ConocoPhillips (COP)

Updated February 3rd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	71.8%
Fair Value Price:	$69	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	89.4%
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Growth Percentile:**	73.7%
Dividend Yield:	1.8%	**5 Year Price Target**	$101	**Valuation Percentile:**	46.1%
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Total Return Percentile:**	50.9%

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 $78 billion. The company was founded in 2002 and is headquartered in Houston, Texas.

ConocoPhillips reported its fourth quarter and full year earnings results on January 31. The company generated revenues of $10.36 billion during the fourth quarter, which was 18.5% more than the company's revenues during the previous year's quarter. This strong revenue growth was based on several factors. One of these was an increase in ConocoPhillips' production volumes, as production averaged 1313 million barrels of oil equivalent per day, an increase of 8% compared to the fourth quarter of 2017. Management explains that the production growth was primarily due to the big 3 unconventional/shale plays, as well as due to new developments in Alaska and Europe. Higher exports from the Kebahangan gas field in Malaysia had an impact as well. ConocoPhillips also benefited from higher realized prices, which added a couple of percentage points to the company's top line growth.

ConocoPhillips generated earnings-per-share of $1.13 during the fourth quarter, which beat analyst estimates, and which represents a massive 150% increase versus the prior year's fourth quarter earnings-per-share of $0.45.

ConocoPhillips has generated operating cash flows of $12.3 billion during fiscal 2018. Free cash flows totaled $5.5 billion.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.24	$5.92	$8.76	$5.91	$6.43	$4.96	-$1.39	-$2.52	$0.61	$4.54	***$4.60***	***$6.76***
DPS	$1.91	$2.15	$2.64	$2.64	$2.70	$2.84	$2.94	$1.00	$1.06	$1.16	***$1.24***	***$1.70***
Shares	1490	1430	1290	1220	1230	1230	1240	1240	1180	1140	***1110***	***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. The company's results during 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 on the back of new projects and higher shale oil production levels.

Oil prices got under pressure during the fourth quarter, but have stabilized in early 2019. There is no major reason for a steep decline in the price of oil. Investors can thus 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. We believe it is reasonable to expect the company to grow its earnings-per-share at a high-single digits pace going forward.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.0	9.4	8.2	9.5	10.1	15.0	N/A	N/A	N/A	13.7	***14.8***	***15.0***
Avg. Yld.	4.2%	3.9%	3.7%	4.7%	4.2%	3.8%	5.1%	2.4%	2.2%	1.9%	***1.8%***	***1.7%***

ConocoPhillips trades at roughly 15 times our estimate for 2019's net profits right now. This valuation is in line with our fair value estimate. ConocoPhillips' net profits have been very volatile in the past. In some year the company was not profitable at all, which explains the wide swings in ConocoPhillips' valuation. The below-average dividend yield makes ConocoPhillips relatively unsuitable for income-oriented investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	59.0%	36.3%	30.1%	44.7%	42.0%	57.3%	N/A	N/A	174%	25.6%	***27.0%***	***25.1%***

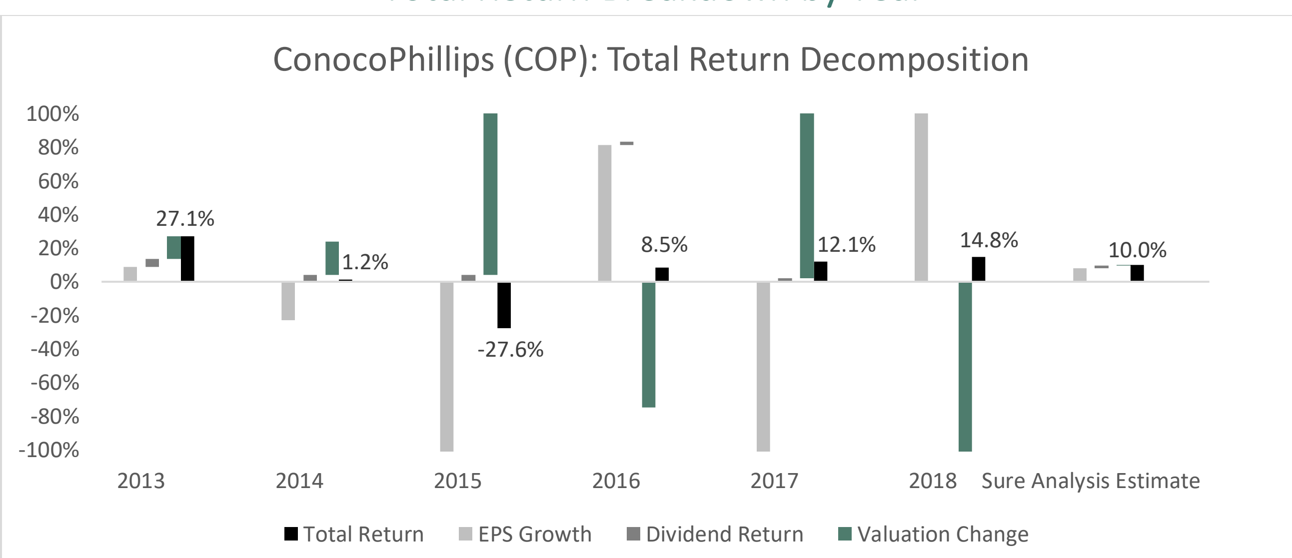
ConocoPhillips was a widely-held income stock before the oil price crash a couple of years ago, but the decline in the company's earnings and cash flows forced the company to cut its dividend. This unconvincing history, coupled with the cyclicality of ConocoPhillips' business, makes us believe that the company is not a safe income stock.

ConocoPhillips has made questionable investments in the past, 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. 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 oil and gas pure play that is highly leveraged to the price of oil. This allows for strong earnings growth during good times, such as Q4's earnings-per-share increase of 150% year over year. On the other hand, ConocoPhillips performs poorly when oil prices decline, which makes ConocoPhillips a cyclical stock. We believe that shares are fairly valued, which is why ConocoPhillips earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	149341	56215	64196	57967	54413	52524	29564	23693	29106	36417
Gross Profit	27274	17130	21146	19362	17098	13187	1009	-1030	4613	10954
Gross Margin	18.3%	30.5%	32.9%	33.4%	31.4%	25.1%	3.4%	-4.3%	15.8%	30.1%
SG&A Exp.	1830	809	865	1106	854	735	953	723	561	401
Operating Profit	8442	12045	14916	13122	11955	8118	-5440	-4634	2360	8956
Op. Margin	5.7%	21.4%	23.2%	22.6%	22.0%	15.5%	-18.4%	-19.6%	8.1%	24.6%
Net Profit	4414	11358	12436	8428	9156	6869	-4428	-3615	-855	6257
Net Margin	3.0%	20.2%	19.4%	14.5%	16.8%	13.1%	-15.0%	-15.3%	-2.9%	17.2%
Free Cash Flow	1618	9510	8432	-250	604	-516	-2478	-466	2486	6184
Income Tax	5090	7570	8208	7942	6409	3583	-2868	-1971	-1822	3668

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	152.14	156.31	153.23	117.14	118.06	116.54	97.48	89.77	73.36	69.98
Cash & Equivalents	542	9454	5780	3618	6246	5062	2368	3610	6325	5915
Acc. Receivable	13215	13787	16526	9182	8487	6807	4514	3414	4320	4067
Inventories	4940	5197	4631	965	1194	1331	1124	1018	1060	1007
Goodwill & Int.	4461	4434	4077	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Liabilities	89525	87205	87481	68717	65565	64266	57402	54546	42561	37916
Accounts Payable	15485	18399	19653	10013	9314	8026	4933	3653	4030	3895
Long-Term Debt	28653	23592	22623	21725	21662	22565	24880	27275	19703	14968
Total Equity	62023	68562	65239	47987	52090	51911	39762	34974	30607	31939
D/E Ratio	0.46	0.34	0.35	0.45	0.42	0.43	0.63	0.78	0.64	0.47

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.0%	7.4%	8.0%	6.2%	7.8%	5.9%	-4.1%	-3.9%	-1.0%	8.7%
Return on Equity	7.5%	17.4%	18.6%	14.9%	18.3%	13.2%	-9.7%	-9.7%	-2.6%	20.0%
ROIC	5.0%	12.3%	13.7%	10.6%	12.7%	9.2%	-6.3%	-5.7%	-1.5%	12.8%
Shares Out.	1490	1430	1290	1220	1230	1230	1240	1240	1180	1140
Revenue/Share	99.72	37.70	46.28	46.26	43.89	42.16	23.81	19.02	23.84	30.98
FCF/Share	1.08	6.38	6.08	-0.20	0.49	-0.41	-2.00	-0.37	2.04	5.26

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