

ConocoPhillips (COP)

\$37.39 (As of 07/31/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: F

Momentum: A

Summary

ConocoPhillips holds a bulk of acres in the unconventional plays of Eagle Ford shale, Delaware basin and Bakken shale. In fact, significant opportunities are still there for ConocoPhillips in the Eagle Ford shale, where it owns about 3,400 undrilled locations that could lend access to almost 2.3 billion barrels of oil equivalent estimated potential reserves. Importantly, the balance sheet of ConocoPhillips is significantly less leveraged than the industry it belongs to. Also, the company carries a high investment grade rating of A from Standard & Poor's. However, weak crude prices, owing to the coronavirus pandemic, are likely to hurt ConocoPhillips' business. Notably, it reported weak second-quarter results on low oil prices. Moreover, expectations for higher exploration and production costs might hurt the bottom-line in the future.

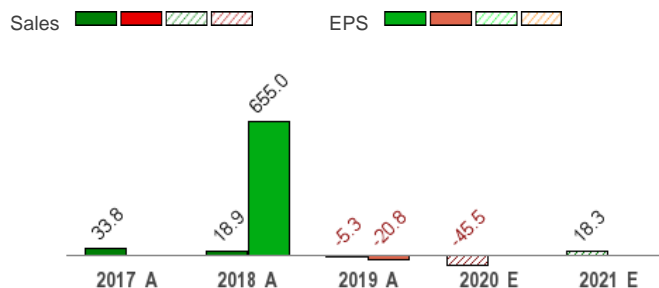
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.13 - \$20.84
20 Day Average Volume (sh)	6,250,089
Market Cap	\$40.1 B
YTD Price Change	-42.5%
Beta	1.69
Dividend / Div Yld	\$1.68 / 4.5%
Industry	Oil and Gas - Integrated - United States
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-61.4%
Last Sales Surprise	-4.1%
EPS F1 Est- 4 week change	58.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	33.7
P/E F1	NA
PEG F1	NA
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,740 E	5,767 E	5,920 E	6,152 E	23,617 E
2020	4,811 A	4,016 A	5,154 E	5,571 E	19,971 E
2019	10,057 A	8,380 A	10,093 A	8,140 A	36,670 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.12 E	\$0.12 E	\$0.15 E	\$0.24 E	\$0.58 E
2020	\$0.45 A	-\$0.92 A	-\$0.15 E	-\$0.03 E	-\$0.33 E
2019	\$1.00 A	\$1.01 A	\$0.82 A	\$0.76 A	\$3.59 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 07/31/2020. The reports text is as of 08/03/2020.

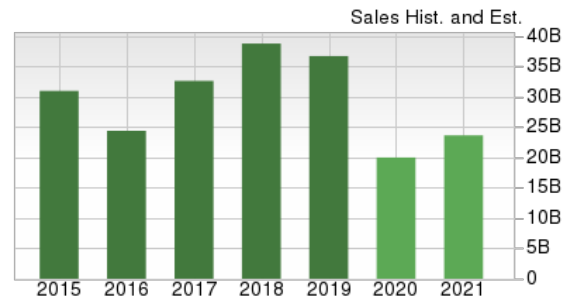
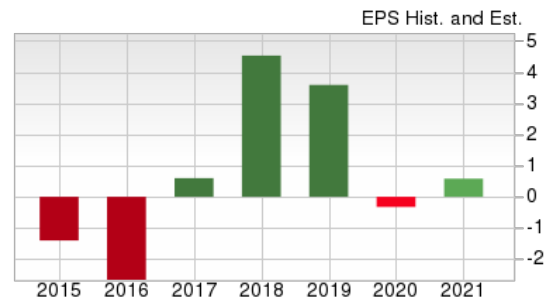
Overview

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. The upstream energy player also has foothold in Canada's oil sand resources and has exposure to developments related to liquefied natural gas (LNG).

The company ended 2019 with proved reserves of around 5.3 billion barrels of oil equivalent (BOE) and reserve replacement ratio of 100%. Through 2019, the upstream energy player produced 1,348 thousand BOE per day, comprising more than 52.3% oil.

ConocoPhillips is strongly dedicated to returning cash to shareholders through dividend payments and share buybacks. In 2019, the company paid dividend of \$1.5 billion and repurchased \$3.5 billion worth of shares. The company has approval from the board of directors to buy back a total of \$25 billion of common stock. On top of that, ConocoPhillips has achieved a strong balance sheet by lowering debt burden, months ahead of plan.

As part of measures against the impact of coronavirus-induced lockdowns and demand destructions, ConocoPhillips has announced a new capital budget for 2020 of \$4.3 billion, showing an additional reduction of \$1.6 billion. Hence, as compared to the initial guidance, the upstream energy firm has slashed capital budget by a total of \$2.3 billion. This also reflects a reduction of 35% from the original estimate. Importantly, the upstream major is planning to pay dividends of \$20 billion and make \$30 billion of share repurchases over the coming decade. However, the company intends to slow down the pace of its 2020 stock buy-back program due to the current market volatility. Starting second quarter, the quarterly run rate of the program will be lowered to \$250 million from the prior \$750 million.



Reasons To Buy:

- ▲ The bulk of acres that ConocoPhillips holds in the three big unconventional plays that include Eagle Ford shale, Delaware basin and Bakken shale plays are rich in oil. The company has long-term plans to spend almost \$4 billion per annum on the shale plays and operate around 20 rigs across four major fields. This is expected to ramp up production from the regions from more than 400,000 barrels a day to more than 900,000 barrels by the end of the next decade.
- ▲ The three unconventional plays are expected to boost ConocoPhillips production in the long run. Notably, significant opportunities left for ConocoPhillips in the Eagle Ford shale where it owns about 3,400 undrilled locations that could lend access to almost 2.3 billion barrels of oil equivalent estimated potential reserves.
- ▲ As of Jun 30, 2020, the company had \$2,907 million in total cash and cash equivalents and total long-term debt of nearly \$14,852 million. The company's massive liquidity position will enable it to payoff short-term debt of only \$146 million. Also, it has a debt-to-capitalization of 32%, lower than the industry average of 40.3%. As such, the balance sheet of ConocoPhillips is significantly less leveraged than the industry it belongs to. The company also carries high investment grade rating of A from Standard & Poor's, which is quite encouraging.
- ▲ The company has an intention of slowing down the pace of its 2020 stock buy-back program. Starting from second quarter, the quarterly run rate of the program was lowered to \$250 million from the prior \$750 million. With this measure, ConocoPhillips believes that it will be able to save a total cash amount of \$2.2 billion. This move is crucial given the current market uncertainty.

Huge inventory of drilling locations in the Eagle Ford Shale will contribute to ConocoPhillips' production.

Reasons To Sell:

- ▼ Lower oil and gas prices are currently haunting the exploration and production industry. Due to global economic slowdown owing to the coronavirus pandemic, demand for hydrocarbons are not expected to rise anytime soon. This in turn, affects oil and gas prices. The low-price environment will likely keep ConocoPhillips' profits under pressure.
- ▼ ConocoPhillips recently announced that it has revised downward its 2020 capital budget in the wake of a weak crude pricing scenario. The company's revised capital budget for this year will be roughly 35% lower as compared to the prior guidance. In its latest operational update, triggered by a lower capital budget, ConocoPhillips revealed its plan of slowing down development operations in the Lower 48. The upstream firm is also planning to defer drilling activities in Alaska.
- ▼ Reduced operating activities also compelled the upstream firm to lower its production guidance for this year. Notably, with the volume curtailment measures, the company's production will get lowered by 115,000 barrels of oil equivalent per day in the third-quarter 2020. This can lead to lower profit levels for the company in this period.
- ▼ ConocoPhillips' exploration costs more than doubled to \$743 million in 2019 from \$369 million recorded in 2018. Its expectation for comparatively higher production costs and operating expenses are likely to hurt profits this year. Even though costs and expenses have decreased year-over-year in the second quarter due to curtailed activities, it might rise again with the production restoration process.

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

Last Earnings Report

ConocoPhillips Misses Q2 Earnings on Low Crude Prices

ConocoPhillips reported second-quarter 2020 adjusted loss per share of 92 cents, wider than the Zacks Consensus Estimate of a loss of 57 cents. The company had recorded adjusted earnings of \$1.01 per share a year-ago.

Based in Houston, TX, one of the world's largest independent oil and gas producer's quarterly revenues of \$4,016 million declined from second-quarter 2019 sales of \$8,380 million. Moreover, the figure missed the Zacks Consensus Estimate of \$4,187 million.

The weak second-quarter results stemmed from lower realized commodity prices and production volumes. During the second quarter, the company executed production curtailment of 225 thousand barrels of oil equivalent per day (MBoe/d).

Maintains Dividend

ConocoPhillips has maintained its quarterly dividend payment at 42 cents per share. The dividend will be paid on Sep 1, to stockholders of record as on Jul 20. While many leading energy firms are either considering or opted for a cut in dividend payouts amid the coronavirus outbreak, the company's decision to maintain dividend is expected to send positive signals.

Production Falls

Total production averaged 981MBoe/d, down from the year-ago quarter's 1,332MBoe/d. Of the total output, 48.3% was crude oil. The overall production was lower than the year-ago period, primarily due to planned curtailments and normal field decline. Contributions from Lower 48 Big 3 unconventional resources partially offset the negative. Libya production was under force majeure during the second quarter.

ConocoPhillips' production of crude oil came in at 474 thousand barrels per day (MBD), lower than the year-ago quarter's 702 MBD. Moreover, the company's production of natural gas liquids totaled 93 MBD, lower than the year-ago quarter's 118 MBD. Bitumen production in the quarter was recorded at 34 MBD, lower than the second-quarter 2019 figure of 51 MBD. Also, natural gas output came in at 2,277 million cubic feet per day (MMcf/d), lower than the year-ago level of 2,768 MMcf/d.

Realized Prices Decline

The average realized crude oil price during the second quarter was \$25.10 per barrel, showing a decline from the year-ago realization of \$64.88. Realized natural gas liquids price was recorded at \$9.88 per barrel, lower than the year-ago quarter's \$21.65. Average realized natural gas price during second-quarter 2020 was \$3.22 per thousand cubic feet, down from the year-ago period's \$4.76. As such, average realized oil equivalent prices fell to \$23.09 per barrel from the year-ago level of \$50.50.

Total Expenses Fall

ConocoPhillips' second-quarter total expenses contracted to \$3,995 million from \$6,322 million in the corresponding period of 2019. Production and operating expenses fell to \$1,047 million in the reported quarter from \$1,418 million a year ago. Also, exploration costs decreased to \$97 million in second-quarter 2020 from \$122 million in the comparable period of 2019.

Balance Sheet & Capital Spending

As of Jun 30, 2020, the oil giant had \$2,907 million in total cash and cash equivalents. The company had a total long-term debt of \$14,852 million, representing a debt-to-capitalization ratio of 0.32.

Capital expenditures and investments totaled \$876 million, and dividend payments grossed \$455 million.

Outlook

Owing to weak commodity prices due to coronavirus pandemic, the upstream energy player had voluntarily curtailed production volumes. With improving crude prices, it is bringing back production online. It has completely restored production in Alaska during July. The company now expects Lower 48 production to be 100% restored by September. Notably, its Montney second pad is expected to commence in the third quarter. During the September quarter, ConocoPhillips is anticipated to execute turnarounds in Alaska, Canada, APME and Norway. Overall, the company is likely to execute third-quarter production curtailment of 115 MBoe/d.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	-4.08%
EPS Surprise	-61.40%
Quarterly EPS	-0.92
Annual EPS (TTM)	1.11

Valuation

ConocoPhillips shares are down 42.5% in the year-to-date period, and 31.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 45.5% and 38.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 41.8% and 34.6%, respectively.

The S&P 500 index is up 1.6% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 6.27X trailing 12-month EV/EBITDA, which compares to 4.60X for the Zacks sub-industry, 3.94X for the Zacks sector and 12.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.55X and as low as 2.13X, with a 5-year median of 8.95X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$40.00 price target reflects 1.94X 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	6.27	4.6	3.94	12.67
	5-Year High	23.55	10.58	10.42	12.85
	5-Year Low	2.13	3.31	3.04	8.24
	5-Year Median	8.95	5.55	6.46	10.88
P/S F12M	Current	1.81	1.27	0.68	3.59
	5-Year High	2.63	2.56	1.46	3.59
	5-Year Low	0.83	0.88	0.59	2.53
	5-Year Median	1.87	1.97	0.99	3.04
P/B TTM	Current	1.27	0.88	0.88	4.47
	5-Year High	2.91	2.5	1.54	4.56
	5-Year Low	0.71	0.48	0.52	2.83
	5-Year Median	1.76	1.69	1.31	3.72

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Apache Corporation (APA)	Neutral	2
Continental Resources, Inc. (CLR)	Neutral	3
Concho Resources Inc. (CXO)	Neutral	3
Devon Energy Corporation (DVN)	Neutral	3
EOG Resources, Inc. (EOG)	Neutral	2
Hess Corporation (HES)	Neutral	3
Marathon Oil Corporation (MRO)	Neutral	3
Abraxas Petroleum Corporation (AXAS)	Underperform	5

Industry Comparison Industry: Oil And Gas - Integrated - United States				Industry Peers		
	COP	X Industry	S&P 500	APA	CXO	EOG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	B	-	-	C	A	B
Market Cap	40.10 B	721.62 M	22.59 B	5.79 B	10.33 B	27.27 B
# of Analysts	8	5	14	9	10	10
Dividend Yield	4.49%	0.00%	1.83%	0.65%	1.52%	3.20%
Value Score	A	-	-	B	A	B
Cash/Price	0.19	0.15	0.07	0.08	0.02	0.10
EV/EBITDA	2.80	3.12	12.94	-42.34	8.99	3.89
PEG Ratio	NA	0.20	3.04	NA	4.59	8.84
Price/Book (P/B)	1.27	0.66	3.17	NA	1.30	1.27
Price/Cash Flow (P/CF)	3.93	3.93	12.51	2.15	3.70	4.10
P/E (F1)	NA	8.43	21.87	NA	20.08	82.92
Price/Sales (P/S)	1.48	1.31	2.44	1.11	2.75	1.51
Earnings Yield	-0.88%	-3.37%	4.31%	-11.92%	4.99%	1.20%
Debt/Equity	0.47	0.20	0.75	-13.40	0.50	0.22
Cash Flow (\$/share)	9.53	1.53	6.94	7.13	14.21	11.42
Growth Score	F	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	89.40%	65.86%	10.85%	-76.52%	41.12%	74.89%
Proj. EPS Growth (F1/F0)	-109.05%	-82.48%	-7.75%	NA	-14.23%	-88.65%
Curr. Cash Flow Growth	-10.21%	-9.26%	5.39%	-13.04%	25.86%	-0.17%
Hist. Cash Flow Growth (3-5 yrs)	-7.49%	-16.17%	8.55%	-17.03%	14.95%	-0.21%
Current Ratio	2.69	1.29	1.31	0.97	1.80	1.51
Debt/Capital	32.05%	25.02%	44.32%	65.71%	33.32%	17.97%
Net Margin	8.49%	-13.86%	10.44%	-154.17%	-256.19%	11.69%
Return on Equity	3.72%	1.57%	14.73%	-14.27%	5.27%	11.89%
Sales/Assets	0.40	0.28	0.52	0.32	0.19	0.49
Proj. Sales Growth (F1/F0)	-45.54%	-6.74%	-1.95%	-37.56%	-18.07%	-29.85%
Momentum Score	A	-	-	B	A	C
Daily Price Chg	-5.76%	-3.72%	-0.92%	17.29%	-4.21%	-3.96%
1 Week Price Chg	0.80%	2.59%	0.37%	6.85%	5.99%	3.99%
4 Week Price Chg	-10.51%	-0.46%	3.81%	15.76%	2.08%	-7.26%
12 Week Price Chg	-11.86%	12.22%	11.93%	29.21%	-8.13%	-3.02%
52 Week Price Chg	-36.41%	-48.23%	-1.92%	-36.36%	-30.84%	-42.21%
20 Day Average Volume	6,250,089	368,364	1,887,986	9,742,877	1,766,745	3,492,802
(F1) EPS Est 1 week change	24.85%	0.00%	0.00%	-0.77%	-1.18%	0.71%
(F1) EPS Est 4 week change	58.71%	7.66%	0.38%	16.98%	-10.32%	212.15%
(F1) EPS Est 12 week change	75.87%	6.37%	-0.07%	22.45%	59.19%	-11.84%
(Q1) EPS Est Mthly Chg	65.25%	23.05%	0.16%	27.49%	20.27%	91.37%

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	A
Growth Score	F
Momentum Score	A
VGM Score	B

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.

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