



Independent Stock Idea

July 28, 2010

rating: buy
s&p 500: 1106

ConocoPhillips (COP) From Russia to Australia

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i>	22,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	54.44	<i>Natural Gas and Oil Production/Ebitda (%)</i>	82
<i>Pricing Date</i>	7/28/10	<i>Adjusted Reserves/Production NTM</i>	10.2
<i>Shares (mm)</i>	1400	<i>EV/Ebitda</i>	5.3
<i>Market Capitalization (US\$mm)</i>	76,200	<i>PV/Ebitda</i>	7.8
<i>Debt (US\$mm)</i>	43,000	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (US\$mm)</i>	119,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.20
<i>Present Value (PV) (US\$mm)</i>	176,000	<i>Present Value Proven Reserves(US\$/boe)</i>	18.78
<i>Net Present Value (US\$/share)</i>	95	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.13
<i>Debt/Present Value</i>	0.24	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.06
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	4.0	<i>Indicated Annual Dividend (US\$/sh)</i>	2.20
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 47% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$95 a share. In second quarter results released today, downstream refining and marketing operations were much improved (see table [Next Twelve Months Operating and Financial Estimates](#)). Declaring an intention four months ago to sell half of a 20% stake in Lukoil, also a McDep buy recommendation, Chief Executive Jim Mulva now expects to sell all of it. About 1% has already been sold, a block of 8% is under agreement to be sold to Lukoil and the remainder would be sold by the end of 2011. NPV is unchanged as we take Lukoil out of our earnings and cash flow projections and presume that the proceeds from Lukoil stock are used to repurchase COP shares and reduce COP debt (see table [Functional Cash Flow and Present Value](#)). While opportunities in Russia have been slow to develop, Australia is booming. The company has further validated its Poseidon discovery that may supply a potential expansion of the liquefied natural gas plant (LNG) at Darwin in the Northern Territory of Australia. In the state of Queensland in northeast Australia, COP has proposed a coal seam gas to LNG project. That idea would have died had killer taxes been implemented by the federal government headed by Prime Minister Kevin Rudd. His successor, Ms. Julia Gillard, promises to be more reasonable. Meanwhile, investors seem to like COP's new emphasis on bringing out value as the stock trades above its 200-day average.

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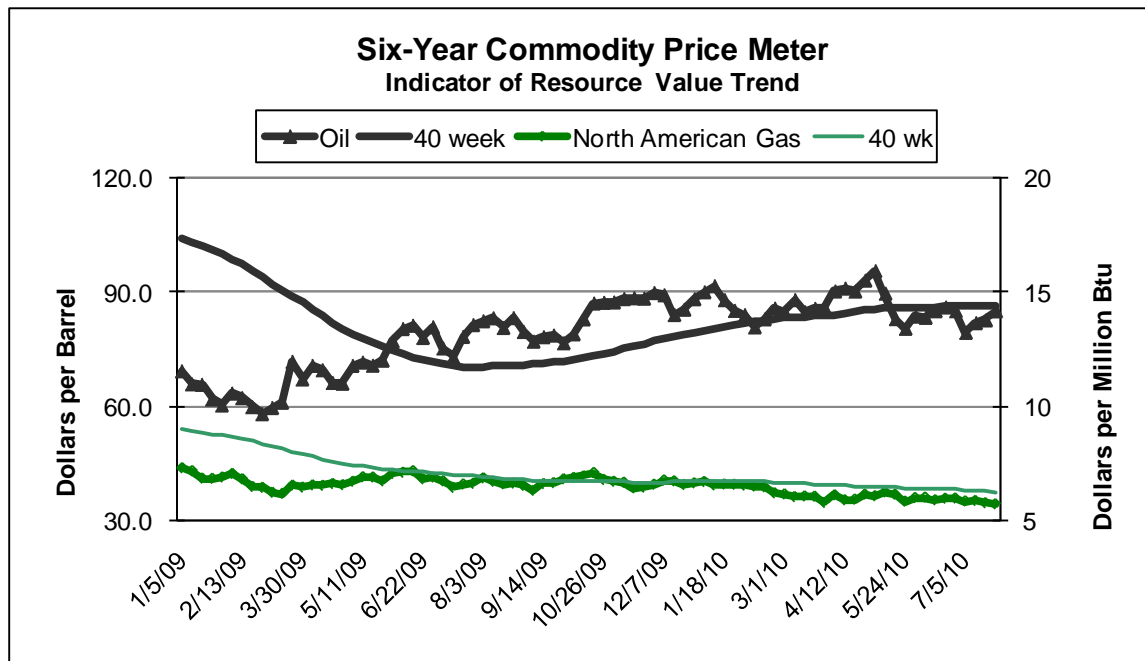
ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
					Excludes Lukoil after 6/30/10				Next
	Q2	Year	Q1	Q2	Q3E	Q4E	Q1E	Q2E	Twelve
	6/30/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	3/31/11	6/30/11	Months
									6/30/11
Volume									
Natural Gas (mmcf)									
North America	3,269	3,083	2,820	2,865	2,865	2,865	2,865	2,865	2,865
Overseas	2,056	2,074	2,218	2,044	1,640	1,856	1,906	1,676	1,769
Total	5,325	5,157	5,038	4,909	4,505	4,721	4,771	4,541	4,634
Oil (mbd)	1,426	1,428	1,431	1,358	966	957	957	947	957
Total gas & oil (bcf)	1,263	5,009	1,226	1,188	948	962	946	930	3,786
Total gas & oil (mbd)	2,314	2,287	2,271	2,176	1,717	1,743	1,752	1,704	1,729
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	3.50	3.99	5.32	4.09	4.64	4.86	5.16	5.00	4.92
North America	2.94	3.41	5.00	3.83	4.34	4.55	4.83	4.68	4.60
Overseas	4.51	5.10	5.40	4.76	5.40	5.66	6.01	5.82	5.73
Total	3.55	4.09	5.17	4.22	4.73	4.98	5.30	5.10	5.03
Oil (\$/bbl)									
WTI Cushing	59.52	61.70	78.67	77.85	78.14	79.81	81.10	82.34	80.35
Worldwide	51.52	55.01	71.12	69.90	70.17	71.66	71.82	72.92	71.37
Total gas & oil (\$/mcf)	6.65	7.26	9.38	8.86	8.65	8.80	8.94	9.02	8.85
NY Harbor 3-2-1 (\$/bbl)	9.49	8.34	7.15	12.13	9.54	5.98	6.71	10.07	8.08
Revenue (\$mm)									
Natural Gas									
North America	875	3,837	1,269	998	1,144	1,199	1,245	1,221	4,809
Overseas	843	3,859	1,077	885	815	966	1,031	888	3,699
Total	1,719	7,696	2,346	1,883	1,959	2,165	2,276	2,109	8,509
Oil	6,685	28,667	9,159	8,639	6,237	6,307	6,183	6,284	25,011
Other	28,226	116,477	34,257	39,605	39,605	39,605	39,605	39,605	158,421
Total	36,630	152,840	45,762	50,127	47,801	48,077	48,065	47,998	191,940
Expense (\$mm)									
Exploration and Production	4,397	18,013	5,729	4,901	4,508	4,660	4,653	4,616	18,436
Other	463	2,508	674	1,797	1,080	950	910	1,060	4,000
Total Ebitda	4,860	20,521	6,403	6,698	5,588	5,610	5,563	5,676	22,436
Exploration	243	1,182	383	213	213	213	400	400	1,226
Deprec., Deplet., & Amort.	2,347	9,295	2,318	2,280	2,280	2,280	2,280	2,280	9,120
Other non cash		481							-
Ebit (\$mm)									
Interest	268	1,289	301	349	300	300	300	300	1,200
Ebt (\$mm)									
Income Tax	701	2,896	1,190	1,350	978	986	904	944	3,811
Net Income (\$mm)									
Exploration and Production	1,407	5,267	2,219	2,008					
Other	46	598	183	912					
Unallocated	(151)	(487)	(191)	(413)					
Total	1,302	5,378	2,211	2,507	1,817	1,831	1,679	1,752	7,078
Shares (millions)									
Per share (\$)	0.87	3.59	1.47	1.67	1.30	1.31	1.20	1.25	5.06
Ebitda Margin (E&P)	52%	50%	50%	47%	55%	55%	55%	55%	55%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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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	2,650	9.9	10.6	28,000	16%
Rest of World Natural Gas	2,030	10.8	8.4	17,000	10%
Oil	13,760	10.2	7.5	103,000	59%
Downstream	4,000		7.0	28,000	16%
	22,440	10.2	7.8	176,000	100%
Debt (US\$mm)					43,000
Net Present Value (US\$mm)					133,000
Shares (mm)					1,400
Net Present Value - Standard Estimate (US\$/sh)					95
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					94





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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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