ConocoPhillips (COP)

Updated October 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	9.7%	**Volatility Percentile:**	83.1%
Fair Value Price:	$67	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	92.4%
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Growth Percentile:**	71.6%
Dividend Yield:	1.8%	**5 Year Price Target**	$99	**Valuation Percentile:**	45.8%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	49.0%

Overview & Current Events

ConocoPhillips is the world's largest independent oil and gas producer, with an average daily production of 1.2 million barrels per day. Since it is a pure upstream company, it is much more leveraged to the price of oil than the well-known supermajors like Exxon Mobil, Chevron, BP, and Total. ConocoPhillips trades with a market capitalization of $79 billion. The company was founded in 2002 and is headquartered in Houston, Texas.

ConocoPhillips has reported its third quarter earnings results on October 25. The company reported revenues of $10.2 billion, an increase of 41% year over year. This steep growth rate was primarily driven by a higher oil price. The company has also benefited from its cost-cutting efforts, which, combined with higher oil prices, allowed ConocoPhillips to generate $1.6 billion in net earnings versus $400 million in net earnings during last year's Q4. ConocoPhillips' earnings-per-share totaled $1.36 during Q3, which was more than the analyst community expected. Accordingly, we have slightly increased our 2018 earnings estimate. During October ConocoPhillips has increased its dividend by 7%, to $0.305.

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	***$4.50***	***$6.61***
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***
Shares	1480	1490	1430	1290	1220	1230	1230	1240	1240	1180	***1150***	***1030***

When oil prices began to collapse in 2014, ConocoPhillips was, among the large oil companies, the producer that suffered the most. The company 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 producers to benefit from rising oil prices. Results during the first three quarters of 2018 show that ConocoPhillips has been able to generate tremendous 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. The company implemented an asset disposition program, which has now finished. It should be able to grow its production numbers moving forward.

Since oil prices have remained relatively strong through October, and since there is no major reason for a steep 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. It is reasonable to expect the company to grow its EPS by about 8.0% per year on average.

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	***15.1***	***15.0***
Avg. Yld.	2.5%	4.2%	3.9%	3.7%	4.7%	4.2%	3.8%	5.1%	2.4%	2.2%	***1.8%***	***2.0%***

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ConocoPhillips has not always been profitable through the last decade, which makes it difficult to value the company's shares using historical data alone. The spin-off of Phillips 66 has changed the company substantially on top of that. We believe that ConocoPhillips shares are relatively fairly valued around 15 times annual net profits. ConocoPhillips used to be a solid income investment, but after the dividend cut during the financial crisis the yield is not overly attractive any longer.

Safety, Quality, Competitive Advantage, & Recession Resiliency

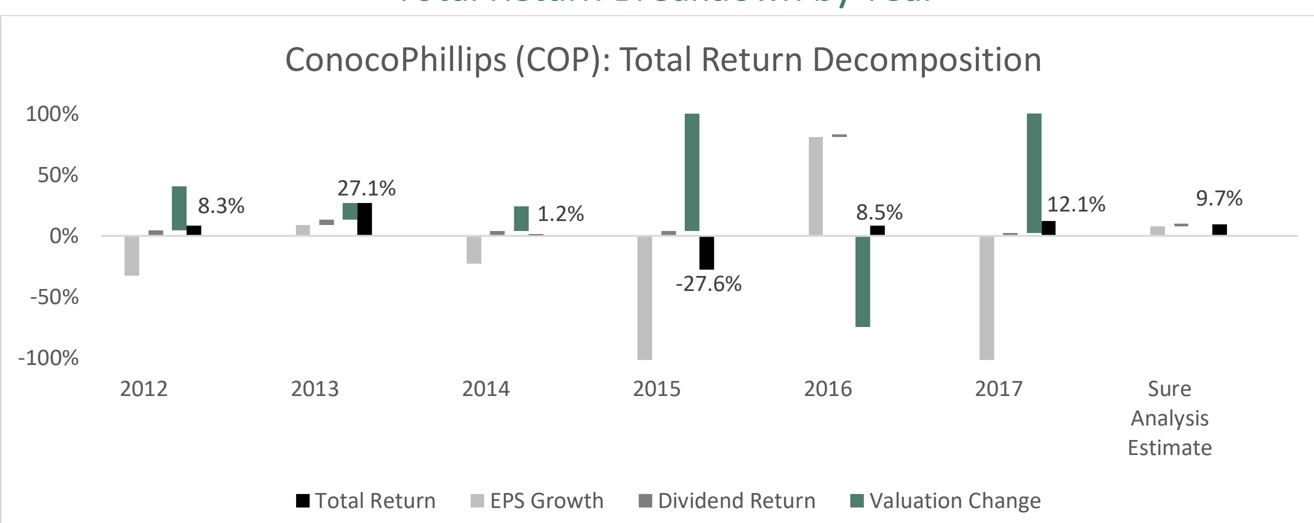
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	46.0%	26.0%	31.4%	18.7%	24.0%	22.1%	18.9%	-3.3%	-3.3%	5.0%	***14.0%***	***20.0%***
Debt/A	60.6%	58.8%	55.8%	57.1%	58.7%	55.5%	55.1%	58.9%	60.8%	58.0%	***54.0%***	***51.0%***
Int. Cov.	----	8.4	17.6	17.1	22.8	24.3	15.5	-7.2	-3.6	-1.5	***12.5***	***17.0***
Payout	17.6%	59.0%	36.3%	30.1%	44.7%	42.0%	57.3%	N/A	N/A	174%	***25.3%***	***26.3%***
Std. Dev.	40.3%	33.6%	23.7%	24.9%	15.4%	14.5%	22.5%	30.3%	40.2%	20.5%	***21.0%***	***20.0%***

ConocoPhillips' quality metrics, such as its gross profits to assets ratio, have deteriorated in recent years, but they are poised to revert to normal levels as the oil price 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, the company has already hit its target of a $15 billion net debt reduction, more than a year ahead of plan. Investors should be aware of the extreme sensitivity of ConocoPhillips to the oil price. In the event of another decline in oil prices, the company's earnings-per-share would likely decline substantially. During the last financial crisis earnings-per-share plunged by 70%.

Final Thoughts & Recommendation

ConocoPhillips is an upstream pure play, which means that its results are highly dependent on the price of oil. During an oil price crash its profits get devastated, but during times of oil price increases ConocoPhillips can generate outsized earnings growth. ConocoPhillips thus is a more risky investment compared to many other stocks. Its results during Q1-Q3 of 2018 were compelling, and the company will likely continue to grow its earnings-per-share at a solid pace. Its dividend yield is not overly high, but total returns will likely be solid. We rate ConocoPhillips a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	240842	149341	56215	64196	57967	54413	52524	29564	23693	29106
Gross Profit	51349	27274	17130	21146	19362	17098	13187	1009	-1030	4613
Gross Margin	21.3%	18.3%	30.5%	32.9%	33.4%	31.4%	25.1%	3.4%	-4.3%	15.8%
SG&A Exp.	2229	1830	809	865	1106	854	735	953	723	561
Op. Profit	26682	8442	12045	14916	13122	11955	8118	-5440	-4634	2360
Op. Margin	11.1%	5.7%	21.4%	23.2%	22.6%	22.0%	15.5%	-18.4%	-19.6%	8.1%
Net Profit	-16349	4414	11358	12436	8428	9156	6869	-4428	-3615	-855
Net Margin	-6.8%	3.0%	20.2%	19.4%	14.5%	16.8%	13.1%	-15.0%	-15.3%	-2.9%
FCF	3559	1618	9510	8432	-250	604	-516	-2478	-466	2486
Income Tax	13419	5090	7570	8208	7942	6409	3583	-2868	-1971	-1822

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	142.87	152.14	156.31	153.23	117.14	118.06	116.54	97.48	89.77	73.36
Cash & Equivalents	755	542	9454	5780	3618	6246	5062	2368	3610	6325
Acc. Receivable	11995	13215	13787	16526	9182	8487	6807	4514	3414	4320
Inventories	5095	4940	5197	4631	965	1194	1331	1124	1018	1060
Goodwill & Int.	4624	4461	4434	4077	N/A	N/A	N/A	N/A	N/A	N/A
Total Liabilities	86600	89525	87205	87481	68717	65565	64266	57402	54546	42561
Accounts Payable	13990	15485	18399	19653	10013	9314	8026	4933	3653	4030
Long-Term Debt	27455	28653	23592	22623	21725	21662	22565	24880	27275	19703
Total Equity	55165	62023	68562	65239	47987	52090	51911	39762	34974	30607
D/E Ratio	0.50	0.46	0.34	0.35	0.45	0.42	0.43	0.63	0.78	0.64

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-10%	3.0%	7.4%	8.0%	6.2%	7.8%	5.9%	-4.1%	-3.9%	-1.0%
Return on Equity	-23%	7.5%	17.4%	18.6%	14.9%	18.3%	13.2%	-9.7%	-9.7%	-2.6%
ROIC	-17%	5.0%	12.3%	13.7%	10.6%	12.7%	9.2%	-6.3%	-5.7%	-1.5%
Shares Out.	1480	1490	1430	1290	1220	1230	1230	1240	1240	1180
Revenue/Share	158.1	99.72	37.70	46.28	46.26	43.89	42.16	23.81	19.02	23.84
FCF/Share	2.34	1.08	6.38	6.08	-0.20	0.49	-0.41	-2.00	-0.37	2.04

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.