

## Phillips 66 (PSX)

**\$81.73** (As of 05/27/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

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. Notably, its Sweeny Hub expansion project will lead to a massive 400,000 bpd fractionation capacity, which will deliver strong-growth. However, its refining operations are currently under pressure due to reduced volumes and weak worldwide margins. Moreover, its operating expenses are on the rise, which can affect profit levels in the coming quarters. Also, its balance sheet weakness is concerning. Notably, the global coronavirus outbreak has crippled energy demand growth, which might hurt Phillips 66's businesses. As such, the stock warrants a cautious stance.

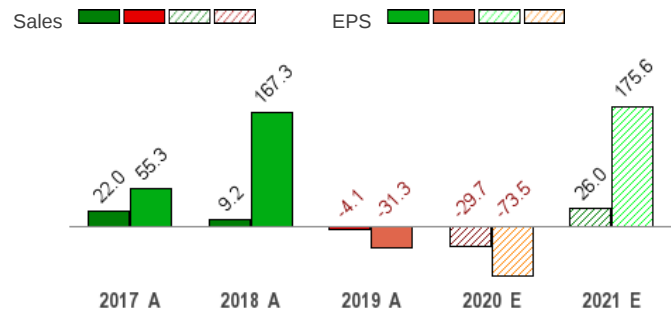
### Price, Consensus & Surprise



### Data Overview

|                            |                                                      |
|----------------------------|------------------------------------------------------|
| 52 Week High-Low           | \$119.92 - \$40.04                                   |
| 20 Day Average Volume (sh) | 3,919,488                                            |
| Market Cap                 | \$35.7 B                                             |
| YTD Price Change           | -26.6%                                               |
| Beta                       | 1.59                                                 |
| Dividend / Div Yld         | \$3.60 / 4.4%                                        |
| Industry                   | <a href="#">Oil and Gas - Refining and Marketing</a> |
| Zacks Industry Rank        | Bottom 27% (176 out of 248)                          |

### Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 61.9%      |
| Last Sales Surprise       | -3.6%      |
| EPS F1 Est- 4 week change | -3.5%      |
| Expected Report Date      | 07/24/2020 |
| Earnings ESP              | 78.6%      |
| P/E TTM                   | 9.4        |
| P/E F1                    | 38.4       |
| PEG F1                    | 4.5        |
| 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 | 97,111 E  |
| 2020 | 21,244 A | 14,513 E | 19,154 E | 21,983 E | 77,046 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 | \$0.84 E | \$1.68 E  | \$2.24 E | \$1.44 E | \$5.87 E |
| 2020 | \$1.02 A | -\$0.20 E | \$0.58 E | \$0.31 E | \$2.13 E |
| 2019 | \$0.40 A | \$3.02 A  | \$3.11 A | \$1.54 A | \$8.05 A |

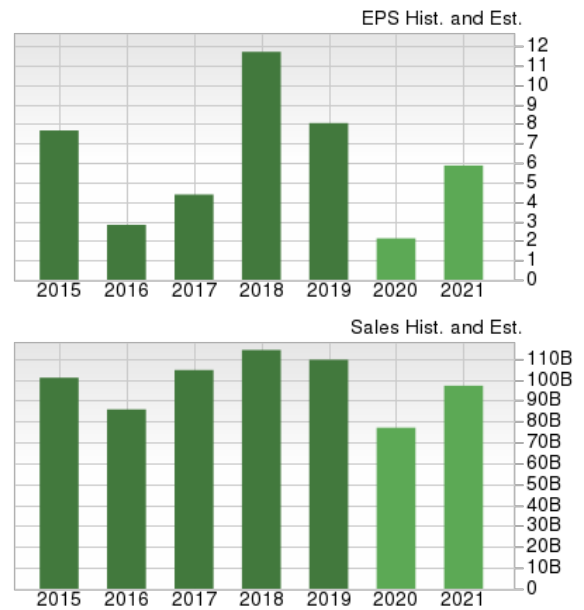
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/27/2020. The reports text is as of 05/28/2020.

## 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 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, which will deliver strong-growth. The company is also incorporating 7.5 million barrels of storage capacity at Clemens Caverns in the Sweeny Hub.
- ▲ The company is strongly committed in returning cash back to the shareholders through both dividend payments and share repurchases. It pays a quarterly dividend of 90 cents per share (\$3.60 on an annualized basis), which will continue even in the current market uncertainty caused by the coronavirus pandemic. Notably, it has paused the share buyback program from Mar 18 and expects to resume it later. Since inception, the company has returned more than \$25.7 billion to its shareholders.
- ▲ Moreover, the International Maritime Organization, through the IMO 2020 regulations, has planned to reduce 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:

- ▼ 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 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. Its declining times interest earned ratio has raised questions on the refiner's ability to pay off the current portion of its long-term debt load. 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.

## 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 26.6% in the year-to-date period and 1.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 34.4% and 36.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 20.1% and 37.4%, respectively.

The S&P 500 index is down 7% in the year-to-date period, but up 7.4% in the past year.

The stock is currently trading at 21.78X forward 12-month earnings, which compares to 74.17X for the Zacks sub-industry, 82.68X for the Zacks sector and 21.75X 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 12.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$87 price target reflects 23.18X 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       | 21.78 | 74.17        | 82.68  | 21.75   |
|                           | 5-Year High   | 24.68 | 109.78       | 82.68  | 21.75   |
|                           | 5-Year Low    | 4.86  | 8.02         | 11.27  | 15.23   |
|                           | 5-Year Median | 12.71 | 11.23        | 18.51  | 17.49   |
| EV/EBITDA TTM             | Current       | 11.04 | 7.46         | 4.01   | 11.07   |
|                           | 5-Year High   | 98.2  | 16.49        | 10.43  | 12.86   |
|                           | 5-Year Low    | 6.94  | 4.31         | 3.02   | 8.26    |
|                           | 5-Year Median | 10.64 | 7.34         | 6.5    | 10.8    |
| P/S F12M                  | Current       | 0.42  | 0.28         | 0.74   | 3.37    |
|                           | 5-Year High   | 0.53  | 0.37         | 1.46   | 3.44    |
|                           | 5-Year Low    | 0.16  | 0.17         | 0.58   | 2.53    |
|                           | 5-Year Median | 0.39  | 0.29         | 0.99   | 3.01    |

As of 05/27/2020

## Industry Analysis Zacks Industry Rank: Bottom 27% (176 out of 248)



## Top Peers

| Company (Ticker)                        | Rec          | Rank |
|-----------------------------------------|--------------|------|
| BP p.l.c. (BP)                          | Neutral      | 3    |
| Delek US Holdings, Inc. (DK)            | Neutral      | 3    |
| Enterprise Products Partners L.P. (EPD) | Neutral      | 3    |
| Marathon Petroleum Corporation (MPC)    | Neutral      | 3    |
| PBF Energy Inc. (PBF)                   | Neutral      | 4    |
| 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 |           |            |           | Industry Peers |           |           |
|--------------------------------------------------------------------|-----------|------------|-----------|----------------|-----------|-----------|
|                                                                    | PSX       | X Industry | S&P 500   | MPC            | PBF       | VLO       |
| Zacks Recommendation (Long Term)                                   | Neutral   | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                                            | 3         | -          | -         | 3              | 4         | 3         |
| VGM Score                                                          | C         | -          | -         | D              | F         | D         |
| Market Cap                                                         | 35.69 B   | 1.36 B     | 21.39 B   | 23.79 B        | 1.36 B    | 28.61 B   |
| # of Analysts                                                      | 9         | 6          | 14        | 9              | 13        | 9         |
| Dividend Yield                                                     | 4.40%     | 0.00%      | 1.97%     | 6.34%          | 0.00%     | 5.59%     |
| Value Score                                                        | C         | -          | -         | D              | F         | C         |
| Cash/Price                                                         | 0.04      | 0.19       | 0.06      | 0.07           | 0.58      | 0.06      |
| EV/EBITDA                                                          | 7.53      | 5.04       | 12.63     | 6.74           | 4.15      | 6.08      |
| PEG Ratio                                                          | 4.51      | 5.76       | 2.91      | NA             | NA        | NA        |
| Price/Book (P/B)                                                   | 1.51      | 1.22       | 2.99      | 0.76           | 0.55      | 1.45      |
| Price/Cash Flow (P/CF)                                             | 7.23      | 4.44       | 11.80     | 3.42           | 2.45      | 6.22      |
| P/E (F1)                                                           | 38.37     | 30.91      | 21.42     | NA             | NA        | NA        |
| Price/Sales (P/S)                                                  | 0.33      | 0.24       | 2.29      | 0.20           | 0.06      | 0.27      |
| Earnings Yield                                                     | 2.61%     | -2.24%     | 4.44%     | -6.21%         | -45.65%   | -2.24%    |
| Debt/Equity                                                        | 0.45      | 0.95       | 0.76      | 1.02           | 1.56      | 0.54      |
| Cash Flow (\$/share)                                               | 11.30     | 4.65       | 6.96      | 10.70          | 4.65      | 11.28     |
| Growth Score                                                       | B         | -          | -         | C              | C         | C         |
| Hist. EPS Growth (3-5 yrs)                                         | 15.26%    | 9.39%      | 10.87%    | 7.22%          | -9.66%    | -4.81%    |
| Proj. EPS Growth (F1/F0)                                           | -73.57%   | -101.02%   | -10.41%   | -145.86%       | -676.41%  | -127.60%  |
| Curr. Cash Flow Growth                                             | -27.54%   | 2.05%      | 5.46%     | 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      | 1.26       | 1.29      | 1.16           | 1.13      | 1.31      |
| Debt/Capital                                                       | 31.20%    | 51.24%     | 44.54%    | 51.24%         | 60.94%    | 34.94%    |
| Net Margin                                                         | 0.35%     | 0.35%      | 10.59%    | -5.48%         | -3.97%    | 0.41%     |
| Return on Equity                                                   | 14.90%    | 9.54%      | 16.29%    | 7.88%          | 3.40%     | 10.51%    |
| Sales/Assets                                                       | 1.87      | 1.52       | 0.55      | 1.27           | 2.73      | 2.07      |
| Proj. Sales Growth (F1/F0)                                         | -29.68%   | -20.54%    | -2.34%    | -27.62%        | -33.62%   | -32.98%   |
| Momentum Score                                                     | F         | -          | -         | F              | F         | F         |
| Daily Price Chg                                                    | 3.49%     | 0.89%      | 2.29%     | -0.68%         | -1.04%    | 2.15%     |
| 1 Week Price Chg                                                   | 7.80%     | 7.80%      | 4.99%     | 17.39%         | 15.07%    | 11.74%    |
| 4 Week Price Chg                                                   | 11.20%    | 1.97%      | 2.47%     | 10.71%         | 1.97%     | 5.88%     |
| 12 Week Price Chg                                                  | 9.51%     | -14.47%    | -6.13%    | -20.27%        | -41.18%   | 9.40%     |
| 52 Week Price Chg                                                  | -1.23%    | -23.98%    | 0.67%     | -25.33%        | -60.96%   | -6.25%    |
| 20 Day Average Volume                                              | 3,919,488 | 816,101    | 2,423,651 | 10,164,690     | 4,704,502 | 4,608,795 |
| (F1) EPS Est 1 week change                                         | -8.29%    | 0.00%      | 0.00%     | -8.57%         | -4.09%    | -6.55%    |
| (F1) EPS Est 4 week change                                         | -3.48%    | -9.68%     | -2.07%    | -17.32%        | -14.92%   | 13.34%    |
| (F1) EPS Est 12 week change                                        | -77.32%   | -101.18%   | -16.07%   | -135.16%       | -239.67%  | -118.70%  |
| (Q1) EPS Est Mthly Chg                                             | 47.14%    | 5.09%      | -3.59%    | 6.53%          | -109.37%  | 18.06%    |

---

## 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    | C |
| 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.

---

### 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.