

ConocoPhillips (COP)

\$41.12 (As of 07/06/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

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, boosting its financial flexibility. Also, the company carries high investment grade rating of A from Standard & Poor's, which is quite encouraging. However, weak crude oil prices, owing to the coronavirus pandemic, are likely to hurt the company's upstream business. Moreover, rising exploration costs and expectations for higher production costs are hurting bottom-line.

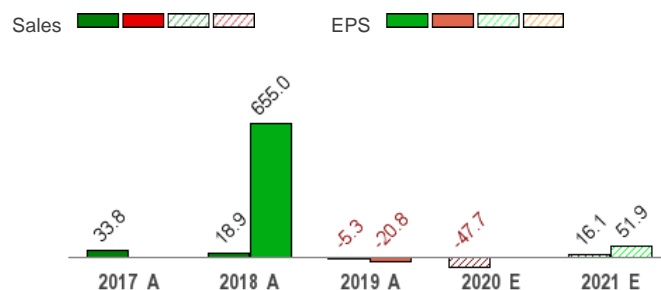
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.13 - \$20.84
20 Day Average Volume (sh)	6,755,282
Market Cap	\$44.6 B
YTD Price Change	-36.0%
Beta	1.69
Dividend / Div Yld	\$1.68 / 4.0%
Industry	Oil and Gas - Integrated - United States
Zacks Industry Rank	Top 21% (52 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	114.3%
Last Sales Surprise	-26.6%
EPS F1 Est- 4 week change	24.4%
Expected Report Date	07/30/2020
Earnings ESP	-16.7%
P/E TTM	13.7
P/E F1	NA
PEG F1	NA
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,146 E	5,187 E	5,321 E	5,474 E	22,276 E
2020	4,811 A	4,014 E	4,126 E	4,735 E	19,181 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	-\$0.23 E	-\$0.20 E	-\$0.14 E	-\$0.13 E	-\$0.38 E
2020	\$0.45 A	-\$0.54 E	-\$0.43 E	-\$0.33 E	-\$0.79 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 07/06/2020. The reports text is as of 07/07/2020.

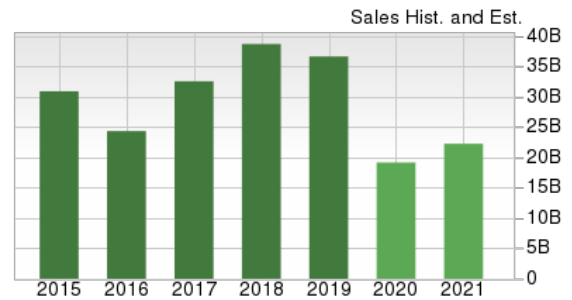
Overview

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 Mar 31, 2020, the company had \$3,908 million in total cash and cash equivalents and total long-term debt of nearly \$14,847 million. The company's massive liquidity position will enable it to payoff short-term debt of only \$113 million. Also, it has a debt-to-capitalization of 32%, lower than the industry average of 42%. 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 second quarter, the quarterly run rate of the program will be 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 net production will get lowered by 200,000 barrels of oil equivalent per day in North America – contributing the maximum to the company's worldwide output. For the month of May, the company expects gross curtailment of 265 thousand barrels of oil per day (MBbl/d). It projects voluntary gross curtailment for the month of June at 460 MBbl/d.
- ▼ 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. For 2020, the firm projects total production and operating expenses of \$5.3 billion, in-line with 2019 level, while production is expected to significantly decline. This reflects increasing inefficiency in operations. Even in first-quarter 2020, exploration costs increased to \$188 million from \$110 million in the comparable period of 2019.

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

Last Earnings Report

ConocoPhillips Beats Q1 Earnings Estimates, Keeps Dividend

ConocoPhillips reported first-quarter 2020 adjusted earnings per share of 45 cents, beating the Zacks Consensus Estimate of 21 cents, thanks to a decline in production and operating expenses along with contributions from Lower 48 Big 3 unconventional resources.

However, the bottom line declined from the year-ago figure of \$1.00 per share owing to a fall in realized commodity prices.

Based in Houston, TX, the world's largest independent oil and gas producer's quarterly revenues of \$4,811 million declined from first-quarter 2019 sales of \$10,057 million. Moreover, the figure missed the Zacks Consensus Estimate of \$6,552 million.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	-26.57%
EPS Surprise	114.29%
Quarterly EPS	0.45
Annual EPS (TTM)	3.04

Maintains Dividend

ConocoPhillips has maintained its quarterly dividend payment at 42 cents per share. The dividend will be paid on Jun 1, to stockholders of record as on May 11. While many leading energy firms are considering a cut in dividend payouts amid the coronavirus outbreak, the company's decision to maintain dividends is worth appreciating.

Overall Production Falls

Total production averaged 1,289 thousand barrels of oil equivalent per day (MBoE/D), down from the year-ago quarter's 1,361 MBoE/D. The overall production was lower than the year-ago period, primarily due to normal field decline. Contributions from Lower 48 Big 3 unconventional resources partially offset the negative.

ConocoPhillips' production of crude oil came in at 654 thousand barrels per day (MBD), lower than the year-ago quarter's 715 MBD. However, the company's production of natural gas liquids totaled 123 MBD, higher than the year-ago quarter's 110 MBD. Bitumen production in the quarter was recorded at 66 MBD, higher than the first-quarter 2019 figure of 63 MBD. But natural gas output came in at 2,674 million cubic feet per day (MMcf/d), lower than the year-ago level of 2,840 MMcf/d.

Realized Prices Decline

The average realized crude oil price during the first quarter was \$48.86 per barrel, showing a decline from the year-ago realization of \$59.45. Realized natural gas liquids price was recorded at \$14.82 per barrel, lower than the year-ago quarter's \$23.85. Average realized natural gas price during first-quarter 2020 was \$4.30 per thousand cubic feet, down from the year-ago period's \$6.00. As such, average realized oil equivalent prices fell 23% to \$38.81 per barrel from the year-ago level of \$50.59.

Total Expenses Fall

ConocoPhillips' first-quarter total expenses contracted to \$6,374 million from \$7,370 million in the corresponding period of 2019. Production and operating expenses fell to \$1,173 million in the reported quarter from \$1,271 million a year ago. However, exploration costs increased to \$188 million in first-quarter 2020 from \$110 million in the comparable period of 2019.

Balance Sheet & Capital Spending

As of Mar 31, 2020, the oil giant had \$3,908 million in total cash and cash equivalents. The company had a total long-term debt of \$14,847 million, representing a debt-to-capitalization ratio of 0.32.

Capital expenditures and investments totaled \$1,649 million, and dividend payments grossed \$458 million. The company repurchased shares worth \$726 million in the quarter.

Guidance

Owing to weak commodity prices due to coronavirus pandemic, the upstream energy player has decided to voluntarily curtail production volumes. For the month of May, the company expects gross curtailment of 265 thousand barrels of oil per day (MBbl/D). It projects voluntary gross curtailment for the month of June at 460 MBbl/D.

Recent News

ConocoPhillips to Revive Output, Expects Q2 Profit to Fall Y/Y - Jun 30, 2020

ConocoPhillips announced its intention to bring back a portion of its curtailed output in July. The company also provided an update on the impact of production cut from its operations.

Following the massive dip in oil prices that stemmed from energy demand destruction caused by coronavirus-induced lockdowns and a price war between Saudi Arabia and Russia, companies with upstream operations opted for production curtailment. During April-end, WTI Crude price index plunged to historic lows. However, crude prices have significantly recovered in the past two months. The improvement prompted several companies to partially resume their productions.

ConocoPhillips will be the latest company to resume productions. It is planning to start restoring output in Alaska and the Lower 48 area this month. Canada's Surmont is also expected to witness a rise in production in the third quarter. Other companies that have partially resumed curtailed productions include Continental Resources, EOG Resources, and Parsley Energy.

Most of the company's production curtailment in the June quarter was focused on oil operations, which averaged around 225 thousand barrels of oil equivalent per day (MBoe/d). While the Lower 48 witnessed 65% production cut, ConocoPhillips' Alaska and Surmont operations were reduced by 15% each. The rest of the curtailment was in its Malaysia operations. As such, the company's second-quarter production volumes are expected within 960-980 MBoe/d, indicating a decline from the year-ago period's 1,290 MBoe/d (unadjusted).

Combined with the low oil prices, the curtailed production volumes are expected to have resulted in a decline in profit levels. The Zacks Consensus Estimate for second-quarter earnings per share is 23 cents, indicating 77.2% year-over-year fall. It is scheduled report second-quarter results on Jul 30.

Valuation

ConocoPhillips shares are down 36% in the year-to-date period, and 30.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 41.4% and 36.1%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 42.2% and 39%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period, but up 5.7% in the past year.

The stock is currently trading at 4.21X trailing 12-month EV/EBITDA, which compares to 4.32X for the Zacks sub-industry, 3.79X for the Zacks sector and 11.71X 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 8.96. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 2.27X 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	4.21	4.32	3.79	11.71
	5-Year High	23.55	10.55	10.48	12.81
	5-Year Low	2.13	3.59	3.79	8.24
	5-Year Median	8.96	5.66	6.67	10.75
P/S F12M	Current	2.15	1.44	0.74	3.54
	5-Year High	2.63	2.56	1.44	3.54
	5-Year Low	0.83	1.3	0.66	2.54
	5-Year Median	1.86	2.16	0.99	3.01
P/B TTM	Current	1.42	0.8	0.82	4.38
	5-Year High	2.91	2.51	1.55	4.52
	5-Year Low	0.71	0.8	0.82	2.82
	5-Year Median	1.76	1.78	1.33	3.63

As of 07/06/2020

Industry Analysis Zacks Industry Rank: Top 21% (52 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Apache Corporation (APA)	Neutral	3
Abraxas Petroleum Corporation (AXAS)	Neutral	4
Continental Resources, Inc. (CLR)	Neutral	3
Concho Resources Inc. (CXO)	Neutral	2
Devon Energy Corporation (DVN)	Neutral	2
EOG Resources, Inc. (EOG)	Neutral	3
Hess Corporation (HES)	Neutral	2
Marathon Oil Corporation (MRO)	Neutral	3

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)	2	-	-	3	2	3
VGM Score	C	-	-	B	A	B
Market Cap	44.65 B	226.21 M	22.04 B	5.11 B	10.19 B	29.34 B
# of Analysts	7	6	14	9	9	10
Dividend Yield	4.04%	0.00%	1.89%	0.74%	1.54%	2.98%
Value Score	B	-	-	C	B	B
Cash/Price	0.18	0.16	0.07	0.09	0.02	0.10
EV/EBITDA	3.07	3.52	12.81	-39.67	8.89	4.16
PEG Ratio	NA	0.26	2.94	NA	4.72	28.30
Price/Book (P/B)	1.42	0.76	3.01	NA	1.22	1.37
Price/Cash Flow (P/CF)	4.37	3.91	11.87	1.90	3.64	4.41
P/E (F1)	NA	9.55	21.54	NA	20.66	265.32
Price/Sales (P/S)	1.42	1.22	2.35	0.84	2.31	1.63
Earnings Yield	-1.90%	-3.37%	4.39%	-16.86%	4.85%	0.38%
Debt/Equity	0.47	0.20	0.76	-36.56	0.47	0.22
Cash Flow (\$/share)	9.53	1.53	6.94	7.13	14.21	11.42
Growth Score	D	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	89.40%	65.86%	10.90%	-76.52%	41.12%	74.89%
Proj. EPS Growth (F1/F0)	-121.93%	-83.26%	-9.51%	NA	-17.78%	-96.18%
Curr. Cash Flow Growth	-10.21%	-9.26%	5.51%	-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	2.16	1.57	1.30	0.94	2.16	1.51
Debt/Capital	32.11%	25.02%	44.46%	65.71%	32.07%	17.97%
Net Margin	11.51%	-13.86%	10.62%	-131.89%	-210.59%	11.69%
Return on Equity	10.02%	1.57%	15.75%	-1.72%	3.89%	11.89%
Sales/Assets	0.45	0.29	0.55	0.32	0.20	0.49
Proj. Sales Growth (F1/F0)	-47.69%	-8.04%	-2.57%	-41.42%	-23.20%	-28.52%
Momentum Score	C	-	-	A	B	F
Daily Price Chg	-0.36%	0.04%	1.12%	2.00%	0.64%	-0.22%
1 Week Price Chg	3.54%	1.07%	3.66%	0.08%	2.33%	3.61%
4 Week Price Chg	-17.25%	-14.03%	-7.12%	-23.72%	-28.38%	-18.84%
12 Week Price Chg	21.37%	21.74%	11.84%	61.40%	-0.48%	16.45%
52 Week Price Chg	-30.49%	-58.33%	-6.03%	-48.96%	-48.64%	-44.08%
20 Day Average Volume	6,755,282	565,293	2,400,079	12,967,501	3,311,375	4,174,153
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.05%	-0.92%	4.97%
(F1) EPS Est 4 week change	24.43%	3.45%	0.00%	9.07%	4.54%	-13.99%
(F1) EPS Est 12 week change	15.66%	-19.10%	-8.26%	-6.64%	71.66%	-83.60%
(Q1) EPS Est Mthly Chg	7.80%	5.85%	0.00%	11.07%	5.68%	-33.03%

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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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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