

Rating: Buy
S&P 500: 1265

ConocoPhillips High Earnings, Low Stock Price

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$mm)</i>	38,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	17
<i>Price (US\$/sh)</i>	63.54	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	1/25/06	<i>Adjusted Reserves/Production NTM</i>	10.9
<i>Shares (mm)</i>	1693	<i>EV/Ebitda</i>	4.0
<i>Market Capitalization (US\$mm)</i>	107,600	<i>PV/Ebitda</i>	5.4
<i>Debt (US\$mm)</i>	46,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	153,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.10
<i>Present Value (PV) (US\$mm)</i>	206,700	<i>Present Value Proven Reserves(US\$/boe)</i>	14.39
<i>Net Present Value (US\$/share)</i>	95	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.40
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.20
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	2.0	<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.

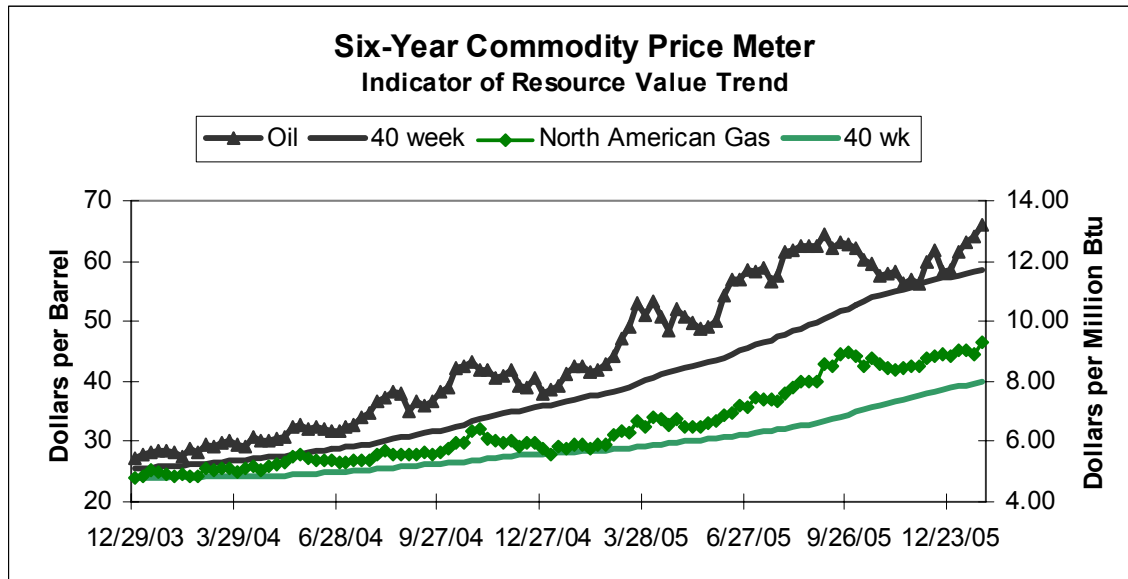
Summary and Recommendation

Fourth quarter earnings reported on January 25 reflected improving industry conditions while stock price for buy-recommended **ConocoPhillips (COP)** may correspond to a long-term oil price less than \$40 a barrel. The stock offers 50% appreciation potential to estimated net present value of \$95 a share that presumes a long-term oil price of \$50 a barrel. Futures investors price Light, Sweet Crude Oil at \$65 a barrel for the next six years. Among mega cap peers COP has the lowest unlevered multiple of cash flow at 4.0 times. Yet COP reports next to the highest adjusted reserve life at 11 years implying that its cash flow multiple ought to be next to the highest. Estimates reflect the impact of the acquisition of buy-recommended **Burlington Resources (BR)** expected to be completed by mid-year. 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.

McDep Ratio Relates Oil Price to Opportunity

A McDep Ratio below 1.0 tells us that COP's market cap and debt, or enterprise value, is less than the estimated present value of its energy resources. The estimate has been increasing with six-year oil futures. Futures price momentum has been positive for more than three years as the current quote stays above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Six-year oil has tripled in the four years we have been calculating it on a weekly basis. We do not need further gains in oil price to make money in buy recommendations. Yet our vision of \$150 oil in 2010 implies additional scope to exceed common expectations. Meanwhile the McDep Ratio for COP appears lower than for peers (see table [Rank by McDep Ratio](#)).

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

	Symbol/ Rating	Price (\$/sh) 25-Jan 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
BP plc	BP B	70.13	3,501	246,000	77.00	0.11	0.92
Total S.A.	TOT B	133.78	1,176	157,000	160.00	0.12	0.86
Exxon Mobil Corporation	XOM B	60.23	6,303	380,000	74.00	0.04	0.82
Royal Dutch Shell plc	RDS-A B	64.98	3,352	218,000	84.00	0.10	0.80
Chevron Corporation	CVX B	61.19	2,256	138,000	85.00	0.13	0.76
ConocoPhillips	COP B	63.54	1,693	108,000	95.00	0.22	0.74
	<i>Total or Median</i>			<i>1,247,000</i>		<i>0.12</i>	<i>0.81</i>

Low Cash Flow Multiple

Unlevered cash flow multiples in single digits attest to low valuation (see table Rank by EV/Ebitda). Cash flow estimated for the next twelve months, Ebitda NTM, reflects latest futures prices. Reserve life is measured as adjusted reserves divided by next twelve months production. COP's adjusted reserve life index of 11.0 years is second only to ExxonMobil (XOM). While long-life ought to be worth a higher cash flow multiple, COP's unlevered multiple, EV/Ebitda, is the lowest of peers.

More Concentration on Natural Gas

Each oil and gas stock has its own unique mix of energy resources (see table Business Segments). 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).

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

	Symbol/ Rating		Price (\$/sh) 25-Jan 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B	70.13	9.5	6.0	5.5	9	3.1
Exxon Mobil Corporation	XOM	B	60.23	11.7	6.6	5.4	9	2.1
Total S.A.	TOT	B	133.78	9.2	5.9	5.0	8	2.8
Royal Dutch Shell plc	RDS-A	B	64.98	7.5	5.4	4.3	8	3.5
Chevron Corporation	CVX	B	61.19	9.6	5.5	4.2	7	2.9
ConocoPhillips	COP	B	63.54	10.9	5.4	4.0	6	2.0
	<i>Median</i>			9.6	5.7	4.7	8	2.9

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	B		10	19	38	33	487,000
Royal Dutch Shell plc	RDS-A	B	UK	4	19	33	45	313,000
BP plc	BP	B	UK	10	12	42	36	302,000
Chevron Corporation	CVX	B		9	9	52	29	221,000
Total S.A.	TOT	B	France	-	27	38	35	215,000
ConocoPhillips	COP	B		23	7	43	28	207,000
	<i>Total or Median</i>			9	15	40	34	1,745,000

Static Present Value Justified by Dynamic Cash Flow

Present value analysis presumes that fundamental value is measured by the projection of cash flows years into the future and bringing them to the present applying a real discount rate, currently 7% a year. We generally hold present value estimates static until there is justification to make new commodity price assumptions.

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. Net present value indicated by the current combined correlation is about \$22 a share lower than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

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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	6,530	11.3	7.2	47,000	23%
Rest of World Natural Gas	2,490	12.5	5.6	14,000	7%
Oil	19,150	10.4	4.6	88,000	43%
Downstream	10,400		5.6	58,000	28%
	38,570	10.9	5.4	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)				21	

Futures Prices Propel Estimated Cash Flow by Quarter

Cash flow for the next year is projected from a 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 in our model.

Kurt H. Wulff, CFA

ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	<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>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</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	1,866	1,806	3,589	3,589	3,589	3,589	3,589
Overseas (or Int'l)	1,541	1,289	1,605	1,464	1,713	1,713	1,473	1,789	1,672
Total	3,360	3,109	3,471	3,270	5,302	5,302	5,062	5,378	5,261
Oil (mbd)	1,195	1,269	1,305	1,263	1,386	1,386	1,386	1,386	1,386
Total gas & oil (bcf)	969	987	1,040	3,960	1,226	1,239	1,231	1,260	4,955
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.56	8.95	9.20	10.11	9.45
U.S. (or North America)	5.92	7.49	9.33	7.13	7.83	7.32	7.53	8.28	7.74
Overseas (or Int'l)	4.20	4.81	6.33	5.26	6.33	6.33	6.33	6.33	6.33
Total	5.13	6.38	7.94	6.29	7.34	7.00	7.18	7.63	7.29
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	67.34	69.02	69.68	69.95	69.00
Worldwide	40.37	55.04	52.02	48.80	57.37	58.80	59.36	59.60	58.42
Total gas & oil (\$/mcf)	6.22	8.36	8.45	7.58	8.70	8.71	8.87	9.03	8.83
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.05	10.63	8.04	11.92	12.44	10.23	10.66
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	991	1,255	1,602	4,700	2,529	2,392	2,488	2,734	10,142
Overseas (or Int'l)	595	570	934	2,808	975	986	857	1,041	3,859
Total	1,586	1,825	2,535	7,508	3,504	3,378	3,345	3,775	14,001
Oil	4,438	6,426	6,246	22,498	7,156	7,416	7,570	7,599	29,741
Other	34,048	41,408	43,392	153,357	43,392	43,392	43,392	43,392	173,567
Total	40,072	49,659	52,173	183,364	54,052	54,186	54,306	54,766	217,310
Expense									
Fixed	1,399	923	883	3,986	1,050	1,050	1,050	1,050	4,200
Variable	1,399	2,770	2,648	9,095	2,772	2,807	2,838	2,957	11,373
Other	31,998	38,808	41,292	144,257	40,792	40,792	40,792	40,792	163,167
Ebitda (\$mm)									
Exploration and Production	3,226	4,558	5,251	16,925	6,838	6,938	7,027	7,367	28,170
Other	2,050	2,600	2,100	9,100	2,600	2,600	2,600	2,600	10,400
Total Ebitda	5,276	7,158	7,351	26,025	9,438	9,538	9,627	9,967	38,570
Exploration	192	140	229	661	240	240	240	240	960
Deprec., Deplet., & Amort.	1,030	1,049	1,178	4,253	1,539	1,539	1,539	1,539	6,156
Other non cash	101	-	11	(380)	150	150	150	150	600
Ebit	3,953	5,969	5,933	21,491	7,509	7,609	7,698	8,038	30,854
Interest	141	122	110	497	422	422	422	422	1,688
Ebt	3,812	5,847	5,823	20,994	7,087	7,187	7,276	7,616	29,166
Income Tax	1,334	2,046	2,038	7,348	2,481	2,515	2,546	2,665	10,208
Net Income (\$mm)									
Exploration and Production	1,745	2,555	2,619	9,091					
Other	912	1,491	1,313	5,327					
Unallocated	(179)	(246)	(147)	(772)					
Total	2,478	3,800	3,785	13,646	4,607	4,672	4,729	4,950	18,958
Shares (millions)									
Per share (\$)	1.412	1.418	1.407	1.416	1.693	1.693	1.693	1.693	1.693
Ebitda Margin (E&P)	1.76	2.68	2.69	9.64	2.72	2.76	2.79	2.92	11.20
Ebitda Margin (E&P)	54%	55%	60%	56%	64%	64%	64%	65%	64%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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