ConocoPhillips (COP)

Updated November 6th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	-3.1%	**Market Cap:**	$142 B
Fair Value Price:	$116	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date:**	11/13/2023
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	12/1/2023
Dividend Yield:	1.9%	**5 Year Price Target**	$90	**Years Of Dividend Growth:**	7
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 $142 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 November, ConocoPhillips reported (11/2/23) financial results for the third 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 last year's quarter. The company grew its output 3% thanks to the aforementioned acquisitions, thus posting record output for a third quarter in a row. However, its average realized oil price dipped -28% over last year's quarter. As a result, earnings-per-share decreased -40%, from $3.60 to $2.16. On the bright side, ConocoPhillips raised its guidance for annual production from 1.80-1.81 to 1.82 million barrels per day and raised its dividend by 14%. 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	***$2.32***	***$2.82***
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.

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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	***12.6***	***12.2***
Avg. Yld.	4.2%	3.8%	5.1%	2.4%	2.2%	1.9%	2.2%	4.1%	3.0%	1.9%	***1.9%***	***3.1%***

ConocoPhillips is currently trading at a price-to-earnings ratio of 12.6. 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 -0.7% 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%	***24.4%***	***38.4%***

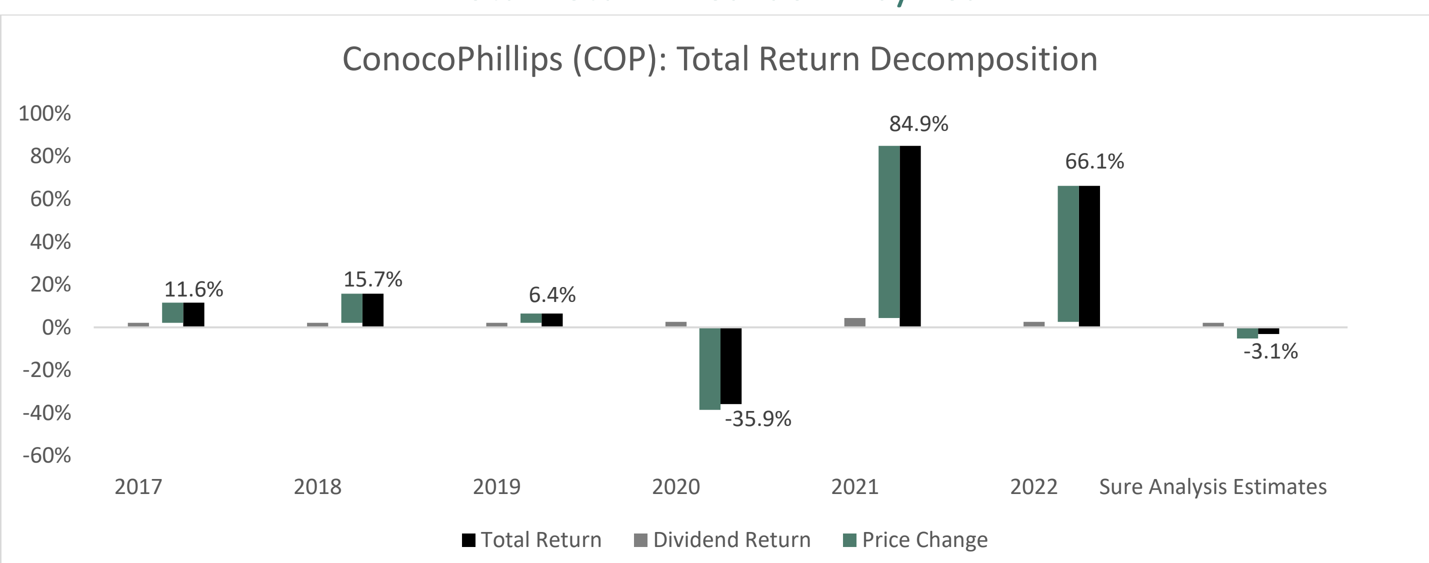
Since ConocoPhillips is a pure upstream company, it is much more leveraged to the price of oil than the well-known supermajors like Exxon Mobil and Chevron. Those companies remained profitable in the previous downturn of the energy sector (2014-2017) and avoided cutting their dividends. On the contrary, 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 -3.1% average annual return over the next five years, as its 1.9% dividend may be offset by a -0.7% 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.

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