

Phillips 66 (PSX)

\$74.26 (As of 02/27/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Phillips 66's fourth-quarter earnings deteriorated significantly year over year. The underperformance is owing to soft refining margins. Notably, the company's refining operations reported adjusted pre-tax profit of \$345 million, down from the year-ago quarter'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 per barrel. Moreover, seasonally lower sales volumes and decline in polyethylene margins have been hurting the company's Chemicals business. A rise in maintenance costs & higher turnaround activities have also been affecting the business unit. Additionally, the stock fell 23% in the past six months against the industry's 15.2% decline.

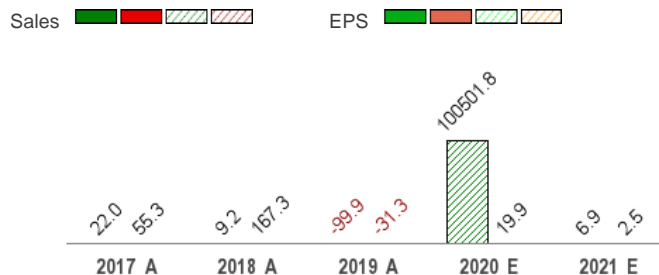
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.92 - \$71.39
20 Day Average Volume (sh)	3,293,803
Market Cap	\$32.6 B
YTD Price Change	-33.4%
Beta	1.12
Dividend / Div Yld	\$3.60 / 4.8%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 25% (191 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.7%
Last Sales Surprise	8.5%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	04/29/2020
Earnings ESP	-15.1%
P/E TTM	9.2
P/E F1	7.7
PEG F1	0.9
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	29,123 E	31,356 E	31,862 E	32,823 E	118,344 E
2020	26,363 E	27,109 E	28,715 E	28,476 E	110,662 E
2019	23,658 A	28,518 A	27,771 A	29,612 A	110 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.03 E	\$3.18 E	\$3.24 E	\$2.15 E	\$9.89 E
2020	\$1.40 E	\$3.08 E	\$3.16 E	\$2.06 E	\$9.65 E
2019	\$0.40 A	\$3.02 A	\$3.11 A	\$1.54 A	\$8.05 A

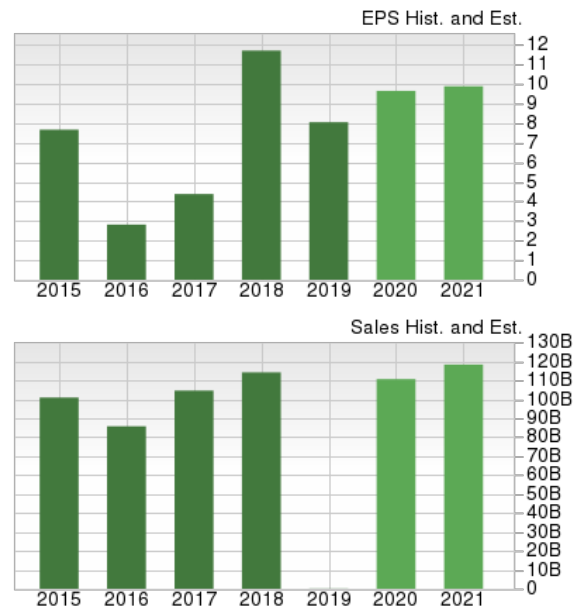
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/27/2020. The reports text is as of 02/28/2020.

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.
 - ▼ 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. The threat to 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.
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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 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 20.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are down 28.6% and 26%, respectively.

The S&P 500 index is up 7.7% in the past year.

The stock is currently trading at 7.67X forward 12-month earnings, which compares to 7.65X for the Zacks sub-industry, 11.47X for the Zacks sector and 17.03X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.68X and as low as 7.67X, with a 5-year median of 12.52X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$63 price target reflects 6.5X 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	7.67	7.65	11.47	17.03
	5-Year High	24.68	15.83	32.4	19.34
	5-Year Low	7.67	7.65	11.27	15.18
	5-Year Median	12.52	11.01	18.56	17.45
EV/EBITDA TTM	Current	11.98	6.65	4.67	12
	5-Year High	97.95	16.39	10.26	12.87
	5-Year Low	7.86	4.44	4.59	8.48
	5-Year Median	10.66	7.45	6.52	10.78
P/S F12M	Current	0.29	0.22	0.7	3.14
	5-Year High	0.53	0.37	1.45	3.43
	5-Year Low	0.27	0.22	0.67	2.54
	5-Year Median	0.39	0.29	0.99	3

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 out of 254)



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	32.63 B	1.86 B	21.35 B	31.12 B	2.70 B	27.18 B
# of Analysts	9	5	13	10	14	9
Dividend Yield	4.85%	0.68%	2.02%	4.84%	5.33%	5.92%
Value Score	A	-	-	A	A	A
Cash/Price	0.06	0.09	0.04	0.04	0.25	0.06
EV/EBITDA	6.93	5.99	12.70	8.40	3.85	5.05
PEG Ratio	0.89	1.15	1.84	0.77	0.21	0.92
Price/Book (P/B)	1.21	1.21	2.92	0.74	0.75	1.21
Price/Cash Flow (P/CF)	6.57	5.37	11.89	4.50	4.85	5.89
P/E (F1)	7.55	8.46	16.90	7.18	5.03	7.37
Price/Sales (P/S)	0.30	0.25	2.39	0.25	0.11	0.25
Earnings Yield	12.99%	11.09%	5.90%	13.94%	19.88%	13.57%
Debt/Equity	0.41	0.60	0.70	0.71	0.64	0.41
Cash Flow (\$/share)	11.30	3.93	6.94	10.65	4.65	11.24
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	12.36%	9.16%	10.85%	4.56%	-11.97%	-5.36%
Proj. EPS Growth (F1/F0)	19.88%	18.55%	6.79%	35.16%	398.10%	57.60%
Curr. Cash Flow Growth	-27.54%	2.05%	5.92%	12.86%	-27.27%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	0.90%	11.06%	8.38%	12.28%	-2.24%	-14.34%
Current Ratio	1.24	1.29	1.23	1.25	1.52	1.44
Debt/Capital	29.22%	38.31%	42.53%	42.25%	39.06%	28.94%
Net Margin	2.81%	1.93%	11.57%	2.11%	1.30%	2.24%
Return on Equity	13.51%	10.33%	16.80%	7.42%	3.17%	10.27%
Sales/Assets	1.88	1.63	0.54	1.29	2.72	2.07
Proj. Sales Growth (F1/F0)	1.01%	4.30%	4.07%	6.31%	9.42%	8.33%
Momentum Score	C	-	-	B	B	D
Daily Price Chg	-7.56%	-4.74%	-3.99%	-8.30%	-4.74%	-7.71%
1 Week Price Chg	-0.25%	-1.05%	-0.94%	1.37%	-5.19%	0.31%
4 Week Price Chg	-22.98%	-21.23%	-9.83%	-11.81%	-19.48%	-24.95%
12 Week Price Chg	-34.02%	-29.67%	-6.79%	-19.92%	-27.56%	-28.82%
52 Week Price Chg	-22.94%	-22.82%	2.79%	-22.71%	-27.49%	-18.85%
20 Day Average Volume	3,293,803	518,114	2,169,477	7,121,866	2,259,095	3,352,949
(F1) EPS Est 1 week change	-0.28%	0.00%	0.00%	-0.71%	-1.27%	-0.82%
(F1) EPS Est 4 week change	-2.83%	-2.83%	-0.09%	-4.66%	-0.00%	-3.89%
(F1) EPS Est 12 week change	-9.34%	-7.27%	-0.24%	-10.22%	-1.91%	-7.27%
(Q1) EPS Est Mthly Chg	-19.61%	-8.33%	-0.72%	-23.60%	-21.63%	-26.88%

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	C
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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