



# Independent Stock Idea

April 23, 2009

rating: buy  
s&p 500: 842 intraday

## ConocoPhillips (COP) Overlooked Rich Resources

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$m)</i>	19,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	39.31	<i>Natural Gas and Oil Production/Ebitda (%)</i>	79
<i>Pricing Date</i>	4/23/09	<i>Adjusted Reserves/Production NTM</i>	10.5
<i>Shares (mm)</i>	1495	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$m)</i>	58,800	<i>PV/Ebitda</i>	10.7
<i>Debt (US\$m)</i>	50,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$m)</i>	109,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	18.50
<i>Present Value (PV) (US\$m)</i>	213,000	<i>Present Value Proven Reserves(US\$/boe)</i>	16.25
<i>Net Present Value (US\$/share)</i>	109	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.71
<i>Debt/Present Value</i>	0.24	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.77
<i>McDep Ratio - EV/PV</i>	0.51	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	4.8	<i>Indicated Annual Dividend (US\$/sh)</i>	1.88
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of COP since 2002 see <a href="http://www.mcdep.com/2cocp.htm">www.mcdep.com/2cocp.htm</a>			

### Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)** offers unlevered appreciation potential of 95% to a McDep Ratio of 1.0 and levered appreciation potential of 177% to Net Present Value (NPV) of \$109 a share. During the first quarter, according to results released today, COP generated cash from oil and gas production of about \$15 a barrel of oil equivalent as the difference between price of about \$36 and cash operating costs of about \$21. Compared to our expectations of three months ago, we overestimated the rate at which production cost would decline with price and we underestimated downstream cash flow. It looks like the first quarter was the low point from which results can build with rising price (see table Next Twelve Months Operating and Financial Estimates). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$66 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). As the largest natural gas producer in North America, COP is sensitive to the low commodity price currently and, as a result, may have greater recovery prospects in the future.

Kurt H. Wulff, CFA



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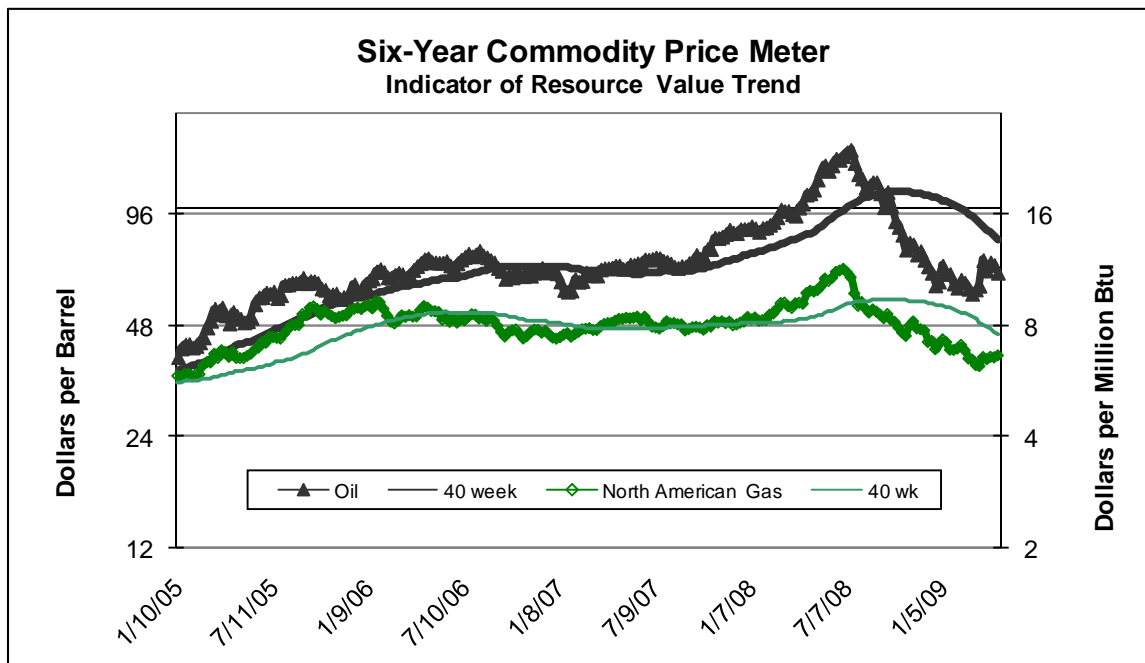
ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Months</i>
	<i>3/31/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	3,164	3,096	<b>3,145</b>	3,185	3,185	3,185	3,185	<b>3,185</b>	<b>3,185</b>
Overseas (or Int'l)	1,736	1,803	<b>1,701</b>	1,902	1,631	1,635	1,803	<b>1,742</b>	<b>1,742</b>
Total	4,900	4,899	<b>4,846</b>	5,087	4,816	4,820	4,988	<b>4,927</b>	<b>4,927</b>
Days	91	92	<b>366</b>	90	91	92	92	<b>365</b>	<b>365</b>
Oil (mbd)	1,436	1,501	<b>1,427</b>	1,516	1,516	1,516	1,516	<b>1,516</b>	<b>1,516</b>
Total gas & oil (bcf)	1,230	1,279	<b>4,907</b>	1,276	1,266	1,280	1,296	<b>5,118</b>	<b>5,118</b>
Total gas & oil (mbd)	2,253	2,318	<b>2,235</b>	2,364	2,319	2,319	2,347	<b>2,337</b>	<b>2,337</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	6.95	<b>9.04</b>	4.90	3.61	3.94	4.85	<b>4.32</b>	<b>4.55</b>
U.S. (or North America)	7.63	5.02	<b>7.75</b>	3.92	2.89	3.15	3.89	<b>3.46</b>	<b>3.65</b>
Overseas (or Int'l)	8.76	8.55	<b>9.23</b>	6.62	6.62	6.62	6.62	<b>6.62</b>	<b>6.62</b>
Total	8.03	6.32	<b>8.27</b>	4.93	4.15	4.33	4.87	<b>4.58</b>	<b>4.70</b>
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	<b>99.59</b>	42.96	47.65	52.28	55.61	<b>49.62</b>	<b>53.40</b>
Worldwide	87.34	49.76	<b>87.18</b>	39.52	43.84	48.10	51.17	<b>45.70</b>	<b>51.03</b>
Total gas & oil (\$/mcf)	12.19	7.60	<b>12.27</b>	5.99	6.22	6.74	7.23	<b>6.55</b>	<b>6.93</b>
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	<b>9.86</b>	9.18	10.47	7.76	3.55	<b>7.74</b>	<b>6.99</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	2,197	1,429	<b>8,916</b>	1,125	839	924	1,139	<b>4,027</b>	<b>4,238</b>
Overseas (or Int'l)	1,384	1,419	<b>5,749</b>	1,132	982	995	1,097	<b>4,206</b>	<b>4,206</b>
Total	3,581	2,848	<b>14,666</b>	2,257	1,821	1,919	2,236	<b>8,233</b>	<b>8,445</b>
Oil	11,414	6,871	<b>45,525</b>	5,393	6,048	6,709	7,136	<b>25,286</b>	<b>27,047</b>
Other	41,558	35,184	<b>185,991</b>	23,630	23,630	23,630	23,630	<b>94,521</b>	<b>94,521</b>
Total	56,552	44,904	<b>246,182</b>	31,280	31,499	32,259	33,003	<b>128,040</b>	<b>130,013</b>
<b>Expense (\$mm)</b>									
Ebitda	47,450	38,962	<b>209,253</b>	27,227	26,928	27,270	27,761	<b>109,186</b>	<b>110,104</b>
Exploration and Production	7,630	4,344	<b>30,103</b>	3,132	3,383	3,883	4,217	<b>14,616</b>	<b>15,814</b>
Other	1,472	1,598	<b>6,826</b>	921	1,188	1,106	1,024	<b>4,238</b>	<b>4,096</b>
Total Ebitda	9,102	5,942	<b>36,929</b>	4,053	4,571	4,989	5,241	<b>18,854</b>	<b>19,910</b>
Exploration	309	473	<b>1,337</b>	225	225	225	225	<b>900</b>	<b>1,075</b>
Deprec., Deplet., & Amort.	2,209	2,264	<b>9,012</b>	2,230	2,230	2,230	2,230	<b>8,920</b>	<b>8,920</b>
Other non cash			<b>-</b>					<b>-</b>	<b>-</b>
Ebit	6,584	3,205	<b>26,580</b>	1,598	2,116	2,534	2,786	<b>9,034</b>	<b>9,915</b>
Interest	207	279	<b>935</b>	310	310	310	310	<b>1,240</b>	<b>1,240</b>
Ebt	6,377	2,926	<b>25,645</b>	1,288	1,806	2,224	2,476	<b>7,794</b>	<b>8,675</b>
Income Tax	2,232	1,024	<b>8,976</b>	451	632	778	867	<b>2,728</b>	<b>3,036</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	3,597	1,150	<b>13,886</b>	748					
Other	721	791	<b>3,467</b>	351					
Unallocated	(173)	(39)	<b>(684)</b>	(262)					
Total	4,145	1,902	<b>16,669</b>	837	1,174	1,445	1,610	<b>5,066</b>	<b>5,638</b>
<b>Shares (millions)</b>									
Per share (\$)	1,582	1,486	<b>1,545</b>	1,495	1,495	1,495	1,495	<b>1,495</b>	<b>1,495</b>
Ebitda Margin (E&P)	2.62	1.28	<b>10.79</b>	0.56	0.79	0.97	1.08	<b>3.39</b>	<b>3.77</b>
Ebitda Margin (E&P)	51%	45%	<b>50%</b>	41%	43%	45%	45%	<b>44%</b>	<b>45%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>



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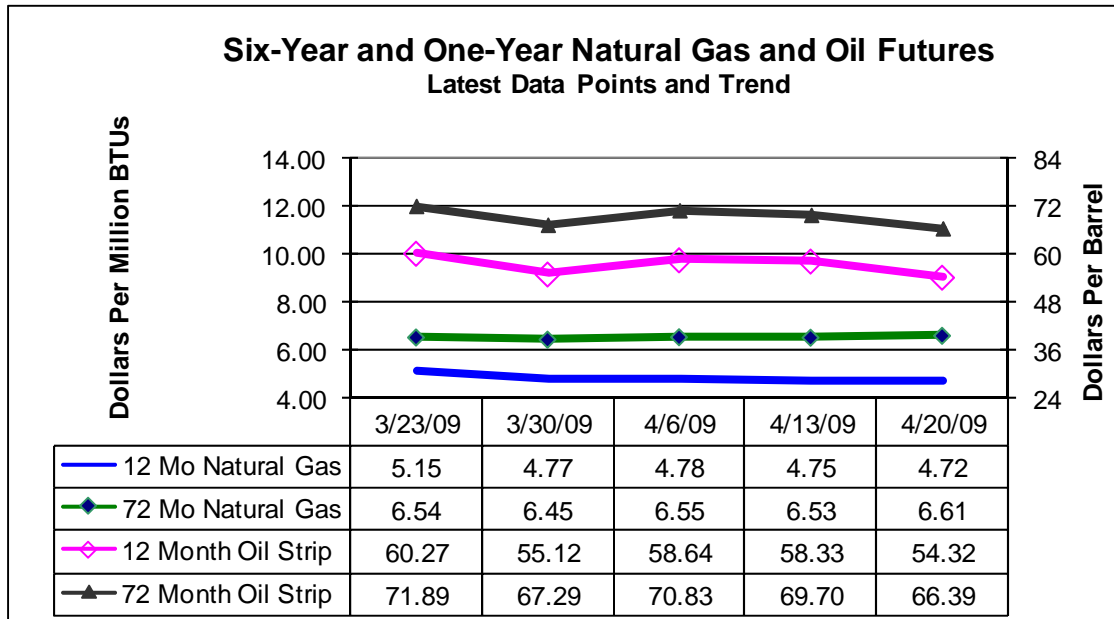
ConocoPhillips					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	1,890	10.8	14.3	27,000	13%
Rest of World Natural Gas	1,870	15.0	11.2	21,000	10%
Oil	12,050	9.5	10.8	130,000	61%
Downstream	4,100		8.5	35,000	16%
	19,910	10.5	10.7	213,000	100%
Debt (US\$mm)					50,000
Net Present Value (US\$mm)					163,000
Shares (mm)					1,495
Net Present Value - Standard Estimate (US\$/sh)					109
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					105





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