



Independent Stock Idea

May 17, 2016

ConocoPhillips (COP) Strategy Reset to Low Risk Value

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 3/31/17 (US\$mm)</i>	8,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	44.08	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/16/16	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	1245	<i>EV/Ebitda</i>	11.8
<i>Market Capitalization (US\$mm)</i>	54,900	<i>PV/Ebitda</i>	15.9
<i>Debt (US\$mm)</i>	40,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	95,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	14.60
<i>Present Value (PV) (US\$mm)</i>	127,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.47
<i>Net Present Value (US\$/share)</i>	70	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.58
<i>Debt/Present Value</i>	0.31	<i>Earnings Next Twelve Months (US\$/sh)</i>	-1.03
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	-43
<i>Dividend Yield (%/year)</i>	2.3	<i>Indicated Annual Dividend (US\$/sh)</i>	1.00
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

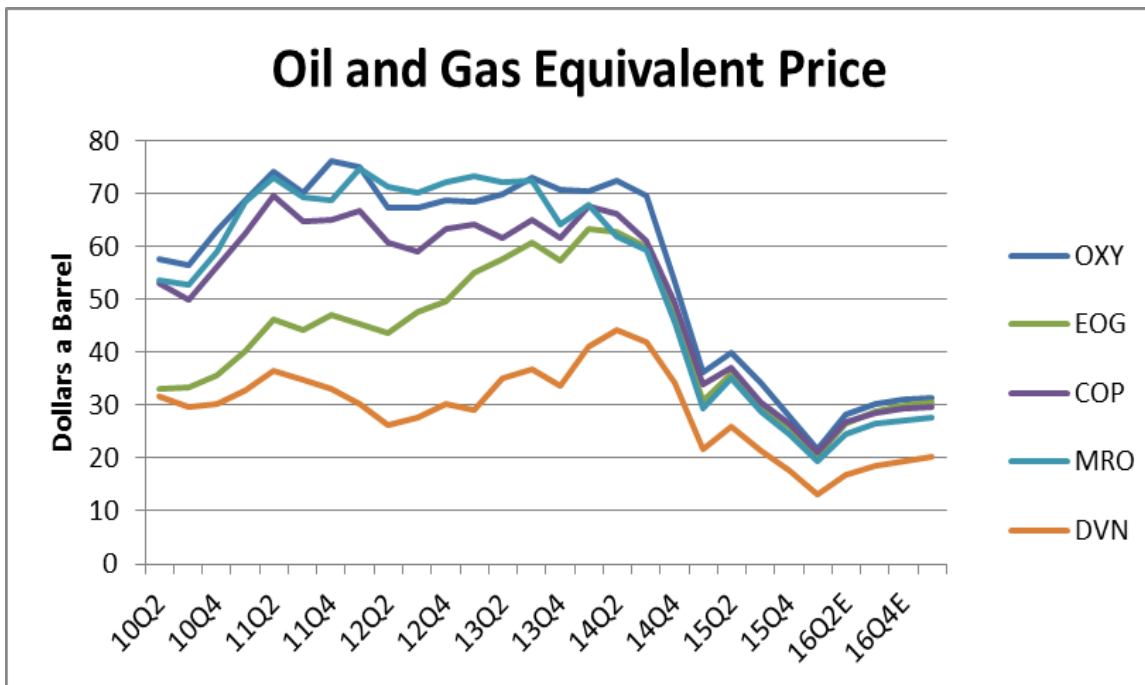
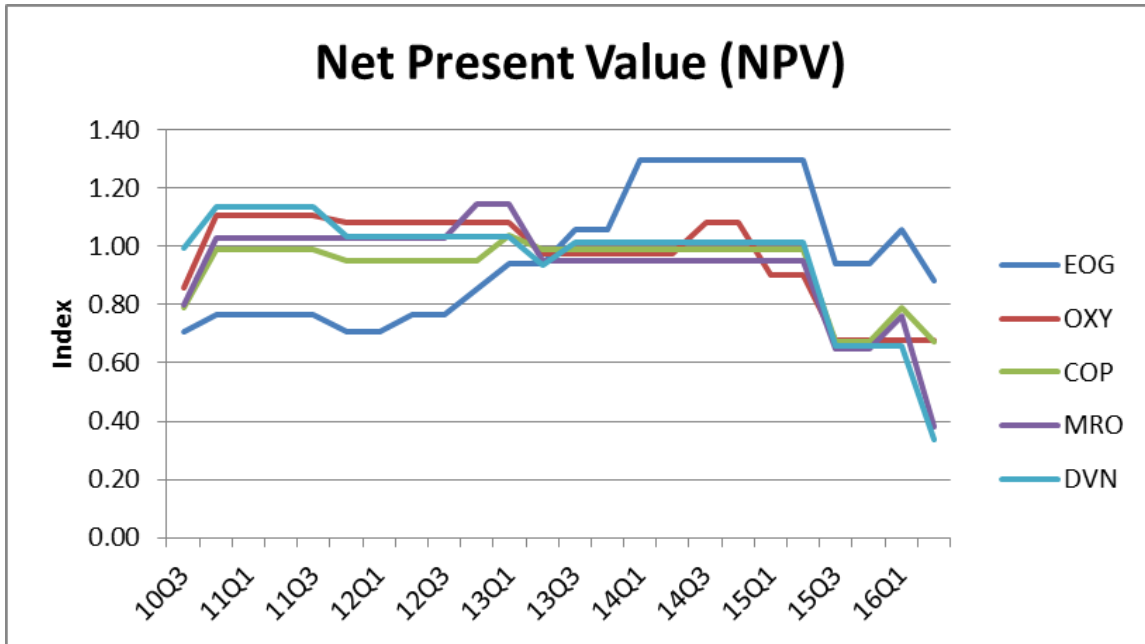
We recommend current purchase of the shares of **ConocoPhillips (COP)** for unlevered appreciation from a current McDep Ratio of 0.75 to 1.00 and levered appreciation from current stock price of \$44 a share to Net Present Value (NPV) of \$70. NPV is down from a recent \$80 amid adjustments for peer companies as well (see chart NPV on page 2). For a few months leading up to the company's annual meeting on May 10, Chief executive Ryan Lance has been outlining a strategy reset to a lower, more sustainable dividend, debt reduction and opportunistic use of remaining cash flow for capital spending or stock repurchase. At less than 1/6 Ebitda (unlevered cash flow), the dividend appears to have ample room to increase at least at the rate of general price inflation, as management intends. Investors can look at the dividend as offering a real return of 2.3% a year compared to U.S. Treasury Inflation Protected Securities that offer a real return of 0.1% a year for ten years. Meanwhile, management has reduced capital spending by two-thirds to a base of \$6 billion a year that is enough to keep production at a constant rate for more than ten years considering the company's large, low cost resource base. Management would apply cash flow increments to reinvestment for growth or repurchase of stock depending on expected rate of return on investment as well as stock price. At our assumed long-term oil price of \$70 a barrel, future cash flow would be perhaps twice current levels. Tracking recent history and looking out twelve months we see the beginning of a pattern of recovery for COP and peer companies (see charts [Price, Operating Expense/Barrel](#) and [Ebitda/Barrel](#) on pages 2 and 3). NPV analysis for COP relates cash flow to adjusted reserve life (see tables [Operating and Financial Estimates](#), [Production and Reserves](#) and [Present Value](#) on page 4 and 5). Finally, COP stock price may be pointing to future appreciation signified by the golden cross when the 50 day average crossing above the 200-day average (see chart on page 6).

Kurt H. Wulff, CFA



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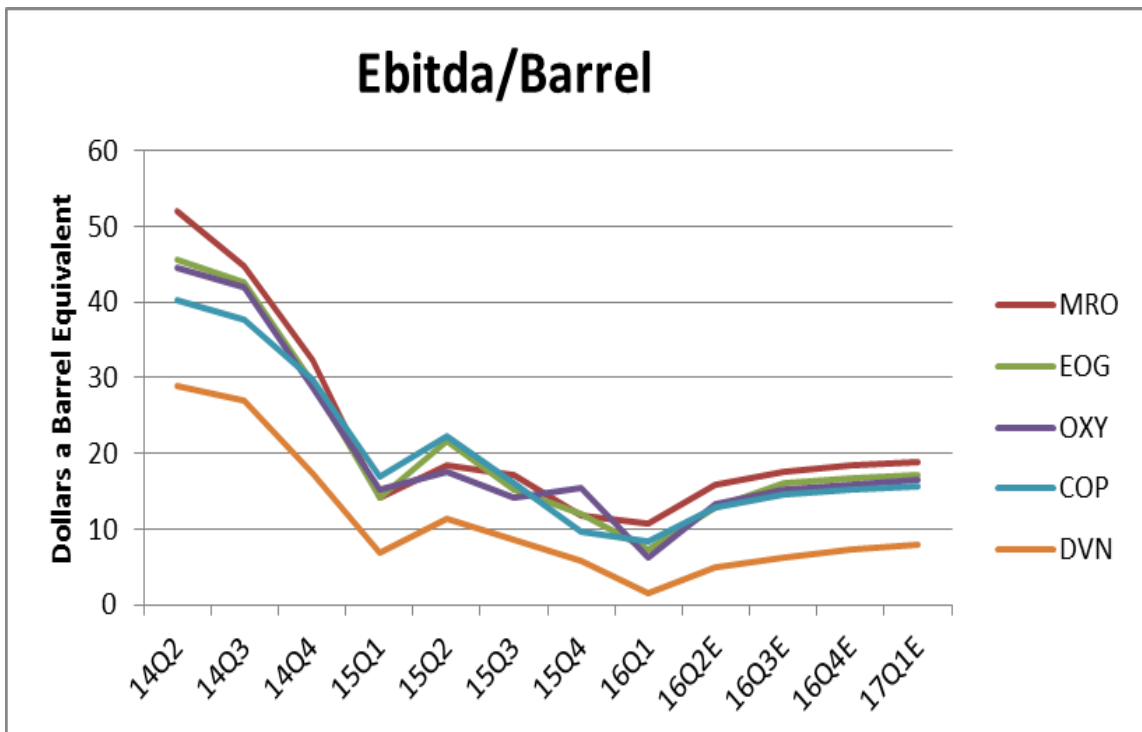
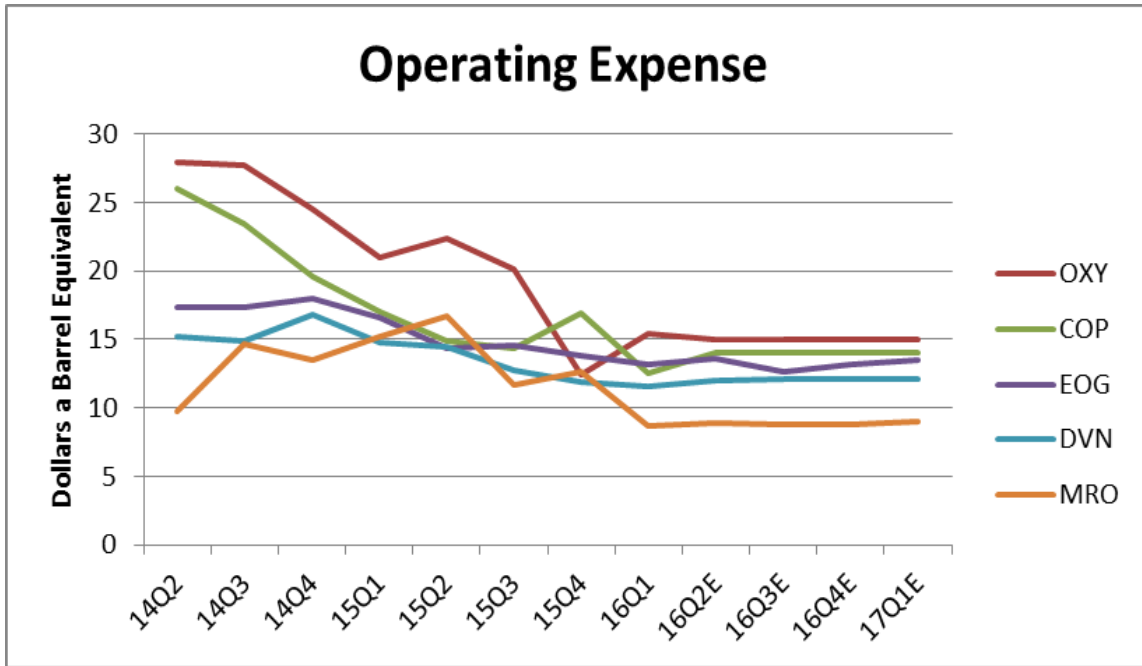
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ConocoPhillips										
Next Twelve Months Operating and Financial Estimates										
										Next Twelve Months
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	
	3/31/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016	3/31/17	3/31/17
Volume										
Natural gas (bcf)										
U.S. (or North America)	206	194	813	164	159	160	158	641	155	632
Overseas (or Int'l)	159	180	669	187	182	183	181	732	177	723
Total	365	374	1,482	351	341	342	340	1,374	332	1,355
Natural Gas (mmcf)										
North America	2,293	2,110	2,228	1,820	1,750	1,736	1,722	1,757	1,722	1,733
Overseas	1,766	1,952	1,832	2,075	2,000	1,984	1,968	2,006	1,968	1,980
Total	4,059	4,062	4,060	3,895	3,750	3,720	3,690	3,763	3,690	3,713
Days	90	92	365	90	91	92	92	365	90	365
Oil (mmb)	84	85	333	84	81	82	81	328	79	323
Oil (mbd)	933	922	913	929	895	888	881	898	881	886
Total gas & oil (bcf)	869	883	3,481	852	830	832	826	3,340	808	3,296
Total gas & oil (mbd)	1,610	1,599	1,589	1,578	1,520	1,508	1,496	1,525	1,496	1,505
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	2.99	2.28	2.67	2.09	2.00	2.31	2.66	2.27	3.02	2.50
North America	2.51	2.09	2.33	1.68	1.60	1.85	2.14	1.82	2.43	2.00
Overseas	7.59	4.74	5.94	4.14	4.14	4.14	4.14	4.14	4.14	4.14
Total	4.72	3.36	3.96	2.99	2.96	3.07	3.21	3.06	3.34	3.14
Oil (\$/bbl)										
WTI Cushing	48.62	42.21	48.79	33.47	44.38	47.37	48.51	43.43	49.09	47.34
Worldwide	38.17	31.29	38.16	23.14	33.29	35.53	36.38	32.02	36.20	35.34
Total gas & oil (\$/mcf)	5.67	4.43	5.34	3.50	4.48	4.75	4.89	4.40	4.93	4.76
Revenue (\$mm)										
Natural Gas										
North America	519	405	1,893	275	255	296	338	1,165	376	1,266
Overseas	1,206	851	3,974	773	754	756	750	3,033	734	2,993
Total	1,724	1,256	5,866	1,048	1,009	1,052	1,088	4,198	1,110	4,259
Oil	3,205	2,654	12,712	1,935	2,711	2,902	2,948	10,496	2,869	11,430
Other	3,073	2,856	12,357	2,032	2,032	2,032	2,032	8,127	2,032	8,127
Total	8,002	6,766	30,935	5,015	5,752	5,986	6,068	22,821	6,011	23,816
Expense	5,532	5,338	21,506	3,815	3,968	3,974	3,958	15,715	3,916	15,817
Ebitda (\$mm)	2,470	1,428	9,429	1,200	1,784	2,012	2,110	7,106	2,094	8,000
Exploration	482	500	2,056	505	100	100	100	805	200	500
Deprec., Deplet., & Amort.	2,131	2,382	9,113	2,247	2,100	2,100	2,100	8,547	2,100	8,400
Ebit	(143)	(1,454)	(1,740)	(1,552)	(416)	(188)	(90)	(2,246)	(206)	(900)
Interest	202	268	920	268	268	268	268	1,072	268	1,072
Ebt	(345)	(1,722)	(2,660)	(1,820)	(684)	(456)	(358)	(3,318)	(474)	(1,972)
Income Tax	(121)	(603)	(931)	(637)	(239)	(160)	(125)	(1,161)	(166)	(690)
Net Income (\$mm)	(224)	(1,120)	(1,729)	(1,183)	(445)	(296)	(233)	(2,157)	(308)	(1,282)
Shares (millions)	1,246	1,244	1,244	1,245	1,245	1,245	1,245	1,245	1,245	1,245
Per share (\$)	(0.18)	(0.90)	(1.39)	(0.95)	(0.36)	(0.24)	(0.19)	(1.73)	(0.25)	(1.03)
Ebitda Margin (E&P)	50%	37%	51%	40%	48%	51%	52%	48%	53%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%



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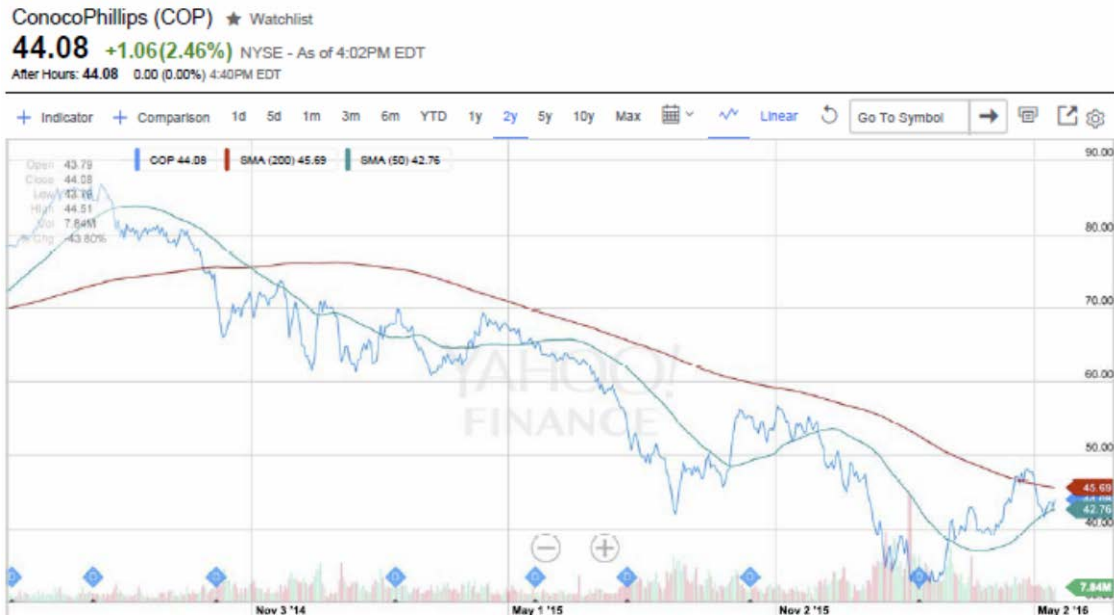
ConocoPhillips								
Production and Reserves, 2015								
	2015 Production		12/31/2015 Proven Reserves			Weighted	NTM	
	(mmcf/d or mbd)	(bcf or mmb)	Developed (bcf or mmb)	Undeveloped (bcf or mmb)	Weighted (bcf or mmb)	Life Index (years)	Adjusted R/P (years)	
North American Natural Gas								
Alaska	42	83	2,313	34	2,330	28.1		
Lower 48	1,472	588	4,458	713	4,815	8.2		
Canada	715	261	1,101	6	1,104	4.2		
Total	2,229	932	7,872	753	8,249	8.9		11.4
Rest of World Natural Gas								
Europe	475	187	1,088	271	1,224	6.5		
Asia Pacific/Middle East	1,355	524	5,903	1,079	6,443	12.3		
Africa	1		227		227			
Total	1,831	711	7,218	1,350	7,893	11.1		10.3
Oil								
Alaska	171	62	933	96	981	15.8		
Lower 48	300	114	518	408	722	6.3		
Canada	38	13	58	9	63	4.8		
Europe	127	47	216	152	292	6.2		
Asia Pacific/Middle East	121	44	290	66	323	7.3		
Africa	-	-	204	-	204			
Other areas	4	1	-	-	-	-		
Bitumen	151	56	422	1,971	1,408	25		
Total	912	337	2,641	2,702	3,992	11.8		11.7
Total Oil Equivalent	1,589	611	5,156	3,053	6,682	10.9		11.3

ConocoPhillips					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	650	11.4	21.5	14,000	11%
Rest of World Natural Gas	1,530	10.3	12.4	19,000	15%
Oil	5,820	11.7	16.2	94,000	74%
	8,000	11.3	15.9	127,000	100%
Debt (US\$mm)					40,000
Net Present Value (US\$mm)					87,000
Shares (mm)					1,245
Net Present Value - Standard Estimate (US\$/sh)					70
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					71



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