



Independent Stock Idea

October 28, 2009

rating: buy
s&p 500: 1043

ConocoPhillips (COP) Downsizing to Revitalize

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	25,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	49.49	<i>Natural Gas and Oil Production/Ebitda (%)</i>	87
<i>Pricing Date</i>	10/28/09	<i>Adjusted Reserves/Production NTM</i>	11.1
<i>Shares (mm)</i>	1498	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	74,100	<i>PV/Ebitda</i>	8.3
<i>Debt (US\$mm)</i>	52,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	126,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.40
<i>Present Value (PV) (US\$mm)</i>	209,000	<i>Present Value Proven Reserves(US\$/boe)</i>	17.52
<i>Net Present Value (US\$/share)</i>	105	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.92
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.67
<i>McDep Ratio - EV/PV</i>	0.60	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	4.0	<i>Indicated Annual Dividend (US\$/sh)</i>	2.00
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 66% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$105 a share. Third quarter results released today matched our estimates from three months ago for unlevered cash flow (Ebitda) in the strengthening upstream segment and fell short in the weak downstream (other) segment (see table [Next Twelve Months Operating and Financial Estimates](#)). We see NPV concentrated 87% upstream and 13% downstream 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](#)). Chief Executive Jim Mulva sees the refining market improving from today's distressed levels to the point where the company would sell some refineries in 2012-2013. Until then, a recently announced program to sell \$10 billion of assets would be concentrated on upstream properties. The sales could include COP's 9% of the Syncrude Joint Venture worth US\$5.3 billion by our estimate. The proceeds from sales and reduced capital spending plans would be applied to reduce debt, pay dividends and repurchase stock. Mr. Mulva no longer believes COP needs to be a giant company to support new investments in resource rich countries. Meanwhile, the prospects for existing resources look good with futures prices for the next six years for oil and gas above the 40-week average (see charts [Six-Year Commodity Price Meter](#)).

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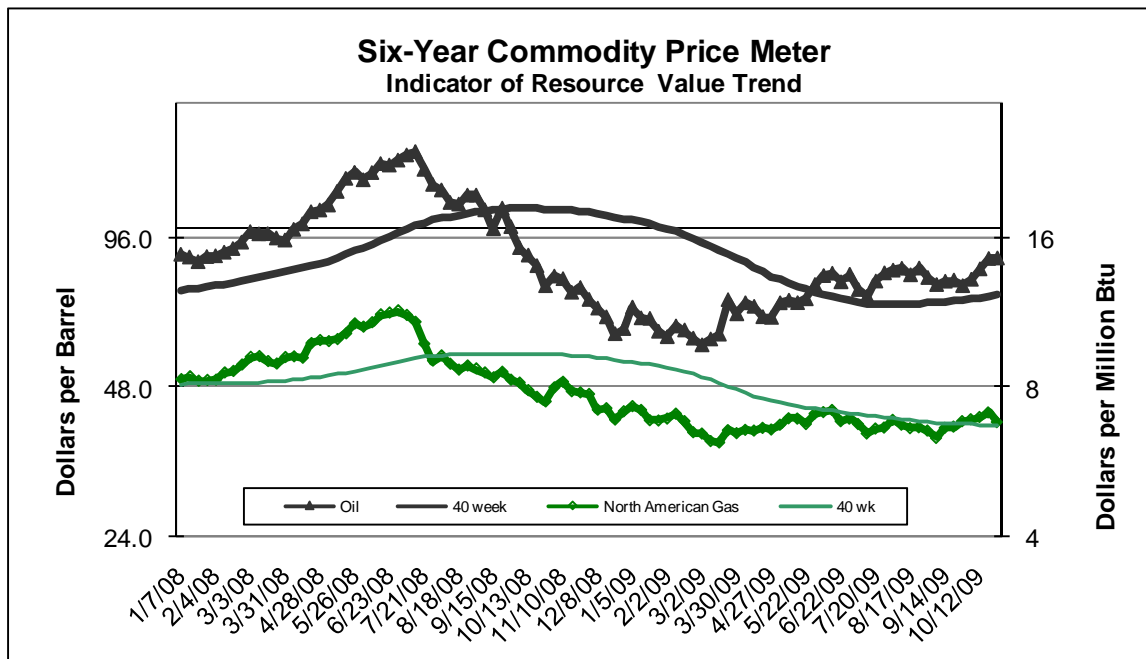
ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Months</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>9/30/10</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	3,134	3,269	3,106	3,044	3,150	3,044	3,044	2,983	3,029
Overseas (or Int'l)	1,635	1,782	1,640	1,803	1,781	1,902	1,782	1,640	1,781
Total	4,769	5,051	4,746	4,847	4,932	4,946	4,826	4,623	4,810
Days	92	91	92	92	365	90	91	92	365
Oil (mbd)	1,375	1,472	1,424	1,410	1,455	1,410	1,410	1,396	1,406
Total gas & oil (bcf)	1,198	1,263	1,223	1,224	4,987	1,206	1,209	1,196	4,835
Total gas & oil (mbd)	2,170	2,314	2,215	2,218	2,277	2,234	2,214	2,166	2,208
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.48	4.07	5.58	5.61	5.84	5.38
U.S. (or North America)	8.43	2.94	2.83	3.74	3.36	4.66	4.69	4.88	4.49
Overseas (or Int'l)	9.82	5.06	5.26	6.95	6.00	8.65	8.70	8.70	8.24
Total	8.91	3.69	3.67	4.94	4.31	6.20	6.17	6.24	5.88
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.69	62.10	80.00	81.52	82.60	80.45
Worldwide	105.28	51.52	61.23	69.73	55.28	70.80	72.15	73.10	71.11
Total gas & oil (\$/mcf)	14.38	6.80	7.87	9.19	7.44	9.73	9.90	10.07	9.72
NY Harbor 3-2-1 (\$/bbl)	11.84	9.49	9.45	7.51	8.91	7.63	10.46	10.27	8.97
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	2,432	875	809	1,049	3,858	1,277	1,299	1,340	4,965
Overseas (or Int'l)	1,478	821	793	1,153	3,899	1,481	1,411	1,313	5,358
Total	3,909	1,696	1,602	2,201	7,757	2,758	2,711	2,653	10,323
Oil	13,318	6,901	8,022	9,044	29,359	8,983	9,256	9,387	36,670
Other	54,146	28,033	31,681	31,681	115,024	31,681	31,681	31,681	126,722
Total	71,373	36,630	41,305	42,926	152,141	43,422	43,647	43,721	173,715
Expense	60,537	31,770	35,951	36,617	131,565	36,982	37,560	37,255	148,413
Ebitda (\$mm)									
Exploration and Production	8,749	4,397	4,546	5,285	17,361	5,518	5,624	5,659	22,087
Other	2,087	463	807	1,024	3,215	921	463	807	3,215
Total Ebitda	10,836	4,860	5,354	6,309	20,576	6,439	6,087	6,466	25,302
Exploration	267	243	386	386	1,240	400	400	400	1,586
Deprec., Deplet., & Amort.	2,361	2,347	2,327	2,327	9,231	2,327	2,327	2,327	9,308
Other non cash					-				-
Ebit	8,208	2,270	2,641	3,596	10,105	3,712	3,360	3,739	14,408
Interest	239	268	336	336	1,250	336	336	336	1,344
Ebt	7,969	2,002	2,305	3,260	8,855	3,376	3,024	3,403	13,064
Income Tax	2,789	701	807	1,141	3,099	1,182	1,059	1,191	4,572
Net Income (\$mm)									
Exploration and Production	4,366	1,407	1,523						
Other	1,103	46	265						
Unallocated	(289)	(151)	(290)						
Total	5,180	1,302	1,498	2,119	5,756	2,195	1,966	2,212	8,491
Shares (millions)	1,528	1,496	1,498	1,498	1,497	1,498	1,498	1,498	1,498
Per share (\$)	3.39	0.87	1.00	1.41	3.84	1.47	1.31	1.48	5.67
Ebitda Margin (E&P)	51%	51%	47%	47%	47%	47%	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					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	2,330	11.4	11.2	26,000	12%
Rest of World Natural Gas	2,520	14.7	8.7	22,000	11%
Oil	17,230	10.2	7.7	133,000	64%
Downstream	3,220		8.7	28,000	13%
	25,300	11.1	8.3	209,000	100%
Debt (US\$mm)					52,000
Net Present Value (US\$mm)					157,000
Shares (mm)					1,498
Net Present Value - Standard Estimate (US\$/sh)					105
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					103





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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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