# ConocoPhillips (COP)

*Updated August 14th, 2023 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $118 | **5 Year CAGR Estimate:** | -3.0% | **Market Cap:** | $141 B |
| **Fair Value Price:** | $116 | **5 Year Growth Estimate:** | -5.0% | **Ex-Dividend Date:** | 8/15/2023 |
| **% Fair Value:** | 102% | **5 Year Valuation Multiple Estimate:** | -0.4% | **Dividend Payment Date:** | 9/1/2023 |
| **Dividend Yield:** | 1.7% | **5 Year Price Target** | $90 | **Years Of Dividend Growth:** | 6 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | D | **Rating:** | Sell |

## Overview & Current Events

ConocoPhillips is the world's largest independent oil and gas producer, with a production of 1.8 million barrels per day, operations in 13 countries and a market capitalization of $141 billion. The company was founded in 2002 and is headquartered in Houston, Texas.

On January 15th, 2021, ConocoPhillips acquired Concho Resources for $9.7 billion in an all-stock deal. This was the largest shale oil deal in 2020. 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 has increased the Permian output of ConocoPhillips by 40% and has resulted in great synergies, as the company has become the second-largest producer in the Permian, behind only Pioneer Natural Resources (PXD).

In early August, ConocoPhillips reported (8/3/23) financial results for the second quarter of fiscal 2023. As ConocoPhillips is a pure upstream company that does not hedge its output, it was hurt by the correction of the price of oil over the prior year's quarter. The company grew its output 7% thanks to the aforementioned acquisitions, to a new all-time high, but its average realized oil price dipped -38% over the prior year's quarter. As a result, earnings-per-share decreased -53%, from an all-time high of $3.91 to $1.84. On the bright side, ConocoPhillips raised its guidance for its annual production from 1.78-1.80 to 1.80-1.81 million barrels per day. On the other hand, due to the cyclical nature of the oil industry, we reiterate our expectations for lower oil prices in the upcoming years.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $6.43 | $4.96 | -$1.39 | -$2.52 | $0.61 | $4.54 | $3.59 | -$0.97 | $6.01 | $13.52 | ***$9.50*** | ***$7.35*** |
| **DPS** | $2.70 | $2.84 | $2.94 | $1.00 | $1.06 | $1.16 | $1.33 | $1.69 | $1.75 | $1.89 | ***$2.04*** | ***$2.48*** |
| **Shares[1]** | 1230 | 1230 | 1240 | 1240 | 1180 | 1140 | 1100 | 1074 | 1321 | 1260 | ***1200*** | ***1150*** |

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. In addition, its reserve replacement ratio of 176% (excluding acquisitions) in 2022 bodes well for future production growth.

The company is thriving right now thanks to above average oil prices. Moreover, the huge acquisitions of low-cost reserves in the Permian have proved highly profitable. We also expect a decrease in interest expense to continue to support earnings growth. On the other hand, we expect the price of oil to deflate in the upcoming years, partly due to the record number of renewable energy projects that are being developed in response to the energy crisis. Investors should never forget the dramatic cyclicality of the oil industry. Due to the high comparison base formed this year, we expect earnings-per-share to decline -5% per year on average over the next five years.

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[1] 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.*

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## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 10.1 | 15.0 | --- | --- | --- | 13.7 | 17.1 | --- | 9.8 | 7.6 | ***12.4*** | ***12.2*** |
| **Avg. Yld.** | 4.2% | 3.8% | 5.1% | 2.4% | 2.2% | 1.9% | 2.2% | 4.1% | 3.0% | 1.9% | ***1.7%*** | ***2.8%*** |

ConocoPhillips is currently trading at a price-to-earnings ratio of 12.4. We have assumed a fair price-to-earnings ratio of 12.2 for 2028, which is the average earnings multiple over the last decade. If this turns out to be correct, the stock will incur a -0.4% annualized valuation drag in its returns over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 42.0% | 57.3% | --- | --- | 174% | 25.6% | 37.0% | --- | 29.1% | 14.0% | ***21.5%*** | ***33.8%*** |

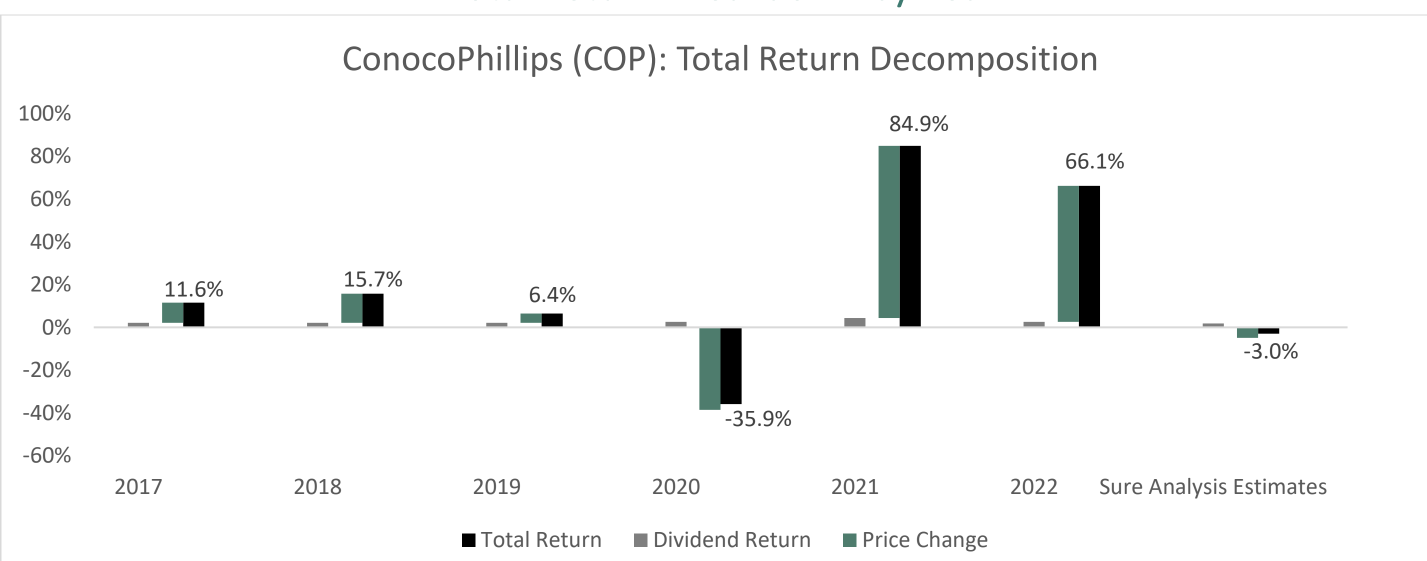
Since ConocoPhillips is a pure upstream company, it is much more leveraged to the price of oil than the well-known supermajors like Exxon Mobil and Chevron. Those companies remained profitable in the previous downturn of the energy sector (2014-2017) and avoided cutting their dividends. On the contrary, 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 tight global oil supply, ConocoPhillips is thriving right now. However, we expect the oil price to deflate in the upcoming years and the stock to offer a -3.0% average annual return over the next five years, as its 1.7% dividend may be offset by a -0.4% annualized valuation drag and a -5% annual decline of earnings-per-share. The stock remains unattractive from a long-term point of view and thus it maintains its sell rating.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 54413 | 52524 | 29564 | 23693 | 29106 | 36417 | 32567 | 18,784 | 45,828 | 78,494 |
| **Gross Profit** | 17098 | 13187 | 1009 | -1030 | 4613 | 10954 | 9313 | 841 | 14,768 | 30,013 |
| **Gross Margin** | 31.4% | 25.1% | 3.4% | -4.3% | 15.8% | 30.1% | 28.6% | 4.5% | 32.2% | 38.2% |
| **SG&A Exp.** | 854 | 735 | 953 | 723 | 561 | 401 | 556 | 430 | 719 | 623 |
| **Operating Profit** | 12,389 | 8,602 | (4,957) | (3,932) | 2,871 | 9,649 | 7,604 | (1,554) | 12,071 | 25,462 |
| **Op. Margin** | 22.8% | 16.4% | -16.8% | -16.6% | 9.9% | 26.5% | 23.3% | -8.3% | 26.3% | 32.4% |
| **Net Profit** | 9,156 | 6,869 | (4,428) | (3,615) | (855) | 6,257 | 7,189 | (2,701) | 8,079 | 18,680 |
| **Net Margin** | 16.8% | 13.1% | -15.0% | -15.3% | -2.9% | 17.2% | 22.1% | -14.4% | 17.6% | 23.8% |
| **Free Cash Flow** | 604 | (516) | (2,478) | (466) | 2,486 | 6,184 | 4,468 | 87 | 11,672 | 18,155 |
| **Income Tax** | 6,409 | 3,583 | (2,868) | (1,971) | (1,822) | 3,668 | 2,267 | (485) | 4,633 | 9,548 |

## Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets ($B)** | 118.06 | 116.54 | 97.48 | 89.77 | 73.36 | 69.98 | 70.51 | 62.62 | 90.66 | 93,829 |
| **Cash & Equivalents** | 6246 | 5062 | 2368 | 3610 | 6325 | 5915 | 5088 | 2,991 | 5,028 | 6,458 |
| **Acc. Receivable** | 8487 | 6807 | 4514 | 3414 | 4320 | 4067 | 3401 | 2,754 | 6,670 | 7,088 |
| **Inventories** | 1194 | 1331 | 1124 | 1018 | 1060 | 1007 | 1026 | 1,002 | 1,208 | 1,219 |
| **Goodwill & Int.** | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Total Liabilities** | 65565 | 64266 | 57402 | 54546 | 42561 | 37916 | 35,464 | 32,769 | 45,255 | 45,826 |
| **Accounts Payable** | 9314 | 8026 | 4933 | 3653 | 4030 | 3895 | 3,200 | 2,698 | 5,025 | 6,163 |
| **Long-Term Debt** | 21662 | 22565 | 24880 | 27275 | 19703 | 14968 | 14,895 | 15,369 | 19,934 | 16,643 |
| **Total Equity** | 52090 | 51911 | 39762 | 34974 | 30607 | 31939 | 34,981 | 29,849 | 45,406 | 48,003 |
| **LTD/E Ratio** | 0.42 | 0.43 | 0.63 | 0.78 | 0.64 | 0.47 | 0.43 | 0.51 | 0.44 | 0.35 |

## Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 7.8% | 5.9% | -4.1% | -3.9% | -1.0% | 8.7% | 10.2% | -4.1% | 10.5% | 20.3% |
| **Return on Equity** | 18.3% | 13.2% | -9.7% | -9.7% | -2.6% | 20.0% | 21.5% | -8.3% | 21.5% | 40.0% |
| **ROIC** | 12.7% | 9.2% | -6.3% | -5.7% | -1.5% | 12.8% | 14.8% | -5.7% | 14.6% | 28.7% |
| **Shares Out.** | 1230 | 1230 | 1240 | 1240 | 1180 | 1140 | 1100 | 1074 | 1321 | 1278 |
| **Revenue/Share** | 43.89 | 42.16 | 23.81 | 19.02 | 23.84 | 30.98 | 28.99 | 17.42 | 34.51 | 61.41 |
| **FCF/Share** | 0.49 | -0.41 | -2.00 | -0.37 | 2.04 | 5.26 | 3.98 | 0.08 | 8.79 | 14.20 |

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