

Rating: Buy
 S&P 500: 1353

ConocoPhillips

Oil Sands Link with Encana

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	34,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	13
<i>Price (US\$/sh)</i>	57.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	10/5/06	<i>Adjusted Reserves/Production NTM</i>	11.3
<i>Shares (mm)</i>	1678	<i>EV/Ebitda</i>	4.1
<i>Market Capitalization (US\$mm)</i>	97,000	<i>PV/Ebitda</i>	6.2
<i>Debt (US\$mm)</i>	45,000	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$mm)</i>	142,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.50
<i>Present Value (PV) (US\$mm)</i>	212,400	<i>Present Value Proven Reserves(US\$/boe)</i>	13.46
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.24
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.05
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	2.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.44

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.

Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)**, announcing a joint venture with buy-recommended **Encana (ECA)**, offers 50% unlevered appreciation potential to a McDep Ratio of 1.0 where stock price would equal estimated net present value (NPV) of \$100 a share. COP contributes its Wood River, Illinois and Borger, Texas refineries and ECA contributes its Foster Creek and Christina Lake oil sands properties in Alberta to a 50/50 integrated oil production/refining venture. An integrated approach makes sense because production from oil sands needs more than normal upgrading/refining and the traditional swings in profit between production and refining have been volatile. Having reduced risk, the joint venture can proceed confidently to expand refining capacity from 450,000 barrels daily to 600,000 and *in situ* oil production from 50,000 barrels daily to 400,000 by 2012 and 2014 respectively. Nominally, COP trades about \$4.5 billion of present value in downstream for \$4.5 billion in oil production. Estimated NPV, under that implied by our latest simplified correlation, connotes attractive investment potential in natural gas, oil and oil products.

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ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	1,820	3,632	3,450	3,450	3,101	3,589	3,589	3,589	3,554
Overseas (or Int'l)	1,289	1,876	1,473	1,789	1,713	1,876	1,876	1,473	1,752
Total	3,109	5,508	4,923	5,239	4,814	5,465	5,465	5,062	5,307
Oil (mbd)	1,269	1,619	1,538	1,538	1,509	1,538	1,538	1,538	1,538
Total gas & oil (bcf)	987	1,385	1,302	1,331	5,062	1,322	1,337	1,315	5,305
Total gas & oil (mbd)	1,787	2,537	2,359	2,411	2,311	2,449	2,449	2,382	2,422
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.11	7.12	8.36	7.71	7.91	7.52
U.S. (or North America)	7.49	5.68	5.49	5.10	5.72	6.27	5.78	5.93	5.77
Overseas (or Int'l)	4.81	6.18	6.18	6.18	6.40	6.18	6.18	6.18	6.18
Total	6.38	5.85	5.70	5.47	5.96	6.24	5.92	6.01	5.91
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	60.47	66.17	63.14	64.94	66.05	63.65
Worldwide	55.04	61.52	61.48	52.79	58.19	54.12	55.66	56.61	54.41
Total gas & oil (\$/mcf)	8.36	8.66	8.66	7.59	8.40	7.99	8.03	8.22	7.96
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	5.19	9.91	7.50	11.80	12.02	9.13
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,255	1,876	1,742	1,618	6,473	2,026	1,888	1,959	7,490
Overseas (or Int'l)	570	1,056	838	1,018	3,999	1,044	1,056	838	3,956
Total	1,825	2,932	2,580	2,636	10,471	3,070	2,943	2,797	11,446
Oil	6,426	9,063	8,699	7,469	32,051	7,491	7,791	8,011	30,762
Other	41,408	36,481	36,481	36,481	148,227	36,481	36,481	36,481	145,923
Total	49,659	48,476	47,760	46,586	190,749	47,042	47,215	47,288	188,130
Expense (\$mm)									
Fixed	923	1,200	1,200	1,200	4,543	1,050	1,050	1,050	4,350
Variable	2,770	3,599	3,384	3,032	12,847	3,168	3,220	3,242	12,662
Other	38,808	33,192	33,881	34,381	139,138	35,381	33,192	33,881	136,834
Ebitda (\$mm)									
Exploration and Production	4,558	7,197	6,696	5,874	25,132	6,343	6,464	6,515	25,196
Other	2,600	3,289	2,600	2,100	9,089	1,100	3,289	2,600	9,089
Total Ebitda	7,158	10,486	9,296	7,974	34,221	7,443	9,753	9,115	34,285
Exploration	140	134	215	215	676	240	240	240	935
Deprec., Deplet., & Amort.	1,049	1,965	1,965	1,965	7,075	1,965	1,965	1,965	7,860
Other non cash	-	50	50	50	150	150	150	150	500
Ebit	5,969	8,337	7,066	5,744	26,320	5,088	7,398	6,760	24,990
Interest	122	360	360	360	1,195	422	422	422	1,626
Ebt	5,847	7,977	6,706	5,384	25,125	4,666	6,976	6,338	23,364
Income Tax	2,046	2,792	2,347	1,884	8,794	1,633	2,442	2,218	8,177
Net Income (\$mm)									
Exploration and Production	2,555	3,290			6,092				
Other	1,491	1,907			2,564				
Unallocated	(246)	(12)			(183)				
Total	3,800	5,185	4,359	3,500	16,331	3,033	4,534	4,120	15,186
Shares (millions)	1,418	1,678	1,678	1,678	1,615	1,678	1,678	1,678	1,678
Per share (\$)	2.68	3.09	2.60	2.09	10.11	1.81	2.70	2.46	9.05
Ebitda Margin (E&P)	55%	60%	59%	58%	59%	60%	60%	60%	60%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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	4,470	11.7	7.8	35,000	16%
Rest of World Natural Gas	2,360	13.8	7.2	17,000	8%
Oil	18,360	10.7	6.0	111,000	52%
Downstream	9,090		5.5	50,000	23%
	34,280	11.3	6.2	213,000	100%
Debt (US\$mm)					45,000
Net Present Value (US\$mm)					168,000
Shares (mm)					1,678
Net Present Value - Standard Estimate (US\$/sh)					100
Net Present Value - Approximation by Correlation (US\$/sh)					122

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