

Brazil Oil & Gas

It keeps escalating – US-Iran conflict

The conflict escalated and the Strait of Hormuz remains closed, Brent breached USD100/bbl

USD100+ oil price. After the Iran-US conflict first broke out last Saturday (February 28), we wrote that [a Pandora's Box had been opened](#) and that “the impact on the oil market could be severe and potentially drive Brent prices above USD100/bbl”. Given the escalating crisis, it has taken only one week for oil prices to spiral beyond that projection. We now believe it may be necessary to update our sensitivity tables with even higher oil price scenarios. In fact, if Brent prices were to average USD100/bbl in 2026, PBR would generate yields above 20% and PRIO above 30% – although we would not yet call this a base-case scenario. While the spike in oil prices makes a compelling case for the most levered companies (BRAV, RECV), their oil hedges limit the upside. Including the hedges, the sensitivities for every +USD10/bbl are +4pp for Brava, +3pp for RECV, +5pp for PRIO and PBR. This means that if the increase in oil prices lasts no more than one year, PRIO benefits most. We continue to prefer PRIO and Petrobras – we believe these two names continue to offer the best risk-return balance. We also see distributors as well positioned to benefit, and Vibra remains our preferred pick in the fuel distribution space.

Escalation pushing oil higher. At the time of writing, Brent prices are trading up c.+24% at c.USD115/bbl after the Sunday (8) open. Why have oil prices surged further this weekend? The number one reason is likely the continued closure of the Strait of Hormuz – which has effectively halted the flow of oil equivalent to c.20% of global demand. This has already led to production shut ins among Middle Eastern producers (e.g., Iraqi production reportedly down c.60%). Additional events have further escalated the situation, namely: (i) US/Israeli strikes on Iranian energy infrastructure, particularly an oil depot and refinery in Tehran; (ii) continued Iranian drone and missile attacks on neighboring Gulf countries, including against energy facilities; and (iii) Iran’s choice of Mojtaba Khamenei, son of Ayatollah Ali Khamenei, as successor to the Supreme Leader, which does not signal an obvious immediate off ramp for de escalation.

Gulf countries most affected. The countries most reliant on the Strait of Hormuz are Iraq (produces c.4.3MMbpd and routes c.97% of exports through the Strait), Kuwait (produces c.2.6MMbpd, 100% of exports through the Strait), and Qatar (77Mtpa of LNG, 100% of exports). While other regional producers have alternative export routes that bypass the Strait of Hormuz, capacity is limited. Saudi Arabia (produces c.10MMbpd) can route c.5MMbpd to its Yanbu terminal on the Red Sea, and the UAE (produces c.3.4MMbpd) can route c.1.8MMbpd through the Fujairah pipeline (although it has been reportedly damaged in recent attacks). Beyond crude oil, the effective closure of the Strait of Hormuz has significant implications for the global supply of LNG, refined products, and fertilizers.

Oil & Gas	Rating	Target Price	Current Price
PETR4	Buy	R\$ 47.0	R\$ 42.1
PRIO3	Buy	R\$ 64.0	R\$ 59.4
BRAV3	Buy	R\$ 22.0	R\$ 19.7
RECV3	Neutral	R\$ 12.0	R\$ 12.9

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Figure 01. Middle East share of global flows

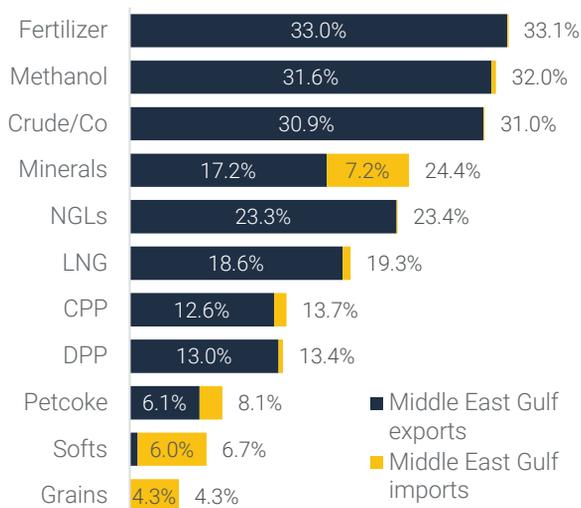


Figure 02. Oil infrastructure in the Middle East



Stock picking implications. The implications of such a far-reaching geopolitical event are numerous, and at times conflicting and intertwined. From a macro perspective, the conflict will likely drive further risk-off sentiment in global markets. In addition, higher energy prices will push inflation higher, reduce the room for interest-rate cuts, and potentially slow global economic activity – all of which are negative for equities. However, not everything points to the downside. Oil & gas represents a significant share of Brazilian GDP and government revenues. Moreover, individual stocks in the oil & gas sector benefit directly from higher commodity prices. Below we outline the main implications.

Petrobras double gain, if only it hikes prices. Calculating Petrobras's sensitivity depends on one main assumption: will the company pass through the increases to domestic gasoline and diesel prices? If the answer is yes, then Petrobras gains anywhere between USD4 - 5bn for every USD10/bbl. But there is more. Not only have Brent prices increased, but refining crack spreads have also widened (US diesel vs. Brent stands at USD66/bbl, up +USD27/bbl since the beginning of the conflict). For every USD10/bbl, the sensitivity to diesel crack spreads is USD1.5 - 2.0bn. This means that with Brent at 100/bbl and crack spreads USD50/bbl above our base case assumptions, PBR could generate some USD28.5bn FCFE or c.25% yield.

But what if PBR doesn't hike prices? If Petrobras does not increase prices for refined products, then the upside is limited to crude exports and other sales that follow international benchmarks. In this case, there is no upside from higher refining crack spreads (on the contrary, there is c.USD300mn downside for every USD10/bbl from importing at a loss). Moreover, the refining spread sensitivity works against the company, and Petrobras only gets a net gain of c.USD2.0 – 2.5bn for every USD10/bbl. All in, this means that with Brent at 100/bbl and diesel crack spreads USD50/bbl above our base case assumptions, PBR would generate only USD13bn FCFE or 11% yield if it did not pass through price increases.

Price hike is a matter of when, not if. However, in our view, there is little question that Petrobras will have to increase prices. If it does not, fuel distributors and gas stations would experience a growing scarcity of diesel within two or three weeks. By the fourth week, we believe prices at the pump would need to rise to incentivize imports, even if Petrobras's list prices remained unchanged. At that point, if Petrobras continued holding back price increases, it would effectively be transferring P&L down the value chain to the distributors that buy its discounted product.

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Independent E&P Cos capture the upside in oil prices directly, as the crude they sell is priced based on international benchmarks. However, because crude is priced at export parity, the higher cost of VLCC freight is likely to offset a small portion of the commodity gains. Moreover, in the short term the upside is partially limited by certain hedge structures (most notably Brava's zero cost collar). Excluding such hedges, the sensitivity in FCFE yields for every USD10/bbl increase in Brent is approximately +10pp (c.+USD160mn) for Brava, +6pp (+USD45mn) for RECV, and +5pp (+USD475mn) for PRIO per year (Figures 03 and 04). Including the hedges, the sensitivities for every +USD10/bbl are +4pp for Brava, +3pp for RECV and +5pp for PRIO. This means that if the increase in oil price lasts no more than one year, PRIO benefits most.

Figure 03. Brazil Oil Cos 2026 XPe FCFE (ex-acquisitions, WK) and sensitivity to Brent

		Brent (USD/bbl)									
(USDbn)	60	70	80	90	100	110	120	130	140	150	
Petrobras	3.8	8.0	12.2	16.4	20.6	24.8	29.0	33.2	37.4	41.6	
PRIO	1.3	1.8	2.3	2.7	3.2	3.7	4.2	4.6	5.1	5.6	
Brava	0.11	0.28	0.41	0.50	0.60	0.69	0.79	0.88	0.98	1.07	
PetroReconcavo	0.05	0.10	0.14	0.18	0.23	0.27	0.32	0.36	0.40	0.45	
(% of mkt cap)	60	70	80	90	100	110	120	130	140	150	
Petrobras	3.7%	7.7%	11.8%	15.8%	19.9%	24.0%	28.0%	32.1%	36.2%	40.2%	
PRIO	13.3%	18.1%	22.9%	27.7%	32.5%	37.3%	42.1%	46.8%	51.6%	56.4%	
Brava	6.4%	16.0%	23.3%	28.7%	34.2%	39.6%	45.0%	50.5%	55.9%	61.3%	
PetroReconcavo	7.1%	13.2%	19.4%	25.5%	31.6%	37.8%	43.9%	50.1%	56.2%	62.3%	

Figure 04. Brazil Oil Cos 2027 XPe FCFE (ex-acquisitions, WK) and sensitivity to Brent

		Brent (USD/bbl)									
(USDbn)	60	70	80	90	100	110	120	130	140	150	
Petrobras	5.4	11.2	16.9	22.6	28.2	33.8	39.4	45.0	50.6	56.1	
PRIO	1.8	2.3	2.9	3.4	4.0	4.5	5.0	5.5	6.1	6.6	
Brava	0.36	0.59	0.81	1.04	1.26	1.48	1.70	1.92	2.15	2.37	
PetroReconcavo	0.06	0.10	0.15	0.19	0.24	0.28	0.33	0.37	0.42	0.47	
(% of mkt cap)	60	70	80	90	100	110	120	130	140	150	
Petrobras	5.3%	10.8%	16.3%	21.8%	27.2%	32.7%	38.1%	43.5%	48.9%	54.2%	
PRIO	18.3%	23.8%	29.2%	34.6%	40.0%	45.5%	50.9%	56.1%	61.5%	67.0%	
Brava	20.7%	33.7%	46.6%	59.3%	72.0%	84.7%	97.4%	110.1%	122.8%	135.5%	
PetroReconcavo	7.8%	14.1%	20.4%	26.7%	33.0%	39.3%	45.6%	52.0%	58.3%	64.6%	

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Brava's hedges limit gains. Brava has adopted a hedging policy that mixed NDF and Zero Cost Collars. At the end of 3Q25 Brava had hedged the equivalent of 14.5mn bbl. Of that total, 4.7mn bbl are NDFs at a fixed price of USD66.7/bbl, mostly in 2H26. The NDFs imply an opportunity cost of USD47mn (2.7% of mkt cap) for every USD10/bbl, but there is no margin call. Brava also had 9.7mn bbl in Zero Cost Collar with the Calls sold at an average strike of c.USD75/bbl. The ZCC implies a financial loss of USD97mn (5.6% of mkt cap) for every USD10/bbl. With Brent trading at USD115/bbl, this represents a USD470mn loss with the ZCC, part of which Brava may be required to deposit as margin (although with USD1.1bn in cash at the end of 3Q25, we do not anticipate liquidity to be a constraint in any way). All in, assuming the company rolled over the hedges it had at the end of 3Q25, Brava's hedges in a twelve-month window would cost c.USD320mn (c.18.5% of mkt cap) if Brent averaged USD100/bbl in 2026 and then c.USD105mn (6% of mkt cap) for every USD10/bbl change around that baseline.

Same for RECV. PetroReconcavo also has a hedging policy that mixes NDF and Zero Cost Collars. At the end of 3Q25, RECV hedged the equivalent of 2.5mn bbl. Of that total, 1.1mn bbl are NDFs at a fixed price of USD64/bbl equally distributed of twelve months. RECV also had 1.4mn bbl ZCC with calls sold at an average strike of c.USD70/bbl. With Brent trading at USD115/bbl, this represents a USD66mn loss with the ZCC, part of which RECV may be required to deposit as margin (RECV had c.USD290mn in cash at the end of 3Q25). All in, assuming the company rolled over the hedges it had at the end of 3Q25, RECV's hedges in a twelve-month window would cost c.USD22mn (c.10% of mkt cap) if Brent averaged USD100/bbl in 2026 and then c.USD22mn (3% of mkt cap) for every USD10/bbl change around that baseline.

Figure 05. Brazil Oil Cos XPe 2026 FCFE yield impact for a USD10/bbl decrease/increase in Brent prices

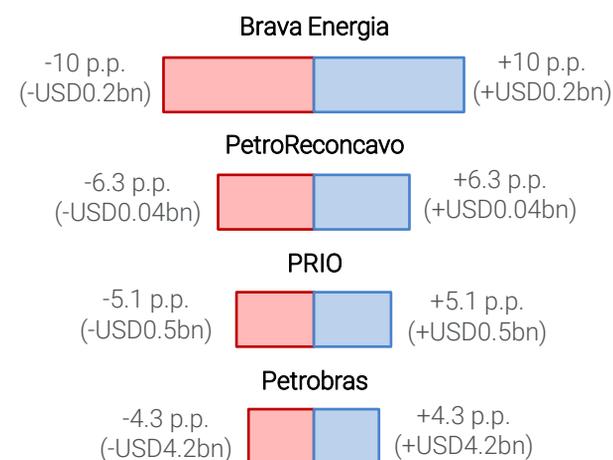
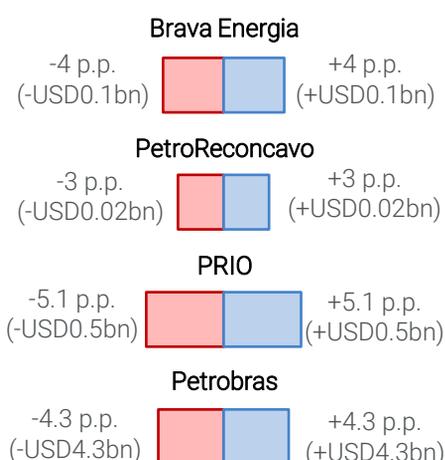


Figure 06. Brazil Oil Cos XPe 2026 FCFE yield impact for a USD10/bbl decrease/increase in Brent prices (including hedges)



Fuel distributors benefit too but watch import hedges. The surge in oil prices is likely to benefit fuel distributors (VBBR, UGPA, and RAIZ) as well. If Petrobras maintains prices below parity, this will create product scarcity and boost margins for the distributors with the largest Petrobras allocation in their supply mix (i.e., the major listed players). There is no straightforward sensitivity calculation in this case, but it is not unlikely that the margin uplift could be on the order of BRL30/m³ or more. Moreover, whenever Petrobras does hike prices, distributors will record substantial one off inventory gains. The caveat to the bullish narrative is the potential losses arising from hedges on fuel imports – the mark to market (MTM) impact is likely to negatively affect 1Q26 results. Whether the MTM crystallizes into cash losses will depend on Petrobras and/or pump prices converging to import parity.

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