

Phillips 66 (PSX)

\$55.15 (As of 03/11/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

Summary

Phillips 66's rising operating expenses are a cause of concern. Notably, its refining operations reported adjusted pre-tax profit of \$345 million in fourth-quarter, down from the year-ago period's \$2,008 million, primarily due to higher costs pertaining to turnaround activities. Importantly, the segment's realized refining margins worldwide fell to \$9.50 per barrel from the year-ago quarter's \$16.53. Moreover, seasonally lower sales volumes and decline in polyethylene margins have been hurting its Chemicals business. A rise in maintenance costs & higher turnaround activities have also been affecting the business unit. Additionally, the stock fell 46% in the past six months compared with the industry's 44.4% decline. Given these headwinds, Phillips 66 seems like a risky bet that ordinary investors should avoid.

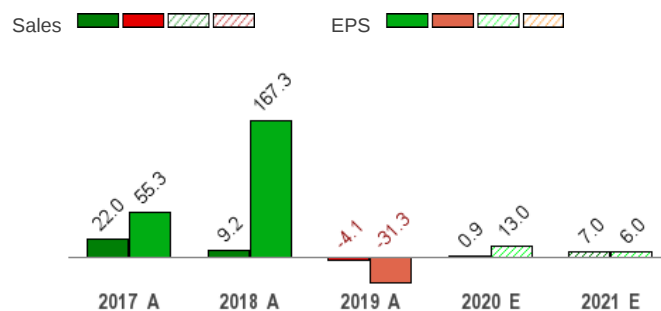
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.92 - \$48.53
20 Day Average Volume (sh)	4,709,643
Market Cap	\$24.2 B
YTD Price Change	-50.5%
Beta	1.17
Dividend / Div Yld	\$3.60 / 6.5%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 23% (196 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.7%
Last Sales Surprise	8.5%
EPS F1 Est- 4 week change	-6.4%
Expected Report Date	04/29/2020
Earnings ESP	-12.1%
P/E TTM	6.8
P/E F1	6.1
PEG F1	0.7
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	29,124 E	31,337 E	31,807 E	32,668 E	118,292 E
2020	26,243 E	27,090 E	28,713 E	28,474 E	110,520 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	\$2.09 E	\$2.92 E	\$3.13 E	\$2.27 E	\$9.65 E
2020	\$1.18 E	\$2.76 E	\$2.94 E	\$2.09 E	\$9.10 E
2019	\$0.40 A	\$3.02 A	\$3.11 A	\$1.54 A	\$8.05 A

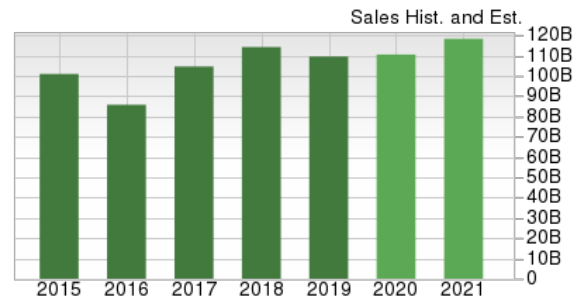
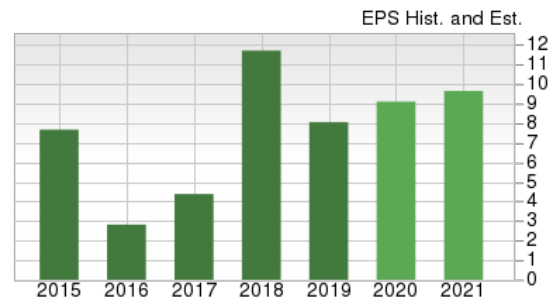
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

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 quarterly 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 profit of \$345 million from the company's refining operations declined from the year-ago quarter's \$2,008 million. This underperformance can be attributed to higher costs pertaining to turnaround activities and weak margins. Notably, the segment's realized refining margins worldwide fell to \$9.50 per barrel from the year-ago quarter's \$16.53 per barrel. Also, its operating expenses through 2019 rose 4% to \$5,074 million.
- ▼ 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.
- ▼ Seasonally lower sales volumes and a decline in polyethylene margins have been hurting the company's Chemicals business. A rise in maintenance costs and higher turnaround activities have also been affecting the business segment.

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.
-

Last Earnings Report

Phillips 66 Beats Q4 Earnings and Revenue Estimates

Phillips 66 fourth-quarter 2019 adjusted earnings per share of \$1.54, beating the Zacks Consensus Estimate of \$1.53, courtesy of contributions from chemical business. However, the bottom line plunged 68.4% from the year-ago figure of \$4.87 due to soft refining margins.

Quarterly revenues totaled \$29.6 billion, slightly down from the year-ago quarter's \$29.8 billion. However, the top line surpassed the Zacks Consensus Estimate of \$27.3 billion.

Quarter Ending 12/2019

Report Date	Jan 31, 2020
Sales Surprise	8.46%
EPS Surprise	0.65%
Quarterly EPS	1.54
Annual EPS (TTM)	8.07

Segmental Results

Midstream

The segment generated adjusted pre-tax quarterly earnings of \$405 million, down from \$409 million in the year-ago quarter.

Chemicals

Adjusted pre-tax earnings of \$173 million were up from \$152 million in the prior-year quarter.

Refining

Adjusted pre-tax profit of \$345 million tanked from the year-ago quarter's \$2,008 million. This underperformance can be attributed to higher costs pertaining to turnaround activities and weak margins.

The segment's realized refining margins worldwide fell to \$9.50 per barrel from the year-ago quarter's \$16.53 per barrel.

Marketing and Specialties (M&S)

Pre-tax earnings plunged from \$592 million in the year-ago quarter to \$287 million.

Realized marketing fuel margins both for the United States and International markets contracted to \$1.51 per barrel and \$3.35 per barrel, respectively, from the year-ago quarter's \$1.95 per barrel and \$11.99 per barrel each.

Financial Condition

In the reported quarter, Phillips 66 generated \$1.7 billion of cash from operations. The company returned capital worth \$810 million to its stockholders through dividend payouts and share repurchases.

As of Dec 31, 2019, cash and cash equivalents were \$1.6 billion along with debt of \$11.8 billion. The company's debt-to-capitalization ratio was 30%.

Valuation

Phillips 66 shares are down 54.2% in the year-to-date period and 47.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 48.4% and 41.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 50.3% and 47.7%, respectively.

The S&P 500 index is down 14.9% in the year-to-date period and 3.4% in the past year.

The stock is currently trading at 5.99X forward 12-month earnings, which compares to 6.01X for the Zacks sub-industry, 10.64X for the Zacks sector and 15.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.68X and as low as 5.99X, with a 5-year median of 12.51X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$44 price target reflects 4.78X 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	5.99	6.01	10.64	15.85
	5-Year High	24.68	15.83	32.41	19.34
	5-Year Low	5.99	6.01	10.64	15.18
	5-Year Median	12.51	10.9	18.41	17.42
EV/EBITDA TTM	Current	9.85	5.96	4.39	11.04
	5-Year High	97.95	16.44	10.26	12.87
	5-Year Low	7.86	4.31	4.39	8.49
	5-Year Median	10.72	7.32	6.53	10.79
P/S F12M	Current	0.22	0.16	0.53	2.91
	5-Year High	0.53	0.37	1.45	3.44
	5-Year Low	0.22	0.16	0.53	2.54
	5-Year Median	0.39	0.29	0.99	3

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 253)



Top Peers

BP p.l.c. (BP)	Neutral
Delek US Holdings, Inc. (DK)	Neutral
Enterprise Products Partners L.P. (EPD)	Neutral
Marathon Petroleum Corporation (MPC)	Neutral
PBF Energy Inc. (PBF)	Neutral
Royal Dutch Shell PLC (RDS.A)	Neutral
Valero Energy Corporation (VLO)	Neutral
HollyFrontier Corporation (HFC)	Underperform

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	PSX Underperform	X Industry	S&P 500	MPC Neutral	PBF Neutral	VLO Neutral
VGM Score	A	-	-	A	A	A
Market Cap	24.24 B	1.22 B	19.20 B	20.37 B	1.58 B	22.28 B
# of Analysts	9	5	13	9	14	9
Dividend Yield	6.53%	0.88%	2.31%	7.40%	9.11%	7.20%
Value Score	A	-	-	B	A	A
Cash/Price	0.05	0.12	0.05	0.06	0.40	0.10
EV/EBITDA	5.64	3.74	11.76	6.11	2.82	4.66
PEG Ratio	0.61	0.91	1.73	0.61	0.13	0.84
Price/Book (P/B)	0.90	0.82	2.64	0.48	0.44	0.99
Price/Cash Flow (P/CF)	4.88	3.88	10.55	2.93	2.83	4.83
P/E (F1)	5.17	6.96	15.66	5.10	3.19	6.74
Price/Sales (P/S)	0.22	0.20	2.06	0.16	0.06	0.21
Earnings Yield	16.50%	13.98%	6.38%	19.61%	31.28%	14.85%
Debt/Equity	0.41	0.60	0.70	0.71	0.64	0.41
Cash Flow (\$/share)	11.30	4.65	7.01	10.70	4.65	11.28
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	12.36%	11.39%	10.85%	4.56%	-11.97%	-5.36%
Proj. EPS Growth (F1/F0)	13.10%	16.22%	6.02%	24.40%	358.26%	41.70%
Curr. Cash Flow Growth	-27.54%	2.05%	6.09%	13.40%	-27.27%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	0.90%	10.33%	8.52%	12.38%	-2.24%	-2.48%
Current Ratio	1.24	1.26	1.24	1.25	1.52	1.44
Debt/Capital	29.22%	38.31%	42.57%	42.36%	39.06%	28.94%
Net Margin	2.81%	1.93%	11.69%	2.11%	1.30%	2.24%
Return on Equity	13.51%	10.29%	16.74%	7.45%	3.17%	10.27%
Sales/Assets	1.88	1.63	0.54	1.28	2.72	2.07
Proj. Sales Growth (F1/F0)	0.88%	1.34%	3.55%	6.29%	9.42%	4.37%
Momentum Score	F	-	-	C	D	F
Daily Price Chg	-12.96%	-9.15%	-5.37%	-9.15%	-15.47%	-9.98%
1 Week Price Chg	-7.43%	-7.46%	-0.67%	-17.44%	-23.81%	-4.77%
4 Week Price Chg	-39.49%	-46.36%	-20.57%	-46.78%	-54.43%	-36.01%
12 Week Price Chg	-51.21%	-49.86%	-17.57%	-48.51%	-57.92%	-42.42%
52 Week Price Chg	-43.77%	-45.56%	-8.21%	-47.36%	-57.35%	-35.38%
20 Day Average Volume	4,709,643	712,166	2,882,511	9,802,146	3,070,321	5,467,072
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.45%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.35%	-6.35%	-0.23%	-8.95%	-7.42%	-12.19%
(F1) EPS Est 12 week change	-14.03%	-9.48%	-0.60%	-19.23%	-7.82%	-17.53%
(Q1) EPS Est Mthly Chg	-17.42%	-10.69%	-0.52%	-10.69%	-18.37%	-30.46%

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	B
Momentum Score	F
VGM Score	A

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.