



Independent Stock Idea

October 29, 2018

ConocoPhillips (COP) Timely Value

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/19 (US\$mm)</i>	16,200
<i>Rating</i>		<i>Natural Gas/Ebitda (%)</i>	23
<i>Price (US\$/sh)</i>	68.48	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/26/18	<i>Developed Reserves/Production NTM</i>	7.2
<i>Shares (mm)</i>	1173	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	80,300	<i>PV/Ebitda</i>	7.1
<i>Debt (US\$mm)</i>	22,000	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	102,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.40
<i>Present Value (PV) (US\$mm)</i>	116,000	<i>Downstream Uplift (US\$/boe)</i>	0
<i>Net Present Value (US\$/share)</i>	80	<i>Oil and Gas Ebitda Margin (%)</i>	61
<i>Ebitda/Market Cap</i>	1.27	<i>Top Line/Ebitda (%)</i>	0
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	1.8	<i>Indicated Annual Dividend (US\$/sh)</i>	1.22
Note: Estimated cash flow and earnings tied to one-year prices of US\$70 a barrel and \$3 a million btu			
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\$70 a barrel and natural gas, \$4.00 a million btu.			
For historical analysis of COP since 2002 see www.mcdep.com/2cocp.htm			

Summary and Recommendation

Better-than-expected third quarter results reported on October 25 by Large Cap Oil and Gas Producer **ConocoPhillips (COP)** ratify our estimated Net Present Value (NPV) of at least \$80 a share. Stock price reached \$80 at the high for 2018 before dropping below \$70 in the current month of October.

- Higher oil price overseas (Brent) and higher global natural gas price (including liquefied natural gas (LNG)) helped outperformance. Volume grows steadily (see table Operating and Financial Estimates on page 2).
- The company's 25% reinvestment rate for sustainable production implies that \$80 NPV appears conservative in the context of the 7% a year real return we look for at an oil price of \$70 a barrel. COP's Present Value to unlevered cash flow ratio PV/Ebitda is 7.1 times. After adjusting for required reinvestment the multiple is still a low 9.5 times compared to 14.3 times for sustainable unlevered cash flow required to return 7% annually. The return becomes a real return if future prices and costs rise with inflation.
- Buying stocks now may be timely at low October prices. The November to May seasonal stock market cycle is about to begin. In addition, after November 6, the uncertainty will be lifted regarding the outcome of U.S. elections in the middle of the presidential term.

Meanwhile, management's shareholder-friendly strategy keeps capital spending in 2019 near the 2018 level while applying remaining cash to a growing dividend, aggressive stock buyback and debt reduction. We are enthusiastic about COP along with other stocks in our coverage (see Tables 1-4 on pages 3-6).

Kurt H. Wulff, CFA



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ConocoPhillips										
Next Twelve Months Operating and Financial Estimates										
	Q3	Year	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/17	2017	6/30/18	9/30/18	12/31/18	2018	3/31/19	6/30/19	9/30/19	9/30/19
Volume										
Natural gas (bcf)										
U.S. (or North America)	72	399	56	58	59	225	59	61	62	240
Overseas (or Int'l)	197	795	195	194	198	788	198	204	211	810
Total	268	1,194	251	251	257	1,013	256	265	273	1,051
Natural Gas (mcmfd)										
North America	780	1,092	613	625	638	616	652	665	679	659
Overseas	2,138	2,178	2,141	2,107	2,151	2,159	2,196	2,243	2,290	2,220
Total	2,918	3,270	2,754	2,732	2,789	2,776	2,848	2,908	2,969	2,879
Days	92	365	91	92	92	365	90	91	92	365
Oil (mmb)	68	304	72	74	76	294	76	78	81	310
Oil (mbd)	740	832	790	806	823	804	840	858	876	849
Total gas & oil (bcf)	677	3,015	682	696	711	2,775	710	733	757	2,911
Total gas & oil (mbd)	1,226	1,377	1,249	1,261	1,288	1,267	1,315	1,342	1,371	1,329
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	2.99	3.11	2.80	2.87	3.00	2.92	3.00	3.00	3.00	3.00
North America	2.61	2.59	2.29	2.74	2.87	2.65	2.87	2.87	2.87	2.87
Overseas	4.66	4.80	6.01	6.72	6.72	6.30	6.72	6.72	6.72	6.72
Total	4.11	4.06	5.18	5.81	5.84	5.49	5.84	5.84	5.84	5.84
Oil (\$/bbl)										
WTI Cushing	48.20	50.94	67.86	69.54	70.00	67.57	70.00	70.00	70.00	70.00
Worldwide	43.96	44.10	62.21	64.93	65.36	62.38	65.36	65.36	65.36	65.36
Total gas & oil (\$/mcf)	6.05	6.05	8.46	9.01	9.07	8.61	9.07	9.07	9.07	9.07
Revenue (\$mm)										
Natural Gas										
North America	187	1,032	128	158	169	597	168	174	179	690
Overseas	916	3,819	1,171	1,303	1,330	4,966	1,328	1,371	1,415	5,445
Total	1,103	4,850	1,298	1,460	1,498	5,563	1,497	1,545	1,595	6,135
Oil	2,993	13,390	4,472	4,814	4,948	18,312	4,942	5,102	5,266	20,259
Other	3,099	14,344	3,469	3,890	3,890	14,828	3,890	3,890	3,890	15,561
Total	7,195	32,584	9,240	10,165	10,337	38,703	10,329	10,537	10,752	41,955
Expense	4,962	22,640	5,927	6,363	6,378	24,496	6,375	6,456	6,538	25,748
Ebitda (\$mm)	2,233	9,944	3,313	3,802	3,959	14,207	3,954	4,082	4,213	16,207
Exploration	75	645	69	103	103	370	103	125	125	456
Deprec., Deplet., & Amort.	1,608	6,845	1,438	1,494	1,494	5,838	1,500	1,500	1,500	5,994
Ebit	550	2,454	1,806	2,205	2,362	7,999	2,351	2,457	2,588	9,757
Interest	251	1,098	177	186	186	733	186	186	186	744
Ebt	299	1,356	1,629	2,019	2,176	7,266	2,165	2,271	2,402	9,013
Income Tax	105	475	342	424	457	1,526	455	477	504	1,893
Net Income (\$mm)	194	882	1,287	1,595	1,719	5,740	1,710	1,794	1,898	7,120
Shares (millions)	1,215	1,208	1,181	1,173	1,173	1,177	1,173	1,173	1,173	1,173
Per share (\$)	0.16	0.73	1.09	1.36	1.47	4.88	1.46	1.53	1.62	6.07
Ebitda Margin (E&P)	55%	55%	57%	61%	61%	60%	61%	61%	61%	61%
Tax Rate	35%	35%	21%	21%	21%	21%	21%	21%	21%	21%
Dividend	0.27		0.29	0.305	0.305		0.305	0.305	0.305	1.22



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Table 1											
McDep Energy Stocks											
Ranked by McDep Ratio											
		Price (US\$/sh)	Market Cap (US\$mm)	Enterprise Value (\$mm)	EV/ Market Cap	EV/ Ebitda NTM	PV/ Ebitda NTM	Oil Prod'n/ Ebitda (%)	Dist. Yield NTM (%)	McDep Ratio (EV/PV)	
	Symbol/Rating	26-Oct 2018									
Integrated											
	Exxon Mobil Corporation	XOM	77.53	331,000	421,000	1.27	7.4	8.3	51	4.2	0.89
	Chevron Corporation	CVX	111.53	214,000	274,000	1.28	6.3	8.0	64	4.0	0.79
	Suncor Energy	SU	33.88	56,000	75,000	1.35	5.9	8.0	78	3.2	0.74
	Royal Dutch Shell	RDS-B	63.95	268,000	385,000	1.44	6.6	9.2	49	5.9	0.72
	<i>Total or Median</i>			<i>869,000</i>	<i>1,155,000</i>	<i>1.31</i>	<i>6.5</i>	<i>8.2</i>	<i>57</i>	<i>4.1</i>	<i>0.76</i>
Large Independent											
	Occidental Petroleum Corp.	OXY	67.91	52,100	65,800	1.26	6.9	7.5	71	4.6	0.92
	ConocoPhillips	COP	68.48	80,000	102,000	1.27	6.3	7.1	77	1.8	0.88
	EOG Resources, Inc.	EOG	106.56	61,800	68,900	1.11	6.7	8.0	90	0.8	0.84
	Pioneer Natural Resources	PXD	149.66	25,600	28,200	1.10	6.3	8.2	94	0.2	0.77
	<i>Total or Median</i>			<i>219,500</i>	<i>264,900</i>	<i>1.19</i>	<i>6.5</i>	<i>7.8</i>	<i>83</i>	<i>1.3</i>	<i>0.86</i>
Mid-Size Independent											
	Hess Corporation	HES	58.11	17,300	24,700	1.43	9.4	9.0	89	1.7	1.04
	Continental Resources	CLR	53.54	20,100	26,400	1.32	6.3	7.8	83	-	0.81
	Cimarex Energy Company	XEC	81.93	7,800	9,400	1.20	5.7	9.1	85	0.9	0.63
	Devon Energy Corporation	DVN	32.38	17,000	21,700	1.28	5.6	9.4	88	1.0	0.60
	Marathon Oil Corporation	MRO	18.69	15,890	22,600	1.42	5.3	9.6	89	1.1	0.56
	<i>Total or Median</i>			<i>78,100</i>	<i>104,800</i>	<i>1.32</i>	<i>5.7</i>	<i>9.1</i>	<i>88</i>	<i>1.0</i>	<i>0.63</i>
Small Independent											
	California Resources	CRC	31.21	1,300	8,100	6.1	5.7	7.7	93	-	0.74
	Range Resources	RRC	15.84	3,900	8,600	2.19	6.1	10.3	46	0.5	0.59
	Whiting Petroleum Corporation	WLL	36.09	3,300	6,500	1.95	4.1	7.9	97	-	0.52
	Birchcliff Energy Ltd.	BIREF	3.42	900	1,600	1.70	4.6	9.1	48	2.3	0.51
	<i>Total or Median</i>			<i>9,400</i>	<i>24,800</i>	<i>2.07</i>	<i>5.2</i>	<i>8.5</i>	<i>70</i>	<i>0.3</i>	<i>0.56</i>
Income											
	Permian Basin RT	PBT	7.50	350	350	1.00	11.2	15.0	80	8.9	0.75
	Dorchester Minerals, L.P.	DMLP	18.03	580	580	1.00	8.1	10.8	86	11.1	0.75
	Sabine Royalty Trust	SBR	36.78	540	540	1.00	11.3	15.4	66	8.8	0.74
	San Juan Basin Royalty Trust	SJT	5.22	240	240	1.00	8.8	13.6	-	8.6	0.65
	Cross Timbers Royalty Trust	CRT	15.40	90	90	1.00	8.6	14.0	38	9.5	0.61
	<i>Total or Median</i>			<i>1,800</i>	<i>1,800</i>	<i>1.00</i>	<i>8.8</i>	<i>14.0</i>	<i>66</i>	<i>8.9</i>	<i>0.74</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation, amort.
 Estimated Ebitda (cash flow) tied to one-year prices of US\$70 a barrel and \$3 a million btu. NTM = Next Twelve Months ending 9/30/19.
 Estimated Present Value (PV) presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.
 McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses. For historical research see www.mcdep.com



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Table 2										
McDep Energy Stocks										
Unlevered Cash Flow (Ebitda)										
Ranked by Total Ebitda										
Symbol/Rating	Price (US\$/sh)	Upstream NTM					Down- stream Uplift (\$/boe)	Total Ebitda NTM (\$mm)	Distrib./ Ebitda (%)	Distrib. NTM (\$/sh)
		26-Oct	Volume	Equiv. Price	Ebitda	Margin				
		2018	(mmboe)	(\$/boe)	(%)	(\$/boe)				
Integrated										
Royal Dutch Shell	RDS-B	63.95	1355	48.22	65	31.20	11.81	42,264	27	3.76
Exxon Mobil Corporation	XOM	77.53	1426	53.66	52	27.70	12.34	39,497	25	3.28
Chevron Corporation	CVX	111.53	1081	52.83	62	32.80	7.40	35,468	20	4.48
Suncor Energy	SU	33.88	288	61.58	56	34.27	9.47	9,881	14	1.09
<i>Total or Median</i>			<i>4150</i>	<i>53.24</i>	<i>59</i>	<i>32.00</i>	<i>10.64</i>	<i>127,109</i>	<i>22</i>	
Large Independent										
ConocoPhillips	COP	68.48	485	54.41	61	33.40	0.00	16,207	9	1.22
EOG Resources, Inc.	EOG	106.56	288	48.13	74	35.63	0.00	10,271	5	0.88
Occidental Petroleum Corp.	OXY	67.91	258	47.60	58	27.60	9.29	7,131	25	3.12
Pioneer Natural Resources	PXD	149.66	134	45.99	72	33.30	0.00	4,475	1	0.32
<i>Total or Median</i>			<i>1166</i>	<i>47.87</i>	<i>67</i>	<i>33.35</i>	<i>0.00</i>	<i>38,084</i>	<i>7</i>	
Mid-Size Independent										
Marathon Oil Corporation	MRO	18.69	148	41.65	69	28.60	0.00	4,236	4	0.20
Continental Resources	CLR	53.54	117	43.98	81	35.70	0.00	4,160	-	-
Devon Energy Corporation	DVN	32.38	199	34.04	57	19.40	0.00	3,863	4	0.32
Hess Corporation	HES	58.11	101	46.17	57	26.20	0.00	2,639	11	1.00
Cimarex Energy Company	XEC	81.93	85	29.37	66	19.40	0.00	1,643	4	0.72
<i>Total or Median</i>			<i>649</i>	<i>41.65</i>	<i>66</i>	<i>26.20</i>	<i>0.00</i>	<i>16,542</i>	<i>4</i>	
Small Independent										
Whiting Petroleum Corporation	WLL	36.09	49	47.86	67	32.10	0.00	1,566	-	-
California Resources	CRC	31.21	49	55.73	52	29.20	0.00	1,429	-	-
Range Resources	RRC	15.84	141	21.68	46	10.00	0.00	1,413	1	0.08
Birchcliff Energy Ltd.	BIREF	3.42	23	19.94	75	14.90	0.00	337	6	0.08
<i>Total or Median</i>			<i>262</i>	<i>34.77</i>	<i>60</i>	<i>22.05</i>	<i>0.00</i>	<i>4,744</i>	<i>1</i>	
Income										
Dorchester Minerals, L.P.	DMLP	18.03	2.38	40.41	75	30.15	0.00	72	90	1.99
Sabine Royalty Trust	SBR	36.78	1.73	32.93	83	27.41	0.00	47	100	3.25
Permian Basin RT	PBT	7.50	1.16	44.12	61	26.81	0.00	31	100	0.67
San Juan Basin Royalty Trust	SJT	5.22	3.99	13.93	49	6.89	0.00	27	76	0.45
Cross Timbers Royalty Trust	CRT	15.40	0.38	44.45	64	28.53	0.00	11	81	1.46
<i>Total or Median</i>			<i>10</i>	<i>40.41</i>	<i>64</i>	<i>27.41</i>	<i>0.00</i>	<i>189</i>	<i>90</i>	

For historical research see www.mcdep.com



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Table 3
McDep Energy Stocks
Net Present Value Per Share

		<i>Price</i>				<i>Devel.</i>	<i>Undev/</i>	<i>Nat</i>	<i>Top</i>	<i>Net</i>	
		<i>(US\$/sh)</i>				<i>Resrvs/</i>	<i>Devel.</i>	<i>Gas/</i>	<i>Line/</i>	<i>Present</i>	
	<i>Symbol/Rating</i>	<i>26-Oct</i>	<i>Shares</i>	<i>Debt</i>	<i>P/E</i>	<i>Prod</i>	<i>Resrvs</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>Value</i>	
		<i>2018</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(US\$/sh)</i>	
Integrated											
	Chevron Corporation	CVX	111.53	1,919	60,359	13	7.0	57	22	150.00	
	Royal Dutch Shell	RDS-B	63.95	4,188	116,710	11	7.3	22	32	100.00	
	Exxon Mobil Corporation	XOM	77.53	4,271	90,130	12	9.8	52	27	90.00	
	Suncor Energy	SU	33.88	1,641	19,254	9	8.8	87		50.00	
	<i>Median</i>						<i>8.1</i>	<i>55</i>			
Large Independent											
	Pioneer Natural Resources	PXD	149.66	171	2,600	18	6.7	9	6	200.00	
	EOG Resources, Inc.	EOG	106.56	580	7,071	15	4.7	43	10	130.00	
	ConocoPhillips	COP	68.48	1,173	22,036	11	7.2	31	23	80.00	
	Occidental Petroleum Corp.	OXY	67.91	767	13,700	13	7.5	35	4	75.00	
	<i>Median</i>						<i>7.0</i>	<i>33</i>			
Mid-Size Independent											
	Cimarex Energy Company	XEC	81.93	95	1,579	11	4.9	35	15	140.00	
	Continental Resources	CLR	53.54	375	6,333	15	5.2	121	17	70.00	
	Devon Energy Corporation	DVN	32.38	525	4,720	12	8.8	24	12	60.00	
	Hess Corporation	HES	58.11	298	7,397		7.2	59	11	55.00	
	Marathon Oil Corporation	MRO	18.69	850	6,712	15	6.1	60	11	40.00	
	<i>Median</i>						<i>6.1</i>	<i>59</i>			
Small Independent											
	Whiting Petroleum Corporation	WLL	36.09	92	3,170	20	6.9	84	3	100.00	
	California Resources	CRC	31.21	43	6,800		9.0	41	7	100.00	
	Range Resources	RRC	15.84	247	4,657	12	9.9	83	54	40.00	
	Birchcliff Energy Ltd.	BIREF	3.42	268	641	12	7.2	228	52	9.00	
	<i>Median</i>						<i>8.1</i>	<i>83</i>			
Income											
	Sabine Royalty Trust	SBR	36.78	15	-	11	10.4	3	33	100	50.00
	Cross Timbers Royalty Trust	CRT	15.40	6	-	11	13.2	-	69	81	25.00
	Dorchester Minerals, L.P.	DMLP	18.03	32	-	12	6.8	-	17	79	24.00
	Permian Basin RT	PBT	7.50	47	-	11	6.8	-	17	48	10.00
	San Juan Basin Royalty Trust	SJT	5.22	47	-	12	10.5	-	100	-	8.00
	<i>Median</i>						<i>10.4</i>				
P/E = Stock Price to Earnings. For historical research see www.mcdep.com .											



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2018										
Ranked by Unlevered Total Return										
		Price	Price	Price	Cash	Equity	Unlevered			
	Symbol/Rati	(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep	
		26-Oct	29-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio	
		2018	2017							
Integrated										
	Royal Dutch Shell	RDS-B	63.95	68.29	(6)	4	(2)	28	(2)	0.72
	Exxon Mobil Corporation	XOM	77.53	83.64	(7)	3	(4)	21	(4)	0.89
	Suncor Energy	SU	33.88	36.72	(8)	2	(5)	12	(4)	0.74
	Chevron Corporation	CVX	111.53	125.19	(11)	3	(8)	31	(7)	0.79
	<i>Median</i>				(8)		(5)		(4)	0.76
Large Independent										
	ConocoPhillips	COP	68.48	54.89	25	2	26	19	20	0.88
	EOG Resources, Inc.	EOG	106.56	107.91	(1)	0	(1)	12	(1)	0.84
	Occidental Petroleum Corp.	OXY	67.91	73.66	(8)	3	(5)	18	(4)	0.92
	Pioneer Natural Resources	PXD	149.66	172.85	(13)	0	(13)	15	(12)	0.77
	<i>Median</i>				(5)		(3)		(2)	0.86
Mid-Size Independent										
	Hess Corporation	HES	58.11	47.47	22	2	24	25	16	1.04
	Marathon Oil Corporation	MRO	18.69	16.93	10	1	11	8	8	0.56
	Continental Resources	CLR	53.54	52.97	1	-	1	17	1	0.81
	Devon Energy Corporation	DVN	32.38	41.40	(22)	1	(21)	9	(17)	0.60
	Cimarex Energy Company	XEC	81.93	122.01	(33)	0	(33)	17	(29)	0.63
	<i>Median</i>				1		1		1	0.63
Small Independent										
	Whiting Petroleum Corporation	WLL	36.09	26.48	36	-	36	34	16	0.52
	California Resources	CRC	31.21	19.44	61	-	61	160	7	0.74
	Birchcliff Energy Ltd.	BIREF	3.42	3.50	(2)	2	(1)	2	(0)	0.51
	Range Resources	RRC	15.84	17.06	(7)	0	(7)	19	(3)	0.59
	<i>Median</i>				17		18		3	0.56
Income										
	Dorchester Minerals, L.P.	DMLP	18.03	15.20	19	9	28	-	28	0.75
	Cross Timbers Royalty Trust	CRT	15.40	14.69	5	7	12	-	12	0.61
	Permian Basin RT	PBT	7.50	8.87	(15)	5	(10)	-	(10)	0.75
	Sabine Royalty Trust	SBR	36.78	44.60	(18)	5	(13)	-	(13)	0.74
	San Juan Basin Royalty Trust	SJT	5.22	8.24	(37)	3	(33)	-	(33)	0.65
	<i>Median</i>				(15)		(10)		(10)	0.74
	<i>Grand Median</i>				(7)		(5)		(2)	0.74
	Natural Gas (\$/mmbtu)		3.20	2.95						
	Oil -West Texas Intermediate (\$/bbl)		67.75	60.09						
	Total Stock Market - U.S.	VTI	135.67	137.25	(1)	1	0			
	Developed Markets - ex US	VEA	38.91	44.86	(13)	2	(11)			
	Emerging Markets	VWO	37.41	45.91	(19)	2	(16)			
	Total Stock Market - World	VT	68.75	74.26	(7)	2	(6)			

Source: McDep LLC, Yahoo, CME Group, Bloomberg

For historical research see www.mcdep.com



Independent Stock Idea

October 29, 2018

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