



Independent Stock Idea

July 29, 2009

rating: buy
s&p 500: 972 intraday

ConocoPhillips (COP) Positioned for Recovery

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	23,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	42.60	<i>Natural Gas and Oil Production/Ebitda (%)</i>	85
<i>Pricing Date</i>	7/29/09	<i>Adjusted Reserves/Production NTM</i>	10.6
<i>Shares (mm)</i>	1496	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	63,700	<i>PV/Ebitda</i>	8.9
<i>Debt (US\$mm)</i>	52,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	115,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.80
<i>Present Value (PV) (US\$mm)</i>	209,000	<i>Present Value Proven Reserves(US\$/boe)</i>	17.08
<i>Net Present Value (US\$/share)</i>	105	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.85
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.14
<i>McDep Ratio - EV/PV</i>	0.55	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	4.4	<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, \$8 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 81% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$105 a share. On July 14 we reduced NPV from \$109 when we reduced estimated Present Value of North American Natural Gas by 20%. Second quarter results released today exceeded our estimates for unlevered cash flow (Ebitda) from three months ago in the upstream segment on the strength of higher oil price and fell short in the downstream. Futures prices indicate improvement for oil and natural gas and continued low margins for refining in the next few quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). Along the same line, concentration on oil rises modestly to 64% in our valuation that 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](#)). Over the past three years, COP has roughly tracked the peer average in margins (see charts [Cash Flow per Barrel](#) and [Downstream Cash Flow](#)). Considering that COP's Enterprise Value has declined more than for peers in the downtrend, the stock may incline more than peers in an uptrend. An uptrend may have been signaled when futures prices for the next six years for oil crossed above the 40-week average at the end of May (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)). A moderate debt level allows the company to withstand any unexpected economic sluggishness.

Kurt H. Wulff, CFA



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ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q2 6/30/08	Q1 3/31/09	Q2 6/30/09	Q3E 9/30/09	Q4E 12/31/09	Year 2009E	Q1E 3/31/10	Q2E 6/30/10	6/30/10
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	3,187	3,185	3,269	3,204	3,140	3,199	3,140	3,140	3,156
Overseas (or Int'l)	1,631	1,902	1,782	1,635	1,803	1,780	1,902	1,782	1,780
Total	4,818	5,087	5,051	4,839	4,943	4,979	5,042	4,922	4,936
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	1,395	1,516	1,516	1,501	1,486	1,505	1,486	1,486	1,490
Total gas & oil (bcf)	1,200	1,276	1,287	1,274	1,275	5,112	1,256	1,259	5,064
Total gas & oil (mbd)	2,198	2,364	2,358	2,307	2,310	2,334	2,326	2,306	2,312
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	4.22	5.65	5.61	4.93
U.S. (or North America)	9.86	3.92	2.94	3.18	3.95	3.49	4.75	4.72	4.14
Overseas (or Int'l)	9.90	6.62	5.06	5.06	6.29	5.78	7.57	7.51	6.65
Total	9.87	4.93	3.69	3.81	4.80	4.31	5.81	5.73	5.04
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Worldwide	109.67	39.52	51.52	58.04	61.74	52.72	62.93	64.40	61.41
Total gas & oil (\$/mcf)	15.21	5.99	6.84	7.63	8.33	7.20	8.80	8.95	8.43
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	2,858	1,125	875	937	1,141	4,078	1,343	1,348	4,768
Overseas (or Int'l)	1,469	1,132	821	761	1,043	3,757	1,295	1,218	4,317
Total	4,327	2,257	1,696	1,698	2,183	7,835	2,638	2,566	9,085
Oil	13,923	5,393	7,107	8,014	8,440	28,954	8,415	8,707	33,577
Other	55,103	23,630	27,827	27,827	27,827	107,110	27,827	27,827	111,307
Total	73,353	31,280	36,630	37,539	38,450	143,899	38,880	39,100	153,969
Expense (\$mm)	62,304	27,227	31,770	31,868	32,433	123,298	32,764	33,339	130,404
Ebitda (\$mm)									
Exploration and Production	9,380	3,132	4,397	4,565	4,993	17,087	5,195	5,298	20,051
Other	1,669	921	463	1,106	1,024	3,514	921	463	3,514
Total Ebitda	11,049	4,053	4,860	5,671	6,017	20,601	6,116	5,762	23,565
Exploration	288	225	243	243	243	954	400	400	1,286
Deprec., Deplet., & Amort.	2,178	2,230	2,347	2,347	2,347	9,271	2,347	2,347	9,388
Other non cash						-			-
Ebit	8,583	1,598	2,270	3,081	3,427	10,376	3,369	3,015	12,891
Interest	210	310	268	268	268	1,114	268	268	1,072
Ebt	8,373	1,288	2,002	2,813	3,159	9,262	3,101	2,747	11,819
Income Tax	2,931	451	701	984	1,106	3,242	1,085	961	4,137
Net Income (\$mm)									
Exploration and Production	4,773	748	1,407						
Other	852	351	46						
Unallocated	(183)	(262)	(151)						
Total	5,443	837	1,302	1,828	2,053	6,020	2,016	1,785	7,682
Shares (millions)	1,555	1,495	1,496	1,496	1,496	1,496	1,496	1,496	1,496
Per share (\$)	3.50	0.56	0.87	1.22	1.37	4.02	1.35	1.19	5.14
Ebitda Margin (E&P)	51%	41%	50%	47%	47%	46%	47%	47%	47%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

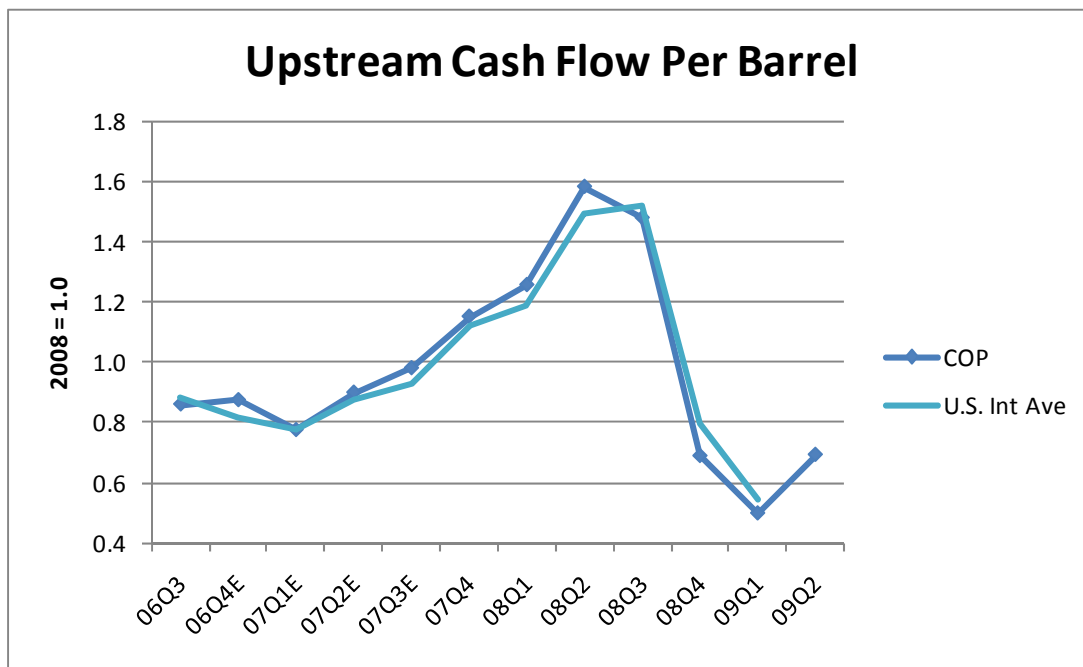
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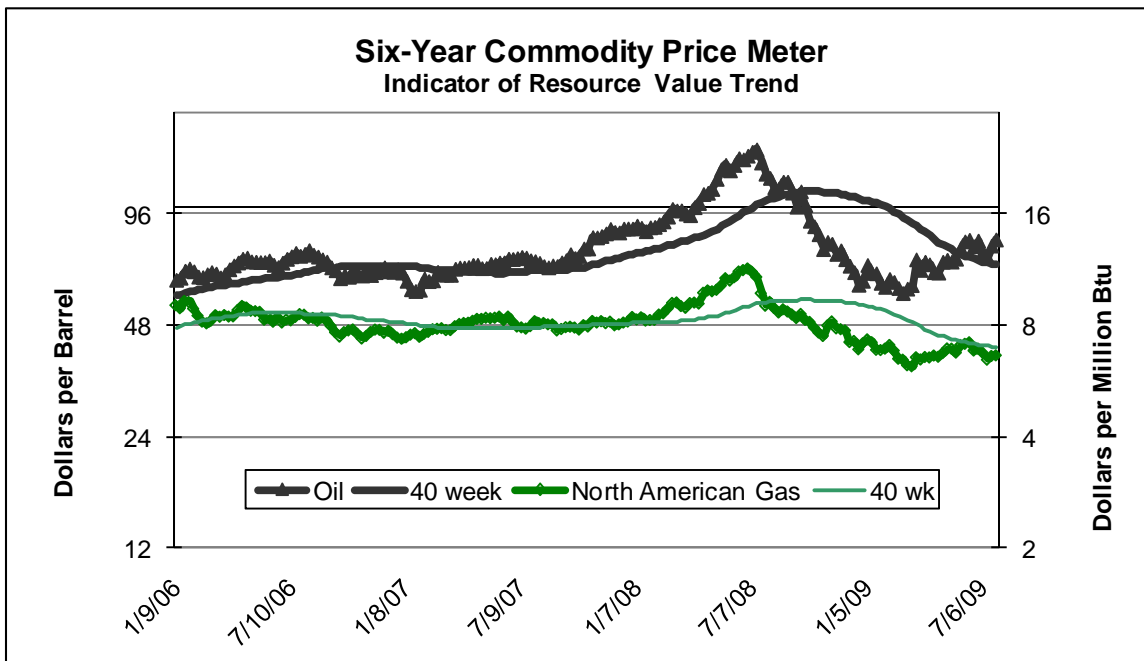
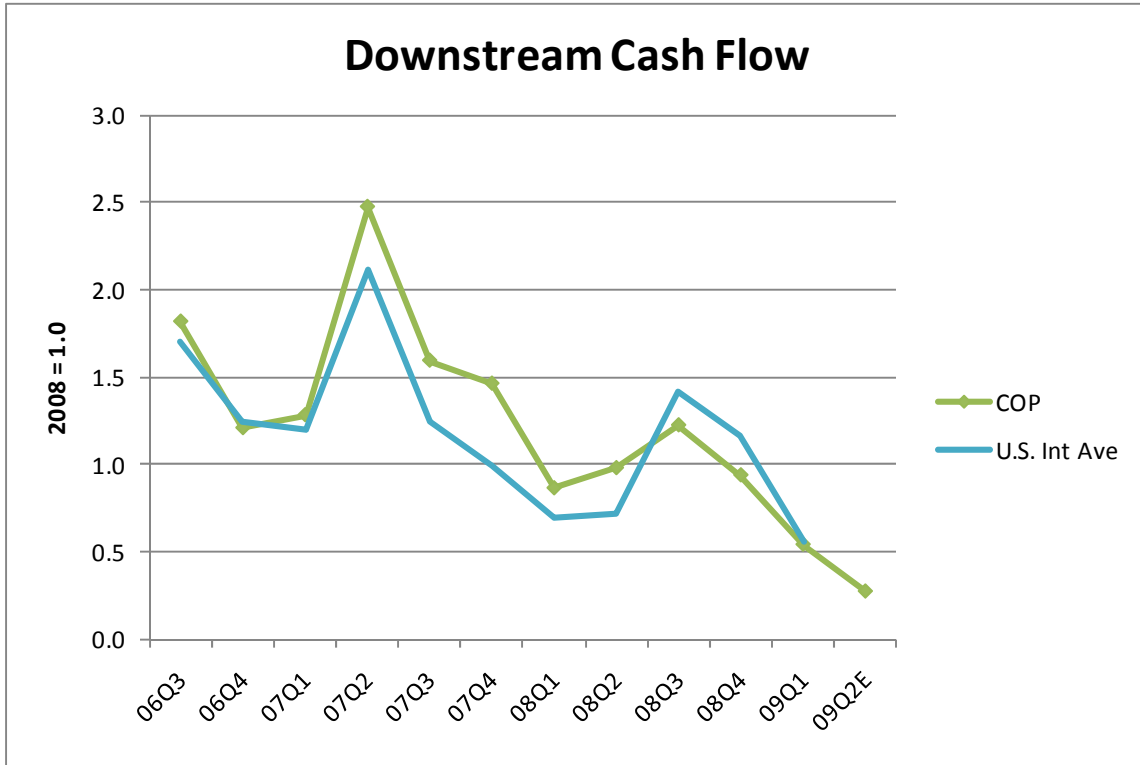
ConocoPhillips					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,240	10.9	11.6	26,000	12%
Rest of World Natural Gas	2,030	14.7	9.4	19,000	9%
Oil	15,790	9.6	8.5	134,000	64%
Downstream	3,510		8.5	30,000	14%
	23,570	10.6	8.9	209,000	100%
Debt (US\$mm)					52,000
Net Present Value (US\$mm)					157,000
Shares (mm)					1,496
Net Present Value - Standard Estimate (US\$/sh)					105
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					98





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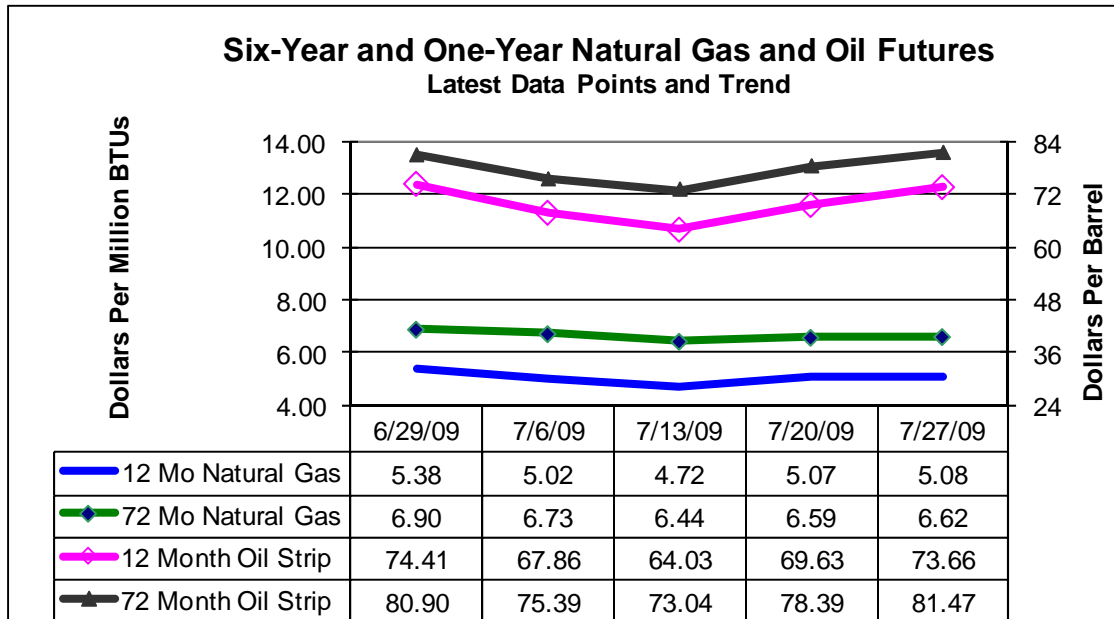
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