

Phillips 66 (PSX)

\$100.32 (As of 01/24/20)

Price Target (6-12 Months): **\$107.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/06/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Phillips 66 is well positioned to gain from rising demand for midstream assets in the United States, where takeaway capacity constraint is a significant problem. Precisely, with its oil and natural gas pipeline network expected to reach 24,000 miles by 2020, the company is an industry leader in midstream operations. Notably, the firm — with updated refining assets — is well positioned to benefit from the IMO 2020 sulfur-cap regulation. Also, the company is committed to return cash to stockholders through dividend payments & share repurchases. However, apart from higher costs related to turnaround activities, declining margins in the Gulf and West coasts have been hurting the company's refining businesses. Also, the possibility that the tariff war may again escalate has dampened outlook for the refining business.

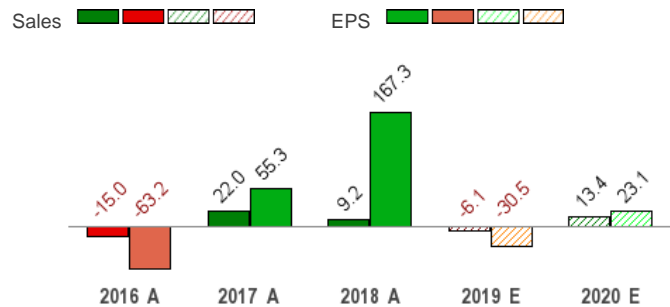
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.92 - \$80.24
20 Day Average Volume (sh)	2,225,091
Market Cap	\$44.6 B
YTD Price Change	-10.0%
Beta	1.09
Dividend / Div Yld	\$3.60 / 3.6%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Top 44% (112 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.6%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-5.3%
Expected Report Date	01/31/2020
Earnings ESP	0.0%
P/E TTM	8.8
P/E F1	10.0
PEG F1	1.2
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	30,116 E	32,355 E	32,966 E	29,869 E	121,668 E
2019	23,658 A	28,518 A	27,771 A	27,302 E	107,249 E
2018	24,046 A	29,736 A	30,592 A	29,843 A	114,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.74 E	\$3.08 E	\$3.27 E	\$2.17 E	\$10.02 E
2019	\$0.40 A	\$3.02 A	\$3.11 A	\$1.53 E	\$8.14 E
2018	\$1.04 A	\$2.80 A	\$3.10 A	\$4.87 A	\$11.71 A

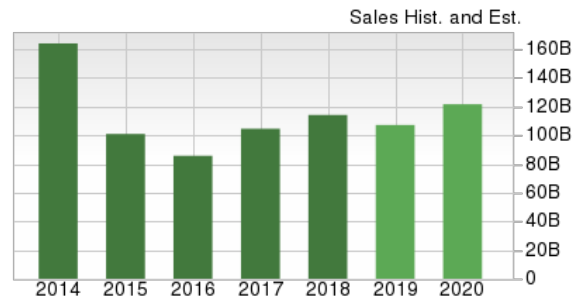
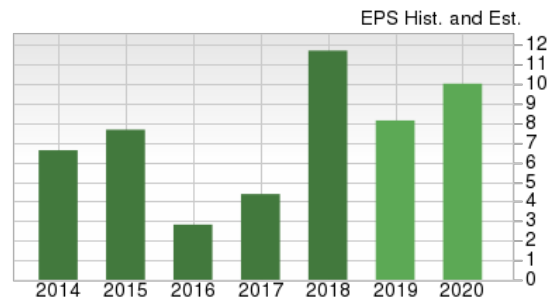
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

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 22% to total earnings in the September quarter of 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 13% 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 41% 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 24% 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 bottleneck problems. To capitalize on the trend, the company allocated majority of its capital budget for midstream operations in 2019, 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 strongly committed in returning cash back to the shareholders through both dividend payments and repurchasing shares. Since inception, the company has returned more than \$24 billion to its shareholders. Notably, the company has been recently permitted to repurchase up to \$3 billion of common stock. Moreover, the International Maritime Organization, through the IMO 2020 regulations, is planning to reduce the sulphur content in marine fuels, which will increase the demand for distillate fuels. Phillips 66 sits well-positioned for the upcoming 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:

- ▼ Apart from higher costs related to turnaround activities, declining margins in the Gulf and West coasts have been hurting the company's refining businesses.
- ▼ 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. The threat to economic growth might hurt the company's refining businesses.
- ▼ Although Phillips 66 is returning capital to shareholders consistently, the company's dividend yield has been mostly below the energy sector over the past year.

Declining margins in the Gulf and West coasts have been hurting the company's refining businesses.

Last Earnings Report

Phillips 66 Earnings Beat, Revenues Miss Estimates in Q3

Phillips 66 posted third-quarter 2019 adjusted earnings per share of \$3.11, which surpassed the Zacks Consensus Estimate of \$2.60. The bottom line also increased from the year-ago \$3.10, courtesy of contributions from transportation and NGL businesses.

Quarterly revenues totaled \$27.8 billion, down from the year-ago quarter's \$30.6 billion. The top line also missed the Zacks Consensus Estimate of \$28.3 billion owing to soft refining margin.

Quarter Ending 09/2019

Report Date	Oct 25, 2019
Sales Surprise	-1.89%
EPS Surprise	19.62%
Quarterly EPS	3.11
Annual EPS (TTM)	11.40

Segment Results

Midstream

The segment generated adjusted pre-tax quarterly earnings of \$440 million, up from \$312 million in the year-ago quarter on increased contributions from transportation and NGL businesses.

Chemicals

The segment reported adjusted pre-tax earnings of \$269 million, up from \$263 million in the prior-year quarter.

Refining

The segment's adjusted pre-tax profit of \$839 million declined from the year-ago quarter's \$1,263 million. The underperformance can be attributed to higher costs related to turnaround activities and soft margins.

Marketing and Specialties (M&S)

This segment's pre-tax earnings improved from \$385 million in the year-ago quarter to \$498 million.

Financial Condition

In the reported quarter, Phillips 66 generated \$1,662 million of cash from operations. Through dividend payouts and share repurchases, the company returned capital worth \$841 million to stockholders.

As of Sep 30, 2019, cash and cash equivalents were \$2,268 million along with debt of \$11.9 billion. The company's debt-to-capitalization ratio was 31%.

Valuation

Phillips 66 shares are up 12.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are down 7.1% and 4.9%, respectively.

The S&P 500 index is up 26.6% in the past year.

The stock is currently trading at 10.00X forward 12-month earnings, which compares to 9.4X for the Zacks sub-industry, 13.67X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.68X and as low as 8.38X, with a 5-year median of 12.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$107 price target reflects 10.67X 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	10	9.4	13.67	18.94
	5-Year High	24.68	15.83	32.43	19.34
	5-Year Low	8.38	8.59	11.29	15.18
	5-Year Median	12.52	11.09	18.69	17.45
EV/EBITDA TTM	Current	9.33	6.86	4.9	12.25
	5-Year High	97.95	16.37	10.19	12.86
	5-Year Low	7.86	4.44	4.57	8.48
	5-Year Median	10.65	7.4	6.5	10.68
P/S F12M	Current	0.37	0.28	0.85	3.52
	5-Year High	0.53	0.37	1.44	3.52
	5-Year Low	0.25	0.24	0.67	2.54
	5-Year Median	0.39	0.29	0.99	3

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	PSX Neutral	X Industry	S&P 500	MPC Neutral	PBF Neutral	VLO Neutral
VGM Score	A	-	-	A	A	B
Market Cap	44.58 B	2.62 B	24.13 B	35.38 B	3.37 B	36.65 B
# of Analysts	9	4	13	9	13	7
Dividend Yield	3.59%	0.50%	1.78%	3.89%	4.27%	4.03%
Value Score	A	-	-	A	A	A
Cash/Price	0.05	0.08	0.04	0.04	0.14	0.06
EV/EBITDA	5.72	6.63	14.02	8.99	6.80	6.45
PEG Ratio	1.18	1.54	2.03	0.68	0.88	1.18
Price/Book (P/B)	1.65	1.65	3.30	0.84	0.95	1.70
Price/Cash Flow (P/CF)	6.68	7.51	13.52	6.14	4.40	7.13
P/E (F1)	10.01	10.88	18.92	7.65	6.22	9.44
Price/Sales (P/S)	0.41	0.34	2.65	0.28	0.14	0.34
Earnings Yield	9.99%	9.11%	5.28%	13.08%	16.08%	10.60%
Debt/Equity	0.41	0.60	0.72	0.71	0.65	0.42
Cash Flow (\$/share)	15.03	3.93	6.94	8.87	6.39	12.51
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	9.90%	7.18%	10.60%	3.48%	-13.95%	-5.51%
Proj. EPS Growth (F1/F0)	23.10%	23.10%	7.59%	71.73%	463.01%	91.07%
Curr. Cash Flow Growth	91.99%	14.29%	13.90%	48.56%	78.06%	24.76%
Hist. Cash Flow Growth (3-5 yrs)	8.47%	9.89%	9.00%	12.55%	23.93%	4.78%
Current Ratio	1.29	1.29	1.22	1.25	1.56	1.40
Debt/Capital	29.03%	38.51%	42.99%	42.25%	39.46%	29.81%
Net Margin	4.17%	1.93%	11.35%	2.50%	-0.36%	2.12%
Return on Equity	19.31%	9.34%	17.10%	8.94%	4.77%	10.37%
Sales/Assets	1.92	1.68	0.55	1.31	2.81	2.13
Proj. Sales Growth (F1/F0)	13.44%	7.08%	4.03%	9.14%	7.97%	12.39%
Momentum Score	F	-	-	F	A	F
Daily Price Chg	-1.72%	-0.28%	-1.01%	-1.52%	-2.63%	-0.28%
1 Week Price Chg	-1.49%	-3.23%	2.29%	-5.53%	-7.60%	-5.85%
4 Week Price Chg	-10.48%	-8.93%	1.02%	-9.89%	-10.88%	-5.46%
12 Week Price Chg	-14.12%	-12.16%	6.85%	-14.79%	-12.92%	-7.96%
52 Week Price Chg	9.84%	-0.69%	20.39%	-13.66%	-18.57%	13.06%
20 Day Average Volume	2,225,091	643,939	1,536,379	5,073,110	1,280,156	2,727,402
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	4.90%	-0.72%
(F1) EPS Est 4 week change	-5.31%	-2.46%	0.00%	-6.74%	1.28%	-2.46%
(F1) EPS Est 12 week change	-5.48%	-2.07%	-0.23%	-2.07%	-1.55%	-0.16%
(Q1) EPS Est Mthly Chg	-9.19%	-9.19%	0.00%	-14.59%	-52.99%	-11.82%

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	A
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.

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