



Phillips 66 (PSX)

Updated May 6th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	11.4%	Market Cap:	\$32.8 B
Fair Value Price:	\$84	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	5/15/2020 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	6/1/2020
Dividend Yield:	4.8%	5 Year Price Target	\$108	Years Of Dividend Growth:	8
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	12.5%

Overview & Current Events

Phillips 66 was spun off from ConocoPhillips in 2012. Phillips 66 has a market capitalization of \$32.8 billion and operates in four segments: refining, midstream, chemicals, and marketing. It is a diversified company with each of its segments behaving differently under various oil prices. When oil prices collapsed in 2014, the refining segment became by far the most profitable segment, as low oil prices improved demand for oil products and boosted refining margins. In 2019, the refining segment generated 48% of the total earnings of Phillips 66.

In early May, Phillips 66 reported (5/1/20) financial results for the first quarter of fiscal 2020. The company posted a loss of -\$2.5 billion or -\$5.66 per share due to asset impairments of -\$2.9 billion, which resulted from the collapse of the oil price to 18-year lows amid a collapse in the demand for oil products. Excluding asset impairments, Phillips 66 posted adjusted earnings-per-share of \$1.02, which decreased -35% sequentially. The drop was caused by a -25% decrease in realized refining margins and a decline in refinery utilization from 97% to 82% due to depressed demand for oil products. These factors led the refining segment to switch from a pre-tax profit of \$345 million in the previous quarter to a pre-tax loss of -\$401 million. The energy market is going through one of the fiercest downturns in its history due to the pandemic and Phillips 66 will greatly be affected. We expect the company to earn only \$2.50 per share this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	\$6.48	\$5.92	\$7.10	\$7.73	\$2.92	\$4.58	\$11.85	\$8.05	\$2.50	\$8.97
DPS	---	---	\$0.45	\$1.33	\$1.89	\$2.18	\$2.45	\$2.73	\$3.10	\$3.50	\$3.60	\$4.59
Shares²	---	---	637	619	571	547	530	519	464	441	442	400

Growth projects in the oil industry take many years to start bearing fruit and hence there is a great lag between capital expenses and their resultant cash flows. Fortunately for the shareholders of Phillips 66, the company is currently in the positive phase of its cycle. While it has greatly reduced its capital expenses in recent years, it has begun to reap the benefits from its huge investments in 2014 and 2015, when it invested a total of \$9.5 billion. In addition, management is well known for its discipline to invest only in high-return projects.

The pandemic will greatly affect the results of Phillips 66 this year but we expect the company to recover from next year, along with the energy market. In order to calculate its future returns, we have used its mid-cycle (5-year average) earnings-per-share of \$7.03 as a base. As soon as the pandemic subsides, Phillips 66 will greatly benefit from the new international marine standard (IMO 2020), which has forced vessels sailing in international waters to burn low-sulfur diesel instead of heavy fuel oil since January 1st, 2020. Diesel is much more expensive than fuel oil and hence refiners will enjoy a boost in their earnings. Phillips 66 also has many ongoing growth projects in its midstream segment. Moreover, while Phillips 66 has suspended share repurchases due to the pandemic, it will resume them when the

¹ Estimated date.

² In millions.

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.



Phillips 66 (PSX)

Updated May 6th, 2020 by Aristofanis Papadatos

economy recovers. Overall, we expect Phillips 66 to grow its earnings-per-share by 5.0% per year on average over the next five years off its mid-cycle level.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	6.4	10.5	11.1	10.3	27.7	18.5	8.9	12.4	10.7	12.0
Avg. Yld.	---	---	1.1%	2.1%	2.4%	2.7%	3.0%	3.2%	2.9%	3.5%	4.8%	4.3%

Phillips 66 is now trading at 10.7 times its mid-cycle earnings. This valuation level is lower than its 10-year average of 13.2. In order to be conservative, we assume a fair earnings multiple of 12.0 for this stock. If the stock approaches our fair value estimate within the next five years, it will enjoy a 2.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

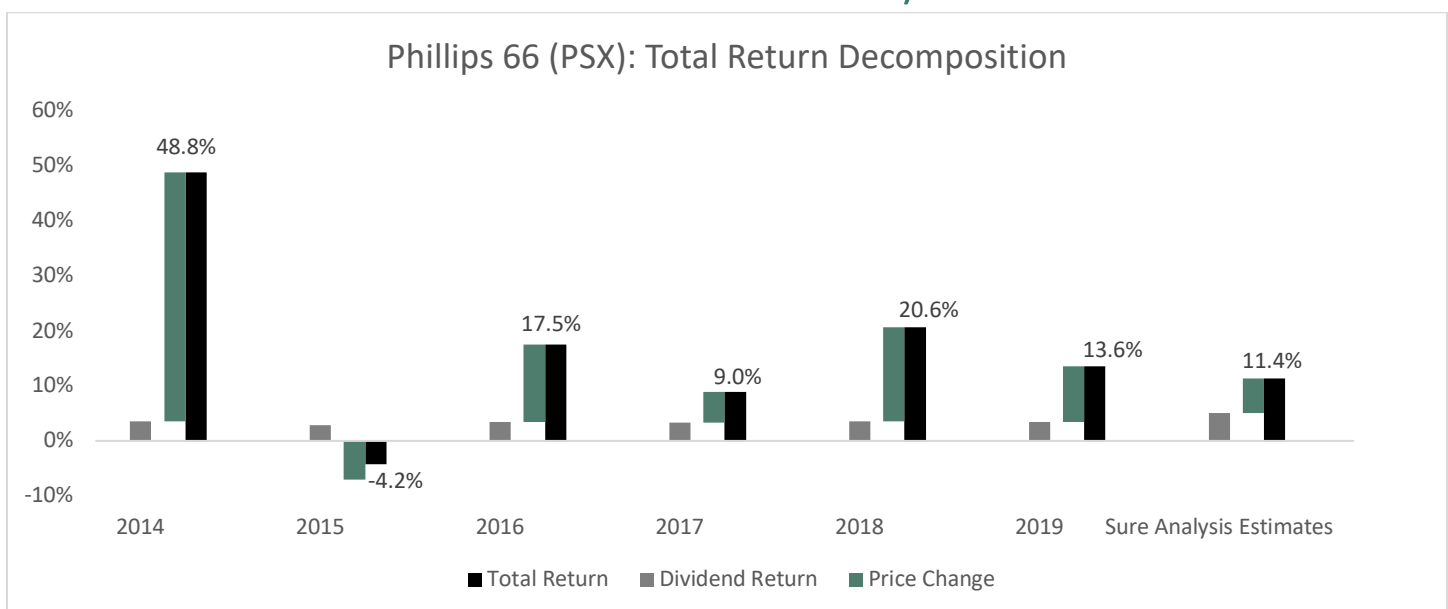
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	6.9%	22.5%	26.6%	28.2%	83.9%	59.6%	26.2%	43.5%	51.2%	51.2%

Phillips 66 has a significant competitive advantage, namely the discipline of its management to invest only in high-return projects. However, despite its diversified business, the company is cyclical, just like most oil companies. In the recent downturn of the oil sector, between mid-2014 and 2017, low oil prices resulted in high refining margins thanks to healthy underlying economic growth. However, in the Great Recession, the price of oil products plunged along with the price of oil and resulted in low refining margins. The current downturn is much fiercer than the recent downturn and hence it will greatly affect the results of Phillips 66, at least this year.

Final Thoughts & Recommendation

Phillips 66 is a well-managed company, which is properly positioned for most scenarios of oil prices, but it is now facing a severe downturn due to the coronavirus. The stock has nearly doubled off its recent low, but it is still -38% off its 52-week high. As we expect Phillips 66 to recover next year, we expect it to offer an 11.4% average annual return over the next five years. We thus rate it as a buy, though investors could wait for a better valuation after the rally since March.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Phillips 66 (PSX)

Updated May 6th, 2020 by Aristofanis Papadatos

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	146.6	195.9	179.3	171.6	161.2	99.0	84.3	102.4	111.4	107.3
Gross Profit	21,469	23,163	24,877	23,351	25,464	25,576	21,811	22,945	13,531	11,764
Gross Margin	14.6%	11.8%	13.9%	13.6%	15.8%	25.8%	25.9%	22.4%	12.1%	11.0%
SG&A Exp.	1,384	1,394	1,703	1,478	1,663	1,670	1,638	1,695	1,677	1,681
D&A Exp.	880	902	906	947	995	1,078	1,168	1,318	1,356	1,341
Operating Profit	1,078	2,521	4,612	2,666	3,430	4,548	1,098	1,838	5,209	3,335
Op. Margin	0.7%	1.3%	2.6%	1.6%	2.1%	4.6%	1.3%	1.8%	4.7%	3.1%
Net Profit	735	4,775	4,124	3,726	4,762	4,227	1,555	5,106	5,595	3,076
Net Margin	0.5%	2.4%	2.3%	2.2%	3.0%	4.3%	1.8%	5.0%	5.0%	2.9%
Free Cash Flow	942	3,990	2,595	4,248	(244)	(51)	119	1,816	4,934	935
Income Tax	579	1,822	2,473	1,844	1,654	1,764	547	(1,693)	1,572	801

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	44,955	43,211	48,073	49,798	48,692	48,580	51,653	54,371	54,302	58,720
Cash & Equivalents	-	-	3,474	5,400	5,207	3,074	2,711	3,119	3,019	1,614
Acc. Receivable	8,364	10,025	10,403	9,632	7,255	5,173	6,397	7,506	6,173	8,510
Inventories	4,113	3,466	3,430	3,354	3,397	3,477	3,150	3,395	3,543	3,776
Goodwill & Int.	4,410	4,064	4,068	3,794	4,174	4,181	4,158	4,146	4,139	4,139
Total Liabilities	18,929	19,918	27,267	27,406	26,655	24,642	27,928	26,943	27,149	31,551
Accounts Payable	9,814	10,792	10,710	11,090	8,064	5,655	7,061	8,027	6,586	8,575
Long-Term Debt	417	391	6,974	6,155	8,635	8,887	10,138	10,110	11,160	11,763
Total Equity	26,001	23,264	20,775	21,950	21,590	23,100	22,390	25,085	24,653	24,910
D/E Ratio	0.02	0.02	0.34	0.28	0.40	0.38	0.45	0.40	0.45	0.47

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.7%	10.8%	9.0%	7.6%	9.7%	8.7%	3.1%	9.6%	10.3%	5.4%
Return on Equity	2.8%	19.4%	18.7%	17.4%	21.9%	18.9%	6.8%	21.5%	22.5%	12.4%
ROIC	2.7%	19.1%	16.0%	13.2%	16.1%	13.3%	4.7%	14.3%	14.8%	8.0%
Shares Out.	---	---	637	619	571	547	530	519	464	441
Revenue/Share	229.00	306.14	281.56	277.22	282.08	180.95	159.00	197.40	235.13	236.39
FCF/Share	1.47	6.23	4.08	6.86	(0.43)	(0.09)	0.22	3.50	10.41	2.06

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.