



Independent Stock Idea

July 18, 2018

ConocoPhillips (COP) Large Cap Cash Producer

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 6/30/19 (US\$mm)</i>	13,600
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	24
<i>Price (US\$/sh)</i>	70.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/17/18	<i>Developed Reserves/Production NTM</i>	7.7
<i>Shares (mm)</i>	1186	<i>EV/Ebitda</i>	7.8
<i>Market Capitalization (US\$mm)</i>	83,400	<i>PV/Ebitda</i>	8.7
<i>Debt (US\$mm)</i>	23,000	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	106,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.70
<i>Present Value (PV) (US\$mm)</i>	118,000	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	80	<i>Oil and Gas Ebitda Margin (%)</i>	62
<i>Ebitda/Market Cap</i>	1.28	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	1.6	<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 like the stock of Large Cap Oil and Gas Producer **ConocoPhillips (COP)** for its disciplined strategy of returning cash to shareholders over a range of oil price outcomes. On July 12, the company announced an increase in its share repurchase program for 2018 from \$2 billion to \$3 billion. Along with a 1.6% dividend, the total cash to shareholders this year would exceed 5% of current market cap. McDep Ratio of 0.90 and Net Present Value of \$80 a share point to upside.

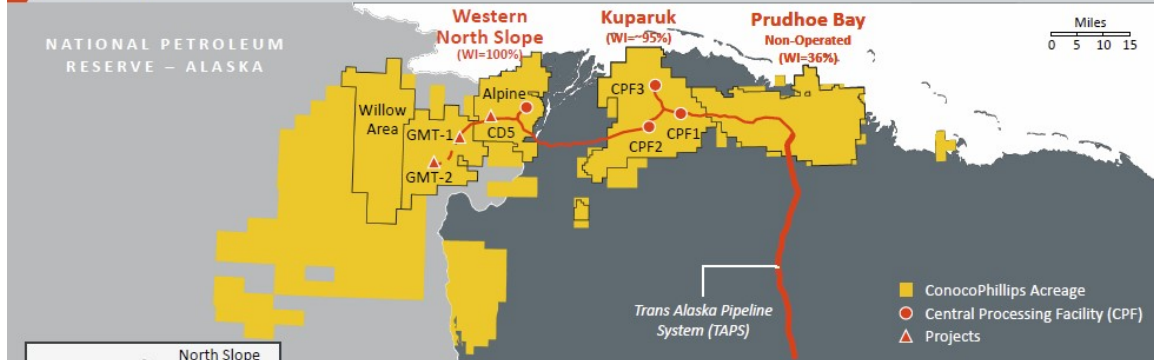
- At a U.S. oil price of \$40 a barrel, management believes it can keep production flat and pay the dividend while spending \$3.5 billion a year.
- At \$50 a barrel, production can grow 10% a year per debt-adjusted share and pay the dividend while spending \$5.5 billion a year.
- Near \$70 a barrel today, COP pays the dividend, holds its capital spending at \$5.5 billion, reduces debt to target level by year end and buys back more stock.

The company's globally diversified resource base supports confidence in meeting expectations at different oil prices. A presentation on July 17 highlights growth potential in Alaska where COP recently increased its ownership west of Prudhoe Bay (see slides on page 2).

Quarterly results to be released on July 26 ought to bolster estimated cash flow (Ebitda) of \$13.6 billion for the next twelve months (see table Operating and Financial Estimates on page 3). We are enthusiastic about COP along with other stocks in our coverage (see Tables 1-4 on pages 4-7).

Kurt H. Wulff, CFA

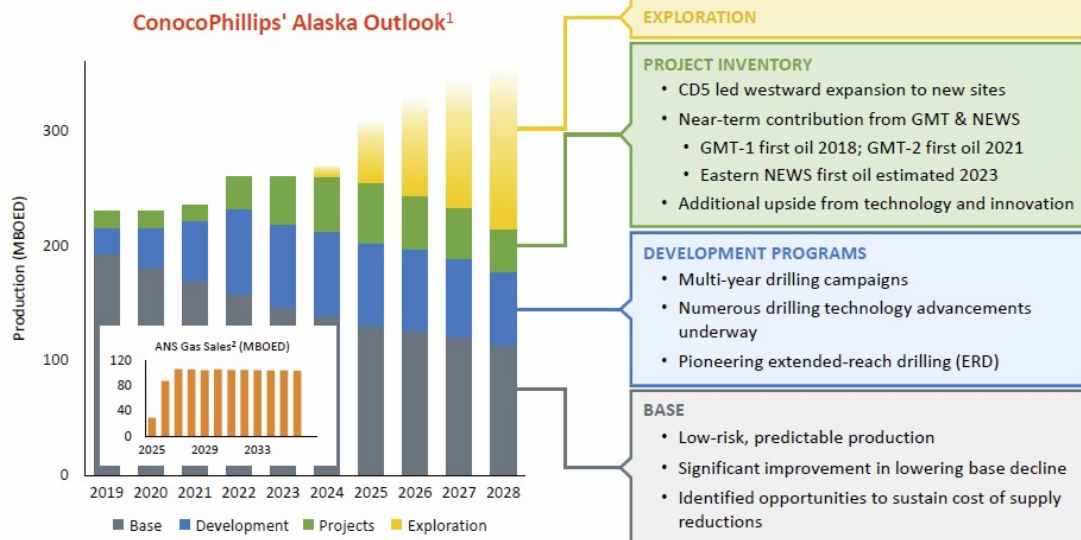
Legacy Position Sets Foundation for Future Growth ConocoPhillips



- ConocoPhillips operates Kuparuk and Western North Slope (WNS)
- Operated assets: 4 central processing facilities and 54 drill sites
- Years of identified inventory in Kuparuk and Western North Slope
- Exploration renaissance driving westward expansion
- Estimated 2018 production of ~225 MBOED¹; ~40% of State of Alaska's production

¹Estimated pro-forma annualized production including impacts from recent acquisitions.

Compelling Plan Creates Significant Value for 10+ Years ConocoPhillips



¹Assumes a stable and competitive fiscal framework, includes impact of 2018 acquisitions at working interests of: Western North Slope = 100% / Kuparuk = ~95%, and excludes Alaska North Slope gas sales.
²ConocoPhillips net production associated with Alaska North Slope gas sales based on the State of Alaska's timeline, not included in ConocoPhillips production plots.



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ConocoPhillips										
Next Twelve Months Operating and Financial Estimates										
	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	12/31/17	2017	3/31/18	6/30/18	9/30/18	12/31/18	2018	3/31/19	6/30/19	6/30/19
Volume										
Natural gas (bcf)										
U.S. (or North America)	55	399	53	52	53	54	212	54	56	218
Overseas (or Int'l)	209	795	202	197	203	208	809	207	214	832
Total	264	1,194	255	249	257	262	1,022	262	270	1,050
Natural Gas (mcmfd)										
North America	595	1,092	588	568	580	592	582	604	617	598
Overseas	2,273	2,178	2,240	2,164	2,209	2,255	2,217	2,303	2,351	2,279
Total	2,868	3,270	2,828	2,732	2,789	2,848	2,799	2,907	2,968	2,878
Days	92	365	90	91	92	92	365	90	91	365
Oil (mmb)	72	304	68	67	69	70	275	70	73	283
Oil (mbd)	778	832	761	735	750	766	753	782	799	774
Total gas & oil (bcf)	693	3,015	665	650	671	685	2,671	684	706	2,746
Total gas & oil (mbd)	1,256	1,377	1,232	1,190	1,215	1,241	1,220	1,267	1,294	1,254
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	2.93	3.11	3.01	2.80	2.81	2.81	2.86	2.94	2.59	2.79
North America	2.62	2.59	2.70	2.51	2.52	2.52	2.56	2.63	2.33	2.50
Overseas	5.10	4.80	5.77	5.77	5.77	5.77	5.77	5.77	5.77	5.77
Total	4.59	4.06	5.13	5.09	5.09	5.09	5.10	5.12	5.05	5.09
Oil (\$/bbl)										
WTI Cushing	55.40	50.94	62.88	67.86	68.38	65.16	66.07	63.92	62.89	65.09
Worldwide	53.08	44.10	56.35	60.81	61.27	58.39	59.19	57.27	56.36	58.29
Total gas & oil (\$/mcf)	7.23	6.05	7.76	8.21	8.25	7.96	8.04	7.85	7.73	7.95
Revenue (\$mm)										
Natural Gas										
North America	144	1,032	143	130	134	137	544	143	131	546
Overseas	1,067	3,819	1,163	1,136	1,172	1,197	4,668	1,196	1,234	4,799
Total	1,211	4,850	1,306	1,265	1,307	1,334	5,212	1,339	1,365	5,345
Oil	3,799	13,390	3,859	4,068	4,231	4,116	16,273	4,033	4,096	16,476
Other	3,725	14,344	3,796	3,796	3,796	3,796	15,184	3,796	3,796	15,184
Total	8,736	32,584	8,961	9,129	9,334	9,247	36,670	9,168	9,257	37,005
Expense	5,834	22,640	5,829	5,746	5,809	5,851	23,234	5,848	5,915	23,423
Ebitda (\$mm)	2,902	9,944	3,132	3,383	3,525	3,396	13,436	3,319	3,343	13,582
Exploration	214	645	95	125	125	125	470	125	125	500
Deprec., Deplet., & Amort.	1,633	6,845	1,412	1,412	1,412	1,412	5,648	1,500	1,500	5,824
Ebit	1,055	2,454	1,625	1,846	1,988	1,859	7,318	1,694	1,718	7,258
Interest	226	1,098	184	184	184	184	736	184	184	736
Ebt	829	1,356	1,441	1,662	1,804	1,675	6,582	1,510	1,534	6,522
Income Tax	290	475	303	349	379	352	1,382	317	322	1,370
Net Income (\$mm)	539	882	1,139	1,313	1,425	1,323	5,200	1,193	1,212	5,153
Shares (millions)	1,198	1,208	1,186	1,186	1,186	1,186	1,186	1,186	1,186	1,186
Per share (\$)	0.45	0.73	0.96	1.11	1.20	1.12	4.38	1.01	1.02	4.34
Ebitda Margin (E&P)	58%	55%	61%	63%	64%	62%	63%	62%	61%	62%
Tax Rate	35%	35%	21%	21%	21%	21%	21%	21%	21%	21%
Dividend	0.29		0.29	0.29	0.29	0.29		0.29	0.29	1.14



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Table 1
McDep Energy Stocks
Ranked by McDep Ratio

		Price (US\$/sh)	Market Cap (US\$m)	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	17-Jul 2018									
Integrated											
	Exxon Mobil Corporation	XOM	82.31	352,000	442,000	1.26	8.6	9.3	47	4.0	0.93
	Suncor Energy	SU	40.91	67,000	86,000	1.28	7.3	8.6	77	2.7	0.85
	Chevron Corporation	CVX	121.91	233,000	296,000	1.27	7.5	8.8	61	3.7	0.85
	Royal Dutch Shell	RDS-B	71.84	301,000	418,000	1.39	7.1	9.2	49	5.2	0.78
	<i>Total or Median</i>			<i>953,000</i>	<i>1,242,000</i>	<i>1.28</i>	<i>7.4</i>	<i>9.0</i>	<i>55</i>	<i>3.8</i>	<i>0.85</i>
Large Independent											
	Occidental Petroleum Corp.	OXY	82.69	63,400	77,100	1.22	8.9	8.2	78	3.8	1.08
	EOG Resources, Inc.	EOG	124.32	74,300	81,400	1.10	8.7	9.1	90	0.4	0.96
	Pioneer Natural Resources	PXD	182.64	31,200	33,800	1.08	8.1	8.8	94	0.0	0.92
	ConocoPhillips	COP	70.28	83,000	107,000	1.28	7.8	8.7	75	1.6	0.90
	<i>Total or Median</i>			<i>251,900</i>	<i>299,300</i>	<i>1.16</i>	<i>8.4</i>	<i>8.7</i>	<i>84</i>	<i>1.0</i>	<i>0.94</i>
Mid-Size Independent											
	Hess Corporation	HES	63.46	19,600	28,000	1.43	11.8	10.7	88	1.6	1.10
	Continental Resources	CLR	60.72	22,700	29,000	1.28	7.9	8.9	83	-	0.89
	Devon Energy Corporation	DVN	44.08	23,300	28,300	1.21	8.3	10.8	86	0.7	0.77
	Cimarex Energy Company	XEC	97.39	9,300	10,800	1.16	6.1	8.4	82	0.7	0.73
	Marathon Oil Corporation	MRO	20.06	17,090	23,800	1.39	5.3	9.0	90	1.0	0.58
	<i>Total or Median</i>			<i>92,000</i>	<i>119,900</i>	<i>1.28</i>	<i>7.9</i>	<i>9.0</i>	<i>86</i>	<i>0.7</i>	<i>0.77</i>
Small Independent											
	California Resources	CRC	40.10	1,800	8,100	4.4	6.5	8.7	92	-	0.75
	Whiting Petroleum Corporation	WLL	49.45	4,500	7,900	1.75	5.1	8.0	97	-	0.63
	Range Resources	RRC	16.30	4,000	8,700	2.16	6.6	11.1	45	0.5	0.60
	Birchcliff Energy Ltd.	BIREF	3.88	1,000	1,700	1.59	5.6	10.3	50	2.0	0.55
	<i>Total or Median</i>			<i>11,300</i>	<i>26,400</i>	<i>1.95</i>	<i>6.1</i>	<i>9.5</i>	<i>71</i>	<i>0.2</i>	<i>0.61</i>
Income											
	Permian Basin RT	PBT	9.03	420	420	1.00	11.7	13.0	80	8.4	0.90
	Sabine Royalty Trust	SBR	44.80	650	650	1.00	12.7	14.2	71	7.9	0.90
	Dorchester Minerals, L.P.	DMLP	19.20	620	620	1.00	9.4	11.8	84	9.1	0.80
	San Juan Basin Royalty Trust	SJT	5.96	280	280	1.00	12.9	17.3	-	7.6	0.75
	Cross Timbers Royalty Trust	CRT	14.43	90	90	1.00	7.8	13.5	38	10.5	0.58
	<i>Total or Median</i>			<i>2,100</i>	<i>2,100</i>	<i>1.00</i>	<i>11.7</i>	<i>13.5</i>	<i>71</i>	<i>8.4</i>	<i>0.80</i>

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 6/30/19.
 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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	Symbol/Rating	Price		Upstream NTM			Down- stream Uplift (\$/boe)	Total Ebitda NTM (\$mm)	Distrib/ Ebitda (%)	Distrib. NTM (\$/sh)
		(US\$/sh)	Volume (mmboe)	Equiv. Price (\$/boe)	Ebitda Margin (%)	Ebitda (\$/boe)				
		17-Jul 2018								
Integrated										
Royal Dutch Shell	RDS-B	71.84	1370	45.51	68	31.00	11.68	42,483	27	3.76
Exxon Mobil Corporation	XOM	82.31	1451	48.62	49	23.60	11.68	34,242	27	3.28
Chevron Corporation	CVX	121.91	1060	49.98	60	30.20	7.27	31,999	22	4.48
Suncor Energy	SU	40.91	300	56.11	54	30.36	9.10	9,095	15	1.09
	<i>Total or Median</i>		<i>4180</i>	<i>49.30</i>	<i>57</i>	<i>30.28</i>	<i>10.39</i>	<i>117,818</i>	<i>24</i>	
Large Independent										
ConocoPhillips	COP	70.28	457	47.68	62	29.70	0.00	13,582	10	1.14
EOG Resources, Inc.	EOG	124.32	280	45.76	73	33.26	0.00	9,317	4	0.56
Occidental Petroleum Corp.	OXY	82.69	262	47.10	58	27.10	6.10	7,104	27	3.12
Pioneer Natural Resources	PXD	182.64	124	46.36	73	33.70	0.00	4,184	0	0.08
	<i>Total or Median</i>		<i>1124</i>	<i>46.73</i>	<i>67</i>	<i>31.48</i>	<i>0.00</i>	<i>34,187</i>	<i>7</i>	
Mid-Size Independent										
Marathon Oil Corporation	MRO	20.06	167	40.15	68	27.20	0.00	4,531	4	0.20
Continental Resources	CLR	60.72	109	42.03	80	33.80	0.00	3,670	-	-
Devon Energy Corporation	DVN	44.08	208	29.28	56	16.30	0.00	3,399	5	0.32
Hess Corporation	HES	63.46	97	44.37	55	24.40	0.00	2,372	13	1.00
Cimarex Energy Company	XEC	97.39	87	30.33	67	20.30	0.00	1,760	3	0.64
	<i>Total or Median</i>		<i>668</i>	<i>40.15</i>	<i>67</i>	<i>24.40</i>	<i>0.00</i>	<i>15,731</i>	<i>4</i>	
Small Independent										
Whiting Petroleum Corporation	WLL	49.45	50	46.99	67	31.30	0.00	1,551	-	-
Range Resources	RRC	16.30	138	18.51	51	9.50	0.00	1,314	2	0.08
California Resources	CRC	40.10	50	51.90	49	25.30	0.00	1,254	-	-
Birchcliff Energy Ltd.	BIREF	3.88	22	18.27	72	13.10	0.00	295	7	0.08
	<i>Total or Median</i>		<i>260</i>	<i>32.75</i>	<i>59</i>	<i>19.20</i>	<i>0.00</i>	<i>4,414</i>	<i>1</i>	
Income										
Dorchester Minerals, L.P.	DMLP	19.20	2.34	38.81	73	28.14	0.00	66	86	1.75
Sabine Royalty Trust	SBR	44.80	1.77	33.86	86	29.09	0.00	51	100	3.52
Permian Basin RT	PBT	9.03	1.21	45.09	65	29.52	0.00	36	99	0.76
San Juan Basin Royalty Trust	SJT	5.96	3.72	11.78	49	5.80	0.00	22	98	0.45
Cross Timbers Royalty Trust	CRT	14.43	0.43	40.64	63	25.56	0.00	11	82	1.52
	<i>Total or Median</i>		<i>9</i>	<i>38.81</i>	<i>65</i>	<i>28.14</i>	<i>0.00</i>	<i>186</i>	<i>98</i>	

For historical research see www.mcdep.com



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Table 3
McDep Energy Stocks
Net Present Value Per Share

		<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Debt</i>	<i>P/E</i>	<i>Devel.</i> <i>Resrvs/</i>	<i>Undev/</i> <i>Devel.</i>	<i>Nat</i> <i>Gas/</i>	<i>Top</i> <i>Line/</i>	<i>Net</i> <i>Present</i>
<i>Symbol/Rating</i>	<i>17-Jul</i>	<i>2018</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>NTM</i>	<i>Prod</i> <i>NTM</i>	<i>Resrvs</i> <i>(%)</i>	<i>Ebitda</i> <i>(%)</i>	<i>Ebitda</i> <i>(%)</i>	<i>Value</i> <i>(US\$/sh)</i>
Integrated										
Chevron Corporation	CVX	121.91	1,913	62,659	17	7.1	57	25		150.00
Royal Dutch Shell	RDS-B	71.84	4,189	116,710	12	7.2	22	32		100.00
Exxon Mobil Corporation	XOM	82.31	4,270	90,941	14	9.6	52	29		90.00
Suncor Energy	SU	40.91	1,644	18,969	12	8.5	87			50.00
<i>Median</i>						7.9	55			
Large Independent										
Pioneer Natural Resources	PXD	182.64	171	2,600	21	7.3	9	6		200.00
EOG Resources, Inc.	EOG	124.32	598	7,071	21	4.9	43	10		130.00
ConocoPhillips	COP	70.28	1,186	23,143	16	7.7	31	25		80.00
Occidental Petroleum Corp.	OXY	82.69	767	13,700	18	7.4	35	4		75.00
<i>Median</i>						7.3	33			
Mid-Size Independent										
Cimarex Energy Company	XEC	97.39	96	1,498	11	4.8	35	18		140.00
Continental Resources	CLR	60.72	374	6,333	22	5.6	121	17		70.00
Devon Energy Corporation	DVN	44.08	528	5,000	20	8.3	24	14		60.00
Hess Corporation	HES	63.46	310	8,399		7.4	59	12		55.00
Marathon Oil Corporation	MRO	20.06	852	6,734	12	5.4	60	10		40.00
<i>Median</i>						5.6	59			
Small Independent										
Whiting Petroleum Corporation	WLL	49.45	91	3,367	36	6.8	84	3		100.00
California Resources	CRC	40.10	46	6,300		8.9	41	8		100.00
Range Resources	RRC	16.30	247	4,657	19	10.0	83	55		40.00
Birchcliff Energy Ltd.	BIREF	3.88	268	617	19	7.2	228	50		9.00
<i>Median</i>						8.0	83			
Income										
Sabine Royalty Trust	SBR	44.80	15	-	13	10.1	3	37	100	50.00
Cross Timbers Royalty Trust	CRT	14.43	6	-	10	11.6	-	69	82	25.00
Dorchester Minerals, L.P.	DMLP	19.20	32	-	14	6.9	-	21	76	24.00
Permian Basin RT	PBT	9.03	47	-	12	6.7	-	21	42	10.00
San Juan Basin Royalty Trust	SJT	5.96	47	-	13	11.2	-	100	-	8.00
<i>Median</i>						10.1				
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/Rati	(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep
		17-Jul	29-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
		2018	2017						
Integrated									
Suncor Energy	SU	40.91	36.72	11	2	13	12	10	0.85
Royal Dutch Shell	RDS-B	71.84	68.29	5	3	8	28	6	0.78
Exxon Mobil Corporation	XOM	82.31	83.64	(2)	2	0	21	0	0.93
Chevron Corporation	CVX	121.91	125.19	(3)	2	(1)	33	(1)	0.85
	<i>Median</i>			2		4		3	0.85
Large Independent									
ConocoPhillips	COP	70.28	54.89	28	1	29	20	21	0.90
EOG Resources, Inc.	EOG	124.32	107.91	15	0	16	12	14	0.96
Occidental Petroleum Corp.	OXY	82.69	73.66	12	2	14	18	12	1.08
Pioneer Natural Resources	PXD	182.64	172.85	6	0	6	15	5	0.92
	<i>Median</i>			14		15		13	0.94
Mid-Size Independent									
Hess Corporation	HES	63.46	47.47	34	1	35	27	22	1.10
Marathon Oil Corporation	MRO	20.06	16.93	18	1	19	8	13	0.58
Continental Resources	CLR	60.72	52.97	15	-	15	17	11	0.89
Devon Energy Corporation	DVN	44.08	41.40	6	0	7	9	6	0.77
Cimarex Energy Company	XEC	97.39	122.01	(20)	0	(20)	16	(18)	0.73
	<i>Median</i>			15		15		11	0.77
Small Independent									
Whiting Petroleum Corporation	WLL	49.45	26.48	87	-	87	37	36	0.63
California Resources	CRC	40.10	19.44	106	-	106	137	13	0.75
Birchcliff Energy Ltd.	BIREF	3.88	3.50	11	1	12	2	7	0.55
Range Resources	RRC	16.30	17.06	(4)	0	(4)	19	(2)	0.60
	<i>Median</i>			49		49		10	0.61
Income									
Dorchester Minerals, L.P.	DMLP	19.20	15.20	26	5	32	-	32	0.80
Permian Basin RT	PBT	9.03	8.87	2	4	6	-	6	0.90
Sabine Royalty Trust	SBR	44.80	44.60	0	3	4	-	4	0.90
Cross Timbers Royalty Trust	CRT	14.43	14.69	(2)	4	3	-	3	0.58
San Juan Basin Royalty Trust	SJT	5.96	8.24	(28)	3	(25)	-	(25)	0.75
	<i>Median</i>			0		4		4	0.80
	<i>Grand Median</i>			9		10		7	0.82
Natural Gas (\$/mmbtu)		2.74	2.95	(7)					
Oil -West Texas Intermediate (\$/bbl)		68.03	60.09	13					
Total Stock Market - U.S.	VTI	145.11	137.25	6	1	7			
Developed Markets - ex US	VEA	43.31	44.86	(3)	2	(2)			
Emerging Markets	VWO	42.89	45.91	(7)	1	(6)			
Total Stock Market - World	VT	74.98	74.26	1	1	2			

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



Independent Stock Idea

July 18, 2018

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