BRAZIL
EQUITY RESEARCH
DAILY

ESPIRITO SANTO INVESTMENT BANK
Research

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Today's Comments

- **MACROECONOMICS:** US employment
- **PETROBRAS (PETR4, R$24.5, BUY, FV R$26.7):** First two wells at Lula are the most productive in the country
- **BRAZILIAN BANKS:** general inspection of small and mid-cap banks by the Brazilian Central Bank
- **Oi (TNLP4, R$16.93, NEUTRAL, FV R$22.0):** Reiteration of company's ratings by Fitch

Ibovespa Top Gainers	Daily chg.	m shares	Latest Price
CIELO ON	3,33%	42	41,90
FIBRIA ON	3,18%	25	12,99
BRASIL ON	1,91%	692	11,19
TELEMAR NORTE LESTE	1,84%	921	30,50
GOL LINHAS AÉREAS PN	1,52%	5.045	10,66
Ibovespa - Top Losers	**Daily chg.**	**m shares**	**Latest Price**
SANTANDER UNITS	-4,15%	7	3,23
PETROBRAS ON	-3,36%	312	5,75
JBS ON	-3,00%	3.330	3,56
BRF FOODS ON	-2,81%	51	3,81
GERDAU PN	-2,69%	2.551	11,93
Other Stock Markets	**Last**	**Daily Chg.**	**YTD Chg.**
North America			
Dow Jones US	12.705	-	9,74%
Nasdaq US	2.860	-	7,80%
S&P 500 US	1326	-	5,40%
Europe			
Dax Xetra GR	6.679	0,35%	-3,40%
IBEX 35 SM	8.826	0,61%	-10,48%
CAC 40 FP	3.390	0,39%	-10,91%
FTSE 100 LN	5.820	0,42%	-1,35%
PSI 20 PL	5.392	-0,03%	-28,95%
Asia			
Nikkei JP	8.832	-0,51%	-13,66%
TOP 40 SJ	30.651	-0,25%	7,02%
Merval AR	2.818	-	-20,03%
IGPA CI	20.721,230	-	-9,83%
BUX HB	19.470,240	-0,26%	-8,71%
JCI IJ	4.015,949	-0,02%	8,44%
IPC MX	37.711	-	-2,18%
RTS RU	1604	0,06%	-9,40%
Relevant Data	**Last**	**Daily chg.**	**YTD**
Dollar (R$/US$)	1,719	0,00%	-26,56%
Brent (US$)	112,16	0,17%	18,94%

Source: Bloomberg.
Note: Latest price refers to the adjusted close of the previous session, unless otherwise stated.

Main Economic Figures

					Forecast		
Date	Local Time (BZ)	Country	Indicator	Reference	Estimativa Bes	Consensus	Last
03-Feb-12	00:30	CH	Chinese HSBC Services PMI	JAN	- -	- -	52,5
03-Feb-12	06:45	IT	Italian PMI Services	JAN	- -	45,0	44,5
03-Feb-12	06:50	FR	French PMI Services	JAN F	- -	- -	51,7
03-Feb-12	**06:55**	**DE**	**German PMI Services**	**JAN F**	**- -**	**- -**	**54,5**
03-Feb-12	**07:00**	**EU**	**Euro-Zone PMI Composite**	**JAN F**	**- -**	**50,4**	**50,4**
03-Feb-12	07:00	EU	Euro-Zone PMI Services	JAN F	- -	50,5	50,5
03-Feb-12	07:30		British PMI Services	JAN	- -	53,4	54,0
03-Feb-12	08:00	EU	Euro-Zone Retail Sales (MoM)	DEC	- -	0,4%	-0,8%
03-Feb-12	08:00	IT	Italian CPI - EU Harmonized (YoY)	JAN P	- -	3,4%	3,7%
03-Feb-12	09:10		British U.K. to Sell Bills	- -	- -	- -	- -
03-Feb-12	**11:30**	**US**	**US Change in Nonfarm Payrolls**	**JAN**	**- -**	**150K**	**200K**
03-Feb-12	**11:30**	**US**	**US Change in Private Payrolls**	**JAN**	**- -**	**168K**	**212K**
03-Feb-12	**11:30**	**US**	**US Unemployment Rate**	**JAN**	**- -**	**8,5%**	**8,5%**
03-Feb-12	13:00	US	US ISM Non-Manf. Composite	JAN	- -	53,3	52,6
03-Feb-12	13:00	US	US Factory Orders	DEC	- -	1,2%	1,8%
03-Feb-12	14:30	PT	Portuguese Banco Espirito Santo Reports Full-Year Earnings	3-Jul	- -	- -	- -

Source: Bloomberg and Espirito Santo Investment Bank Research.

Macroeconomics

US employment
On top of several PMI Services indices released this morning in Europe, updates on the US labour market should grab most of market participants' attention. The median forecast for nonfarm payrolls indicates a 145k increase in Jan12, after 200k in Dec11. The consensus also points towards some deceleration in private payrolls, as the median forecast is 163k – after a 212k increase in Dec11. Analysts forecast unemployment to have remained unchanged at 8.5% of the economically active population in Jan12.

Oil/Petrochemical

PETROBRAS (PETR4, R$24.5, BUY, FV R$26.7): First two wells at Lula are the most productive in the country

ANP, Brazil's oil & gas regulator, has reported monthly production figures for December. Total oil production in Brazil reached 2,214k bbl/d (+1.2% MoM; +1.6% YoY), reaching the highest level ever. However, these figures are not new news, as Petrobras had already published its Dec/11 production figures. Nevertheless, ANP provided more colour on production ramp up at the pre-salt, which was up by 3.9% and reached 200.6k boepd (83% oil). The first production well at Lula was Brazil's top-producing well for the 8th month in a row, at 34.2k boepd (-4% MoM), with oil accounting for 77% of production. Moreover, the second production well at Lula, which was launched on 12 November, was the second most productive well with an average daily production of 31.7k boepd, with oil accounting for 80%. Finally, Lula's third well that was launched during the month produced an average of 16k boepd.

Opinion: This is positive news for Petrobras as it once again confirms the high productivity of the Lula reservoir on Block BM-S-11. Generally, the output from the first well has been maintained at a high level. We note that this production is still a pilot project; therefore, understanding the reservoir characteristics and testing technologies that will optimize production and costs in the future are the main targets, rather than maximizing short-term production. Moreover, production at the first well could also have been impacted by the connection of the other two wells. Having said that, we see the 4% MoM drop at Lula's first well as normal. As this was the first month of production at the third well, we believe that any read-across is limited as it would have been impacted by tests/ramp-up. Therefore, ANP Jan/11 data will provide clearer visibility on the productivity of this well.

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Banking

BRAZILIAN BANKS: general inspection of small and mid-cap banks by the Brazilian Central Bank

According to *Valor Economico,* in mid 2011 the Brazilian Central Bank started a general inspection of small and mid-cap banks that resulted or will result in a range of adjustments on some banks' balance sheet. Supervision by the BCB has not changed through the creation of new rules, but implies more rigorous requirements to comply with the existing ones.

According to the article, by the end of 3Q11, at least ten financial institutions had to make adjustments or were recommended to do so. The most repeated BCB recommendation was related to the increase in loan loss provisions due to the worsening credit operation scores. Another recurring recommendation was related to the way banks account for commissions paid to banking correspondents, which ceased to be deferred over the time of the contract and started to be accounted upon the sale of the credit portfolio.

According to Valor, in four cases the recommendations have resulted in changes in banks' control (non-listed banks) or BCB intervention. It was also highlighted that the inspection is still ongoing.

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Telecommunications

Oi (TNLP4, R$16.93, NEUTRAL, FV R$22.0): Reiteration of company's ratings by Fitch

According to Valor, the Fitch ratings agency confirmed yesterday (February 2nd) the ratings of the Oi Group's companies (Tele Norte Leste, Telemar and Brasil Telecomunicações), maintaining it at "BBB" for foreign currency debt and "AAA" for the long-term domestic debt rating. In addition, the agency evaluated the reorganization process as "positive", as it would simplify the corporate structure and strengthen the financial profile of the group, despite the cash disbursements at the end of the transaction. As a consequence, Fitch states that all the companies of the group are assigned a stable outlook.

In our view, this news is in line with our estimates that the company has a positive outlook in the long term, as the restructuring process (taking place in 1Q12), expansion of its Pay-TV and triple play offering and Portugal Telecom's (PTC PL, Eur 3.76, BUY, FV Eur 7.3) presence in the management are in place. Nevertheless, we maintain our Neutral rating based on the fact we see short-term improvements as unlikely.

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Macro Calendar

Date	Local Time (BZ)	Country	Indicator	Reference	Forecast Estimativa Bes	Forecast Consensus	Last
01-08 FEB	- -	BZ	Brazilian Commodity Price Index (YoY)	JAN	- -	- -	-0,35%
03-09 FEB	**- -**	**BZ**	**Brazilian CNI Capacity Utilization**	**DEC**	**81,7%**	**- -**	**81,5%**
02-05 FEB	**- -**	**CH**	**Chinese Leading Index**	**DEC**	**- -**	**- -**	**100,2**
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Source: Espirito Santo Investment Bank Research

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12-MONTH RATING	DEFINITION
BUY	Analyst expects at least 10% upside potential to fair value, which should be realized in the next 12 months
NEUTRAL	Analyst expects upside/downside potential of between +10% and -10% to fair value, which should be realized in the next 12 months.
SELL	Analyst expects at least 10% downside potential to fair value, which should be realized in the next 12 months
SHORT TERM RATING	**DEFINITION**
ST POSITIVE	Analyst expects the stock price to appreciate in value within 3 months of the rating assignation because of a specifically identified catalyst(s) or event(s)
ST NEGATIVE	Analyst expects the stock price to decline in value within 3 months of the rating assignation because of a specifically identified catalyst(s) or event(s)

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BUY	244	52.7%	38	74.5%	8.2%
NEUTRAL	150	32.4%	11	21.6%	2.4%
SELL	63	13.6%	0	0.0%	0.0%
RESTRICTED	0	0.0%	0	0.0%	0.0%
UNDER REVIEW	6	1.3%	2	3.9%	0.4%
TOTAL	**463**	**100%**	**51**	**100%**	

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Recommendation	Count	% of Total	Count	% of IBC	% of Total
SHORT TERM POSITIVE	0	0%	0	0%	0%
SHORT TERM NEGATIVE	0	0%	0	0%	0%
TOTAL	**0**	**0%**	**0**	**0%**	

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