

Phillips 66 (PSX)

\$63.66 (As of 08/14/20)

Price Target (6-12 Months): **\$67.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Phillips 66 is the leading player in each of its operations like refining, chemicals and midstream in terms of size, efficiency and strength. With its oil and gas pipeline network expected to reach 24,000 miles by 2020-end, the company is a leader in the midstream business. During the June quarter of 2020, the company's Gray Oak Pipeline commenced full operations. Also, in July, the company's South Texas Gateway Terminal started commercial operations. Notably, Phillips 66 recently reported better-than-expected earnings, thanks to lower operating costs and expenses. However, the positives were partially offset by lower chemicals and refining contributions. Notably, lower refined product demand due to the coronavirus pandemic affected the company's businesses in the second quarter. Also, its balance sheet weakness is concerning.

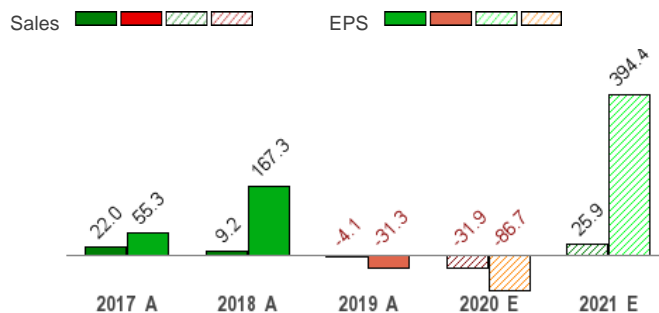
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.92 - \$40.04
20 Day Average Volume (sh)	3,075,942
Market Cap	\$27.8 B
YTD Price Change	-42.9%
Beta	1.51
Dividend / Div Yld	\$3.60 / 5.7%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 32% (172 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.3%
Last Sales Surprise	-25.1%
EPS F1 Est- 4 week change	-54.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	12.9
P/E F1	59.5
PEG F1	7.0
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	20,326 E	22,162 E	27,350 E	28,326 E	93,908 E
2020	21,244 A	11,183 A	19,744 E	23,055 E	74,585 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	\$0.70 E	\$1.46 E	\$1.98 E	\$1.41 E	\$5.29 E
2020	\$1.02 A	-\$0.74 A	\$0.29 E	\$0.32 E	\$1.07 E
2019	\$0.40 A	\$3.02 A	\$3.11 A	\$1.54 A	\$8.05 A

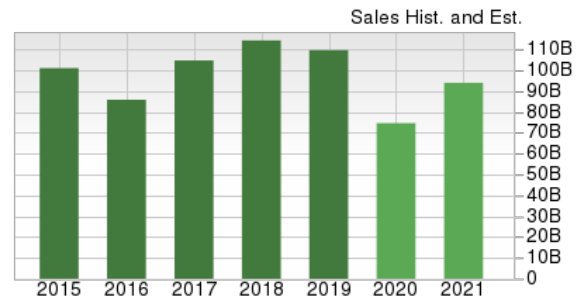
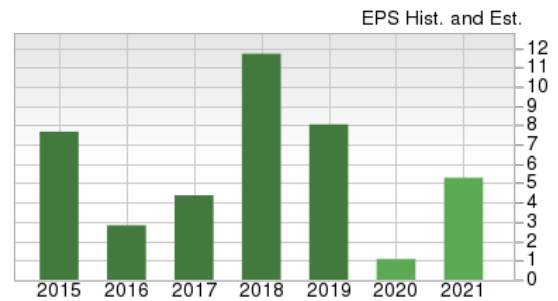
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

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 Buy:

- ▲ Phillips 66 is the leading player in each of its operations like refining, chemicals and midstream in terms of size, efficiency and strengths. 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 takeaway capacity constraints. To capitalize on the trend, the company allocated significant portion of its capital budget for midstream operations, which will bring high margin and strong-growth. Precisely, with its oil and gas pipeline network expected to reach 24,000 miles by 2020, the company is an industry leader in the midstream business.
- ▲ 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. Also, its marine export terminal is expected to be completed by first-quarter 2021 and have two deepwater docks with a throughput capacity of up to 800,000 bpd. It will also have a storage capacity of 8.6 million barrels.
- ▲ Moreover, the International Maritime Organization, through the IMO 2020 regulations, has reduced the sulphur content in marine fuels, which increased the demand for distillate fuels. Phillips 66 sits well-positioned for the change in regulations, with its updated refining assets.

Phillips 66 is strongly positioned to gain from rising demand for midstream assets in the United States.

Reasons To Sell:

- ▼ The company reported adjusted pre-tax loss of \$867 million in the June quarter of 2020 against year-ago earnings of \$983 million. This underperformance was attributed to reduced volumes and weak margins. The segment's realized refining margins on a worldwide basis fell to \$2.60 per barrel from the year-ago quarter's \$11.37. Moreover, the same in Atlantic Basin/Europe and West Coast fell to \$1.53 and \$5.05 per barrel from the year-ago levels of \$10.85 and \$9.94, respectively.
 - ▼ The coronavirus pandemic has dented global energy demand. The situation is unlikely to improve in the near term, making the outlook of the company's energy business gloomy.
 - ▼ Although Phillips 66 is committed to constantly returning capital to shareholders through dividend payments, the company has mostly paid lower dividends than the industry in the past year. Moreover, given the downbeat business scenario owing to the pandemic, the company is unlikely to raise dividend in the near term.
 - ▼ As of Jun 30, 2020, cash and cash equivalents were \$1.9 billion, reflecting a sequential increase from \$1.2 billion. However, total debt rose to \$14.4 billion from \$13 billion in first-quarter 2020. Importantly, given the weakness in energy demand due to coronavirus-induced lockdowns, the company's earnings will remain under pressure, which might pose difficulty in debt repayment.
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Phillips 66 is being affected by significant decline in worldwide refining margins.

Last Earnings Report

Phillips 66 Q2 Earnings Beat on Lower Operating Costs

Phillips 66 reported second-quarter 2020 adjusted loss per share of 74 cents, narrower than the Zacks Consensus Estimate of a loss of 99 cents. The company reported adjusted earnings of \$3.02 per share in the year-ago quarter.

Quarterly revenues totaled \$11.2 billion, down from the year-ago quarter's \$28.5 billion. Moreover, the top line missed the Zacks Consensus Estimate of \$14.9 billion.

The better-than-expected earnings were supported by lower operating costs and expenses. However, the positives were partially offset by lower midstream, chemicals and refining contributions. Lower refined product demand due to the coronavirus pandemic affected the company's businesses in the second quarter.

In July, it loaded the first export cargo from the South Texas Gateway Terminal. The West Coast retail marketing JV acquired 95 sites, which will likely boost its exposure to retail margins. In the second quarter, the company started full operations of the Gray Oak Pipeline. Moreover, it incorporated 7.5 million barrels of storage capacity at Clemens Caverns in the Sweeny Hub.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	-25.05%
EPS Surprise	25.25%
Quarterly EPS	-0.74
Annual EPS (TTM)	4.93

Segmental Results

Midstream

The segment generated adjusted pre-tax quarterly earnings of \$245 million, down from \$423 million in the year-ago quarter. Profits from NGL and Other, and DCP Midstream significantly decreased in the second quarter. Also, lower pipeline and terminal volumes affected its transportation income.

Chemicals

Adjusted pre-tax earnings of \$89 million were down from \$275 million in the prior-year quarter. CPChem's O&P business was affected by lower sales prices and higher feedstock costs. Its O&P utilization rate came in at 103%.

Refining

It reported adjusted pre-tax loss of \$867 million against year-ago earnings of \$983 million. This underperformance was attributed to reduced volumes and weak margins. The segment's realized refining margins on a worldwide basis fell to \$2.60 per barrel from the year-ago quarter's \$11.37. Moreover, the same in Atlantic Basin/Europe and West Coast fell to \$1.53 and \$5.05 per barrel from the year-ago levels of \$10.85 and \$9.94, respectively.

Marketing and Specialties

Pre-tax earnings decreased from \$293 million in the year-ago quarter to \$286 million.

While realized marketing fuel margins in the United States increased to \$1.75 per barrel from the year-ago quarter's \$1.53, the same in the international markets decreased to \$5.07 from the year-ago level of \$6.03.

Costs and Expenses

Total costs and expenses for the second quarter significantly decreased to \$11,628 million from \$26,689 million in the year-ago period. While the cost of purchased crude oil and products, as well as operating expenses declined from the year-ago levels, SG&A costs marginally increased.

Financial Condition

In the reported quarter, Phillips 66 generated \$764 million of cash from operations. Its capital expenditures and investments totaled \$939 million.

As of Jun 30, 2020, cash and cash equivalents were \$1.9 billion, reflecting a sequential increase from \$1.2 billion. Total debt rose to \$14.4 billion from \$13 billion in first-quarter 2020. The company's debt to capitalization was 38%. It increased the one-year term loan facility to \$2 billion in April, with \$1-billion undrawn capacity remaining at second quarter-end.

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.

Its marine export terminal is expected to be completed by first-quarter 2021 and have two deepwater docks with a throughput capacity of up to 800,000 bpd. It will also have a storage capacity of 8.6 million barrels.

Valuation

Phillips 66 shares are down 42.8% in the year-to-date period and 35.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 42% and 36.9%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 36.6% and 39.5%, respectively.

The S&P 500 index is up 4.6% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 17.12X forward 12-month earnings, which compares to 53.74X for the Zacks sub-industry, 29.4X for the Zacks sector and 22.87X 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 13.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$67.00 price target reflects 16.38X 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	17.12	53.74	29.4	22.87
	5-Year High	24.68	105.37	61.18	22.87
	5-Year Low	4.86	8.02	11.32	15.25
	5-Year Median	13.02	12.65	18.7	17.58
EV/EBITDA TTM	Current	21.24	9.9	4.43	12.74
	5-Year High	99.15	16.51	10.48	12.85
	5-Year Low	6.94	4.3	3.05	8.25
	5-Year Median	12.04	7.41	6.49	10.91
P/S F12M	Current	0.32	0.26	0.74	3.7
	5-Year High	0.53	0.37	1.47	3.7
	5-Year Low	0.16	0.17	0.59	2.53
	5-Year Median	0.39	0.29	0.99	3.05

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Royal Dutch Shell PLC (RDS.A)	Outperform	2
BP p.l.c. (BP)	Neutral	4
Delek US Holdings, Inc. (DK)	Neutral	4
Enterprise Products Partners L.P. (EPD)	Neutral	3
HollyFrontier Corporation (HFC)	Neutral	4
Marathon Petroleum Corporation (MPC)	Neutral	4
PBF Energy Inc. (PBF)	Neutral	4
Valero Energy Corporation (VLO)	Neutral	3

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	PSX	X Industry	S&P 500	MPC	PBF	VLO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	3
VGM Score	B	-	-	A	B	B
Market Cap	27.80 B	1.35 B	23.68 B	24.95 B	1.13 B	22.21 B
# of Analysts	9	4	14	9	8	9
Dividend Yield	5.66%	0.00%	1.68%	6.05%	0.00%	7.20%
Value Score	B	-	-	A	A	A
Cash/Price	0.07	0.23	0.07	0.05	1.11	0.11
EV/EBITDA	6.43	4.60	13.36	7.02	3.98	5.16
PEG Ratio	7.00	8.25	2.99	NA	NA	NA
Price/Book (P/B)	1.19	1.08	3.22	0.81	0.39	1.08
Price/Cash Flow (P/CF)	5.63	4.09	12.82	3.58	2.02	4.83
P/E (F1)	59.50	19.37	22.06	NA	NA	NA
Price/Sales (P/S)	0.31	0.30	2.51	0.24	0.06	0.25
Earnings Yield	1.68%	-5.01%	4.30%	-7.74%	-81.17%	-3.65%
Debt/Equity	0.54	1.05	0.77	1.05	1.53	0.59
Cash Flow (\$/share)	11.30	4.65	6.94	10.70	4.65	11.28
Growth Score	B	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	14.62%	13.95%	10.41%	3.82%	-3.33%	-6.80%
Proj. EPS Growth (F1/F0)	-86.67%	-86.83%	-6.32%	-160.05%	-947.36%	-134.85%
Curr. Cash Flow Growth	-27.54%	2.05%	5.20%	13.40%	-27.27%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	0.90%	6.45%	8.55%	12.38%	-2.24%	-2.48%
Current Ratio	1.25	1.44	1.33	1.27	1.66	1.75
Debt/Capital	35.22%	51.89%	44.59%	51.89%	60.47%	36.94%
Net Margin	-1.32%	-1.32%	10.13%	-7.55%	-2.70%	1.22%
Return on Equity	8.76%	5.30%	14.51%	3.04%	-11.97%	5.30%
Sales/Assets	1.59	1.26	0.51	1.11	2.20	1.74
Proj. Sales Growth (F1/F0)	-31.92%	-30.83%	-1.43%	-37.05%	-29.94%	-31.13%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	1.64%	1.00%	0.12%	2.93%	2.40%	2.39%
1 Week Price Chg	1.37%	2.43%	2.30%	-4.01%	6.11%	-6.35%
4 Week Price Chg	-1.87%	0.78%	4.41%	2.57%	5.86%	-3.75%
12 Week Price Chg	-17.42%	-7.76%	13.66%	7.45%	-10.31%	-17.15%
52 Week Price Chg	-34.69%	-40.00%	5.80%	-15.53%	-56.36%	-29.01%
20 Day Average Volume	3,075,942	623,647	1,984,154	8,224,559	4,307,827	4,076,763
(F1) EPS Est 1 week change	-6.03%	-0.19%	0.00%	-4.26%	-2.90%	-1.19%
(F1) EPS Est 4 week change	-54.39%	-12.90%	2.08%	-31.04%	-19.91%	-34.94%
(F1) EPS Est 12 week change	-57.12%	-28.91%	2.66%	-43.29%	-53.16%	-28.91%
(Q1) EPS Est Mthly Chg	-63.21%	-63.21%	0.94%	-109.32%	-14.12%	-206.94%

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	B
Momentum Score	F
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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