

Rating: Buy  
S&P 500: 1495

## **ConocoPhillips**

### **Strong Demand, Constrained Supply**

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	34,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	14
<i>Price (US\$/sh)</i>	70.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	69
<i>Pricing Date</i>	4/25/07	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	1669	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (US\$mm)</i>	118,200	<i>PV/Ebitda</i>	6.1
<i>Debt (US\$mm)</i>	40,000	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$mm)</i>	158,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.50
<i>Present Value (PV) (US\$mm)</i>	207,100	<i>Present Value Proven Reserves(US\$/boe)</i>	13.01
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.17
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.27
<i>McDep Ratio - EV/PV</i>	0.76	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	2.3	<i>Indicated Annual Dividend (US\$/sh)</i>	1.64

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\$60 a barrel and natural gas, \$10 a million btu.

For historical analysis of COP since 2002 see [www.mcdep.com/2copc.htm](http://www.mcdep.com/2copc.htm)

### **Summary and Recommendation**

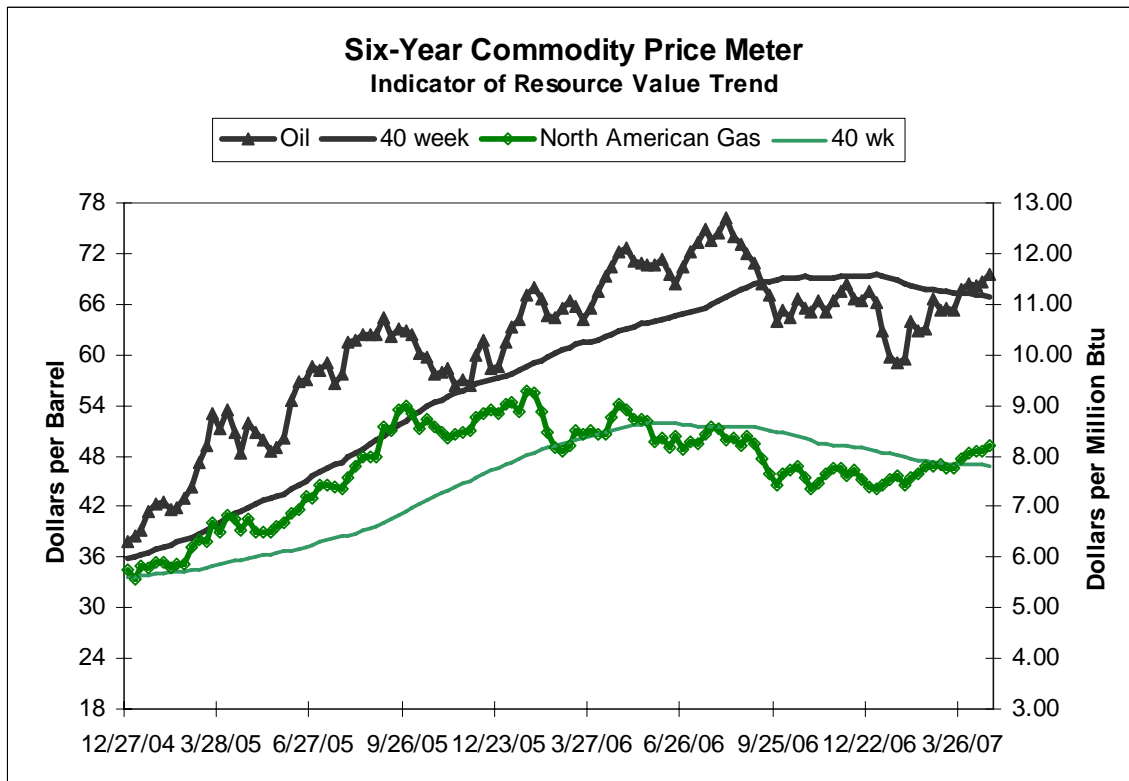
Chief Executive Jim Mulva of buy-recommended **ConocoPhillips (COP)** was unusually frank about the gasoline and natural gas outlook on the conference call to discuss first quarter 2007 results reported on April 25. Surprised that U.S. gasoline demand is growing 2% a year despite an oil price of \$60 a barrel, Mr. Mulva expressed concern about being able to supply the need for gasoline not only in the summer, but also in the winter after that. Later in the call in connection with the delayed Alaska natural gas pipeline, the COP CEO exclaimed, "We have a huge natural gas problem in North America." He mused that liquefied natural gas imports are not going to come as quickly as thought while we see natural decline of production in the Lower 48 and Canada. The combination of a strong demand outlook amid constrained supply fits our view that natural gas and refined oil products offer attractive investment potential. At currently estimated net present value of \$100 a share, ConocoPhillips stock trades above its 200 day average just as do the fundamental indicators of six-year oil and natural gas price. A favorite U.S. mega cap energy company, COP has a double weight in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

Kurt H. Wulff, CFA

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**ConocoPhillips**  
**Functional Cash Flow and Present Value**

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	4,780	10.5	7.3	35,000	17%
Rest of World Natural Gas	2,200	12.6	6.8	15,000	7%
Oil	16,570	10.9	6.6	110,000	53%
Downstream	10,640	4.4	4.4	47,000	23%
	34,190	11.0	6.1	207,000	100%
Debt (US\$mm)					40,000
Net Present Value (US\$mm)					167,000
Shares (mm)					1,669
Net Present Value - Standard Estimate (US\$/sh)					100
Net Present Value - Approximation by Correlation (US\$/sh)					115

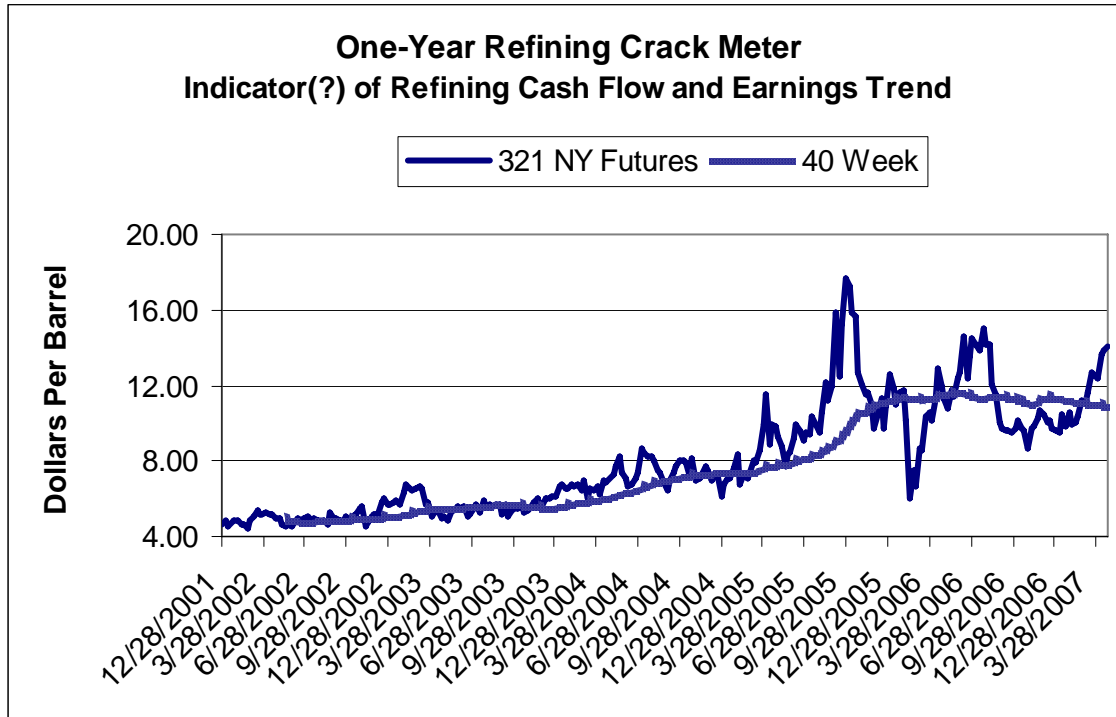


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**ConocoPhillips**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	1,851	3,521	<b>3,156</b>	3,464	3,291	3,291	3,291	<b>3,334</b>	<b>3,291</b>
Overseas (or Int'l)	1,714	1,873	<b>1,814</b>	1,858	1,782	1,701	1,779	<b>1,780</b>	<b>1,760</b>
Total	3,565	5,394	<b>4,970</b>	5,322	5,073	4,991	5,070	<b>5,113</b>	<b>5,051</b>
Oil (mbd)	1,338	1,586	<b>1,530</b>	1,586	1,507	1,507	1,507	<b>1,526</b>	<b>1,507</b>
Total gas & oil (bcf)	1,043	1,372	<b>5,165</b>	1,335	1,284	1,291	1,298	<b>5,209</b>	<b>5,143</b>
Total gas & oil (mbd)	1,932	2,485	<b>2,358</b>	2,473	2,352	2,339	2,352	<b>2,378</b>	<b>2,349</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	<b>7.23</b>	6.81	7.60	7.95	8.80	<b>7.79</b>	<b>8.52</b>
U.S. (or North America)	7.42	5.86	<b>6.02</b>	6.19	6.91	7.22	8.00	<b>7.08</b>	<b>7.74</b>
Overseas (or Int'l)	7.05	6.60	<b>6.48</b>	6.65	6.65	6.65	6.65	<b>6.65</b>	<b>6.65</b>
Total	7.24	6.12	<b>6.19</b>	6.35	6.82	7.03	7.53	<b>6.93</b>	<b>7.36</b>
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	<b>66.05</b>	58.08	65.07	67.85	69.47	<b>65.12</b>	<b>68.20</b>
Worldwide	56.63	52.84	<b>58.40</b>	50.16	56.20	58.60	60.00	<b>56.19</b>	<b>59.55</b>
Total gas & oil (\$/mcf)	8.76	7.84	<b>8.49</b>	7.64	8.45	8.79	9.11	<b>8.49</b>	<b>8.91</b>
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	<b>10.50</b>	11.68	21.91	17.36	11.15	<b>15.53</b>	<b>15.35</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	1,236	1,899	<b>6,932</b>	1,930	2,070	2,187	2,422	<b>8,609</b>	<b>9,294</b>
Overseas (or Int'l)	1,087	1,138	<b>4,289</b>	1,112	1,078	1,040	1,088	<b>4,318</b>	<b>4,271</b>
Total	2,323	3,037	<b>11,221</b>	3,042	3,148	3,227	3,511	<b>12,927</b>	<b>13,565</b>
Oil	6,819	7,711	<b>32,614</b>	7,159	7,705	8,122	8,316	<b>31,304</b>	<b>32,255</b>
Other	38,785	31,787	<b>145,005</b>	32,666	32,666	32,666	32,666	<b>130,665</b>	<b>130,665</b>
Total	47,927	42,535	<b>188,841</b>	42,867	43,519	44,016	44,493	<b>174,896</b>	<b>176,485</b>
<b>Expense (\$mm)</b>									
Fixed	944	1,208	<b>4,892</b>	1,274	1,274	1,274	1,274	<b>5,096</b>	<b>5,096</b>
Variable	2,833	3,624	<b>14,676</b>	3,822	4,066	4,252	4,431	<b>16,571</b>	<b>17,166</b>
Other	37,685	29,728	<b>135,457</b>	30,480	29,677	29,666	30,606	<b>120,430</b>	<b>120,030</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	5,365	5,916	<b>24,268</b>	5,105	5,513	5,824	6,122	<b>22,565</b>	<b>23,559</b>
Other	1,100	2,060	<b>9,549</b>	2,187	2,989	3,000	2,060	<b>10,235</b>	<b>10,635</b>
Total Ebitda	6,465	7,976	<b>33,816</b>	7,292	8,502	8,824	8,182	<b>32,800</b>	<b>34,194</b>
Exploration	112	391	<b>834</b>	262	262	262	262	<b>1,048</b>	<b>986</b>
Deprec., Deplet., & Amort.	1,180	2,002	<b>7,358</b>	2,024	2,024	2,024	2,024	<b>8,096</b>	<b>8,172</b>
Other non cash	-	366	<b>633</b>	-	-	-	-	<b>-</b>	<b>-</b>
<b>Ebit</b>									
Interest	5,173	5,217	<b>24,991</b>	5,006	6,216	6,538	5,896	<b>23,656</b>	<b>25,036</b>
Interest	115	304	<b>1,087</b>	307	307	307	307	<b>1,228</b>	<b>1,228</b>
<b>Ebt</b>									
Income Tax	5,058	4,913	<b>23,904</b>	4,699	5,909	6,231	5,589	<b>22,428</b>	<b>23,808</b>
Income Tax	1,770	1,720	<b>8,367</b>	1,645	2,068	2,181	1,956	<b>7,850</b>	<b>8,333</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,802	2,389	<b>10,872</b>	2,192					
Other	657	1,114	<b>5,453</b>	1,194					
Unallocated	(171)	(309)	<b>(787)</b>	(332)					
Total	3,288	3,194	<b>15,538</b>	3,054	3,841	4,050	3,633	<b>14,578</b>	<b>15,475</b>
<b>Shares (millions)</b>									
Per share (\$)	1,405	1,672	<b>1,610</b>	1,669	1,669	1,669	1,669	<b>1,669</b>	<b>1,669</b>
Per share (\$)	2.34	1.91	<b>9.65</b>	1.83	2.30	2.43	2.18	<b>8.73</b>	<b>9.27</b>
Ebitda Margin (E&P)	59%	55%	<b>55%</b>	50%	51%	51%	52%	<b>51%</b>	<b>51%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

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