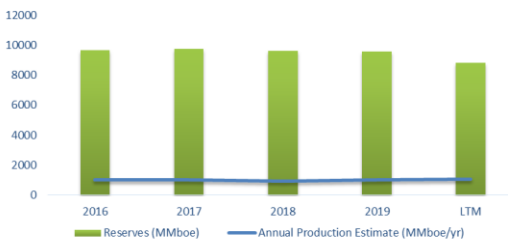
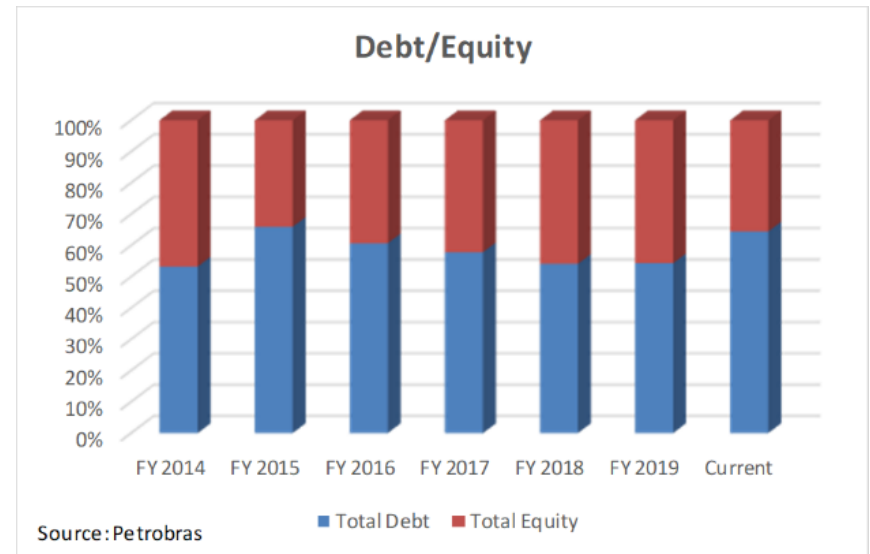
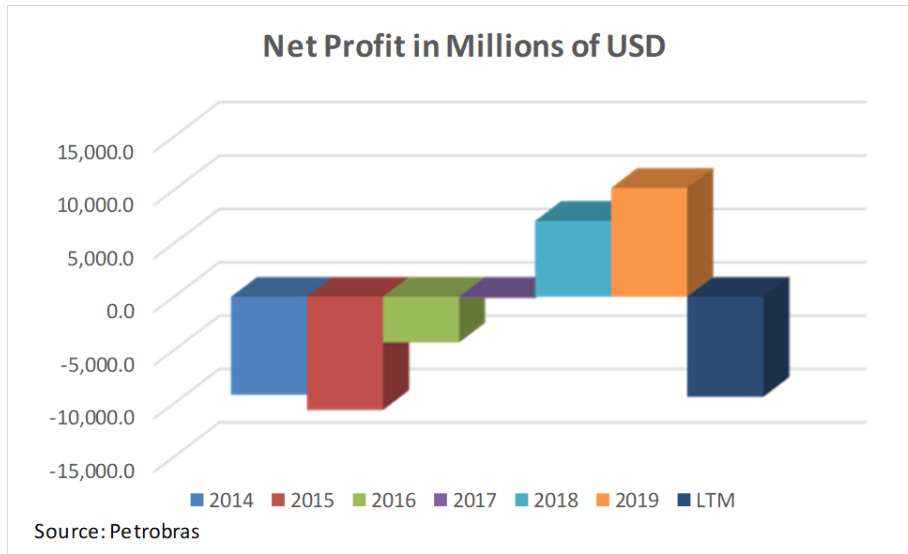
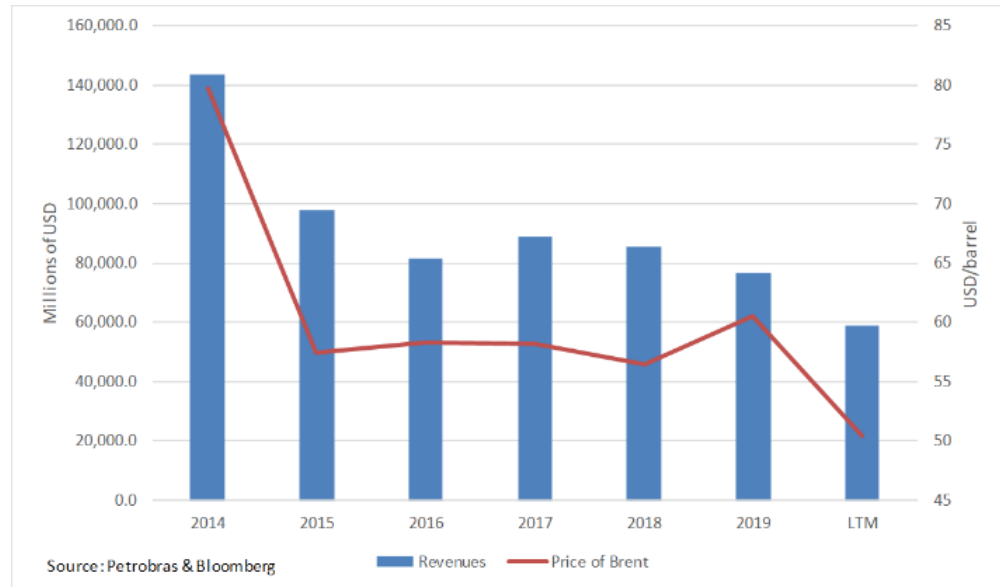
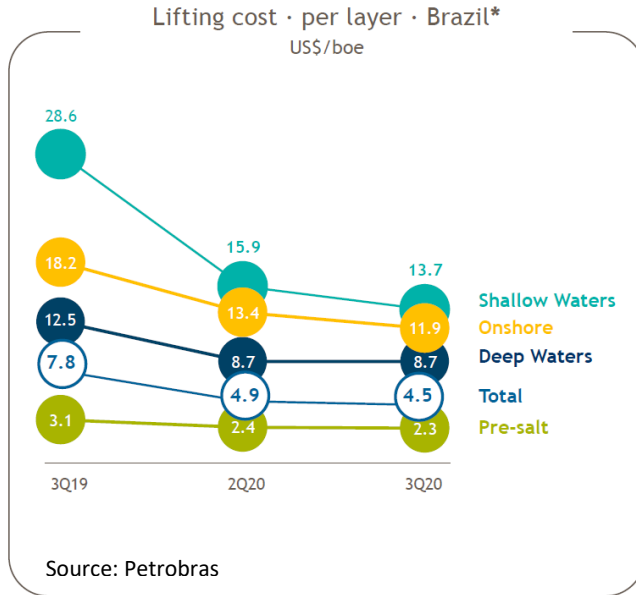


Company (Ticker) (S&P / Fitch / Moody's)	SWOT	Major Developments	Credit Outlook																		
<p><b>Petróleo Brasileiro S.A. (Petrobras) (BB-/BB-/Ba2)</b>                      Petróleo Brasileiro S.A. (Petrobras) is one of the world's largest companies in the oil, natural gas and energy industry, operating principally in Brazil where it is a dominant participant. The company is present in the exploration and production, refining, marketing, transportation, petrochemicals, oil product distribution, natural gas, electricity, chemical-gas and biofuel segments. As of December 31, 2020, Petrobras held 8.82 billion barrels of oil equivalent (boe) in reserves of which 86% represented oil and condensate or 0.5% of global supply. At current production levels, the company's reserves represents 9.6 years of supply.</p>	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Steady customer base in Brazil since the company supplies most of the country's energy needs</li> <li>Proven oil reserve base</li> <li>Strong liquidity position</li> <li>Dispersed debt maturity profile</li> <li>Competitive advantage in the production of marine fuel that is International Maritime Organisation (IMO) 2020 compliant due to low sulfur content of their pre-salt oil reserves</li> </ul>	<p><b>Volatile profitability</b> – oil prices have been volatile but trending downward since their peak in 2014 resulting in lower revenues and higher impairments. This is being partly offset by lower expenses as the company shifts to cheaper pre-salt assets. Stable oil prices should lead to more stable profits over the short-term.</p> <p><b>Declining revenues</b> – Petrobras' revenues shrunk by 32.28% YoY in Q3 2020. The decline the company experienced was influenced greatly by the price of Brent oil falling 22.65% YoY in Q3 2020. Oil prices have been volatile for many years and became more so in 2020 with the advent of COVID-19 but are expected to have now stabilized.</p>	<p><b>S&amp;P Global's (S&amp;P's) Outlook</b>                      S&amp;P Global (S&amp;P) maintained its rating of BB- at its last review on November 5, 2020, citing a faster than expected recovery, prudent debt management and stable production levels. The company's connection to the Brazilian government is the primary reason for the rating being capped at BB-. S&amp;P noted that it could issue a rating downgrade if Brazil's sovereign rating is lowered and/or if Debt-to-EBITDA moved from 2.81x as of Q3 2020 to 5x and Funds from Operations (FFO) to Debt from 35.93% as of Q3 2020 to under 12%, which has not happened for at least the past 8 years.</p>																		
<p><b>Production Rate vs. Reserves</b></p>  <table border="1" data-bbox="115 641 619 885"> <caption>Production Rate vs. Reserves Data</caption> <thead> <tr> <th>Year</th> <th>Reserves (MMboe)</th> <th>Annual Production Estimate (MMboe/yr)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>~9500</td> <td>~1000</td> </tr> <tr> <td>2017</td> <td>~9500</td> <td>~1000</td> </tr> <tr> <td>2018</td> <td>~9500</td> <td>~1000</td> </tr> <tr> <td>2019</td> <td>~9500</td> <td>~1000</td> </tr> <tr> <td>LTM</td> <td>~8800</td> <td>~1000</td> </tr> </tbody> </table> <p>Source: Petrobras</p>	Year	Reserves (MMboe)	Annual Production Estimate (MMboe/yr)	2016	~9500	~1000	2017	~9500	~1000	2018	~9500	~1000	2019	~9500	~1000	LTM	~8800	~1000	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Target market heavily concentrated in Brazil</li> <li>Potential government influence on fuel pricing policy, which can harm the company's profitability and cash flows</li> <li>Heavily leveraged</li> <li>Revenues are primarily generated in Real but the majority of Petrobras' debt is denominated in foreign currencies</li> </ul>	<p><b>Divestitures</b> – Petrobras has a divestment plan which covers over 50 assets. The proceeds are being used to lower outstanding debt in addition to improving the company's overall efficiency.</p>	<p><b>SIJL's Outlook</b>                      Petrobras produces an essential commodity which is not likely to be completely replaced for many years though demand from regulators and consumers for cleaner energy will continue to shape the company and the industry at large. Over the past seven years, Petrobras, like many of its peers, has experienced the implications of volatile oil prices from the top line right through to the bottom line. However, according to the US Energy Information Administration (EIA), oil prices are expected to remain close to current levels over the next twelve months. Coupled with lower debt service obligations, and lower impairments, Petrobras is expected to fare well over the next twelve months and even more so as the pandemic dissipates.</p>
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<p>The Oil and Gas Industry is a mature industry with high barriers to entry while, at the same time, highly competitive. Petrobras is the tenth largest company in the industry by revenues. High production costs and large capital expenditure have led to low profitability and sometimes losses for firms in the industry. The industry is also strongly influenced by global consumer demand which took a hit in 2020 due to the COVID-19 pandemic, leading futures oil prices to dip to unprecedented levels and forcing some small producers out of the industry.</p>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Continued growth in the export market</li> <li>Other transportation industry regulations moving towards lower sulfur content in fuel</li> <li>Greater revenues with global markets improving with the advent of COVID-19 vaccines</li> </ul>	<p><b>Debt reduction initiative</b> – As part of its strategic plan for 2021 to 2025, Petrobras has been pursuing initiatives to reduce its debt to US\$60B by 2022 and has been making strides in meeting that target. Petrobras' gross debt of US\$79.68B as at the end of Q3 2020 is significantly lower than that of five years ago, US\$128.03B. Higher oil prices and the company's divestitures should support this initiative.</p>	<p><b>Recommendation</b>                      We designate a <b>marketweight</b> recommendation to Petrobras' bonds.</p>																		
<p>Since the start of the 21st century, regulators have gotten increasingly more concerned about the environmental impact this sector has had and has mandated oil-producing countries to reduce their emissions. This shift has placed greater pressure on firms to innovate and invest in research and development to achieve this, increasing operating costs and lowering profitability.</p>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>Exposure to the volatile and capital-intensive oil and gas industry with significant risks inherent to oil price fluctuations and longer-term risks related to energy transition</li> <li>Susceptible to a credit rating downgrade if Brazil's sovereign rating is downgraded</li> </ul>	<p><b>Strong liquidity</b> – Petrobras has a healthy bank balance, positive free cash flow generation and strong liquidity ratios fueled by divestments and bond repurchases.</p> <p><b>CAPEX focused on cheaper pre-salt assets</b> – The company has been increasing its focus on pre-salt oil which has the lowest lifting cost. This is expected to increase the company's gross margin and overall profitability.</p>																			

Appendices



	2014	2015	2016	2017	2018	2019	Current/LTM
<b>Cash and Equivalents (US \$'M)</b>	26,069.97	25,472.63	22,019.30	24,373.83	14,954.15	8,283.74	13,385.81
<b>Current Ratio</b>	1.63x	1.51x	1.80x	1.89x	1.48x	0.97x	1.08x
<b>Quick Ratio</b>	1.09x	1.10x	1.07x	1.18x	0.83x	0.42x	0.63x
<b>Cash Ratio</b>	0.83x	0.90x	0.88x	0.98x	0.60x	0.29x	0.54x
<b>Working Capital (US \$'M)</b>	19,783.89	14,399.87	19,891.85	22,152.65	11,988.15	-1,006.67	1,941.39
<b>CFO (US \$'M)</b>	26,894.72	26,673.77	26,370.78	27,544.01	27,391.55	27,296.15	30,413.78
<b>Capex (US \$'M)</b>	34,888.34	21,727.74	14,233.97	13,664.07	11,994.41	8,635.90	7,679.15
<b>Free Cash Flow (US \$'M)</b>	-7,993.62	4,946.03	12,136.81	13,879.93	15,397.15	18,660.25	22,946.14
<b>FFO/Debt</b>	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	09/30/2020
<b>Source: Petrobras' Financial Statements</b>							

**Recommendation Key:**

**Underweight:** We recommend that clients have significantly less or no exposure to the asset or asset class in question than that which is indicated by their portfolio's Strategic Asset Allocation (SAA). The variance in the amount of exposure is dependent on the client's Investor Profile.

**Underweight to Marketweight:** We recommend that clients have slightly less, but more than zero, exposure to the asset or asset class in question than that which is indicated by their portfolio's SAA. The variance in the amount of exposure is dependent on the client's Investor Profile.

**Marketweight:** We recommend that clients have the amount of exposure indicated by their portfolio's SAA.

**Marketweight to Overweight:** We recommend that clients have slightly more exposure to the asset or asset class in question than that which is indicated by their portfolio's SAA but less than the upper limit indicated by their portfolio's Tactical Asset Allocation (TAA). The variance in the amount of exposure is dependent on the client's Investor Profile.

**Overweight:** We recommend that clients have significantly more exposure to the asset or asset class in question than that which is indicated by their portfolio's SAA, up to the maximum amount indicated by their portfolio's TAA. The variance in the amount of exposure is dependent on the client's Investor Profile.

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**General Disclosures**

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