ConocoPhillips (COP)

Updated November 4th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$73	**5 Year CAGR Estimate:**	4.6%	**Market Cap:**	$96.3 B
Fair Value Price:	$74	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	10/27/2021
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	12/1/2021
Dividend Yield:	2.5%	**5 Year Price Target**	$81	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	7.0%

Overview & Current Events

ConocoPhillips is the world's largest independent oil and gas producer, with a production of 1.5 million barrels per day and a market capitalization of $96.3 billion. The company was founded in 2002 and is headquartered in Houston, Texas.

On January 15th, 2021, ConocoPhillips closed the acquisition of Concho Resources for $9.7 billion in an all-stock deal. This was the largest shale oil deal in 2020 and has boosted the output of the new company to 1.5 million barrels per day. ConocoPhillips pursued this deal thanks to the low production cost of Concho and the high rate of return of this deal.

On September 21st, 2021, ConocoPhillips announced its agreement to buy Shell's Permian Basin assets for $9.5 billion in cash. The deal will increase the Permian output of ConocoPhillips by 40% and will result in great synergies, as the company will become the second-largest producer in the Permian, behind only Pioneer Natural Resources (PXD).

In early November, ConocoPhillips reported (11/2/21) financial results for the third quarter of fiscal 2021. As ConocoPhillips is a pure upstream company, it greatly benefited from the rally of the oil price, which resulted from the recovery from the pandemic and the tight supply from OPEC and Russia. The average realized oil price nearly doubled over last year's quarter, from $31 to $57, and thus the company switched from an adjusted loss per share of -$0.31 to an adjusted profit per share of $1.77. Management raised the dividend by 7%. As the company is extremely sensitive to the price of oil, we have raised our earnings-per-share forecast for the full year from $4.20 to $5.80.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$8.76	$5.91	$6.43	$4.96	-$1.39	-$2.52	$0.61	$4.54	$3.59	-$0.97	***$5.80***	***$6.40***
DPS	$2.64	$2.64	$2.70	$2.84	$2.94	$1.00	$1.06	$1.16	$1.33	$1.69	***$1.84***	***$2.14***
Shares[1]	1290	1220	1230	1230	1240	1240	1180	1140	1100	1074	***1335***	***1200***

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 fell -60% from its peak. However, the company seems to have learned its lesson. It has focused on high grading its asset portfolio with the addition of low-cost barrels in order to achieve positive free cash flows even at oil prices below $40.

The company grew its production in recent years but its production fell -8% in 2020 due to the pandemic and the natural decline of its fields. In addition, it posted an organic reserve replacement ratio of only 65% in 2020. Moreover, only $0.4 billion of its $5.5 billion capital expense program will be allocated to growth projects this year.

Nevertheless, the energy market and the company have begun to recover this year. Moreover, cost-cutting efforts during the oil price slump and the purchases of low-cost reserves in the Permian have enhanced the efficiency of ConocoPhillips. It is also worth noting that ConocoPhillips has reduced its net debt by -51%, from $52.7 billion in 2014 to $25.8 billion. As a result, interest expense has fallen -35% in the last four years. We expect a further decrease in interest expense to support earnings. On the other hand, due to the high comparison base formed this year, we expect just 2.0% average annual earnings-per-share growth from ConocoPhillips over the next five years.

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[1] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.2	9.5	10.1	15.0	---	---	---	13.7	17.1	---	***12.6***	***12.7***
Avg. Yld.	3.7%	4.7%	4.2%	3.8%	5.1%	2.4%	2.2%	1.9%	2.2%	4.1%	***2.5%***	***2.6%***

ConocoPhillips is currently trading at a price-to-earnings ratio of 12.6. We have assumed a fair price-to-earnings ratio of 12.7 for 2026, which is the average earnings multiple over the last decade. If this turns out to be correct, the stock will enjoy a marginal 0.2% annualized valuation gain in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30.1%	44.7%	42.0%	57.3%	---	---	174%	25.6%	37.0%	---	***31.7%***	***33.5%***

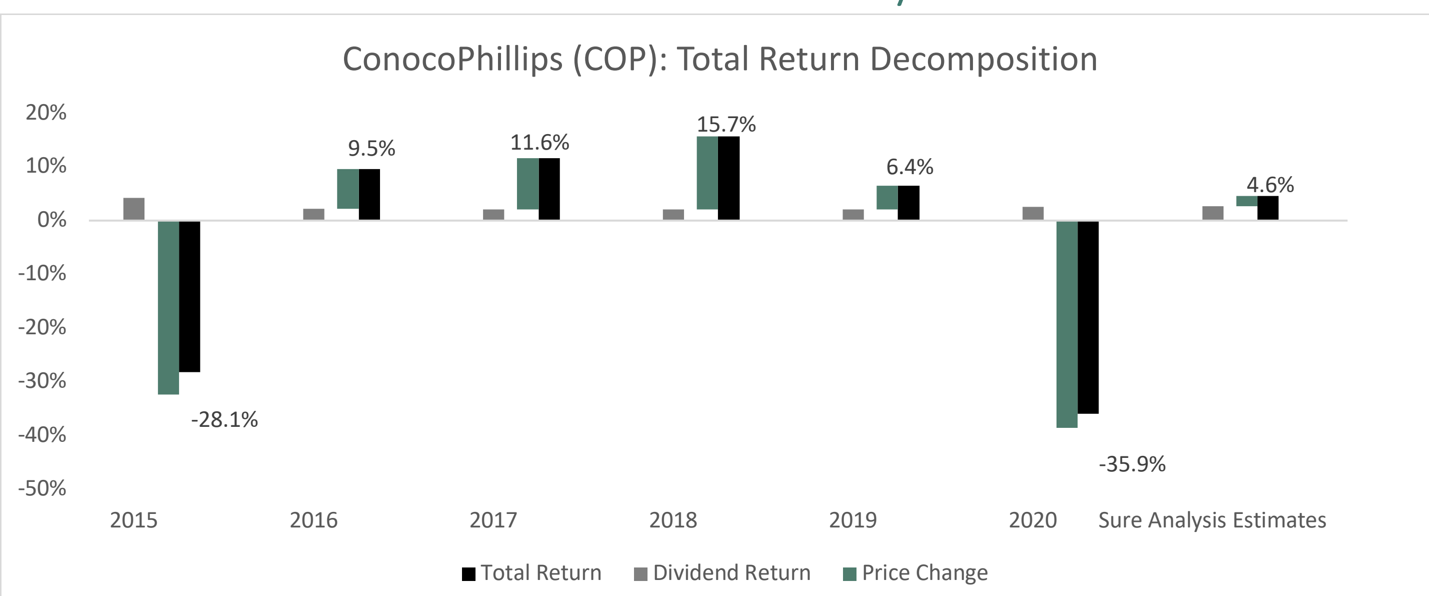
Since ConocoPhillips is a pure upstream company, it is much more leveraged to the price of oil than the well-known supermajors like Exxon Mobil and Chevron. Those companies remained profitable in the previous downturn of the energy sector (2014-2017) and avoided cutting their dividends. On the contrary, ConocoPhillips incurred heavy losses in 2015-2016 and cut its dividend by -66% in 2016. This unconvincing history, coupled with the high 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 become much more disciplined, investing only in high-return projects. Nevertheless, investors should be aware of the sensitivity of ConocoPhillips to the price of oil. During the last financial crisis, earnings-per-share plunged -70%.

Final Thoughts & Recommendation

ConocoPhillips is an oil and gas pure upstream play that is highly leveraged to the price of oil. Thanks to the aggressive production cuts of OPEC and Russia and a recovery from the pandemic, ConocoPhillips has recovered strongly this year. However, the stock has more than doubled in the last 12 months and hence it could offer just a 4.6% average annual return over the next five years. It thus earns a hold rating.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	64196	57967	54413	52524	29564	23693	29106	36417	32567	18,784
Gross Profit	21146	19362	17098	13187	1009	-1030	4613	10954	9313	841
Gross Margin	32.9%	33.4%	31.4%	25.1%	3.4%	-4.3%	15.8%	30.1%	28.6%	4.5%
SG&A Exp.	865	1106	854	735	953	723	561	401	556	430
Operating Profit	15,338	13,516	12,389	8,602	(4,957)	(3,932)	2,871	9,649	7,604	(1,800)
Op. Margin	23.9%	23.3%	22.8%	16.4%	-16.8%	-16.6%	9.9%	26.5%	23.3%	-9.6%
Net Profit	12,436	8,428	9,156	6,869	(4,428)	(3,615)	(855)	6,257	7,189	(2,701)
Net Margin	19.4%	14.5%	16.8%	13.1%	-15.0%	-15.3%	-2.9%	17.2%	22.1%	-14.4%
Free Cash Flow	8,432	(250)	604	(516)	(2,478)	(466)	2,486	6,184	4,468	87
Income Tax	8,208	7,942	6,409	3,583	(2,868)	(1,971)	(1,822)	3,668	2,267	(485)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	153.23	117.14	118.06	116.54	97.48	89.77	73.36	69.98	70.51	62.62
Cash & Equivalents	5780	3618	6246	5062	2368	3610	6325	5915	5088	2,991
Acc. Receivable	16526	9182	8487	6807	4514	3414	4320	4067	3401	2,754
Inventories	4631	965	1194	1331	1124	1018	1060	1007	1026	1,002
Goodwill & Int.	4077	---	---	---	---	---	---	---	---	---
Total Liabilities	87481	68717	65565	64266	57402	54546	42561	37916	35,464	32,769
Accounts Payable	19653	10013	9314	8026	4933	3653	4030	3895	3,200	2,698
Long-Term Debt	22623	21725	21662	22565	24880	27275	19703	14968	14,895	15,369
Total Equity	65239	47987	52090	51911	39762	34974	30607	31939	34,981	29,849
D/E Ratio	0.35	0.45	0.42	0.43	0.63	0.78	0.64	0.47	0.43	0.51

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.0%	6.2%	7.8%	5.9%	-4.1%	-3.9%	-1.0%	8.7%	10.2%	-4.1%
Return on Equity	18.6%	14.9%	18.3%	13.2%	-9.7%	-9.7%	-2.6%	20.0%	21.5%	-8.3%
ROIC	13.7%	10.6%	12.7%	9.2%	-6.3%	-5.7%	-1.5%	12.8%	14.8%	-5.7%
Shares Out.	1290	1220	1230	1230	1240	1240	1180	1140	1100	1074
Revenue/Share	46.28	46.26	43.89	42.16	23.81	19.02	23.84	30.98	28.99	17.42
FCF/Share	6.08	-0.20	0.49	-0.41	-2.00	-0.37	2.04	5.26	3.98	0.08

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