

ConocoPhillips (COP)

\$65.46 (As of 01/02/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

Summary

ConocoPhillips' expectation for higher production costs and operating expenses are likely to hurt profits. The firm projects total production and operating expenses at \$5.4 billion in 2019, higher than \$5.2 billion for 2018. Notably, production and operating expenses rose to \$4,020 million in the first three quarters of 2019 from \$3,851 million in the comparable year-ago period. Also, exploration costs rose to \$592 million in the first nine months of 2019 from \$267 million recorded in the corresponding period last year. Moreover, ConocoPhillips expects production in fourth-quarter 2019 in the range of 1,265-1,305 MBoe/d, suggesting a reduction in sequential volumes from 1,366 MBoe/d. Also, since 2017, the company's cashflow declined significantly, reflecting considerable weakness in overall operations.

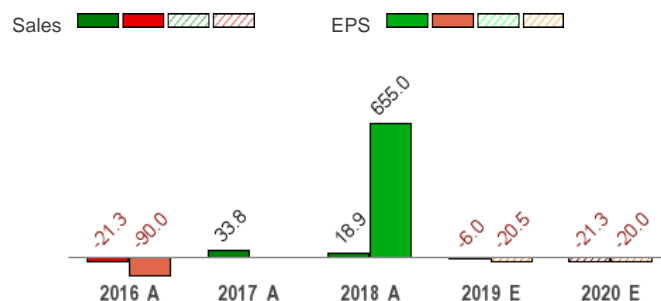
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.01 - \$50.13
20 Day Average Volume (sh)	4,995,412
Market Cap	\$71.8 B
YTD Price Change	0.7%
Beta	1.13
Dividend / Div Yld	\$1.68 / 2.6%
Industry	Oil and Gas - Integrated - United States
Zacks Industry Rank	Top 41% (104 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	43.0%
EPS F1 Est- 4 week change	-2.6%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	16.5
P/E F1	22.7
PEG F1	2.4
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	6,465 E	6,159 E	6,202 E	6,291 E	28,644 E
2019	10,057 A	8,380 A	10,093 A	6,871 E	36,412 E
2018	8,961 A	9,240 A	10,165 A	10,361 A	38,727 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.83 E	\$0.69 E	\$0.67 E	\$0.65 E	\$2.88 E
2019	\$1.00 A	\$1.01 A	\$0.82 A	\$0.77 E	\$3.60 E
2018	\$0.96 A	\$1.09 A	\$1.36 A	\$1.13 A	\$4.53 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

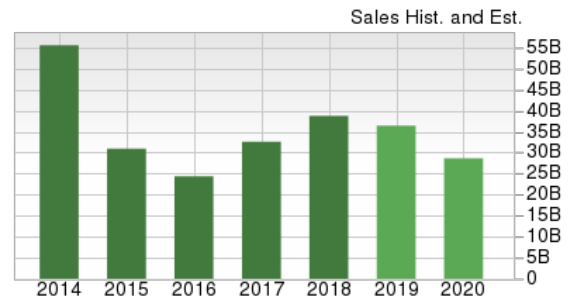
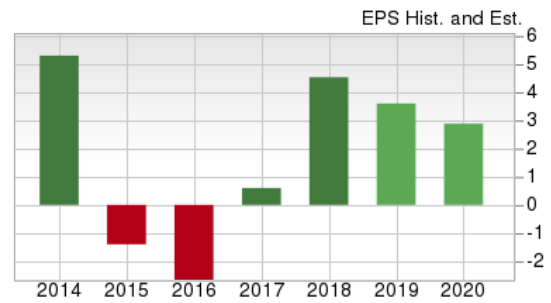
Overview

Headquartered in Houston, TX, ConocoPhillips is primarily involved in the exploration and production of oil and natural gas. Considering proved reserves and production, the company is the largest explorer and producer in the world. The company, founded in 1875, has strong presence across conventional and unconventional plays in 16 countries. ConocoPhillips' low risk and cost-effective operations spread across North America, Asia, Australia and Europe. Notably, the company successfully managed to increase low cost resource base by 7% through 2018, thereby driving its free cashflow. The upstream energy player also has foothold in Canada's oil sand resources and has exposure to developments related to liquefied natural gas (LNG).

By 2018-end, ConocoPhillips' proved oil and natural gas reserve was recorded at 5.3 billion barrels of oil equivalent (BOE). Through 2018, the upstream energy player produced 1,283 thousand BOE per day, comprising more than 51% oil.

ConocoPhillips is strongly dedicated to returning cash to shareholders through dividend payments and share buybacks. In 2018, the company hiked dividend by 15% and repurchased \$3 billion worth of shares. Last year, the company received approval from the board of directors to buy back an additional \$9 billion of common stock. On top of that, ConocoPhillips has a strong balance sheet by lowering debt burden of \$4.7 billion, almost 18 months ahead of plan.

In 2019, ConocoPhillips is planning to invest \$6.3 billion capital to increase its annual production by 5%. The company expects to allocate majority of its 2019 capital budget for U.S. Lower 48 — comprising prolific plays like Eagle Ford, Gulf of Mexico, Bakken, Permian and others. For such a massive investment, the company expects U.S. Lower 48 to contribute the most to 2019 production growth in comparison to other resources in Europe, Canada and Alaska. Importantly, the upstream major is planning to return capital of more than 30% of operating cash flow to shareholders through 2019.



Reasons To Sell:

- ▼ ConocoPhillips' expectation for higher production costs and operating expenses are likely to hurt profits. For 2019, the firm projects total production and operating expenses of \$5.4 billion, higher than \$5.2 billion for 2018. Production and operating expenses rose to \$4,020 million in the first three quarters of 2019 from \$3,851 million in the comparable year-ago period. Also, exploration costs rose to \$592 million in the first nine months of 2019 from \$267 million recorded in the corresponding period last year.
- ▼ For fourth-quarter 2019, ConocoPhillips projects production in the range of 1,265-1,305 MBoe/d, suggesting a reduction in sequential volumes from 1,366 MBoe/d. The lower production volumes will result in reduced profit levels.
- ▼ The upstream energy player has been paying lower dividend yield than the industry over the past two years. The company's current dividend yield stands at almost 3%, significantly lower than the industry's yield of 4.6%.
- ▼ Crude prices are unlikely to recover anytime soon since energy demand is expected to remain low. With oil contributing 52% to the company's production mix, weakness in oil prices is likely to hurt the explorer's bottom line in the coming quarters.

ConocoPhillips' expectations for higher production costs and operating expenses are concerning.

Risks

- ConocoPhillips holds bulk of acres in the unconventional plays of Eagle Ford shale, Delaware basin and Bakken shale. From the three oil-rich plays, the company projects a compound annual production growth rate of more than 25% from 2017 to 2019.
 - The balance sheet of ConocoPhillips is significantly less leveraged than the industry it belongs to, reflecting strong financials. Importantly, in 2018, ConocoPhillips managed to reduce debt burden to reach its target of roughly \$15 billion, much earlier than planned.
 - Recovering oil prices will help the upstream major earn more profits, which possesses a risk to our underperform rating.
-

Last Earnings Report

ConocoPhillips Q3 Earnings Beat Estimates on Production Surge

ConocoPhillips reported third-quarter 2019 adjusted earnings per share of 82 cents, beating the Zacks Consensus Estimate of 78 cents. However, the bottom line declined from the year-ago figure of \$1.36 per share.

Based in Houston, TX, the world's largest independent oil and gas producer's quarterly revenues of \$10,093 million decreased from third-quarter 2018 sales of \$10,165 million. However, the figure beat the Zacks Consensus Estimate of \$7,058 million.

The better-than-expected third-quarter 2019 results are primarily attributable to higher volumes from the company's unconventional assets and lower expenses on purchased commodities. However, it was partially offset by lower realized commodity prices and higher exploration costs.

Production Growth

Total production averaged 1,366 thousand barrels of oil equivalent per day (MBoe/d), up 8.3% from the year-ago quarter's 1,261 MBoe/d. ConocoPhillips' production of crude oil came in at 710 thousand barrels per day (MBD), higher than the year-ago quarter's 635 MBD.

The company's production of natural gas liquids came in at 114 MBD, higher than the year-ago quarter's 106 MBD. Bitumen production in the quarter was recorded at 63 MBD, marginally lower than the third-quarter 2018 figure of 65 MBD.

Natural gas output came in at 2,871 million cubic feet per day (MMcf/d), higher than the year-ago level of 2,732 MMcf/d. The overall production was aided by 21% year-over-year growth in the company's Big 3 unconventional assets (Eagle Ford, Bakken and Delaware), alongside Alaska, Europe and Asia Pacific operations.

Realized Prices Decline

The average realized crude oil price during the third quarter was \$59.57 per barrel, representing a decrease from the year-ago realization of \$73.05. Realized natural gas liquids price was recorded at \$15.59 per barrel, lower than the year-ago quarter's \$35.14. Average realized natural gas price during third-quarter 2019 was \$4.74 per thousand cubic feet, down from the year-ago period's \$5.81. As such, average realized equivalent prices fell 18.4% to \$47.07 per barrel from the year-ago level of \$57.71.

Total Expenses Fall

ConocoPhillips' third-quarter total expenses decreased to \$6,600 million from \$7,259 million in the corresponding period of 2018, owing to lower purchased commodities. Production and operating expenses fell to \$1,331 million in the reported quarter from \$1,367 million in the year-ago period. However, exploration costs rose to \$360 million in third-quarter 2019 from \$103 million in the comparable period of 2018.

Balance Sheet & Capital Spending

As of Sep 30, 2019, the oil giant — with a market capitalization of around \$61.8 billion — had \$7,193 million in total cash and cash equivalents. The company had a total long-term debt of nearly \$14,799 million, representing a debt-to-capitalization ratio of 30%.

In the reported quarter, ConocoPhillips generated \$2.3 billion in net cash from operating activities. Capital expenditures and investments totaled \$1.7 billion, and dividend payments grossed \$341 million. The company repurchased shares worth \$749 million in the quarter.

Guidance

For fourth-quarter 2019, its production guidance is projected in the range of 1,265-1,305 MBoe/d, excluding Libya. The guidance incorporates the impacts from the divestment of U.K. assets, which generated proceeds of \$2.2 billion. It has reiterated its guidance for all other metrics.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	43.01%
EPS Surprise	5.13%
Quarterly EPS	0.82
Annual EPS (TTM)	3.96

Recent News

ConocoPhillips Lays Out Plans for Next Decade, Aims \$50B FCF – Nov 19, 2019

ConocoPhillips revealed operational and financial plans for the next decade, which will boost production while keeping spending under check. The company is also planning to enhance shareholder returns during this time frame of 2020-2029, while maintaining a strong balance sheet.

Free Cash Flow

The upstream major — which had generated \$16.3 billion and \$7.3 billion in free cash flow (FCF) in 2017 and 2018, respectively — expects to generate around \$50 billion of FCF during the 2020-2029 time period. It assumes WTI Crude price at \$50 per barrel during this period. Notably, the company generated \$6 billion FCF in the first three quarters of 2019, with WTI Crude price averaging \$57.04 per barrel.

Capital Spending & Production

ConocoPhillips intends to keep annual capital spending below \$7 billion over the next 10 years. Capital spending was recorded at around \$5 billion in the first three quarters of 2019 and totaled about \$6.8 billion in 2018. Importantly, the company expects to boost hydrocarbon output by more than 3% per annum over the next decade, aided by unconventional growth. It reported better-than-expected third-quarter 2019 results on the back of higher volumes from the company's unconventional assets in Eagle Ford, Bakken and Delaware Basin.

Moreover, it has plans to spend almost \$4 billion per annum on the shale plays and run around 20 rigs across four major fields. This is expected to ramp up production from the regions from 400,000 barrels a day currently to more than 900,000 barrels by the end of the next decade. Notably, the company has a humongous resource base of around 15 billion barrels of oil equivalent, which has a supply cost of less than \$40 per barrel.

Returns to Shareholders

The news came at a time when upstream companies are under pressure from investors, who are no longer supporting drilling programs and expansions in the absence of strong cash flows. Investors want explorers to reduce costs, improve internal efficiencies, raise share repurchases and increase returns. As such, ConocoPhillips' target of paying dividends of \$20 billion and making \$30 billion of share repurchases over the coming decade can cheer investors.

Other Plans

The company intends to maintain a strong balance sheet throughout the next decade. ConocoPhillips expects net debt to be \$6 billion by 2019-end, indicating a decline from \$24 billion in 2016. At the end of third-quarter 2019, the company had a total long-term debt of nearly \$15 billion, representing a debt-to-capitalization ratio of 30%, lower than the industry average of 35.6%.

ConocoPhillips intends to divest 25% of its Alaska properties, as it has a practice of not funding any major project in its entirety.

ConocoPhillips Inks Deal to Sell \$1.4B Australia-West Assets – Oct 13, 2019

ConocoPhillips announced an accord with Santos Ltd to divest its Australia-West properties. The deal, anticipated to conclude in the March quarter of 2020, will likely generate proceeds of \$1.39 billion.

The assets to be divested include the company's 37.5% stakes in Barossa offshore project that entails the development of Barossa and Caldita gas-condensate fields. The agreement also encompasses the company's 50% interests in the Athena field and 40% stakes in Poseidon field. Moreover, ConocoPhillips will divest its 56.9% stake in the Darwin liquefied natural gas (LNG) facility. Notably, the LNG plant has a production capacity of 3.7 million tonnes per annum (MTPA). The offshore field — Bayu-Undan — provides gas to the facility.

Per Reuters, the Bayu-Undan gas field is anticipated to dry up by 2022 and Santos is currently working on a plan to develop the Barossa field. Importantly, if Santos reaches a final investment decision for Barossa field development, it will pay additional \$75 million to ConocoPhillips.

The leading exploration and production player stated its aim to utilize the proceed for general corporate purposes. Investors should know that the sale reflects the company's strong focus on the profitable shale plays in the United States. In other words, ConocoPhillips will be allotting its capital for other developments that are likely to generate lucrative returns for shareholders in the long run.

ConocoPhillips stated that through the first half of 2019, the to-be-divested assets produced nearly 50 thousand barrels of oil equivalent per day (MBOE/D). Moreover, as of 2018-end, the properties recorded a proved reserve of roughly 39 million barrels of oil equivalent (BOE).

Valuation

ConocoPhillips shares are up 4.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry is down 12.4%, but the sector is up 2.7%.

The S&P 500 index is up 30.1% in the past year.

The stock is currently trading at 5.18X trailing 12-month EV/EBITDA, which compares to 5.84X for the Zacks sub-industry, 5.06X for the Zacks sector and 12.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.32X and as low as 3.91X, with a 5-year median of 9.00X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$56 price target reflects 1.69X F12M sales.

The table below shows summary valuation data for COP.

Valuation Multiples - COP			
Stock	Sub-Industry	Sector	S&P 500

EV/EBITDA TTM	Current	5.18	5.84	5.06	12.01
	5-Year High	23.32	10.53	10.22	12.86
	5-Year Low	3.91	3.55	4.55	8.49
	5-Year Median	9	5.64	6.5	10.66
P/S F12M	Current	1.98	1.82	0.9	3.49
	5-Year High	2.57	2.56	1.44	3.49
	5-Year Low	1.04	1.3	0.66	2.54
	5-Year Median	1.83	2.16	0.99	3
P/B TTM	Current	2.04	1.37	1.24	4.45
	5-Year High	2.91	2.5	1.59	4.45
	5-Year Low	0.98	1.2	1.02	2.85
	5-Year Median	1.74	1.82	1.31	3.6

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 253)



Top Peers

Apache Corporation (APA)	Neutral
Concho Resources Inc. (CXO)	Neutral
Devon Energy Corporation (DVN)	Neutral
EOG Resources, Inc. (EOG)	Neutral
Hess Corporation (HES)	Neutral
Marathon Oil Corporation (MRO)	Neutral
Abraxas Petroleum Corporation (AXAS)	Underperform
Continental Resources, Inc. (CLR)	Underperform

Industry Comparison Industry: Oil And Gas - Integrated - United States				Industry Peers		
	COP Underperform	X Industry	S&P 500	APA Neutral	CXO Neutral	EOG Neutral
VGM Score	D	-	-	C	C	B
Market Cap	71.83 B	740.29 M	23.76 B	9.54 B	17.48 B	48.95 B
# of Analysts	3	5	13	9	9	12
Dividend Yield	2.57%	0.53%	1.78%	3.94%	0.58%	1.37%
Value Score	C	-	-	B	B	B
Cash/Price	0.14	0.09	0.04	0.02	0.00	0.03
EV/EBITDA	4.50	4.04	13.97	5.28	4.83	6.51
PEG Ratio	2.41	3.23	2.02	NA	NA	1.91
Price/Book (P/B)	2.04	0.96	3.38	1.21	0.94	2.32
Price/Cash Flow (P/CF)	6.47	4.22	13.70	3.12	7.68	7.33
P/E (F1)	22.88	19.88	18.83	NA	21.51	18.03
Price/Sales (P/S)	1.85	1.88	2.68	1.47	3.96	2.78
Earnings Yield	4.40%	4.40%	5.30%	-0.71%	4.65%	5.55%
Debt/Equity	0.42	0.27	0.72	1.07	0.23	0.20
Cash Flow (\$/share)	10.11	1.44	6.94	8.13	11.32	11.47
Growth Score	D	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	23.73%	22.03%	10.56%	-26.69%	22.81%	31.99%
Proj. EPS Growth (F1/F0)	-20.44%	7.12%	7.41%	-58.45%	45.91%	-0.81%
Curr. Cash Flow Growth	46.49%	46.49%	14.83%	30.02%	55.80%	63.98%
Hist. Cash Flow Growth (3-5 yrs)	-4.86%	-12.32%	9.00%	-19.35%	14.99%	2.62%
Current Ratio	2.56	1.34	1.23	1.03	1.51	1.08
Debt/Capital	29.58%	20.52%	42.92%	51.61%	19.02%	16.46%
Net Margin	21.44%	-4.09%	11.08%	-14.78%	28.98%	16.96%
Return on Equity	13.54%	1.97%	17.10%	1.08%	3.24%	13.94%
Sales/Assets	0.55	0.30	0.55	0.30	0.17	0.50
Proj. Sales Growth (F1/F0)	-21.33%	3.17%	4.20%	0.10%	8.75%	5.95%
Momentum Score	F	-	-	F	B	F
Daily Price Chg	0.66%	0.22%	0.33%	-0.90%	-0.71%	0.45%
1 Week Price Chg	1.98%	1.78%	0.13%	15.47%	2.23%	0.58%
4 Week Price Chg	9.39%	11.37%	3.31%	36.49%	18.46%	19.19%
12 Week Price Chg	17.14%	-2.53%	9.70%	24.13%	35.46%	22.10%
52 Week Price Chg	5.28%	-33.11%	30.28%	-6.70%	-18.63%	-6.48%
20 Day Average Volume	4,995,412	224,416	1,603,615	6,044,331	1,237,864	3,657,945
(F1) EPS Est 1 week change	-2.62%	0.00%	0.00%	-35.99%	0.00%	0.03%
(F1) EPS Est 4 week change	-2.62%	0.00%	0.00%	-317.59%	1.11%	-0.27%
(F1) EPS Est 12 week change	-33.40%	-9.23%	-0.57%	-124.41%	-22.49%	-7.48%
(Q1) EPS Est Mthly Chg	0.00%	0.42%	0.00%	-91.67%	0.84%	0.20%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.