



Independent Stock Idea

February 2, 2018

ConocoPhillips (COP) Raise NPV to \$80 on Higher Cash Flow

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 12/31/18 (US\$mm)</i>	14,200
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	23
<i>Price (US\$/sh)</i>	59.35	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/1/18	<i>Developed Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	1198	<i>EV/Ebitda</i>	6.7
<i>Market Capitalization (US\$mm)</i>	71,100	<i>PV/Ebitda</i>	8.4
<i>Debt (US\$mm)</i>	23,000	<i>Undeveloped Reserves (%)</i>	20
<i>Enterprise Value (EV) (US\$mm)</i>	95,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.10
<i>Present Value (PV) (US\$mm)</i>	119,000	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	80	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Ebitda/Market Cap</i>	1.33	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.14
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.			
For historical analysis of COP since 2002 see www.mcdep.com/2cocp.htm			

Summary and Recommendation

We raise estimated Net Present Value (NPV) to \$80 a share from \$68 for low McDep Ratio **ConocoPhillips (COP)** after the company released fourth quarter results on February 1. Actual results and latest guidance support higher volume and price that lead to higher cash flow (Ebitda) of \$14.2 billion for 2018 (see table [Operating and Financial Estimates](#) on page 2). The new estimate is up 17% compared to our previous estimate of \$12.1 billion (see [Table 2, Meter Reader](#), January 16, 2018). Gains in the U.S. crude oil futures price, West Texas Intermediate (WTI), are shared by all oil producers in our projections. Yet, the international futures price, Brent, is up more than WTI and COP is most dependent on Brent. Company-specific volume gains reflect a slightly higher base further enhanced by guidance of 5% growth. Looking back a few years and comparing to a peer group of the four largest independents in our coverage, we see that COP has been shrinking to grow from a new base (see chart [Volume](#) on page 2). In the process, COP has improved its relative price (see chart [Price](#) on page 3). Expense is holding at low level (see chart [Operating Expense](#) on page 3). As a result, unit cash flow has improved relatively (see chart [Ebitda – Production](#) on page 4). Declining share count is a financial advantage (see chart [Shares](#) on page 4). We are enthusiastic about the investment appeal of COP along with other stocks in our coverage (see [Tables 1-4](#) on pages 5-8). Low McDep Ratio of 0.79 attests to strong value.

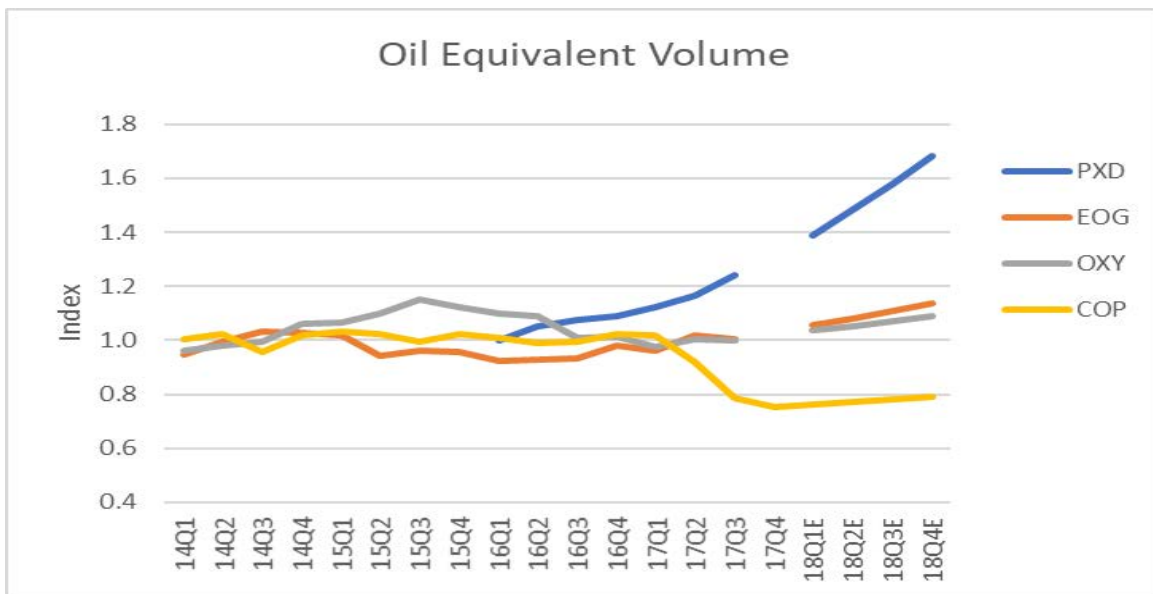
Kurt H. Wulff, CFA



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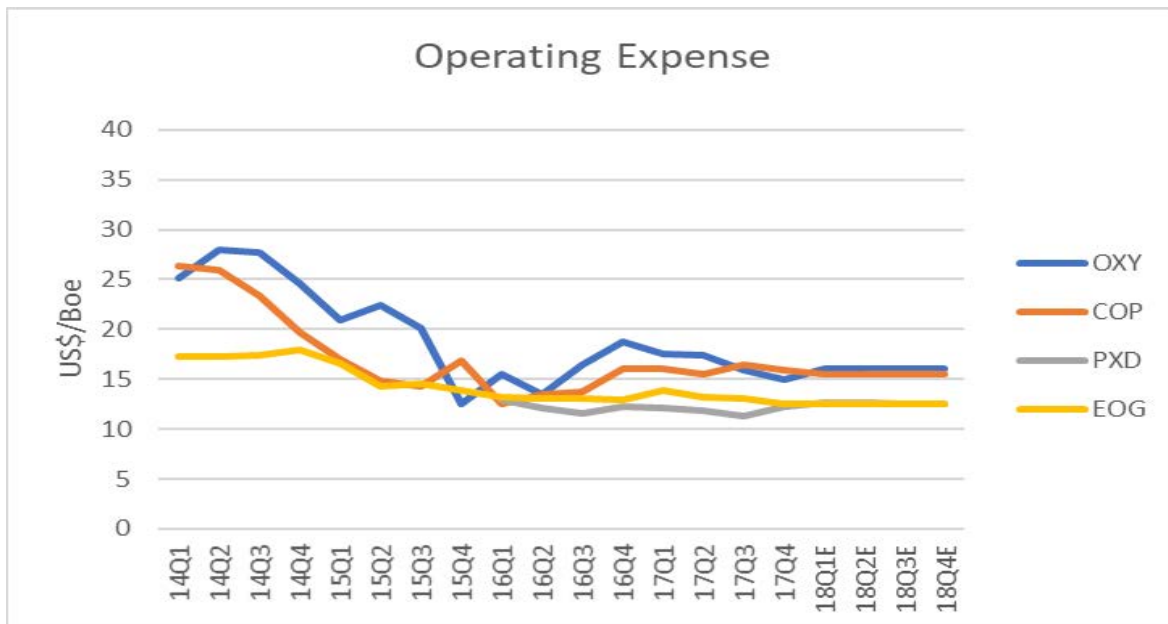
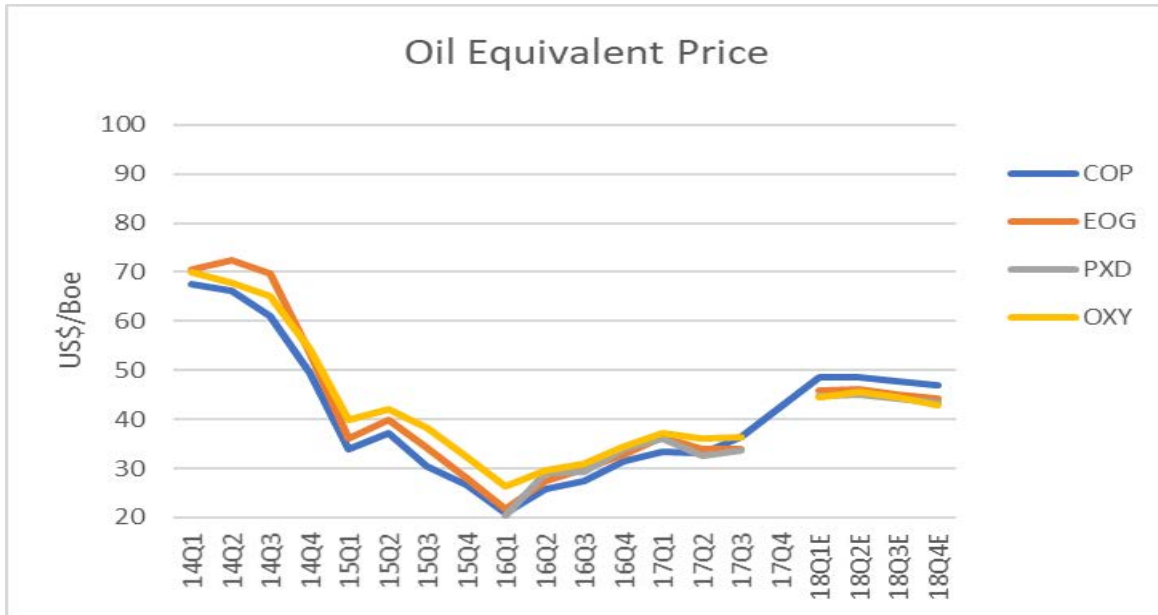
ConocoPhillips										
Next Twelve Months Operating and Financial Estimates										
	Q4	Year	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/16	2016	9/30/17	12/31/17	2017	3/31/18	6/30/18	9/30/18	12/31/18	12/31/18
Volume (barrels oil equivalent)										
Daily (mboed)	1,596	1,569	1,226	1,178	1,357	1,192	1,206	1,221	1,236	1,214
Period (mmboe)	143	571	113	108	495	107	110	112	114	443
Price (US\$/boe)	31.52	26.45	36.31	42.72	36.05	48.46	48.54	47.74	46.87	47.89
Expense (US\$/boe)	16.00	13.96	16.51	15.94	15.98	15.80	15.80	15.80	15.80	15.80
Ebitda - Production (US\$/boe)	15.52	12.49	19.79	26.78	20.08	32.66	32.74	31.94	31.07	32.09
Downstream VA (US\$/boe)	-	-	-	-	-	-	-	-	-	-
Ebitda - Total										
Unit (US\$/boe)	15.52	12.49	19.79	26.78	20.08	32.66	32.74	31.94	31.07	32.09
Period (US\$mm)	2,223	7,126	2,233	2,902	9,944	3,505	3,595	3,588	3,532	14,219
Deprec, Deplet, Amort, Other	2,404	10,977	1,683	1,847	7,490	1,600	1,600	1,600	1,600	6,400
Ebit (US\$mm)	(181)	(3,851)	550	1,055	2,454	1,905	1,995	1,988	1,932	7,819
Interest	317	1,245	251	226	1,098	226	226	226	226	904
Ebt (US\$mm)	(498)	(5,096)	299	829	1,356	1,679	1,769	1,762	1,706	6,915
Income Tax	(174)	(1,784)	105	290	475	352	371	370	358	1,452
Net Income (US\$mm)										
Exploration and Production										
Other										
Unallocated										
Total	(324)	(3,313)	194	539	882	1,326	1,397	1,392	1,348	5,463
Shares (millions)	1,246	1,245	1,215	1,198	1,208	1,198	1,198	1,198	1,198	1,198
Earnings Per Share (US\$)	(0.26)	(2.66)	0.16	0.45	0.73	1.11	1.17	1.16	1.13	4.56
Dividend (US\$/share)	0.27	1.02	0.27	0.29	1.08	0.29	0.29	0.29	0.29	1.14
Present Value (US\$mm)	123,570		106,099	119,319		119,319	119,319	119,319	119,319	
Debt (US\$mm)	36,350		23,479	23,479		23,479	23,479	23,479	23,479	
Net Present Value (US\$mm)	87,220		82,620	95,840		95,840	95,840	95,840	95,840	
NPV (US\$/share)	70		68	80		80	80	80	80	80





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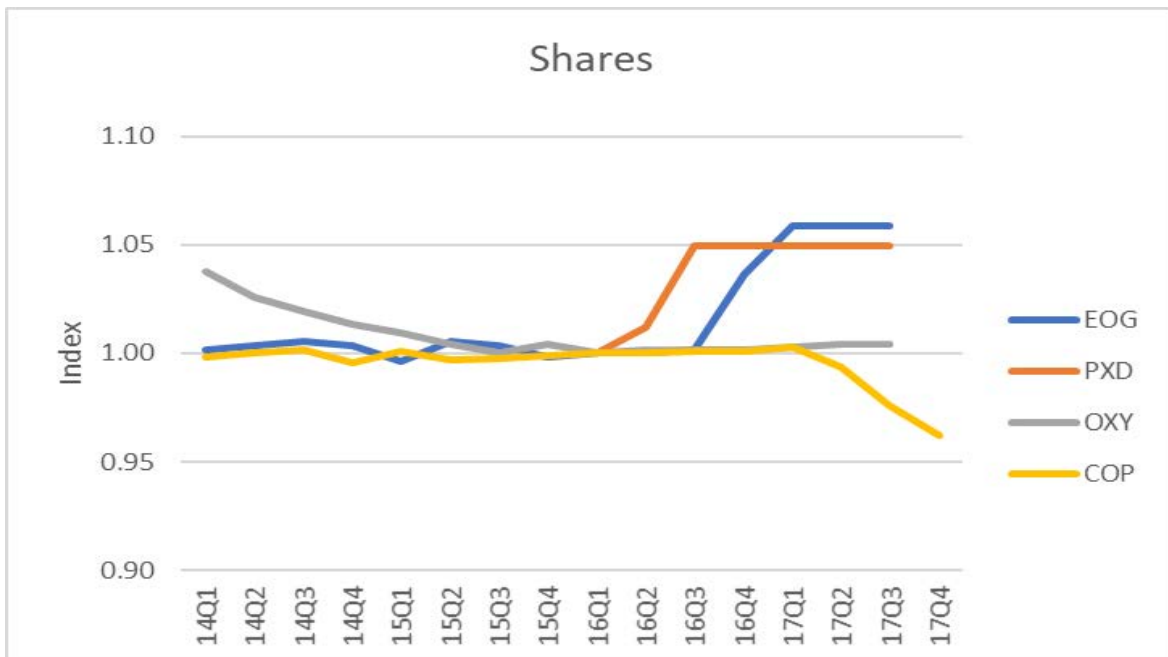
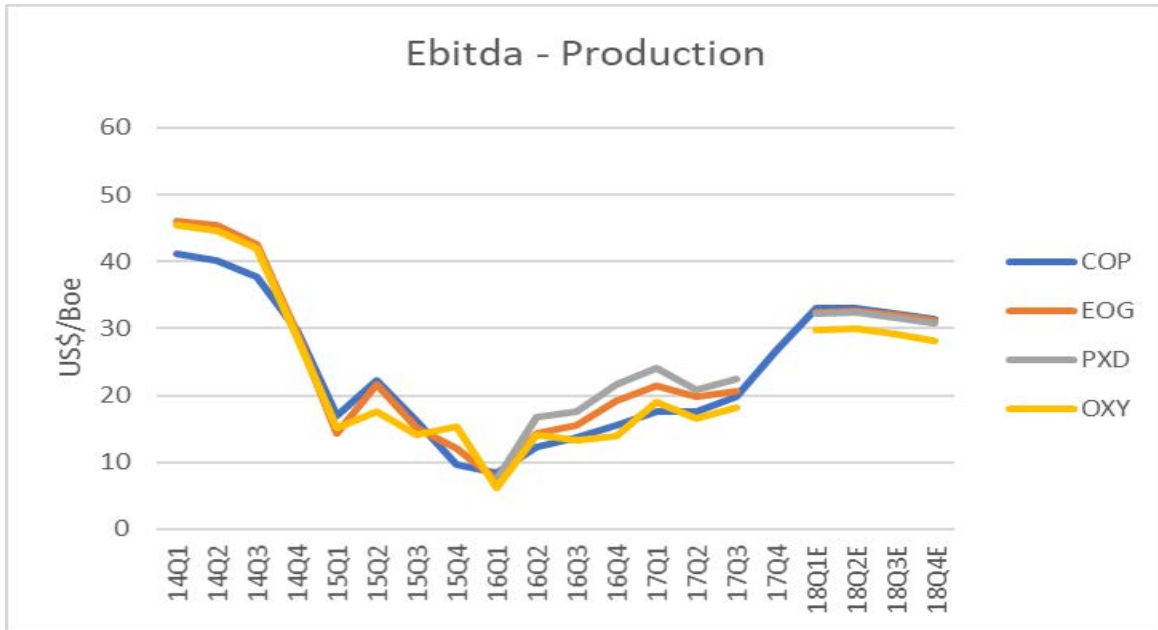
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Table 1											
McDep Energy Stocks											
Ranked by McDep Ratio											
		Price (US\$/sh)	Market Cap (US\$mm)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	1-Feb 2018									
Integrated											
	Exxon Mobil Corporation	XOM	89.07	380,000	472,000	1.24	8.3	9.1	52	3.5	0.91
	Chevron Corporation	CVX	125.57	238,000	303,000	1.27	7.5	8.7	64	3.4	0.87
	Royal Dutch Shell	RDS-B	70.93	295,000	420,000	1.42	6.7	8.6	51	5.3	0.78
	Suncor Energy	SU	36.35	60,000	79,000	1.30	6.4	8.2	82	2.9	0.78
	<i>Total or Median</i>			973,000	1,274,000	1.29	7.1	8.6	58	3.4	0.82
Large Independent											
	EOG Resources, Inc.	EOG	116.52	67,500	74,700	1.11	9.8	9.3	91	0.6	1.05
	Occidental Petroleum Corp.	OXY	76.10	58,300	71,800	1.23	9.0	8.9	81	4.0	1.01
	Hess Corporation	HES	50.59	15,900	25,100	1.58	8.0	8.5	97	2.0	0.95
	Pioneer Natural Resources	PXD	186.65	31,700	33,700	1.06	8.5	9.1	93	0.0	0.94
	Marathon Oil Corporation	MRO	18.43	15,670	22,700	1.45	6.6	8.3	87	1.1	0.80
	ConocoPhillips	COP	59.35	71,000	95,000	1.33	6.7	8.4	77	1.9	0.79
	Devon Energy Corporation	DVN	42.22	22,300	30,000	1.35	6.2	8.2	79	0.6	0.76
	<i>Total or Median</i>			282,400	353,000	1.33	8.0	8.5	87	1.1	0.94
Small Independent											
	Continental Resources (32%)	CLR	56.61	6,800	8,900	1.32	8.3	8.7	83	-	0.96
	California Resources	CRC	22.95	1,000	7,100	7.2	6.7	7.7	93	-	0.86
	Cimarex Energy Company	XEC	113.41	10,600	12,100	1.14	7.5	9.0	78	0.3	0.83
	Whiting Petroleum Corporation	WLL	28.67	2,600	5,800	2.25	4.7	7.8	96	-	0.60
	Range Resources	RRC	13.93	3,400	8,000	2.34	5.7	10.2	44	0.6	0.56
	Birchcliff Energy Ltd.	BIREF	2.76	700	1,400	1.83	4.3	10.6	44	2.9	0.41
	<i>Total or Median</i>			25,000	43,000	2.04	6.2	8.9	80	0.1	0.71
Income											
	San Juan Basin Royalty Trust	SJT	9.16	430	430	1.00	12.8	11.1	-	7.8	1.15
	Permian Basin RT	PBT	9.30	430	430	1.00	11.4	12.3	80	8.3	0.93
	Sabine Royalty Trust	SBR	46.40	680	680	1.00	15.3	16.5	67	6.5	0.93
	Dorchester Minerals, L.P.	DMLP	15.90	510	510	1.00	9.1	13.8	81	10.6	0.66
	Cross Timbers Royalty Trust	CRT	14.85	90	90	1.00	8.7	14.7	39	9.2	0.59
	<i>Total or Median</i>			2,100	2,100	1.00	11.4	13.8	67	8.3	0.93

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to NTM futures prices for oil and natural gas. NTM = Next Twelve Months ending 12/31/18.
 Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see www.mcdep.com



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Table 2											
McDep Energy Stocks											
Unlevered Cash Flow (Ebitda)											
Ranked by Total Ebitda											
Symbol/Rating	Price (US\$/sh)	1-Feb 2018	Volume (mmboe)	Upstream NTM			Down- stream Uplift (\$/boe)	Total Ebitda NTM (\$mm)	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)	
				Equiv. Price (\$/boe)	Ebitda Margin (%)	Ebitda (\$/boe)					
Integrated											
Royal Dutch Shell	RDS-B	70.93	1373	44.30	73	32.40	13.41	44,470	25	3.76	
Exxon Mobil Corporation	XOM	89.07	1487	46.40	57	26.60	11.84	39,552	23	3.08	
Chevron Corporation	CVX	125.57	1026	48.44	65	31.30	7.80	32,119	20	4.32	
Suncor Energy	SU	36.35	277	60.79	60	36.39	8.20	10,096	14	1.04	
<i>Total or Median</i>				4163	47.42	62	31.85	10.02	126,237	22	
Large Independent											
ConocoPhillips	COP	59.35	443	47.89	67	32.10	0.00	14,219	10	1.14	
EOG Resources, Inc.	EOG	116.52	237	44.47	72	31.97	0.00	7,592	5	0.67	
Occidental Petroleum Corp.	OXY	76.10	232	45.27	65	29.30	5.17	6,799	29	3.08	
Devon Energy Corporation	DVN	42.22	195	34.14	66	22.70	2.14	4,419	3	0.24	
Pioneer Natural Resources	PXD	186.65	124	44.29	72	31.70	0.00	3,946	0	0.08	
Marathon Oil Corporation	MRO	18.43	148	36.09	64	23.10	0.00	3,426	5	0.20	
Hess Corporation	HES	50.59	127	44.50	55	24.50	0.00	3,122	10	1.00	
<i>Total or Median</i>				1507	44.47	66	29.30	0.00	43,523	5	
Small Independent											
Cimarex Energy Company	XEC	113.41	74	32.10	68	21.80	0.00	1,611	2	0.32	
Range Resources	RRC	13.93	133	19.68	54	10.60	0.00	1,410	1	0.08	
Whiting Petroleum Corporation	WLL	28.67	45	43.23	65	27.90	0.00	1,246	-	-	
Continental Resources (32%)	CLR	56.61	33	40.41	80	32.30	0.00	1,072	-	-	
California Resources	CRC	22.95	47	49.52	46	22.70	0.00	1,063	-	-	
Birchcliff Energy Ltd.	BIREF	2.76	23	19.01	71	13.50	0.00	312	7	0.08	
<i>Total or Median</i>				355	36.25	66	22.25	0.00	6,714	1	
Income											
Dorchester Minerals, L.P.	DMLP	15.90	2.14	36.29	73	26.32	0.00	56	96	1.68	
Sabine Royalty Trust	SBR	46.40	1.55	33.65	85	28.56	0.00	44	100	3.04	
Permian Basin RT	PBT	9.30	1.30	42.58	68	29.12	0.00	38	95	0.77	
San Juan Basin Royalty Trust	SJT	9.16	3.14	16.35	65	10.64	0.00	33	100	0.72	
Cross Timbers Royalty Trust	CRT	14.85	0.42	40.32	61	24.57	0.00	10	80	1.37	
<i>Total or Median</i>				9	36.29	68	26.32	0.00	182	96	
For historical research see www.mcdep.com											



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Table 3										
McDep Energy Stocks										
Net Present Value Per Share										
		Price (US\$/sh)	Shares	Debt	P/E	Devel. Resrvs/ Prod	Undev/ Devel. Resrvs	Nat Gas/ Ebitda	Top Line/ Ebitda	Net Present Value
Symbol/Rating	1-Feb 2018	(mm)	(\$mm)	NTM	NTM	(%)	(%)	(%)	(US\$/sh)	
Integrated										
Chevron Corporation	CVX	125.57	1,896	64,410	16	7.3	48	20		150.00
Exxon Mobil Corporation	XOM	89.07	4,271	91,771	13	9.2	45	25		100.00
Royal Dutch Shell	RDS-B	70.93	4,163	124,534	12	7.1	34	28		100.00
Suncor Energy	SU	36.35	1,662	18,232	9	9.9	80			50.00
	<i>Median</i>					8.3				
Large Independent										
Pioneer Natural Resources	PXD	186.65	170	2,000	22	5.4	8	7		200.00
EOG Resources, Inc.	EOG	116.52	579	7,214	25	4.6	43	9		110.00
Occidental Petroleum Corp.	OXY	76.10	766	13,500	21	8.0	30	5		75.00
ConocoPhillips	COP	59.35	1,198	23,479	13	9.2	25	23		80.00
Devon Energy Corporation	DVN	42.22	529	7,746	61	7.7	25	14		60.00
Hess Corporation	HES	50.59	315	9,178		6.3	39	3		55.00
Marathon Oil Corporation	MRO	18.43	850	7,044	22	5.7	65	13		25.00
	<i>Median</i>					6.3				
Small Independent										
Cimarex Energy Company	XEC	113.41	94	1,483	13	5.2	26	22		140.00
Whiting Petroleum Corporation	WLL	28.67	91	3,242	10	8.0	111	4		72.00
Continental Resources (32%)	CLR	56.61	119	2,134	25	5.0	146	17		60.00
California Resources	CRC	22.95	43	6,100		8.7	40	7		50.00
Range Resources	RRC	13.93	245	4,575	8	8.5	78	56		40.00
Birchcliff Energy Ltd.	BIREF	2.76	268	618	8	6.0	218	56		10.00
	<i>Median</i>					7.0				
Income										
Sabine Royalty Trust	SBR	46.40	15	-	15	10.6	4	33	100	50.00
Cross Timbers Royalty Trust	CRT	14.85	6	-	11	9.1	-	61	80	25.00
Dorchester Minerals, L.P.	DMLP	15.90	32	-	12	6.5	-	19	86	24.00
Permian Basin RT	PBT	9.30	47	-	12	8.8	14	18	39	10.00
San Juan Basin Royalty Trust	SJT	9.16	47	-	13	9.9	-	99	-	8.00
	<i>Median</i>					9.1				

P/E = Stock Price to Earnings. For historical research see www.mcdep.com.



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2018										
Ranked by Unlevered Total Return										
		Price	Price	Price	Cash	Equity	Unlevered			
	Symbol/Rat	1-Feb	29-Dec	Change	Distrib.	Total	Debt	Return	McDep	
		2018	2017	(%)	(%)	(%)	(\$/sh)	(%)	Ratio	
Integrated										
	Exxon Mobil Corporation	XOM	89.07	83.64	6	-	6	21	5	0.91
	Royal Dutch Shell	RDS-B	70.93	68.29	4	-	4	30	3	0.78
	Chevron Corporation	CVX	125.57	125.19	0	-	0	34	0	0.87
	Suncor Energy	SU	36.35	36.72	(1)	-	(1)	11	(1)	0.78
	<i>Median</i>				2		2		1	0.82
Large Independent										
	Pioneer Natural Resources	PXD	186.65	172.85	8	-	8	12	7	0.94
	EOG Resources, Inc.	EOG	116.52	107.91	8	0	8	12	7	1.05
	ConocoPhillips	COP	59.35	54.89	8	0	9	20	6	0.79
	Marathon Oil Corporation	MRO	18.43	16.93	9	-	9	8	6	0.80
	Hess Corporation	HES	50.59	47.47	7	-	7	29	4	0.95
	Occidental Petroleum Corp.	OXY	76.10	73.66	3	-	3	18	3	1.01
	Devon Energy Corporation	DVN	42.22	41.40	2	-	2	15	1	0.76
	<i>Median</i>				8		8		6	0.94
Small Independent										
	Continental Resources (32%)	CLR	56.61	52.97	7	-	7	18	5	0.96
	Whiting Petroleum Corporation	WLL	28.67	26.48	8	-	8	36	4	0.60
	California Resources	CRC	22.95	19.44	18	-	18	143	2	0.86
	Cimarex Energy Company	XEC	113.41	122.01	(7)	-	(7)	16	(6)	0.83
	Range Resources	RRC	13.93	17.06	(18)	-	(18)	19	(9)	0.56
	Birchcliff Energy Ltd.	BIREF	2.76	3.50	(21)	-	(21)	2	(13)	0.41
	<i>Median</i>				(0)		(0)		(2)	0.71
Income										
	San Juan Basin Royalty Trust	SJT	9.16	8.24	11	2	13	-	13	1.15
	Permian Basin RT	PBT	9.30	8.87	5	1	6	-	6	0.93
	Sabine Royalty Trust	SBR	46.40	44.60	4	1	5	-	5	0.93
	Dorchester Minerals, L.P.	DMLP	15.90	15.20	5	-	5	-	5	0.66
	Cross Timbers Royalty Trust	CRT	14.85	14.69	1	1	2	-	2	0.59
	<i>Median</i>				5		5		5	0.93
	<i>Grand Median</i>				5		6		4	0.84
	Natural Gas (\$/mmbtu)		2.78	2.95	(6)					
	Oil - West Texas Intermediate (\$/bbl)		66.17	60.09	10					
	Total Stock Market - U.S.	VII	144.37	137.25	5					
	Developed Markets - ex US	VEA	47.11	44.86	5					
	Emerging Markets	VWO	49.37	45.91	8					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



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