



Independent Stock Idea

Intraday October 3, 2016

ConocoPhillips (COP) Pure Play Producer

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$mm)</i>	8,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	43.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/3/16	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	1245	<i>EV/Ebitda</i>	11.3
<i>Market Capitalization (US\$mm)</i>	53,900	<i>PV/Ebitda</i>	15.4
<i>Debt (US\$mm)</i>	39,000	<i>Undeveloped Reserves (%)</i>	37
<i>Enterprise Value (EV) (US\$mm)</i>	93,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	14.90
<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\$/mcfe)</i>	2.58
<i>Debt/Present Value</i>	0.31	<i>Earnings Next Twelve Months (US\$/sh)</i>	-1.63
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	-27
<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

Current purchase of the shares of buy-recommended **ConocoPhillips (COP)** may be timely ahead of seasonally stronger oil and gas consumption in the winter months and in view of stock price underperformance compared to peers. Resource value in the pure-play oil and gas producer is attractive at a McDep Ratio of 0.74 on current stock price of \$43 compared to Net Present Value (NPV) of \$70. The low McDep Ratio implies that on the basis of readily identifiable value, COP stock offers the most appreciation potential in the Large Independent group (see [Tables 1-2](#) on pages 2-3). Lowest unlevered cash flow multiple (EV/Ebitda) in the group further supports the valuation conclusion (see [Table 3](#) on page 4). As for stock price action, we see that COP return measures are negative for the year when the return for peers is strongly positive (see [Table 4](#) on page 5). On the stock price chart, the 50-day average has been unable to break decisively above the 200-day average so far despite most of the stocks in our coverage having done that (see chart on page 6). Seasonal oil and gas price strength could be a catalyst for appreciation. Third quarter results to be reported around October 27 may not show much change from the second quarter, but the fourth and following quarters look stronger. Management will present its outlook in detail to investors on November 10. Meanwhile, NPV analysis for COP relates cash flow to adjusted reserve life (see tables [Present Value](#) and [Operating and Financial Estimates](#) and on pages 6 and 7).

Kurt H. Wulff, CFA



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Table 1											
McDep Energy Stocks											
Enterprise Value, Segments, Yield and McDep Ratio											
Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	NTM (%)	McDep Ratio	
				3-Oct 2016	North Amer.	Rest of World	Oil Prod'n				Down- stream
Global Integrated											
Exxon Mobil Corporation	XOM	86.86	1.26	458,000	6	16	55	23	3.5	0.89	
Chevron Corporation	CVX	102.29	1.35	258,000	2	13	66	19	4.2	0.81	
Royal Dutch Shell	RDS-A	50.25	1.68	336,000	2	21	53	24	7.5	0.74	
Total S.A.	TOT	47.56	1.53	173,000		20	58	22	5.8	0.63	
<i>Total or Median</i>			<i>1.44</i>	<i>1,225,000</i>			<i>56</i>	<i>23</i>	<i>5.0</i>	<i>0.77</i>	
Large Independent											
EOG Resources, Inc.	EOG	95.74	1.14	59,700	11	1	87		0.7	1.23	
Devon Energy Corporation	DVN	44.08	1.47	34,000	25		66	10	0.5	0.99	
Occidental Petroleum Corp.	OXY	72.89	1.18	65,700	4	2	86	7	4.1	0.98	
Marathon Oil Corporation	MRO	15.92	1.56	21,100	10	2	88		1.3	0.86	
ConocoPhillips	COP	43.30	1.73	93,000	13	13	75		2.3	0.74	
<i>Total or Median</i>			<i>1.47</i>	<i>274,000</i>	<i>11</i>		<i>86</i>		<i>1.3</i>	<i>0.98</i>	
Small Independent											
Cimarex Energy Company	XEC	133.86	1.10	13,800	34		66		0.2	1.10	
Continental Resources (32%)	CLR	52.67	1.36	8,500	22		78		-	0.96	
Range Resources	RRC	38.98	1.44	13,600	77		23		0.2	0.95	
Whiting Petroleum Corporation	WLL	8.92	2.89	7,300	10		90		-	0.89	
California Resources	CRC	12.26	14.88	7,300	13		88		-	0.83	
<i>Total or Median</i>			<i>1.44</i>	<i>51,000</i>	<i>22</i>		<i>78</i>		<i>-</i>	<i>0.95</i>	
Income											
San Juan Basin Royalty Trust	SJT	6.03	1.00	280	100		-		9.3	0.75	
Dorchester Minerals, L.P.	DMLP	15.65	1.00	480	28		72		7.5	0.65	
Permian Basin RT	PBT	7.09	1.00	330	23		77		9.6	0.64	
Cross Timbers Royalty Trust	CRT	17.98	1.00	110	57		43		7.6	0.62	
Sabine Royalty Trust	SBR	36.75	1.00	540	48		52		7.3	0.61	
<i>Total or Median</i>			<i>1.00</i>	<i>1,700</i>	<i>48</i>		<i>52</i>		<i>7.6</i>	<i>0.64</i>	
Canada											
EnCana Corporation	ECA	10.54	1.95	17,500	43		57		0.6	1.29	
Imperial Oil Limited (30%)	IMO	31.25	1.35	10,800	0		63	36	1.5	0.86	
Suncor Energy	SU	27.52	1.39	63,700	-		84	16	3.2	0.84	
Cenovus Energy Inc.	CVE	14.26	1.34	15,900	7		76	16	1.1	0.77	
Birchcliff Energy Ltd.	BIREF	7.07	1.34	2,500	74		26		-	0.76	
<i>Total or Median</i>			<i>1.35</i>	<i>110,000</i>			<i>63</i>		<i>1.1</i>	<i>0.84</i>	
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.											
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)											
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								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		3-Oct 2016	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		86.86	4,178	363,000	100.00	0.18	0.89
Chevron Corporation	CVX		102.29	1,872	192,000	135.00	0.21	0.81
Royal Dutch Shell	RDS-A	B	50.25	3,980	200,000	80.00	0.30	0.74
Total S.A.	TOT	B	47.56	2,379	113,000	90.00	0.22	0.63
	<i>Total or Median</i>				868,000		0.21	0.77
Large Independent								
EOG Resources, Inc.	EOG		95.74	547	52,400	75.00	0.15	1.23
Devon Energy Corporation	DVN		44.08	524	23,100	45.00	0.32	0.99
Occidental Petroleum Corp.	OXY		72.89	764	55,700	75.00	0.15	0.98
Marathon Oil Corporation	MRO	B	15.92	848	13,500	20.00	0.31	0.86
ConocoPhillips	COP	B	43.30	1,245	54,000	70.00	0.31	0.74
	<i>Total or Median</i>				198,700		0.31	0.98
Small Independent								
Cimarex Energy Company	XEC		133.86	93	12,500	120.00	0.10	1.10
Continental Resources (32%)	CLR	B	52.67	118	6,200	56.00	0.26	0.96
Range Resources	RRC		38.98	244	9,500	42.00	0.29	0.95
Whiting Petroleum Corporation	WLL		8.92	285	2,500	12.00	0.58	0.89
California Resources	CRC		12.26	40	500	50.00	0.77	0.83
	<i>Total or Median</i>				31,000		0.29	0.95
Income								
San Juan Basin Royalty Trust	SJT		6.03	47	280	8.00	-	0.75
Dorchester Minerals, L.P.	DMLP	B	15.65	31	480	24.00	-	0.65
Permian Basin RT	PBT		7.09	47	330	11.00	-	0.64
Cross Timbers Royalty Trust	CRT		17.98	6	110	29.00	-	0.62
Sabine Royalty Trust	SBR	B	36.75	15	540	60.00	-	0.61
	<i>Total or Median</i>				1,700		-	0.64
Canada								
EnCana Corporation	ECA		10.54	850	9,000	6.00	0.63	1.29
Imperial Oil Limited (30%)	IMO		31.25	255	8,000	38.00	0.22	0.86
Suncor Energy	SU		27.52	1,665	45,800	35.00	0.24	0.84
Cenovus Energy Inc.	CVE		14.26	833	11,900	20.00	0.20	0.77
Birchcliff Energy Ltd.	BIREF	B	7.07	263	1,900	10.00	0.19	0.76
	<i>Total or Median</i>				77,000		0.22	0.84
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
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Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend NTM
	Symbol/Rating		3-Oct 2016	NTM	NTM	NTM	NTM (\$/sh)
	B = Buy						
Global Integrated							
Exxon Mobil Corporation	XOM		86.86	14.5	12.0	10.7	26 3.00
Chevron Corporation	CVX		102.29	9.2	12.3	9.9	40 4.28
Royal Dutch Shell	RDS-A	B	50.25	9.8	10.9	8.1	26 3.76
Total S.A.	TOT	B	47.56	9.9	10.2	6.4	14 2.74
	<i>Median</i>			9.8	11.4	9.0	26
Large Independent							
EOG Resources, Inc.	EOG		95.74	8.2	13.4	16.5	0.67
Devon Energy Corporation	DVN		44.08	8.4	15.3	15.1	0.24
Occidental Petroleum Corp.	OXY		72.89	8.3	14.2	13.8	3.00
Marathon Oil Corporation	MRO	B	15.92	12.7	14.3	12.3	0.20
ConocoPhillips	COP	B	43.30	11.3	15.4	11.3	1.00
	<i>Median</i>			8.4	14.3	13.8	
Small Independent							
Range Resources	RRC		38.98	12.6	17.3	16.4	0.08
Continental Resources (32%)	CLR	B	52.67	11.4	17.2	16.4	-
Cimarex Energy Company	XEC		133.86	6.9	14.2	15.7	0.32
California Resources	CRC		12.26	12.0	13.5	11.2	-
Whiting Petroleum Corporation	WLL		8.92	9.5	11.2	10.0	-
	<i>Median</i>			11.4	14.2	15.7	
Income							
Sabine Royalty Trust	SBR	B	36.75	9.5	22.2	13.6	14 2.70
Dorchester Minerals, L.P.	DMLP	B	15.65	7.0	18.3	11.9	16 1.18
Cross Timbers Royalty Trust	CRT		17.98	8.1	18.6	11.6	13 1.37
San Juan Basin Royalty Trust	SJT		6.03	10.4	13.6	10.2	11 0.56
Permian Basin RT	PBT		7.09	8.5	15.3	9.8	10 0.68
	<i>Median</i>			8.5	18.3	11.6	13
Canada							
EnCana Corporation	ECA		10.54	5.6	11.2	14.5	0.06
Imperial Oil Limited (30%)	IMO		31.25	33.2	12.5	10.8	0.46
Birchcliff Energy Ltd.	BIREF	B	7.07	12.9	13.0	9.9	-
Suncor Energy	SU		27.52	21.6	11.7	9.8	0.88
Cenovus Energy Inc.	CVE		14.26	16.6	12.1	9.3	0.15
	<i>Median</i>			16.6	12.1	9.9	
	<i>Grand Median</i>			10	14	11	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses For historical research see www.mcdep.com



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price (\$/sh)	Price (\$/sh)	Price Change	Cash Distrib. (%)	Equity Total Return (%)	Unlevered Debt Return (\$/sh) (%)	McDep Ratio	
	Symbol/Rati		3-Oct 2016	31-Dec 2015	(%)	(%)	(%)	(%)		
Global Integrated										
	CVX		102.29	89.96	14	4	17	36	12	0.81
	XOM		86.86	77.95	11	3	14	23	11	0.89
	RDS-A	B	50.25	45.79	10	6	16	34	9	0.74
	TOT	B	47.56	44.95	6	5	10	25	7	0.63
	<i>Median</i>				11		15		10	0.77
Large Independent										
	EOG		95.74	70.79	35	1	36	13	30	1.23
	DVN		44.08	32.00	38	1	39	21	24	0.99
	MRO	B	15.92	12.58	27	1	28	9	16	0.86
	OXY		72.89	67.61	8	3	11	13	9	0.98
	COP	B	43.30	46.69	(7)	2	(6)	32	(3)	0.74
	<i>Median</i>				27		28		16	0.98
Small Independent										
	CLR	B	52.67	22.98	129	-	129	19	70	0.96
	XEC		133.86	89.38	50	0	50	14	43	1.10
	RRC		38.98	24.62	58	0	59	17	35	0.95
	WLL		8.92	9.44	(6)	-	(6)	17	(2)	0.89
	CRC		12.26	23.30	(47)	-	(47)	170	(6)	0.83
	<i>Median</i>				50		50		35	0.95
Income										
	DMLP	B	15.65	9.89	58	6	64	-	64	0.65
	CRT		17.98	13.01	38	7	45	-	45	0.62
	SJT		6.03	4.14	46	4	50	-	50	0.75
	SBR	B	36.75	26.26	40	6	46	-	46	0.61
	PBT		7.09	5.06	40	6	46	-	46	0.64
	<i>Median</i>				40		46		46	0.64
Canada										
	BIREF	B	7.07	2.93	141	-	141	2	78	0.76
	ECA		10.54	5.09	107	1	108	10	36	1.29
	CVE		14.26	12.62	13	1	14	5	10	0.77
	SU		27.52	25.80	7	3	9	11	7	0.84
	IMO		31.25	32.52	(4)	1	(3)	11	(2)	0.86
	<i>Median</i>				13		14		10	0.84
	<i>Grand Median</i>				31		32		20	0.83
	Natural Gas (\$/mmbtu)		2.90	2.33	24					
	Oil - West Texas Intermediate (\$/bbl)		48.05	37.06	30					
	S&P 500		2,158	2,044	6					

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



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	800	11.2	20.0	16,000	13%
Rest of World Natural Gas	1,280	9.9	12.5	16,000	13%
Oil	6,170	11.8	15.2	94,000	75%
	8,250	11.3	15.3	126,000	100%
Debt (US\$mm)					39,000
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)					64



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ConocoPhillips										
Next Twelve Months Operating and Financial Estimates										
	Q3	Year	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/15	2015	6/30/16	9/30/16	12/31/16	2016	3/31/17	6/30/17	9/30/17	9/30/17
Volume										
Natural gas (bcf)										
U.S. (or North America)	203	813	164	165	163	657	160	160	161	644
Overseas (or Int'l)	164	669	190	191	189	759	185	186	186	746
Total	367	1,482	354	355	352	1,416	345	346	347	1,390
Natural Gas (mmcf)										
North America	2,203	2,228	1,803	1,789	1,774	1,796	1,774	1,760	1,746	1,764
Overseas	1,781	1,832	2,090	2,073	2,057	2,074	2,057	2,040	2,024	2,044
Total	3,984	4,060	3,893	3,862	3,831	3,870	3,831	3,800	3,770	3,808
Days	92	365	91	92	92	366	90	91	92	365
Oil (mmb)	82	333	82	82	81	329	79	80	80	320
Oil (mbd)	890	913	897	890	883	900	883	876	869	877
Total gas & oil (bcf)	858	3,481	844	846	840	3,392	821	824	826	3,311
Total gas & oil (mbd)	1,554	1,589	1,546	1,533	1,521	1,545	1,521	1,509	1,497	1,512
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	2.76	2.67	1.95	2.81	3.00	2.46	3.26	2.99	3.02	3.06
North America	2.45	2.33	1.53	2.20	2.34	1.93	2.54	2.33	2.36	2.39
Overseas	5.63	5.94	3.32	3.32	3.32	3.53	3.32	3.32	3.32	3.32
Total	3.87	3.96	2.49	2.80	2.87	2.79	2.96	2.86	2.88	2.89
Oil (\$/bbl)										
WTI Cushing	46.39	48.79	45.66	44.91	48.43	43.12	49.91	51.12	51.82	50.32
Worldwide	35.90	38.16	33.74	33.19	35.80	31.39	36.34	38.34	38.86	37.33
Total gas & oil (\$/mcf)	5.08	5.34	4.31	4.39	4.67	4.21	4.76	4.91	4.97	4.82
Revenue (\$mm)										
Natural Gas										
North America	496	1,893	250	362	382	1,271	406	373	379	1,540
Overseas	923	3,974	632	634	629	2,676	615	617	619	2,479
Total	1,418	5,866	882	995	1,011	3,948	1,021	990	997	4,019
Oil	2,940	12,712	2,754	2,717	2,907	10,335	2,887	3,055	3,106	11,955
Other	3,149	12,357	1,939	1,939	1,939	7,814	1,939	1,939	1,939	7,754
Total	7,507	30,935	5,575	5,651	5,856	22,097	5,847	5,984	6,042	23,728
Expense	5,197	21,506	3,837	3,914	3,898	15,450	3,855	3,861	3,867	15,481
Ebitda (\$mm)	2,310	9,429	1,738	1,737	1,958	6,646	1,991	2,123	2,175	8,247
Exploration	525	2,056	610	200	200	1,515	200	200	200	800
Deprec., Deplet., & Amort.	2,271	9,113	2,329	2,329	2,329	9,234	2,329	2,329	2,329	9,316
Ebit	(486)	(1,740)	(1,201)	(792)	(571)	(4,103)	(538)	(406)	(354)	(1,869)
Interest	240	920	312	312	312	1,217	312	312	312	1,248
Ebt	(726)	(2,660)	(1,513)	(1,104)	(883)	(5,320)	(850)	(718)	(666)	(3,117)
Income Tax	(254)	(931)	(530)	(386)	(309)	(1,862)	(297)	(251)	(233)	(1,091)
Net Income (\$mm)	(472)	(1,729)	(984)	(718)	(574)	(3,458)	(552)	(467)	(433)	(2,026)
Shares (millions)	1,242	1,244	1,245	1,245	1,245	1,245	1,245	1,245	1,245	1,245
Per share (\$)	(0.38)	(1.39)	(0.79)	(0.58)	(0.46)	(2.78)	(0.44)	(0.37)	(0.35)	(1.63)
Ebitda Margin (E&P)	53%	51%	48%	47%	50%	47%	51%	52%	53%	52%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%



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