Rating: Buy
S&P 500: 1206

ConocoPhillips
Raise Net Present Value to $128 a Share

Symbol	COP	*Ebitda Next Twelve Months ending 3/31/06 (US$mm)*	21,600
Rating	Buy	*North American Natural Gas/Ebitda (%)*	9
Price (US$/sh)	112.76	*Natural Gas and Oil Production/Ebitda (%)*	57
Pricing Date	2/25/05	*Adjusted Reserves/Production NTM*	10.5
Shares (mm)	706	*EV/Ebitda*	4.8
Market Capitalization (US$mm)	79,600	*PV/Ebitda*	5.3
Debt (US$mm)	25,300	*Undeveloped Reserves (%)*	33
Enterprise Value (EV) (US$mm)	104,900	*Natural Gas and Oil Ebitda (US$/boe)*	19.80
Present Value (PV) (US$mm)	115,700	*Present Value Proven Reserves(US$/boe)*	8.45
Net Present Value (US$/share)	128	*Present Value Proven Reserves(US$/mcfe)*	1.41
Debt/Present Value	0.22	*Earnings Next Twelve Months (US$/sh)*	14.53
McDep Ratio - EV/PV	0.91	*Price/Earnings Next Twelve Months*	8
Dividend Yield (%/year)	1.8	*Indicated Annual Dividend (US$/sh)*	2.00

Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

We continue to recommend purchase of the common shares of **ConocoPhillips (COP)** for near mega cap size participation in the rising profit opportunities in oil and gas production and refined products enhanced by a 10% stake in Russian producer Lukoil. We raised our estimate of net present value for the producer/refiner to $128 a share from $110 on January 26, 2005 when we revised our estimate of long-term oil price to $40 a barrel constant real from $35. The new NPV matches the level previously calculated in a sensitivity illustration (see *Stock Idea*, ConocoPhillips, August 31, 2004). We see potential appreciation of 14% to our new estimate of net present value.

Oil Sands and Russia Enhance Oil Growth

By our current calculation, the global oil production business accounts for 43% of the present value of COP (see table Functional Cash Flow and Present Value). A ten percent share of Syncrude, the world's largest oil sands facility, is worth about $3 billion consistent with the values we have estimated for partners, **Canadian Oil Sands Trust (COSWF)** and **Imperial Oil (IMO)**.

The Surmont in situ oil sands project in Canada and two projects in Venezuela add further long life producing capacity. Compared to Syncrude, Surmont has higher natural gas cost and the heavy crude is vulnerable to price discounting. The conditions that cause unfavorable pricing for heavy, sour oil may coincide with favorable increases in refining margins elsewhere in the company.

The Venezuelan projects have been subject recently to a unilateral change in contract terms. The dispute will likely be resolved with out too much loss in opportunity because Venezuela cannot develop its heavy oil resources without intensive investment from some source. Meanwhile, the company's international risks are well diversified. Moreover the political uncertainty helps market recognition of the value of production from other sources.

The company completed its purchase of 10% of Russian producer, Lukoil, by year end for a total outlay of about $3 billion. Lukoil stock is currently trading higher than COP's purchase price. That is a mixed blessing for COP as it plans to purchase another 10% of Lukoil stock in the open market. For the time being, Lukoil looks like the smart way to invest in Russia. The Russian government appears to be reasserting control over a strategic industry. Russian companies that have not run afoul of the government may have a preferred position in developing new opportunities. Separately we continue to recommend purchase of Lukoil stock, subject to political risk.

Considering projected oil cash flow for the next twelve months (NTM Ebitda) and adjusted reserve life, present value could be higher by the correlation of our estimates of oil cash flow with reserve life for 26 companies. Instead of near $50 billion present value, the correlation indicates some $57 billion. That is a nice cushion to cover potentially adverse incidents such as Venezuela reneging on its contracts.

ConocoPhillips
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	*Adjusted R/P*	*PV/ Ebitda*	*Present Value (US$mm)*	
North American Natural Gas	1,870	12.0	8.6	16,000	14%
Overseas Natural Gas	1,180	11.6	6.8	8,000	7%
Oil	9,350	9.8	5.3	49,700	43%
Downstream	9,230		4.6	42,000	36%
	21,630	10.5	5.3	115,700	100%
Debt (US$mm)					25,300
Net Present Value (US$mm)					90,400
Shares (mm)					706
Net Present Value (US$/sh)					128

Long-Term Natural Gas Potential in the Arctic and Qatar

Arctic natural gas resources may exceed the company's currently proven North American natural gas reserves. A natural gas pipeline from Alaska to the lower 48 states remains a long way off. A pipeline from the Mackenzie Delta in Canada appears likely to be approved soon.

Among projects overseas the company has a joint venture with the country of Qatar to build a natural gas liquefaction plant. In this case, the American connection is politically beneficial as Qatar is the home of the U.S. military in the Middle East.

Largest U.S. Refiner Flowing Large Sums of Cash

Strong results in the last quarter of 2004 prompt us to project higher cash flow from downstream businesses (see table Next Twelve Months Operating and Financial Estimates). Predecessor Phillips' purchase of the refiner, TOSCO, a few years ago now looks timely as the refining margin has improved along with oil price. The merger with Conoco added advanced, complex refineries in Europe and Asia and solidified the company's position as the largest U.S. refiner. It seems that complex refineries are doing especially well with strong demand for light products and tight supply for light crude oil. COP is gearing up its less complex refineries to handle the heavier and more sulfurous oil that is likely to account for all of the world's incremental supply. The company sees benefits of integrating refining with oil sands output from Canada and Venezuela.

Present value divided by projected downstream cash flow for the next twelve months (NTM Ebitda) implies a multiple of 4.6 times compared to a median 6.1 times for 13 companies in our coverage. The median multiple implies an additional $14 billion of present value. Cash flow can be volatile in the refining/marketing business. If ConocoPhillips can sustain the higher downstream cash flow we project, there could be a case for raising present value further.

Buy Oil and Gas Producers at Mid Decade

ConocoPhillips ranks competitively with undervalued producer/refiner peer companies (see table Rank by McDep Ratio). Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average. The current benchmark oil average futures price for the next six years is about $44 a barrel.

Kurt H. Wulff, CFA

ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	Q3 9/30/04	*Q4 12/31/04*	***Year 2004***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	*Q4E 12/31/05*	***Year 2004E***	*Q1E 3/31/05*	***Next Twelve Months 3/31/06***
Volume										
Natural gas (bcf)										
U.S. (or North America)	166	167	**666**	164	166	167	167	**664**	164	**664**
Overseas (or Int'l)	126	142	**548**	142	136	126	142	**546**	142	**546**
Total	293	309	**1,214**	306	301	294	309	**1,210**	306	**1,210**
Natural Gas (mmcfd)										
U.S. (or North America)	1,809	1,819	**1,821**	1,819	1,819	1,819	1,819	**1,819**	1,819	**1,819**
Overseas (or Int'l)	1,374	1,541	**1,496**	1,578	1,493	1,374	1,541	**1,496**	1,578	**1,496**
Total	3,183	3,360	**3,317**	3,397	3,312	3,193	3,360	**3,315**	3,397	**3,315**
Days	92	92	**366**	90	91	92	92	**365**	90	**365**
Oil (mmb)	88	107	**380**	105	106	107	107	**426**	105	**426**
Oil (mbd)	953	1,166	**1,039**	1,166	1,166	1,166	1,166	**1,166**	1,166	**1,166**
Total gas & oil (bcf)	819	953	**3,495**	935	938	937	953	**3,764**	935	**3,764**
Price										
Natural gas ($/mcf)										
Henry Hub ($/mmbtu)	5.75	7.10	**6.15**	6.14	6.08	6.25	6.67	**6.28**	7.18	**6.54**
U.S. (or North America)	5.06	5.92	**5.25**	5.12	5.07	5.22	5.56	**5.24**	5.99	**5.46**
Overseas (or Int'l)	3.72	4.20	**3.89**	4.12	4.28	4.24	4.14	**4.19**	4.05	**4.18**
Total	4.48	5.13	**4.63**	4.65	4.71	4.80	4.91	**4.77**	5.09	**4.88**
Oil ($/bbl)										
WTI Cushing	43.89	48.30	**41.44**	47.36	49.28	48.81	47.68	**48.28**	46.57	**48.08**
Worldwide	38.93	42.83	**36.73**	42.00	43.70	43.29	42.28	**42.82**	41.30	**42.04**
Total gas & oil ($/mcf)	5.77	6.49	**5.60**	6.23	6.46	6.46	6.35	**6.38**	6.30	**6.39**
NY Harbor 3-2-1 ($/bbl)	7.83	5.31	**8.26**	5.97	7.57	7.31	6.55	**6.85**	6.96	**7.10**
Revenue ($mm)										
Natural Gas										
U.S. (or North America)	842	991	**3,497**	838	839	873	930	**3,481**	980	**3,623**
Overseas (or Int'l)	470	595	**2,128**	585	582	536	587	**2,290**	575	**2,280**
Total	1,312	1,586	**5,625**	1,423	1,421	1,409	1,518	**5,771**	1,555	**5,903**
Oil	3,413	4,594	**13,967**	4,407	4,637	4,643	4,535	**18,223**	4,334	**18,149**
Other	30,016	33,892	**117,324**	33,892	33,892	33,892	33,892	**135,567**	33,892	**135,567**
Total	34,741	40,072	**136,916**	39,722	39,949	39,944	39,945	**159,561**	39,781	**159,620**
Expense										
Fixed	1,060	1,477	**4,280**	1,477	1,477	1,477	1,477	**5,908**	1,477	**5,908**
Variable	1,060	1,477	**4,280**	1,393	1,448	1,446	1,447	**5,734**	1,407	**5,748**
Other	28,266	31,842	**110,574**	31,892	31,464	31,529	31,725	**126,610**	31,617	**126,335**
Ebitda ($mm)										
Exploration and Production	2,604	3,226	**11,032**	2,960	3,133	3,129	3,130	**12,352**	3,005	**12,397**
Other	1,750	2,050	**6,750**	2,000	2,428	2,363	2,166	**8,957**	2,275	**9,232**
Total Ebitda	4,354	5,276	**17,782**	4,960	5,561	5,492	5,296	**21,309**	5,279	**21,629**
Exploration	205	192	**703**	192	192	192	192	**768**	192	**768**
Deprec., Deplet., & Amort.	938	1,030	**3,798**	1,030	1,030	1,030	1,030	**4,120**	1,030	**4,120**
Other non cash	12	101	**164**	101	101	101	101	**404**	101	**404**
Ebit	3,199	3,953	**13,117**	3,637	4,238	4,169	3,973	**16,017**	3,956	**16,337**
Interest	101	141	**546**	141	141	141	141	**564**	141	**564**
Ebt	3,098	3,812	**12,571**	3,496	4,097	4,028	3,832	**15,453**	3,815	**15,773**
Income Tax	1,084	1,334	**4,400**	1,223	1,434	1,410	1,341	**5,409**	1,335	**5,520**
Net Income ($mm)										
Exploration and Production	1,420	1,745	**5,776**							
Other	762	912	**3,045**							
Unallocated	(168)	(179)	**(650)**							
Total	2,014	2,478	**8,171**	2,272	2,663	2,618	2,491	**10,045**	2,480	**10,252**
Shares (millions)	702	706	**701**	706	706	706	706	**706**	706	**706**
Per share ($)	2.87	3.51	**11.66**	3.22	3.77	3.71	3.53	**14.23**	3.51	**14.52**
Ebitda Margin (E&P)	55%	52%	**56%**	51%	52%	52%	52%	**51%**	51%	**52%**
Tax Rate	35%	35%	**35%**	35%	35%	35%	35%	**35%**	35%	**35%**

Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/	Rating	Price ($/sh) 25-Feb 2005	Shares (mm)	Market Cap ($mm)	Net Present Value ($/sh)	Debt/ Present Value	McDep Ratio
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	79.80	125	9,980	20.00	0.74	1.79
Imperial Oil Limited (30%)	IMO	B	71.92	105	7,580	64.00	0.11	1.11
Marathon Oil Corporation	MRO	B	46.89	347	16,290	42.00	0.30	1.08
ConocoPhillips	COP	B	112.76	706	79,600	128.00	0.22	0.91
Norsk Hydro ASA	NHY	B	84.29	254	21,420	101.00	0.16	0.86
Petro-Canada	PCZ	B	56.11	264	14,820	70.00	0.17	0.84
Suncor Energy	SU	B	38.97	460	17,930	54.00	0.09	0.75
PetroChina Company Ltd (10%)	PTR	B	62.65	176	11,010	94.00	0.05	0.68
Lukoil Oil Company	LUKOY	B	137.75	209	29,000	208.00	0.03	0.67

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position
McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent value of oil and gas and other businesses

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