

Phillips 66 (PSX)

\$73.31 (As of 05/07/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

Summary

Phillips 66's refining operations are currently under pressure. The segment is affected by reduced volumes and weak worldwide margins. Moreover, its operating expenses are on the rise. This trait can affect the company's profit levels in the coming quarters. Although it beat first-quarter earnings estimates, the positives were partially offset by lower margins and higher turnaround activities in the chemicals business. Notably, the stock has mostly paid lower dividends than the industry in the past year. Its surging debt and decreasing cash level possess a threat to the balance sheet that can affect financial flexibility. Importantly, the global coronavirus outbreak has crippled energy demand growth, which might hurt the company's businesses. Given these headwinds, Phillips 66 seems like a risky bet that investors should exit.

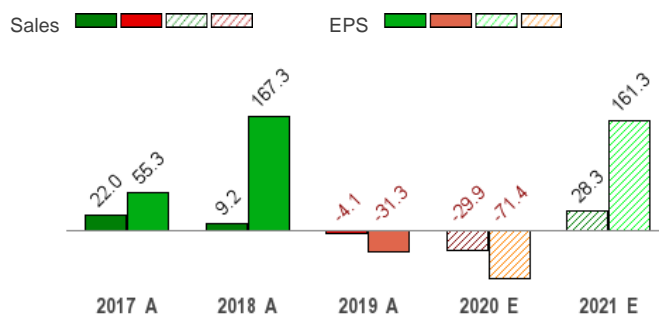
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.92 - \$40.04
20 Day Average Volume (sh)	4,330,553
Market Cap	\$32.0 B
YTD Price Change	-34.2%
Beta	1.59
Dividend / Div Yld	\$3.60 / 4.9%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 23% (194 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	61.9%
Last Sales Surprise	-3.6%
EPS F1 Est- 4 week change	-52.5%
Expected Report Date	07/24/2020
Earnings ESP	0.0%
P/E TTM	8.4
P/E F1	31.9
PEG F1	3.8
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	24,041 E	22,030 E	26,917 E	28,161 E	98,590 E
2020	21,244 A	14,513 E	19,154 E	21,983 E	76,824 E
2019	23,658 A	28,518 A	27,771 A	29,612 A	109,559 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.85 E	\$1.69 E	\$2.22 E	\$1.48 E	\$6.01 E
2020	\$1.02 A	-\$0.13 E	\$0.46 E	\$0.51 E	\$2.30 E
2019	\$0.40 A	\$3.02 A	\$3.11 A	\$1.54 A	\$8.05 A

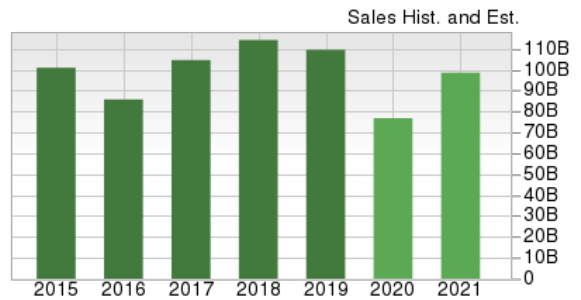
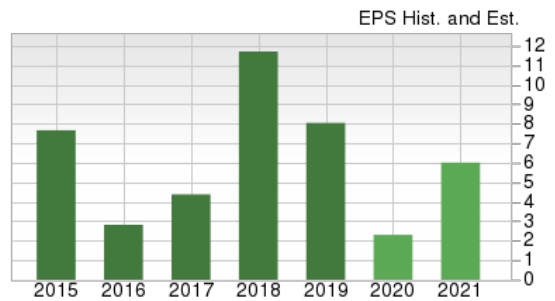
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/07/2020. The reports text is as of 05/08/2020.

Overview

Based in Houston, TX, Phillips 66's operations incorporate refining, midstream, marketing and specialties, and chemicals. The company, in its current form, came into existence following the 2012 spin-off of ConocoPhillips' downstream business into a separate, independent and publicly-traded entity. The company's operations include processing, transportation, storing and marketing fuels and products all over the world. Phillips 66 Partners, the company's master limited partnership, is an important asset in the portfolio. As of Sep 30, 2019, Phillips 66 had about 14,500 employees and \$59 billion of assets. The company operates through the four business segments, namely, Midstream, Chemicals, Refining, and Marketing and Specialties.

- **Midstream** – contributed 14% to total earnings in 2019 – gathers, processes, transports and markets natural gas; and transports, fractionates and markets NGL in the United States. In addition, this segment transports crude oil and other feedstocks to its refineries and other locations, and delivers refined and specialty products to the market.
- **Chemicals** – accounted for 18% of total earnings – manufacture and markets petrochemicals and plastics on a worldwide basis. The segment consists of its 50% stake in the joint venture (JV) with Chevron, named Chevron Phillips Chemical Company LLC. Assets of the JV are primarily located on the U.S. Texas Gulf Coast and Middle East. Moreover, the JV has manufacturing properties all around the world.
- **Refining** – accounted for 40% of total earnings – buys, sells and refines crude oil and other feedstocks at its refineries. The company owns interest in 13 refineries located in the United States and in Europe.
- **Marketing and Specialties** – with contributions of 28% to total earnings – purchases for resale and markets refined products, mainly in the United States and Europe. In addition, this segment includes the manufacturing and marketing of specialty products.



Reasons To Sell:

- ▼ Adjusted pre-tax loss of \$401 million from the company's refining operations widened from the year-ago loss of \$219 million. This underperformance was attributed to reduced volumes and weak margins. The segment's realized refining margins on a worldwide basis fell to \$7.11 per barrel from the year-ago quarter's \$7.23. Moreover, the same in Atlantic Basin/Europe and West Coast fell to \$2.38 and \$4.80 per barrel from the year-ago level of \$7.76 and \$6.25, respectively.
- ▼ The company's operating expenses rose through 2019 by 4% to \$5,074 million. Moreover, in the first quarter, total costs rose due to higher operating expenses. This trait can affect the company's profit levels in the coming quarters.
- ▼ Although Phillips 66 is strongly committed in constantly returning capital to shareholders through dividend payments, the stock has mostly paid lower dividends than the industry in the past year.
- ▼ With the phase-one trade agreement solving a few concerns for the United States, there are many more to be addressed, which raise the possibility of an escalation of the trade war. Moreover, the global coronavirus outbreak has crippled energy demand growth. The threat to overall economic growth might hurt the company's refining businesses.
- ▼ As of Mar 31, 2020, cash and cash equivalents were \$1.2 billion, reflecting a sequential decline from \$1.6 billion. Total debt rose to \$13 billion from \$11.8 billion in fourth-quarter 2019. Moreover, the company's interest coverage ratio of 4.02 compares unfavorably with the industry's 11.8. Given the weakness in energy demand due to coronavirus-induced lockdowns, the company's earnings will remain under pressure, which might pose difficulty for it in paying down the debt burden.

Phillips 66 is being affected by significant decline in worldwide refining margins.

Risks

- The company is on track to enhance its potential in every business segment by streamlining its portfolio of assets and by investing in growth developments.
 - Midstream business is in high demand in the United States as there is a huge need for fresh pipeline and infrastructure properties in the flourishing shales owing to the existing bottleneck problems. To capitalize on the trend, the company allocated majority of its capital budget for midstream operations.
 - The company is strongly committed in returning cash back to the shareholders through both dividend payments and repurchasing shares.
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Last Earnings Report

Phillips 66 Beats Q1 Earnings on Midstream Performance

Phillips 66 (PSX) reported first-quarter 2020 adjusted earnings per share of \$1.02, beating the Zacks Consensus Estimate of 63 cents, courtesy of contributions from Midstream and Marketing, and Specialties businesses. Moreover, the bottom line rose from the year-ago figure of 40 cents due to higher realized marketing fuel margins in both the United States and international markets.

Quarterly revenues totaled \$21.2 billion, down from the year-ago quarter's \$23.7 billion. Moreover, the top line missed the Zacks Consensus Estimate of \$22 billion.

In the first quarter, the company started full operations on the Gray Oak Pipeline. It has also incorporated a storage capacity of 2.2 million barrels of crude oil at the Beaumont Terminal.

Segmental Results

Midstream

The segment generated adjusted pre-tax quarterly earnings of \$460 million, up from \$316 million in the year-ago quarter. While profits from NGL and Other, and DCP Midstream significantly increased, the same from transportation marginally decreased.

Chemicals

Adjusted pre-tax earnings of \$193 million were down from \$227 million in the prior-year quarter. CPChem's SA&S business was affected by lower margins and higher turnaround activity. However, backed by strong demand, CPChem's O&P business ran at 98% utilization.

Refining

Adjusted pre-tax loss of \$401 million widened from the year-ago loss of \$219 million. This underperformance was attributed to reduced volumes and weak margins. The segment's realized refining margins on a worldwide basis fell to \$7.11 per barrel from the year-ago quarter's \$7.23. Moreover, the same in Atlantic Basin/Europe and West Coast fell to \$2.38 and \$4.80 per barrel from the year-ago level of \$7.76 and \$6.25, respectively.

Marketing and Specialties

Pre-tax earnings surged from \$205 million in the year-ago quarter to \$488 million.

Realized marketing fuel margins in both the United States and international markets increased to \$2.08 and \$8.53 per barrel from the year-ago quarter's \$1.06 and \$3.80, respectively.

Costs and Expenses

Total costs and expenses in the first quarter increased marginally to \$23,722 million from \$23,318 million in the year-ago period. While cost of purchased crude oil and products, and SG&A expenses declined from the year-ago levels, operating expenses and impairments increased.

Share Repurchases

Although it suspended share buybacks in March, the company returned capital worth \$839 million to stockholders through dividend payouts of \$396 million and share repurchases of \$443 million.

Financial Condition

In the reported quarter, Phillips 66 generated \$217 million of cash from operations. Its capital expenditures and investments totaled \$923 million.

As of Mar 31, 2020, cash and cash equivalents were \$1.2 billion, reflecting a sequential decline from \$1.6 billion. Total debt rose to \$13 billion from \$11.8 billion in fourth-quarter 2019. The company's debt to capitalization was 35%. Notably, it has secured additional liquidity of \$3 billion through term loan and senior notes.

Outlook

The company is adding two 150,000 bpd fractionators for expanding the Sweeny Hub. The additional fractionators, backed by long-term commitments, are expected to commence operations in the fourth quarter. Following the expansion project completion, Sweeny Hub will have a massive 400,000 bpd fractionation capacity. The company is also incorporating 7.5 million barrels of storage capacity at Clemens Caverns in the Sweeny Hub.

It will defer the Red Oak Pipeline and Sweeny Frac 4 projects. The company has postponed its FID on the AEC Pipeline. It has also reduced refining productions due to energy demand destruction as a result of coronavirus-induced lockdowns.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	-3.63%
EPS Surprise	61.90%
Quarterly EPS	1.02
Annual EPS (TTM)	8.69

Valuation

Phillips 66 shares are down 34.1% in the year-to-date period and 14.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 41.1% and 39.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 32.5% and 42.5%, respectively.

The S&P 500 index is down 10.4% in the year-to-date period and 0.3% in the past year.

The stock is currently trading at 21.07X forward 12-month earnings, which compares to 83.32X for the Zacks sub-industry, 61.68X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.68X and as low as 4.86X, with a 5-year median of 12.64X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$63 price target reflects 18.11X F12M earnings.

The table below shows summary valuation data for PSX.

Valuation Multiples - PSX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.07	83.32	61.68	20.81
	5-Year High	24.68	83.32	61.68	20.81
	5-Year Low	4.86	8.02	11.25	15.19
	5-Year Median	12.64	11.12	18.43	17.44
EV/EBITDA TTM	Current	11.61	5.69	3.77	10.57
	5-Year High	98.2	16.48	10.4	12.86
	5-Year Low	7.6	4.15	3.02	8.28
	5-Year Median	10.76	7.31	6.52	10.77
P/S F12M	Current	0.38	0.25	0.69	3.25
	5-Year High	0.53	0.37	1.46	3.44
	5-Year Low	0.16	0.17	0.58	2.54
	5-Year Median	0.39	0.29	0.99	3.01

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BP plc (BP)	Neutral	3
Delek US Holdings Inc (DK)	Neutral	4
Enterprise Products Partners LP (EPD)	Neutral	3
Marathon Petroleum Corporation (MPC)	Neutral	3
PBF Energy Inc (PBF)	Neutral	3
Royal Dutch Shell PLC (RDS.A)	Neutral	3
Valero Energy Corporation (VLO)	Neutral	3
HollyFrontier Corporation (HFC)	Underperform	5

Industry Comparison Industry: Oil And Gas - Refining And Marketing

	PSX	X Industry	S&P 500	MPC	PBF	VLO
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	B	A	D
Market Cap	32.01 B	1.12 B	19.51 B	19.99 B	1.12 B	25.08 B
# of Analysts	9	5	14	9	13	9
Dividend Yield	4.91%	0.00%	2.15%	7.54%	0.00%	6.40%
Value Score	D	-	-	C	A	C
Cash/Price	0.06	0.17	0.06	0.08	0.71	0.06
EV/EBITDA	6.85	4.05	11.77	6.06	2.39	5.51
PEG Ratio	3.75	4.23	2.54	NA	NA	NA
Price/Book (P/B)	1.35	0.81	2.67	0.47	0.31	1.27
Price/Cash Flow (P/CF)	6.49	4.32	10.44	2.88	2.01	5.43
P/E (F1)	31.87	18.24	19.30	NA	NA	NA
Price/Sales (P/S)	0.30	0.23	1.99	0.17	0.05	0.24
Earnings Yield	3.14%	-0.18%	4.91%	-7.12%	-52.47%	-2.79%
Debt/Equity	0.45	0.68	0.75	0.71	0.64	0.54
Cash Flow (\$/share)	11.30	4.65	7.01	10.70	4.65	11.28
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	15.26%	11.57%	10.87%	4.56%	-11.97%	-4.81%
Proj. EPS Growth (F1/F0)	-71.39%	-71.74%	-9.87%	-144.24%	-643.24%	-130.04%
Curr. Cash Flow Growth	-27.54%	2.05%	5.88%	13.40%	-27.27%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	0.90%	10.33%	8.55%	12.38%	-2.24%	-2.48%
Current Ratio	1.11	1.29	1.24	1.25	1.52	1.31
Debt/Capital	31.20%	41.64%	44.23%	42.36%	39.06%	34.94%
Net Margin	0.35%	0.41%	10.68%	-5.48%	1.30%	0.41%
Return on Equity	14.90%	8.79%	16.36%	7.35%	3.17%	10.51%
Sales/Assets	1.87	1.54	0.55	1.23	2.72	2.07
Proj. Sales Growth (F1/F0)	-29.88%	-20.14%	-2.26%	-27.39%	-33.22%	-33.69%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	1.95%	0.28%	1.52%	4.23%	1.64%	0.57%
1 Week Price Chg	9.63%	8.19%	0.53%	13.51%	27.28%	11.92%
4 Week Price Chg	19.16%	10.07%	0.73%	20.09%	20.88%	22.27%
12 Week Price Chg	-18.85%	-33.85%	-21.09%	-48.27%	-67.36%	-26.81%
52 Week Price Chg	-14.51%	-28.96%	-10.17%	-41.88%	-69.01%	-25.06%
20 Day Average Volume	4,330,553	892,711	2,398,409	10,602,054	4,420,017	5,123,372
(F1) EPS Est 1 week change	10.68%	0.00%	0.00%	-3.04%	0.00%	0.00%
(F1) EPS Est 4 week change	-52.47%	-52.47%	-6.95%	-238.23%	-165.00%	-154.59%
(F1) EPS Est 12 week change	-76.23%	-76.23%	-15.68%	-132.38%	-209.06%	-118.62%
(Q1) EPS Est Mthly Chg	-119.86%	-212.50%	-13.12%	-1,168.75%	-223.30%	-621.97%

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	D
Growth Score	B
Momentum Score	F
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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