Plan, Petrobras Seems Fairly Valued

Roman Vitasek, CFA



Petrobras Should Be A Full-Sized Portfolio Position

The Value Portfolio



Petrobras: Gained 90% Over One Year - Don't Expect The Same

JR Research



Petrobras net income of \$5.46B, revenue of \$25.55B misses by \$410M

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the news that Colombia's Supreme Court struck down [changes in the royalty tax](#). That should be bullish for the stock and has the potential to increase next year's dividend payout. Shares will probably continue their pattern of a run-up into the dividend date at year end followed by a selloff, but I think shares are still cheap today.

Altria, on the other hand, has been a laggard. The market obviously didn't like Q3 earnings, but I wouldn't be surprised if the stock eventually headed higher. I just don't think it keeps up with Petrobras or [Ecopetrol](#) over the next couple years. Shares have had a total return of -6% since my article. Do I think Altria shares eventually get out of neutral and into gear? Yes, simply due to the single-digit earnings multiple and yield approaching 10%. I just think there are better opportunities out there right now.

## Petrobras: Dividend Monster For An Oil Bull Market

Now that the quick recap of my last article on Petrobras and [Ecopetrol](#) is out of the way, I want to focus on Petrobras. I still think the setup is very good for investors with a longer-term time horizon, and I wanted to highlight the stock again because I still think investors can collect a double-digit yield with the potential for capital appreciation as well. They have also started buying back stock and I think it is possible that repurchases ramp up over the next couple years.

With current oil prices bouncing in a range between \$70-90 for the last couple months, Petrobras is still a very profitable company. I don't bother trying to forecast Petrobras dividends with exact precision because I think the discount to fair value is so massive. What I will say is that with their current payout policy of 45% of free cash flow, I would be surprised if the quarterly dividend falls below \$0.40 (which is typically split into two payments). I have heard from other investors that they are expecting a larger dividend in Q4 (and potentially a special payout), but we will have to wait and see. Investors buying in the next week can collect the next dividend payout (\$0.52, with \$0.25 to be paid on February 27, 2024, and \$0.27 on March 27, 2024).

## Food For Thought

I wanted to include a couple things that I have seen in recent weeks that stood out to me. One of the best things about using Twitter as an investor is that you get interesting articles and insights from a wide variety of sources. Another Petrobras shareholder I talked to share an article on Twitter, which compares where we are today with Petrobras to where PetroChina was in the early 2000s. The article discusses Berkshire Hathaway's ([BRK.A](#)) ([BRK.B](#)) investment in the company at the time and some of the logic behind it. I would love to see my Petrobras investment play out in a similar fashion (obviously on a smaller scale), but it's worth a read as a potential case study of what could play out over the next several years with Petrobras.

PetroChina was an unusual investment for Berkshire Hathaway in a lot of ways. First, it was unusually profitable, even by Buffett's standards. A \$488 million investment made between 2002 and 2003 turned into \$4 billion by the time Buffett sold it between 2006 and 2007. That's north of a 50% IRR!

PetroChina is also unusual because of what it is — a commodity business controlled by a foreign government. Buffett rarely invests abroad and had never invested in China before this. However, there are no bad assets, just bad prices. In this case, the price made it an easy decision to buy.

#### [Warren Buffett and PetroChina](#)

There was another article that shows that institutional money continues to flow into Petrobras stock. There are several institutions that have been buying, even after the strong run in shares we have seen over the last six months. I think we will continue to see large investors buy Petrobras because of its cheap valuation and asymmetric setup.

The stock has gone up a lot in the last 12 months, but risks have also gone down," GQG investment analyst Siddharth Jain — Rajiv Jain's son — said in an interview. "We've been adding to our position over the past few months because even after a rally, this is still,

in our opinion, the cheapest large cap stock in the world.”

[Siddharth Jain, GQG Partners: The largest minority shareholder of Petrobras](#)

Now I try to avoid confirmation bias and I'm always looking for information or developments that break the bullish thesis on any investment I make. Petrobras does carry political risk, but the continued dividend payouts have shown me that they have no intention to hang foreign shareholders out to dry.

## Conclusion

When it comes to Petrobras, I think it makes sense to own the preferred shares (PBR.A or PBR/A) over the common. You get the same dividend and the preferred shares are about a buck cheaper than the common shares. Am I counting on a return to all-time highs around \$70 in 2008 from the blowoff top? No, but I won't consider selling any of my shares before \$30 unless something materially changes. It might take a couple years, but investors get a double-digit yield to wait for shares to get closer to what I believe is fair value. If we get the commodities bull market that I'm expecting, Petrobras represents an asymmetric investment opportunity with a cheap valuation. Shares are up significantly over the last six months, but that share price increase just represents the shares going from extremely undervalued to very undervalued in my opinion. For patient long-term investors in Petrobras, I think the best is yet to come.

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This article was written by



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**ronjon1957**

Today, 9:34 AM

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Thanks for article. Totally agree with your opinion. Holding 19,000 shares with average of \$7 after dividends. Long PBR/A.

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**The Invisible Hand Wins**

Today, 9:32 AM

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Great article.

I agree that PBR is undervalued and I have been increasing my stake during dips.

The political risk is misunderstood. Lula needs PBR to continue to produce large profits to fund the govt coffers and allow for his spending programs and allow for the customary looting/stealing conducted by his crew.

There will be some nipping and tucking along the way to score political points with climate religion followers and others but the PBR business model will remain largely untouched and the gusher of profits will continue *(edited)*

↩ Reply Like (1)



**High Yield FIREVestor**

Today, 9:32 AM

**Premium** **Investing Group** Comments (13.83K) | + Follow

Thank you for this very great bullish article. Imo, there's no better big oil stock. Last year when so many ppl kept FUDING the Lula and socialist labels, I ignored them, and kept accumulating. I have made a total of 25 buys over the last several months. Now holding 5,500 shares and loads of dividends. PBR is my second largest holder after TRMD. PBR is my largest total gainer at almost 50% returns. I said a long time ago that the only way I exit my position is if PBR eliminate the dividend entirely. I don't care about cuts. I will continue to buy on dips. What a retirement monster! We get paid again in Nov 2023, Dec 2023 and Feb 2024. DRIP, baby, DRIP!

Long PBR, TRMD! Cost basis \$10.15

Edit: Mr. Author, you just got yourself a new follower in me. Heads up: I still expect the Lula and socialist FUDs to keep crucifying you for this. 😏 🤔. Meanwhile, I keep ignoring these folks and load up on dips. *(edited)*

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**ronjon1957**

Today, 9:38 AM

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[@High Yield FIREVestor](#) Payments in Jan, 2024 and Mar. 2024 also.

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**High Yield FIREVestor**

Today, 9:39 AM

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[@ranjon1957](#) oh shet, Jan and March, too? Wtf!



This is a cash printing machine *(edited)*

[Reply](#) [Like \(2\)](#)



**goodfellasfinancial**

Today, 9:32 AM

[Comments \(7.45K\)](#) | [+ Follow](#)

great write up! Though I do feel MO and BTI are really getting beaten down recently. Long Pbr.a MO and BTI (adding to the latter 2 recently)

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**ReMigration**

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