

The Case: The case is set in June 2008, when the crude oil prices were soaring high. David Passami, the VP of strategy for Petrobras Nigeria has to make an important decision. Statoil - one of the partners of Petrobras in Agbami project in Nigeria - has made a \$1bn bid for Petrobras's 13% share in the Agbami (Nigeria) project. The additional 13% share will increase Statoil's share to 31.85%. Petrobras has been in Nigeria since the past 10years and has invested \$500mn in the country. Petrobras is going to start seeing oil revenues this year (2008) but there are many uncertainties associated with the projected cash flows.

Perspective: The case is written from Petrobras's perspective. However, since Statoil is already a partner in the project the valuation provided by the students needs to be fair.

Key Issues: The students can concentrate on the following key issues:

1. Using the financial statements provided, prepare a fair valuation of the project. Also, include sensitivity analysis for various uncertainties.
2. Evaluate political, social and economic risks in Nigeria.
3. Calculate the cost of capital to invest in a highly risky emerging economy. Also use various techniques, including Erb-Harvey-Viskanta model, to obtain the cost of capital. Perhaps students can perform a sensitivity analysis based on this.
4. Include real options to present a final strategic recommendation.

Objectives of the Case: By working through this case, students should develop an understanding of the political, economic, and social context around a strategic investment decision in an emerging market. Specifically, the case requires an analytical look at a specific industry (oil) in which major upfront costs are made with revenue and cash inflows expected 8-10years after the capital investment. The case asks students to evaluate both the explicit and implicit risks associated with a project or investment, complete a break-even analysis, analyze selling out versus staying invested in a project and understand the role of the cost of capital in analyzing financial returns. The idea is for students to evaluate the cash flows after putting tangible values to the uncertainties as well as to strategically analyze the options available to Petrobras at this point. Students are required to make a recommendation as to which option they would select and support their recommendation with reasons.