



# Independent Stock Idea

October 23, 2008

rating: buy  
s&p 500: 897

## ConocoPhillips (COP) Australian Natural Gas Deal

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	30,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	49.06	<i>Natural Gas and Oil Production/Ebitda (%)</i>	74
<i>Pricing Date</i>	10/22/08	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	1528	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (US\$mm)</i>	75,000	<i>PV/Ebitda</i>	9.2
<i>Debt (US\$mm)</i>	48,000	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	123,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.00
<i>Present Value (PV) (US\$mm)</i>	277,000	<i>Present Value Proven Reserves(US\$/boe)</i>	19.64
<i>Net Present Value (US\$/share)</i>	150	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.27
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	7.83
<i>McDep Ratio - EV/PV</i>	0.44	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	3.8	<i>Indicated Annual Dividend (US\$/sh)</i>	1.88
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of COP since 2002 see <a href="http://www.mcdep.com/2cocp.htm">www.mcdep.com/2cocp.htm</a>			

### Summary and Recommendation

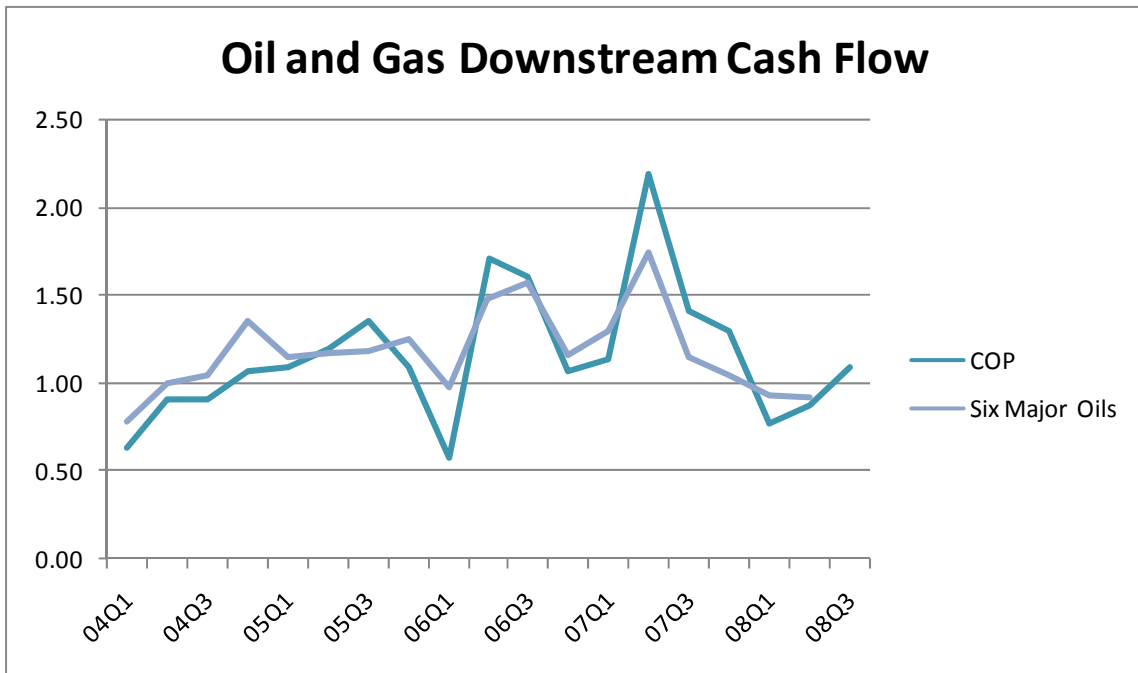
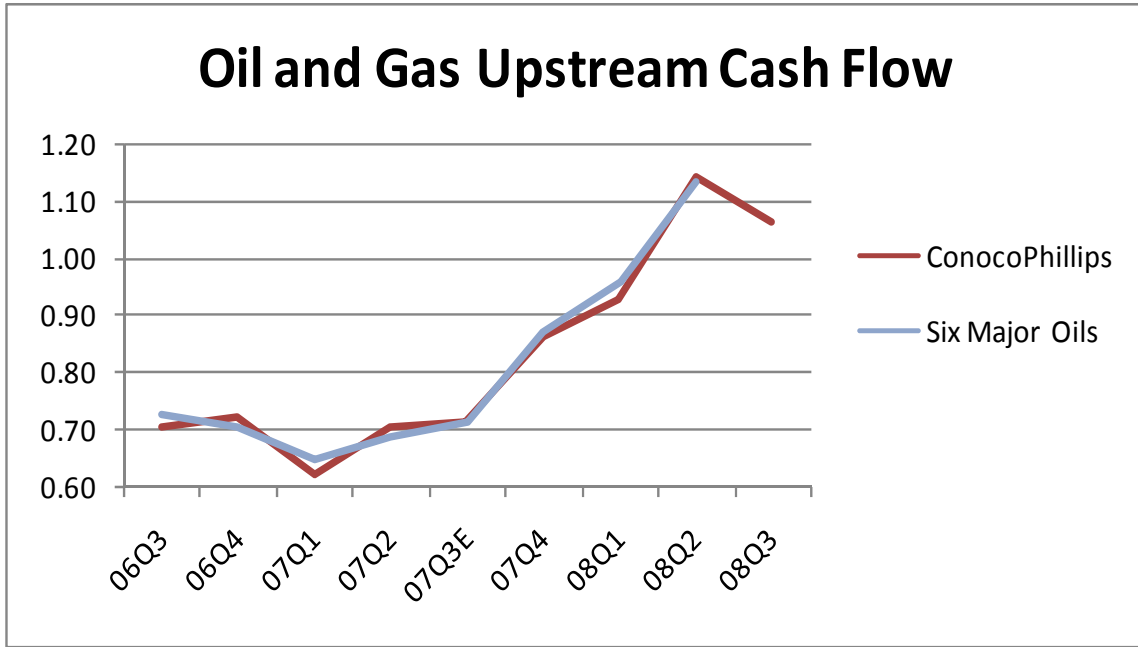
Buy-recommended **ConocoPhillips (COP)** plans to close before year end on a deal announced on September 7 that calls for an initial investment of \$5 billion in a joint venture in coal bed methane in Australia. Local partner, Origin Energy, contributes the natural gas resource base while COP applies its pioneering knowledge of producing natural gas from coal seams and liquefying natural gas for shipment to global markets. The project should benefit from lower, more favorable, future capital costs than expected when the deal was negotiated. Meanwhile, released on October 22, third quarter results were consistent with the industry environment as has been the case in previous quarters (see charts [Upstream Cash Flow](#) and [Downstream Cash Flow](#)). Recognizing the sharp deterioration in the global economic outlook in recent weeks, expectations have been reduced accordingly (see table [Next Twelve Months Operating and Financial Estimates](#)). Tough times may mean less political support for punitive taxation as the economy needs its strong companies, like ConocoPhillips, more than ever. Optimistic about the appreciation potential for stocks after Halloween we have buy recommendations on eleven oil and gas stocks including COP. Respectful of the risk in the global financial structure and in the first year of a new president's term we have hold recommendations on eighteen oil and gas stocks.

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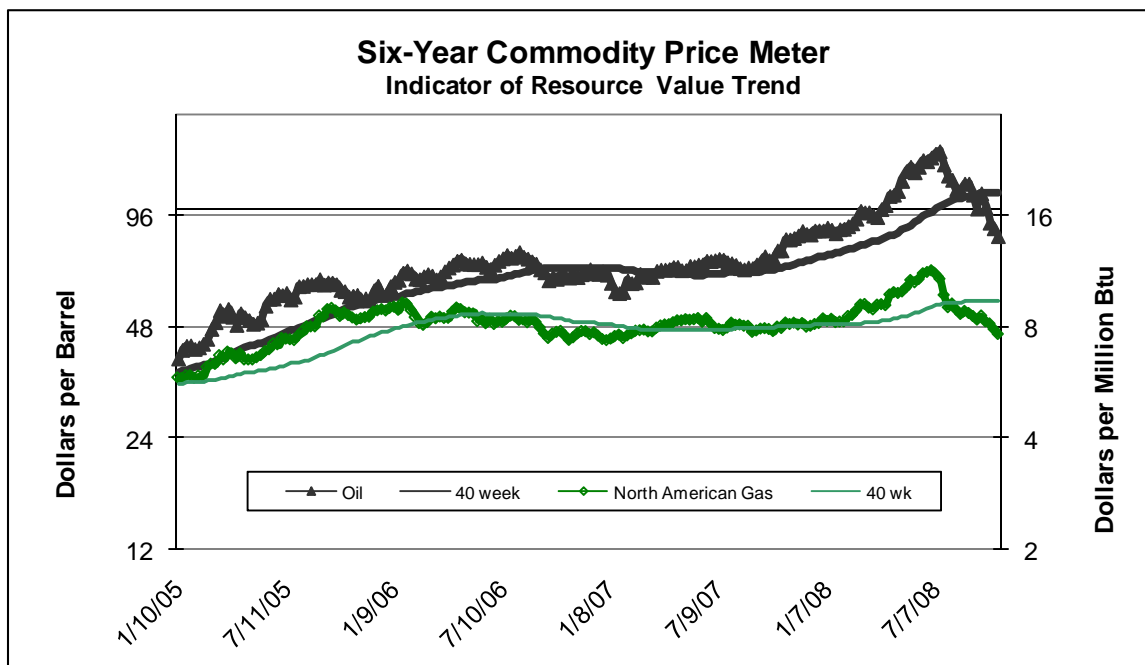
ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	Twelve
									Months
									9/30/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	3,404	3,187	3,134	3,134	<b>3,155</b>	3,134	3,134	3,134	<b>3,134</b>
Overseas (or Int'l)	1,512	1,631	1,635	1,705	<b>1,677</b>	1,736	1,631	1,635	<b>1,677</b>
Total	4,916	4,818	4,769	4,839	<b>4,831</b>	4,870	4,765	4,769	<b>4,811</b>
Days	92	91	92	92	<b>366</b>	90	91	92	<b>365</b>
Oil (mbd)	1,372	1,395	1,375	1,375	<b>1,395</b>	1,375	1,375	1,375	<b>1,375</b>
Total gas & oil (bcf)	1,210	1,200	1,198	1,204	<b>4,832</b>	1,181	1,184	1,198	<b>4,767</b>
Total gas & oil (mbd)	2,191	2,198	2,170	2,182	<b>2,200</b>	2,187	2,169	2,170	<b>2,177</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	7.09	<b>9.07</b>	7.24	7.55	7.19	<b>7.27</b>
U.S. (or North America)	5.29	9.86	9.16	6.34	<b>8.25</b>	6.48	6.75	6.43	<b>6.50</b>
Overseas (or Int'l)	6.17	9.90	8.42	8.42	<b>8.87</b>	8.42	8.42	8.42	<b>8.42</b>
Total	5.56	9.87	8.91	7.08	<b>8.46</b>	7.17	7.32	7.11	<b>7.17</b>
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	76.61	<b>104.13</b>	75.43	86.27	75.25	<b>78.39</b>
Worldwide	67.88	109.67	105.28	68.36	<b>92.64</b>	66.31	75.83	66.15	<b>66.78</b>
Total gas & oil (\$/mcf)	9.16	15.21	14.38	9.80	<b>12.89</b>	9.61	10.69	9.59	<b>9.92</b>
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.70	<b>10.01</b>	5.43	10.14	8.04	<b>7.33</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	1,656	2,858	2,642	1,829	<b>9,527</b>	1,828	1,926	1,853	<b>7,436</b>
Overseas (or Int'l)	859	1,469	1,267	1,321	<b>5,441</b>	1,316	1,250	1,267	<b>5,154</b>
Total	2,515	4,327	3,909	3,150	<b>14,967</b>	3,143	3,176	3,120	<b>12,590</b>
Oil	8,568	13,923	13,318	8,647	<b>47,301</b>	8,206	9,488	8,368	<b>34,710</b>
Other	36,850	55,103	54,146	54,146	<b>204,953</b>	54,146	54,146	54,146	<b>216,584</b>
Total	47,933	73,353	71,373	65,943	<b>267,221</b>	65,495	66,810	65,634	<b>263,883</b>
<b>Expense (\$mm)</b>	39,363	62,304	60,537	57,905	<b>228,196</b>	58,689	59,189	58,148	<b>233,931</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	5,852	9,380	8,749	5,545	<b>31,304</b>	5,334	5,952	5,399	<b>22,231</b>
Other	2,719	1,669	2,087	2,494	<b>7,722</b>	1,472	1,669	2,087	<b>7,722</b>
Total Ebitda	8,570	11,049	10,836	8,039	<b>39,026</b>	6,806	7,621	7,486	<b>29,952</b>
Exploration	218	288	267	267	<b>1,131</b>	267	267	400	<b>1,201</b>
Deprec., Deplet., & Amort.	2,133	2,178	2,361	2,361	<b>9,109</b>	2,361	2,361	2,300	<b>9,383</b>
Other non cash	188				-				-
<b>Ebit</b>	6,031	8,583	8,208	5,411	<b>28,786</b>	4,178	4,993	4,786	<b>19,368</b>
Interest	391	210	239	239	<b>895</b>	239	239	239	<b>956</b>
<b>Ebt</b>	5,640	8,373	7,969	5,172	<b>27,891</b>	3,939	4,754	4,547	<b>18,412</b>
Income Tax	1,974	2,931	2,789	1,810	<b>9,762</b>	1,379	1,664	1,592	<b>6,444</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,469	4,773	4,366						
Other	1,521	852	1,103						
Unallocated	(324)	(183)	(289)						
Total	3,666	5,443	5,180	3,362	<b>18,129</b>	2,560	3,090	2,956	<b>11,968</b>
<b>Shares (millions)</b>	1,644	1,555	1,528	1,528	<b>1,548</b>	1,528	1,528	1,528	<b>1,528</b>
Per share (\$)	2.23	3.50	3.39	2.20	<b>11.71</b>	1.68	2.02	1.93	<b>7.83</b>
Ebitda Margin (E&P)	53%	51%	51%	47%	<b>50%</b>	47%	47%	47%	<b>47%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>



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ConocoPhillips					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	3,500	10.2	12.0	42,000	15%
Rest of World Natural Gas	2,420	9.1	8.3	20,000	7%
Oil	16,310	11.7	10.1	165,000	60%
Downstream	7,720		6.5	50,000	18%
	29,950	11.0	9.2	277,000	100%
Debt (US\$mm)					48,000
Net Present Value (US\$mm)					229,000
Shares (mm)					1,528
Net Present Value - Standard Estimate (US\$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					156





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