



Independent Stock Idea

January 27, 2010

rating: buy
s&p 500: 1097

ConocoPhillips (COP) Lowest Large Cap McDep Ratio

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	25,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	49.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	87
<i>Pricing Date</i>	1/27/10	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	1501	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	74,800	<i>PV/Ebitda</i>	8.2
<i>Debt (US\$mm)</i>	52,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	127,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.50
<i>Present Value (PV) (US\$mm)</i>	210,000	<i>Present Value Proven Reserves(US\$/boe)</i>	17.63
<i>Net Present Value (US\$/share)</i>	105	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.94
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.58
<i>McDep Ratio - EV/PV</i>	0.61	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	4.0	<i>Indicated Annual Dividend (US\$/sh)</i>	2.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of COP since 2002 see www.mcdep.com/2cocp.htm			

Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)** offers unlevered appreciation potential of 65% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$105 a share. Fourth quarter results released today matched our estimates from three months ago for unlevered cash flow (Ebitda) while exceeding both the third quarter 2009 and fourth quarter 2008 (see table [Next Twelve Months Operating and Financial Estimates](#)). Lower than expected costs in the strengthening upstream segment helped offset a loss in the cyclically weak downstream (other) segment. NPV appears well supported by cash flow and reserve life in our valuation of COP in an industry context (see table [Functional Cash Flow and Present Value](#)). Put into the McDep Ratio framework, COP appears to be the most undervalued of large cap North American and European stocks in our coverage. Aware of investor skepticism in recognizing the value of the company, management has reversed its strategy from acquisitions to divestitures. A recovery in natural gas price would help in generating cash flow. It would also vindicate the acquisition of natural gas producer Burlington Resources and a joint venture investment in Australian coal gas, both made in times of higher natural gas price. Meanwhile the trend for oil, 64% of the value in COP, continues up with futures prices for the next six years for oil above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). COP stock is also above its 200-day average of \$47 a share.

Kurt H. Wulff, CFA



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ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/10</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>12/31/10</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	3,096	3,106	2,776	3,083	2,776	2,776	2,776	2,776	2,776
Overseas (or Int'l)	1,803	1,640	1,856	1,794	1,902	1,782	1,640	1,856	1,794
Total	4,899	4,746	4,632	4,877	4,678	4,558	4,416	4,632	4,570
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	1,501	1,424	1,487	1,475	1,487	1,472	1,457	1,443	1,465
Total gas & oil (bcf)	1,279	1,223	1,247	5,009	1,224	1,219	1,211	1,223	4,876
Total gas & oil (mbd)	2,318	2,215	2,259	2,287	2,267	2,232	2,193	2,215	2,226
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.75	5.66	5.84	6.29	5.88
U.S. (or North America)	5.02	2.83	4.02	3.41	5.56	5.47	5.64	6.07	5.69
Overseas (or Int'l)	8.55	5.26	5.89	5.73	8.14	8.00	8.00	8.62	8.20
Total	6.32	3.67	4.77	4.26	6.61	6.46	6.52	7.09	6.67
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	76.39	76.28	77.97	79.52	77.54
Worldwide	49.76	61.23	67.83	54.99	67.09	67.00	68.48	69.84	68.13
Total gas & oil (\$/mcf)	7.60	7.87	9.07	7.42	9.61	9.56	9.77	10.06	9.75
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	7.71	10.33	8.96	5.81	8.20
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,429	809	1,027	3,837	1,389	1,381	1,440	1,551	5,762
Overseas (or Int'l)	1,419	793	1,005	3,751	1,393	1,298	1,207	1,472	5,369
Total	2,848	1,602	2,033	7,588	2,782	2,679	2,648	3,023	11,131
Oil	6,871	8,022	9,279	29,595	8,979	8,976	9,183	9,271	36,409
Other	35,184	31,681	32,313	115,657	32,313	32,313	32,313	32,313	129,253
Total	44,904	41,305	43,625	152,840	44,074	43,968	44,144	44,607	176,793
Expense (\$mm)									
Exploration and Production	4,344	4,602	5,881	18,013	5,528	5,478	5,560	5,778	22,344
Other	1,598	807	316	2,508	921	463	807	1,024	3,215
Total Ebitda	5,942	5,410	6,198	20,521	6,449	5,941	6,367	6,802	25,559
Exploration	473	386	328	1,182	400	400	400	400	1,600
Deprec., Deplet., & Amort.	2,264	2,327	2,391	9,295	2,391	2,391	2,391	2,391	9,564
Other non cash		56	425	481					-
Ebit	3,205	2,641	3,054	9,563	3,658	3,150	3,576	4,011	14,395
Interest	279	336	375	1,289	375	375	375	375	1,500
Ebt	2,926	2,305	2,679	8,274	3,283	2,775	3,201	3,636	12,895
Income Tax	1,024	807	938	2,896	1,149	971	1,120	1,273	4,513
Net Income (\$mm)									
Exploration and Production	1,150	1,523	1,589	5,267					
Other	791	265	(64)	598					
Unallocated	(39)	(290)	216	(487)					
Total	1,902	1,498	1,741	5,378	2,134	1,804	2,081	2,363	8,382
Shares (millions)									
Per share (\$)	1.486	1,498	1,501	1,498	1,501	1,501	1,501	1,501	1,501
Ebitda Margin (E&P)	45%	48%	52%	48%	47%	47%	47%	47%	47%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

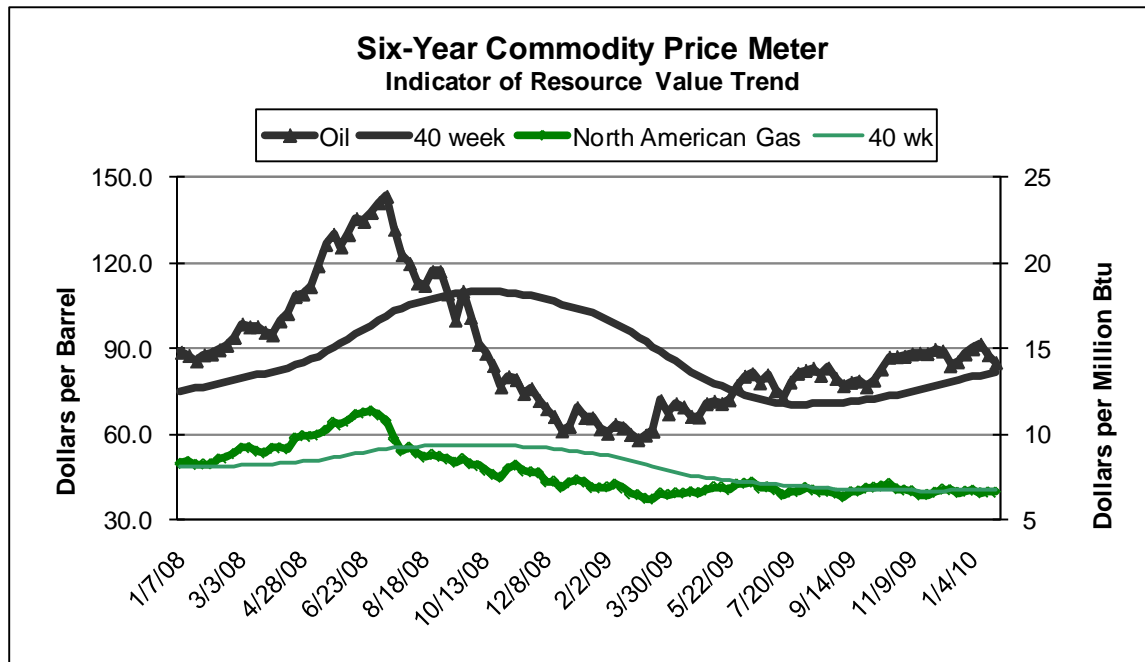
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ConocoPhillips					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,710	12.4	9.6	26,000	12%
Rest of World Natural Gas	2,520	14.6	8.7	22,000	10%
Oil	17,110	9.8	7.8	134,000	64%
Downstream	3,220		8.7	28,000	13%
	25,560	11.0	8.2	210,000	100%
Debt (US\$mm)					52,000
Net Present Value (US\$mm)					158,000
Shares (mm)					1,501
Net Present Value - Standard Estimate (US\$/sh)					105
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					104





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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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