ConocoPhillips (COP)

Updated August 6th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	7.5%	**Volatility Percentile:**	86.1%
Fair Value Price:	$65	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	96.8%
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Valuation Percentile:**	44.0%
Dividend Yield:	1.6%	**5 Year Price Target**	$95	**Total Return Percentile:**	49.1%

Overview & Current Events

ConocoPhillips is the world's largest independent oil and gas producer, with an average daily production of 1.2 M barrels per day. As it is a pure upstream company, so it is much more leveraged to the price of oil than its well-known peers like Exxon Mobil, Chevron, BP and Total. ConocoPhillips trades with a market capitalization of $83 billion. The company was founded in 2002 and is headquartered in Houston, Texas.

ConocoPhillips reported its most recent quarterly results on July 26. The company earned $1.09 during the second quarter, a massive increase from earnings of $0.14 per share in the previous year's second quarter. ConocoPhillips' revenues grew by 4% year over year, but that number was impacted by asset sales during the last twelve months. Adjusted for dispossessions ConocoPhillips was able to grow its production by 5% compared to Q2 2017.

ConocoPhillips was able to increase its cash generation substantially. The company produced operating cash flows of $3.2 billion during Q2 alone. Its massive cash flows were, among other things, used to pay down $2.1 billion of debt.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$10.66	$3.24	$5.92	$8.76	$5.91	$6.43	$4.96	-$1.39	-$2.52	$0.61	***$4.30***	***$6.32***
DPS	$1.88	$1.91	$2.15	$2.64	$2.64	$2.70	$2.84	$2.94	$1.00	$1.06	***$1.14***	***$1.74***

When oil prices began to collapse in 2014, ConocoPhillips was the producer that suffered the most; it posted heavy losses in 2015 and 2016 and its stock price plunged 60% from its peak. ConocoPhillips also had to cut its dividend during the oil price slump as its cash flows deteriorated substantially.

However, as leverage is a two-edged sword, ConocoPhillips is now one of the best positioned oil producer to benefit from rising oil prices. Results during H1 show that ConocoPhillips has been able to generate massive earnings growth compared to prior years thanks to higher average oil prices. Cost-cutting efforts during the oil price slump, which have increased the efficiency of ConocoPhillips' operations, are increasingly paying off. ConocoPhillips' asset disposition program is finished. The company should now be able to grow its production numbers

Since oil prices have remained strong through the beginning of August, and since there is no major reason for a decline in the price of oil, investors can expect strong results from ConocoPhillips over the coming quarters. Given the unprecedented investment cuts of all the oil producers in recent years and the support from OPEC and Russia, the fundamentals of the oil market are likely to remain strong for years.

Taking into account a modest output growth rate, a slow rise of the oil price from its current level, and some share repurchases over the coming years, it is reasonable to expect the company to grow its EPS by about 8.0% per year on average, from $4.30 this year to $6.32 in 2023

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	7.0	14.0	9.4	8.2	9.5	10.1	15.0	N/A	N/A	N/A	***16.7***	***15.0***
Avg. Yld.	2.5%	4.2%	3.9%	3.7%	4.7%	4.2%	3.8%	5.1%	2.4%	2.2%	***1.7%***	***2.0%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

ConocoPhillips trades at a little less than 17 times this year's earnings right now. This looks like a relatively high valuation compared to how shares were valued in the 2008 – 2013 time frame. We have to keep in mind that ConocoPhillips was a different company before the split of Philips 66. During the financial crisis valuations were relatively depressed overall on top of that. We believe that shares of ConocoPhillips are fairly valued at ~15 times annual profits.

Due to the low yield ConocoPhillips looks like a better pick for those seeking share price gains instead of income.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	46.0%	26.0%	31.4%	18.7%	24.0%	22.1%	18.9%	-3.3%	-3.3%	5.0%	***14.0%***	***20.0%***
Debt/A	60.6%	58.8%	55.8%	57.1%	58.7%	55.5%	55.1%	58.9%	60.8%	58.0%	***54.0%***	***51.0%***
Int. Cov.	----	8.4	17.6	17.1	22.8	24.3	15.5	-7.2	-3.6	-1.5	***12.5***	***17.0***
Payout	17.6%	59.0%	36.3%	30.1%	44.7%	42.0%	57.3%	N/A	N/A	174%	***29.2%***	***30.3%***
Std. Dev.	40.3%	33.6%	23.7%	24.9%	15.4%	14.5%	22.5%	30.3%	40.2%	20.5%	***20.0%***	***20.0%***

ConocoPhillips' quality metrics have greatly deteriorated in recent years but are poised to revert to normal levels as the recovery continues. During the previous boom of the oil sector, ConocoPhillips made frivolous investments, such as its drilling rights in the U.S. Arctic and its deep-water business in Senegal. However, the company seems to have learned its lesson and has thus become much more disciplined, investing only in high-return projects.

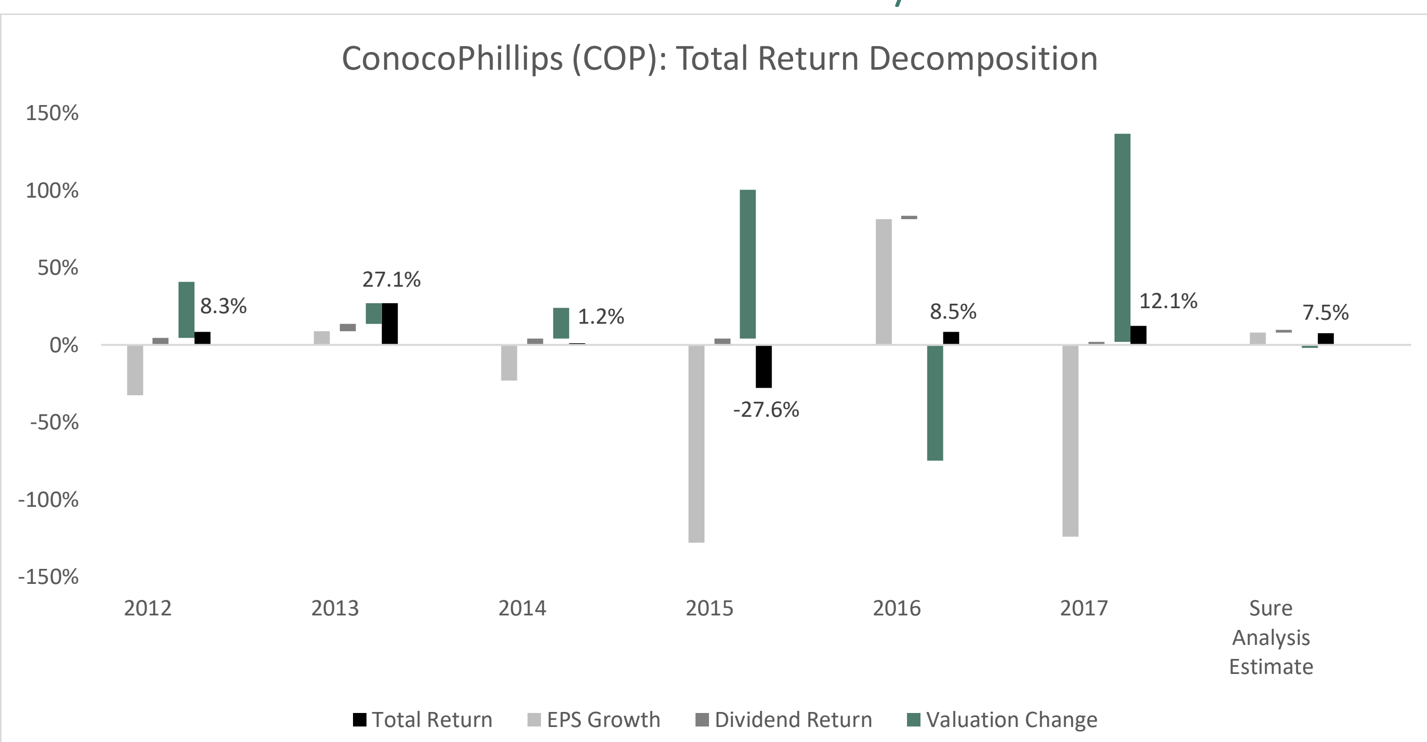
ConocoPhillips has made a lot of progress in bringing its debt levels down, at the end of Q2 the company had hit its target net debt level of $15 billion. This debt reduction target was achieved 18 months ahead of plan.

Investors should be aware of the extreme sensitivity of ConocoPhillips to the oil price. In the event of a recession, the EPS of the company will drop like a rock. During the last financial crisis earnings per share plunged by 70%.

Final Thoughts & Recommendation

After oil prices stared to rise again ConocoPhillips' shares have performed quite well. They have increased by nearly 60% over the last year. Shares are a little bit overvalued right now, but should provide solid total returns over the coming years nevertheless. We rate ConocoPhillips a hold right here, and a possible buy if its valuation declines moving forward.

Total Return Breakdown by Year



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