Independent Stock Idea

July 23, 2008

rating: buy
s&p 500: 1278 intraday

ConocoPhillips (COP)
Income Model

Symbol	COP	*Ebitda Next Twelve Months ending 6/30/09 (US$mm)*	44,700
Rating	Buy	*North American Natural Gas/Ebitda (%)*	12
Price (US$/sh)	83.55	*Natural Gas and Oil Production/Ebitda (%)*	81
Pricing Date	7/23/08	*Adjusted Reserves/Production NTM*	10.9
Shares (mm)	1555	*EV/Ebitda*	4.0
Market Capitalization (US$mm)	129,900	*PV/Ebitda*	6.3
Debt (US$mm)	48,000	*Undeveloped Reserves (%)*	33
Enterprise Value (EV) (US$mm)	178,000	*Natural Gas and Oil Ebitda (US$/boe)*	45.20
Present Value (PV) (US$mm)	281,000	*Present Value Proven Reserves(US$/boe)*	21.82
Net Present Value (US$/share)	150	*Present Value Proven Reserves(US$/mcfe)*	3.64
Debt/Present Value	0.17	*Earnings Next Twelve Months (US$/sh)*	13.80
McDep Ratio - EV/PV	0.63	*Price/Earnings Next Twelve Months*	6
Dividend Yield (%/year)	2.3	*Indicated Annual Dividend (US$/sh)*	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$100 a barrel and natural gas, $14 a million btu.			
For historical analysis of COP since 2002 see www.mcdep.com/2cocp.htm			

Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)** offers unlevered appreciation potential of 58% to estimated net present value (NPV) of $150 a share. On May 13 we raised NPV from $124 a share on the basis of a long-term oil price assumption of $100 a barrel, up from $80. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price along with dampened downstream refining and marketing where higher price was not fully passed through to consumers. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table Functional Cash Flow and Present Value). As well as reinvesting $15 billion a year, COP is repurchasing $10 billion of stock, which when added to $3 billion for dividends gives shareholders an "income return" of 10% a year. An attractive return on existing investment is essential to encourage new investment for economic growth. Meanwhile long-term crude oil price continues in an uptrend where the latest quote of $130 a barrel for delivery over the next six years is above the 40-week average of $103 (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA

ConocoPhillips Next Twelve Months Operating and Financial Estimates									
	Q2	*Q1*	*Q2*	*Q3E*	*Q4E*	***Year***	*Q1E*	*Q2E*	***Next Twelve Months***
	6/30/07	*3/31/08*	*6/30/08*	*9/30/08*	*12/31/08*	***2008E***	*3/31/09*	*6/30/09*	***6/30/09***
Volume									
Natural Gas (mmcfd)									
U.S. (or North America)	3,452	3,164	3,187	3,187	3,187	**3,181**	3,187	3,187	**3,187**
Overseas (or Int'l)	1,681	1,736	1,631	1,512	1,705	**1,646**	1,736	1,631	**1,646**
Total	5,133	4,900	4,818	4,699	4,892	**4,827**	4,923	4,818	**4,833**
Days	91	91	91	92	92	**366**	90	91	**365**
Oil (mbd)	1,527	1,436	1,395	1,395	1,395	**1,405**	1,395	1,395	**1,395**
Total gas & oil (bcf)	1,301	1,230	1,200	1,202	1,220	**4,853**	1,196	1,200	**4,819**
Total gas & oil (mbd)	2,383	2,253	2,198	2,178	2,210	**2,210**	2,216	2,198	**2,200**
Price									
Natural gas ($/mcf)									
Henry Hub ($/mmbtu)	7.56	8.02	10.93	11.40	11.05	**10.35**	11.54	10.78	**11.19**
U.S. (or North America)	6.53	7.63	9.86	10.28	9.96	**9.44**	10.40	9.71	**10.09**
Overseas (or Int'l)	6.26	8.76	9.90	9.90	9.90	**9.60**	9.90	9.90	**9.90**
Total	6.44	8.03	9.87	10.16	9.94	**9.49**	10.22	9.78	**10.02**
Oil ($/bbl)									
WTI Cushing	64.91	97.94	123.97	132.68	132.66	**121.82**	133.52	132.25	**132.78**
Worldwide	59.56	87.34	109.67	117.38	117.36	**107.84**	117.12	116.01	**117.24**
Total gas & oil ($/mcf)	8.67	12.19	15.21	16.18	16.01	**14.89**	16.08	15.84	**16.03**
NY Harbor 3-2-1 ($/bbl)	24.96	7.57	14.94	11.34	9.63	**10.87**	11.32	15.94	**12.06**
Revenue ($mm)									
Natural Gas									
U.S. (or North America)	2,050	2,197	2,858	3,013	2,921	**10,990**	2,982	2,817	**11,734**
Overseas (or Int'l)	958	1,384	1,469	1,377	1,553	**5,782**	1,547	1,469	**5,945**
Total	3,008	3,581	4,327	4,390	4,474	**16,772**	4,529	4,286	**17,679**
Oil	8,276	11,414	13,923	15,064	15,062	**55,462**	14,704	14,727	**59,557**
Other	38,113	41,558	55,103	55,103	55,103	**206,867**	55,103	55,103	**220,412**
Total	49,397	56,552	73,353	74,558	74,638	**279,101**	74,336	74,116	**297,648**
Expense	39,406	47,450	62,304	62,696	62,963	**235,413**	63,825	63,511	**252,994**
Ebitda ($mm)									
Exploration and Production	5,770	7,630	9,380	9,144	9,182	**35,336**	9,039	8,936	**36,301**
Other	4,221	1,472	1,669	2,719	2,494	**8,353**	1,472	1,669	**8,353**
Total Ebitda	9,991	9,102	11,049	11,862	11,676	**43,689**	10,511	10,605	**44,654**
Exploration	259	309	288	400	400	**1,397**	400	400	**1,600**
Deprec., Deplet., & Amort.	2,016	2,209	2,178	2,300	2,300	**8,987**	2,300	2,300	**9,200**
Other non cash	-					**-**			**-**
Ebit	7,716	6,584	8,583	9,162	8,976	**33,305**	7,811	7,905	**33,854**
Interest	319	207	210	210	210	**837**	210	210	**840**
Ebt	7,397	6,377	8,373	8,952	8,766	**32,468**	7,601	7,695	**33,014**
Income Tax	2,589	2,232	2,931	3,133	3,068	**11,364**	2,660	2,693	**11,555**
Net Income ($mm)									
Exploration and Production	2,738	3,597	4,773						
Other	2,516	721	852						
Unallocated	(446)	(173)	(183)						
Total	4,808	4,145	5,443	5,819	5,698	**21,104**	4,941	5,002	**21,459**
Shares (millions)	1,658	1,582	1,555	1,555	1,555	**1,560**	1,555	1,555	**1,555**
Per share ($)	2.90	2.62	3.50	3.74	3.66	**13.53**	3.18	3.22	**13.80**
Ebitda Margin (E&P)	51%	51%	51%	47%	47%	**49%**	47%	47%	**47%**
Tax Rate	35%	35%	35%	35%	35%	**35%**	35%	35%	**35%**

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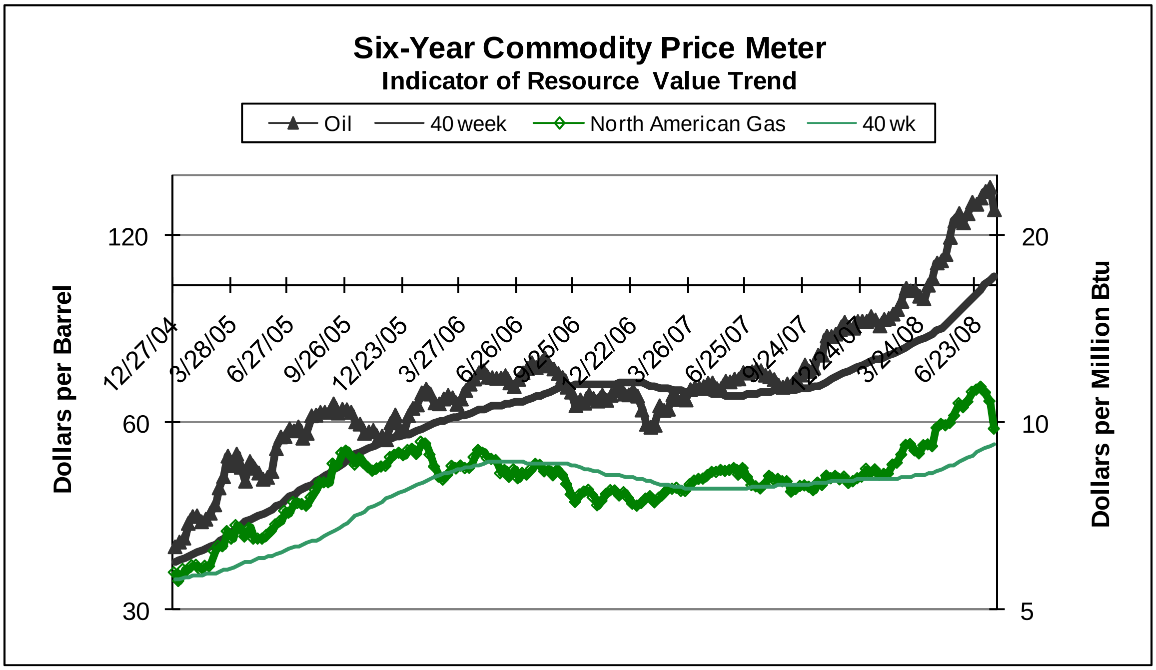
ConocoPhillips					
Functional Cash Flow and Present Value					
				Present	
	NTM Ebitda	*Adjusted*	*PV/*	*Value*	
	(US$mm)	*R/P*	*Ebitda*	*(US$mm)*	
North American Natural Gas	5,510	10.1	7.6	42,000	15%
Rest of World Natural Gas	2,790	9.3	7.2	20,000	7%
Oil	28,000	11.5	5.9	165,000	59%
Downstream	8,350		6.5	54,000	19%
	44,650	10.9	6.3	281,000	100%
Debt (US$mm)					48,000
Net Present Value (US$mm)					233,000
Shares (mm)					1,555
Net Present Value - Standard Estimate (US$/sh)					150
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US$/sh)					150



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