

Rating: Buy
 S&P 500: 1258

ConocoPhillips Fresh Mega Cap

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	37,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	22
<i>Price (US\$/sh)</i>	58.29	<i>Natural Gas and Oil Production/Ebitda (%)</i>	72
<i>Pricing Date</i>	12/28/05	<i>Adjusted Reserves/Production NTM</i>	11.0
<i>Shares (mm)</i>	1693	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (US\$m)</i>	98,700	<i>PV/Ebitda</i>	5.5
<i>Debt (US\$m)</i>	46,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$m)</i>	145,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.90
<i>Present Value (PV) (US\$m)</i>	206,700	<i>Present Value Proven Reserves(US\$/boe)</i>	14.22
<i>Net Present Value (US\$/share)</i>	95	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.37
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.72
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	5
<i>Dividend Yield (%/year)</i>	2.1	<i>Indicated Annual Dividend (US\$/sh)</i>	1.24

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.

Summary and Recommendation

The newest mega cap energy company, buy-recommended **ConocoPhillips (COP)** offers 63% appreciation potential to estimated net present value of \$95 a share, revised from \$100. Estimated present value presumes a long-term oil price of \$50 a barrel compared to the current quote for delivery over the next six years of \$60. Because COP trades at a low McDep Ratio of 0.70, the stock price corresponds to a long-term oil price of perhaps just \$35 a barrel. The revision in NPV reflects the impact of the acquisition of buy-recommended **Burlington Resources (BR)** that we believe will prove to be a successful deal because BR has valuable long-life natural gas resources. Despite those solid value characteristics, COP stock recently dipped below its 200-day average indicating that gains may be postponed for a few months. Though we respect the momentum warning, we believe that global growth and energy growth go hand in hand and that producers of natural gas, crude oil and refined products will prosper.

Natural Gas Oriented, Long-Life Mega Cap

The pro forma combination of ConocoPhillips and Burlington Resources would create the sixth mega cap energy company in our coverage. BR would raise COP's concentration on clean natural gas to the highest North American exposure at 23% and to the highest combined North American and Rest of World concentration among peers at 30% (see table Business Segments).

The new COP would have an adjusted reserve life index of 11.0 years, second only to ExxonMobil (XOM) (see table Rank by EV/Ebitda). While long-life ought to be worth a higher cash flow multiple, COP's unlevered multiple, EV/Ebitda, is the lowest of peers.

Natural gas orientation and long-life contribute to a lower McDep Ratio than peers (see table Rank by McDep Ratio).

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Home Country and Business Segments

	Symbol/ Rating	Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
Mega Cap							
Exxon Mobil Corporation	XOM		10	19	38	33	487,000
Royal Dutch Shell plc	RDS-A	UK	4	19	33	45	313,000
BP plc	BP	UK	10	12	42	36	302,000
Chevron Corporation	CVX		9	9	52	29	221,000
Total S.A.	TOT	France	-	28	37	35	214,000
ConocoPhillips	COP		23	7	43	28	207,000
<i>Total or Median</i>			9	15	40	34	1,744,000

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 28-Dec 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
Mega Cap								
BP plc	BP	B	64.10	9.4	6.4	5.4	9	3.3
Exxon Mobil Corporation	XOM	B	56.25	11.7	6.9	5.3	9	2.1
Total S.A.	TOT	B	126.95	9.2	6.4	5.2	9	2.8
Royal Dutch Shell plc	RDS-A	B	61.10	7.5	5.6	4.3	8	3.6
Chevron Corporation	CVX	B	56.70	9.6	5.9	4.2	7	3.2
ConocoPhillips	COP	B	58.29	11.0	5.5	3.9	5	2.1
<i>Median</i>				9.5	6.1	4.7	8	3.0

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

	Symbol/ Rating	Price (\$/sh) 28-Dec 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
BP plc	BP	B	3,501	224,000	77.00	0.11	0.85
Total S.A.	TOT	B	1,176	149,000	160.00	0.12	0.82
Exxon Mobil Corporation	XOM	B	6,303	355,000	74.00	0.04	0.77
Royal Dutch Shell plc	RDS-A	B	3,352	205,000	84.00	0.10	0.75
Chevron Corporation	CVX	B	2,256	128,000	85.00	0.13	0.71
ConocoPhillips	COP	B	1,693	99,000	95.00	0.22	0.70
<i>Total or Median</i>				1,160,000		0.11	0.76

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Present Value May Be Understated Relative to Peers

Separate correlations of present value by business segment point to net present value about \$20 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value). McDep analysis presumes that fundamental value is measured by the projection of future cash flows and bringing them to the present by applying a real discount rate, currently 7% a year. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies.

Pro forma present value is the sum of previous estimates for COP and BR. Because COP would pay a higher McDep Ratio for BR than in its own stock, there is \$5 a share of net present value dilution. We offset that with \$2 a share gain in the present value of cost savings, or “synergies”.

Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	8,280	11.3	5.7	47,000	23%
Rest of World Natural Gas	1,760	13.4	8.0	14,000	7%
Oil	16,900	10.4	5.2	88,000	43%
Downstream	10,400		5.6	58,000	28%
	37,340	11.0	5.5	207,000	100%
Debt (US\$mm)				46,000	
Net Present Value (US\$mm)				161,000	
Shares (mm)				1,693	
Net Present Value (US\$/sh)				95	
Over (-)/ Under (+) Correlation (US\$/sh)				20	

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Revised to the pro forma basis, cash flow for the next year is projected from an historical base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Not reprinted in the historical base, BR is included in the projection for 2006. Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

The proposed terms of \$46.50 a share in cash and .7214 share of COP stock for each share of BR are incorporated in the estimated interest expense and number of shares. Management disclosures guide the estimate of depreciation, depletion and amortization. Expenses have been reduced by moderate amount for expected cost savings.

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ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	1,819	1,820	1,820	1,794	3,589	3,589	3,589	3,589	3,589
Overseas (or Int'l)	1,541	1,289	1,541	1,448	1,713	1,713	1,289	1,541	1,563
Total	3,360	3,109	3,361	3,242	5,302	5,302	4,878	5,130	5,152
Oil (mbd)	1,195	1,227	1,227	1,233	1,386	1,386	1,386	1,386	1,386
Total gas & oil (bcf)	969	963	987	3,883	1,226	1,239	1,214	1,237	4,916
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	12.37	10.45	10.48	11.02	11.08
U.S. (or North America)	5.92	7.49	11.38	7.64	11.02	9.31	9.34	9.82	9.87
Overseas (or Int'l)	4.20	4.81	4.81	4.84	4.81	4.81	4.81	4.81	4.81
Total	5.13	6.38	8.37	6.39	9.01	7.86	8.14	8.31	8.33
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	59.76	56.25	58.62	59.77	60.59	61.06	60.01
Worldwide	42.84	55.44	53.00	49.90	50.98	51.99	52.70	53.10	51.94
Total gas & oil (\$/mcf)	6.50	8.39	8.69	7.73	8.70	8.35	8.55	8.65	8.56
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.04	10.63	10.13	11.95	11.78	9.52	10.84
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	991	1,255	1,905	5,004	3,560	3,041	3,083	3,242	12,928
Overseas (or Int'l)	595	570	681	2,556	741	749	570	681	2,742
Total	1,586	1,825	2,587	7,560	4,301	3,791	3,654	3,924	15,669
Oil	4,710	6,259	5,982	22,456	6,360	6,557	6,720	6,771	26,408
Other	33,776	41,575	41,575	151,321	41,575	41,575	41,575	41,575	166,302
Total	40,072	49,659	50,145	181,336	52,237	51,923	51,949	52,271	208,380
Expense									
Fixed	1,535	882	882	4,111	1,050	1,050	1,050	1,050	4,200
Variable	1,535	2,645	2,803	9,345	2,772	2,690	2,697	2,781	10,940
Other	31,726	38,975	38,975	141,721	38,975	38,975	38,975	38,975	155,902
Ebitda (\$mm)									
Exploration and Production	3,226	4,558	4,884	16,559	6,839	6,607	6,626	6,865	26,938
Other	2,050	2,600	2,600	9,600	2,600	2,600	2,600	2,600	10,400
Total Ebitda	5,276	7,158	7,484	26,159	9,439	9,207	9,226	9,465	37,338
Exploration	192	140	140	572	240	240	240	240	960
Deprec., Deplet., & Amort.	1,030	1,049	1,049	4,124	1,539	1,539	1,539	1,539	6,156
Other non cash	101	-	-	(391)	150	150	150	150	600
Ebit	3,953	5,969	6,295	21,854	7,510	7,278	7,297	7,536	29,622
Interest	141	122	122	509	422	422	422	422	1,688
Ebt	3,812	5,847	6,173	21,345	7,088	6,856	6,875	7,114	27,934
Income Tax	1,334	2,046	2,161	7,471	2,481	2,400	2,406	2,490	9,777
Net Income (\$mm)									
Exploration and Production	1,745	2,555							
Other	912	1,491							
Unallocated	(179)	(246)							
Total	2,478	3,800	4,013	13,874	4,607	4,457	4,469	4,624	18,157
Shares (millions)	1,412	1,418	1,418	1,419	1,693	1,693	1,693	1,693	1,693
Per share (\$)	1.76	2.68	2.83	9.78	2.72	2.63	2.64	2.73	10.72
Ebitda Margin (E&P)	51%	56%	57%	55%	64%	64%	64%	64%	64%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Acquisition Trend Underway

An energy mega deal trend was rekindled in 2005 with **Chevron (CVX)**'s purchase of Unocal and now COP's proposed acquisition of BR. In each of those two cases the buyer's stock declined on the announcement. While it may be disconcerting to COP shareholders to see their stock decline on a deal, the "damage" is done and not likely to recur soon. More likely a peer company will do a deal before COP does another multi-billion dollar transaction.

By our analysis the expected closing of the McDep Ratio gap would overcome the immediate deal penalty. CEO Jim Mulva's past acquisitions of Alaskan reserves, refining assets and Lukoil stock have proved to be well-timed and more rewarding than initially perceived.

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