

Rating: Buy  
S&P 500: 1417

## **ConocoPhillips**

### **Largest North American Natural Gas Producer**

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	35,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	14
<i>Price (US\$/sh)</i>	69.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	71
<i>Pricing Date</i>	3/28/07	<i>Adjusted Reserves/Production NTM</i>	10.8
<i>Shares (mm)</i>	1672	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$mm)</i>	115,800	<i>PV/Ebitda</i>	5.9
<i>Debt (US\$mm)</i>	41,000	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$mm)</i>	157,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.90
<i>Present Value (PV) (US\$mm)</i>	208,400	<i>Present Value Proven Reserves(US\$/boe)</i>	13.14
<i>Net Present Value (US\$/share)</i>	100	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.19
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.74
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	2.4	<i>Indicated Annual Dividend (US\$/sh)</i>	1.64

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\$60 a barrel and natural gas, \$10 a million btu.

For historical analysis of COP since 2002 see [www.mcdep.com/2copc.htm](http://www.mcdep.com/2copc.htm)

### **Summary and Recommendation**

Detailed annual disclosures seem to justify estimated NPV of \$100 a share for buy-recommended **ConocoPhillips (COP)** with margin to spare (see table Functional Cash Flow and Present Value). Present Value is 16% less than the normal correlation with our covered companies, more than enough to overcome any loss of value in Venezuela which represents 7% of total reserves (see table Production and Reserves, 2006). Looking at the rest of oil and gas production by area, EVPs Randy Limbacher and Bill Berry demonstrated at the analyst meeting in mid-March that in the range of \$40 to \$60 a barrel, cash flow would vary by about the same percentage as oil price. North American natural gas sets COP apart from mega cap peers as the company now produces the highest daily volume on the continent including majority operations in the largest field, the San Juan Basin. The potential for the clean fuel to jump in price from the low end of its trading range relative to oil to the high end as governments around the world attempt to limit carbon dioxide emissions could quickly vindicate Chief Executive Jim Mulva's bold acquisition of Burlington Resources in early 2006. Mr. Mulva also earmarks cash flow for shareholders in excess of capital expenditures of about \$13 billion, an amount that would be more than 11% of current stock price in the next twelve months counting dividends, stock repurchase, and debt reduction (see table Next Twelve Months Operating and Financial Estimates). A favorite U.S. mega cap energy company, COP has a double weight in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

Kurt H. Wulff, CFA

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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	5,140	11.4	7.0	36,000	17%
Rest of World Natural Gas	2,400	12.0	5.8	14,000	7%
Oil	17,750	10.4	6.3	112,000	54%
Downstream	10,190		4.5	46,000	22%
	35,480	10.8	5.9	208,000	100%
Debt (US\$mm)					41,000
Net Present Value (US\$mm)					167,000
Shares (mm)					1,672
Net Present Value - Standard Estimate (US\$/sh)					100
Net Present Value - Approximation by Correlation (US\$/sh)					124

**ConocoPhillips**  
**Production and Reserves, 2006**

	<i>2006 Production</i>	<i>12/31/2006 Proven Reserves</i>			<i>Weighted</i>	<i>NTM 3/08</i>	
	<i>(daily)</i>	<i>(annual)</i>	<i>Developed</i>	<i>Undeveloped</i>	<i>Life Index</i>	<i>Adjusted</i>	
			<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>R/P</i>	
				<i>(bcf or mmb)</i>		<i>(years)</i>	
North American Natural Gas							
Alaska	145	130	3,336	78	3,375	26.0	
Lower 48	2,028	770	7,484	1,543	8,256	10.7	
Canada	983	356	2,672	638	2,991	8.4	
Total	3,156	1,256	13,492	2,259	14,622	11.6	11.4
Rest of World Natural Gas							
Europe	1,065	414	2,314	538	2,583	6.2	
Asia Pacific	582	233	3,105	464	3,337	14.3	
Middle East and Africa	142	62	1,029	1,631	1,845	29.8	
Other	269	6	197	279	337	56.1	
Total	2,058	715	6,645	2,912	8,101	11.3	12.0
Oil							
Alaska	280	103	1,393	102	1,444	14.0	
Lower 48	166	59	627	118	686	11.6	
Canada	50	18	114	78	153	8.5	
Europe	258	95	387	318	546	5.7	
Asia Pacific	124	46	237	133	304	6.6	
Middle East and Africa	107	39	294	116	352	9.0	
Russia and Caspian	401	148	1,402	466	1,635	11.1	
Venezuela	123	43	382	674	719	16.9	
Syncrude	21	8	64	179	153	20.0	
Total	1,530	558	4,900	2,185	5,992	10.7	10.4
Total Oil Equivalent	2,399	887	8,256	3,046	9,779	11.0	10.8

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**ConocoPhillips**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	1,851	3,521	<b>3,156</b>	3,521	3,521	3,521	3,521	<b>3,521</b>	<b>3,521</b>
Overseas (or Int'l)	1,714	1,873	<b>1,814</b>	1,873	1,876	1,790	1,873	<b>1,853</b>	<b>1,853</b>
Total	3,565	5,394	<b>4,970</b>	5,394	5,397	5,311	5,394	<b>5,374</b>	<b>5,374</b>
Oil (mbd)	1,338	1,586	<b>1,530</b>	1,586	1,586	1,586	1,586	<b>1,586</b>	<b>1,586</b>
Total gas & oil (bcf)	1,043	1,372	<b>5,165</b>	1,342	1,357	1,364	1,372	<b>5,435</b>	<b>5,435</b>
Total gas & oil (mbd)	1,932	2,485	<b>2,358</b>	2,485	2,486	2,471	2,485	<b>2,482</b>	<b>2,482</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	<b>7.23</b>	6.81	7.39	7.78	8.62	<b>7.65</b>	<b>8.32</b>
U.S. (or North America)	7.42	5.86	<b>6.02</b>	6.08	6.60	6.95	7.69	<b>6.83</b>	<b>7.43</b>
Overseas (or Int'l)	7.05	6.60	<b>6.48</b>	6.60	6.60	6.60	6.60	<b>6.60</b>	<b>6.60</b>
Total	7.24	6.12	<b>6.19</b>	6.26	6.60	6.83	7.31	<b>6.75</b>	<b>7.14</b>
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	<b>66.05</b>	57.97	63.45	66.18	67.39	<b>63.75</b>	<b>66.25</b>
Worldwide	56.63	52.84	<b>58.40</b>	50.06	54.79	57.15	58.19	<b>55.08</b>	<b>57.69</b>
Total gas & oil (\$/mcf)	8.76	7.84	<b>8.49</b>	7.59	8.22	8.56	8.84	<b>8.30</b>	<b>8.65</b>
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	<b>10.50</b>	11.74	17.59	14.39	9.91	<b>13.41</b>	<b>12.96</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	1,236	1,899	<b>6,932</b>	1,927	2,114	2,251	2,492	<b>8,783</b>	<b>9,545</b>
Overseas (or Int'l)	1,087	1,138	<b>4,289</b>	1,113	1,127	1,088	1,138	<b>4,466</b>	<b>4,466</b>
Total	2,323	3,037	<b>11,221</b>	3,040	3,241	3,338	3,630	<b>13,249</b>	<b>14,011</b>
Oil	6,819	7,711	<b>32,614</b>	7,145	7,908	8,339	8,491	<b>31,884</b>	<b>32,976</b>
Other	38,785	31,787	<b>145,005</b>	31,787	31,787	31,787	31,787	<b>127,149</b>	<b>127,149</b>
Total	47,927	42,535	<b>188,841</b>	41,973	42,936	43,465	43,908	<b>172,282</b>	<b>174,136</b>
<b>Expense (\$mm)</b>									
Fixed	944	1,268	<b>4,952</b>	1,268	1,268	1,268	1,268	<b>5,072</b>	<b>5,072</b>
Variable	2,833	3,804	<b>14,856</b>	3,605	3,946	4,133	4,290	<b>15,973</b>	<b>16,629</b>
Other	37,685	29,487	<b>135,217</b>	30,287	28,799	28,787	29,487	<b>117,360</b>	<b>116,960</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	5,365	5,676	<b>24,028</b>	5,313	5,935	6,277	6,563	<b>24,088</b>	<b>25,286</b>
Other	1,100	2,300	<b>9,789</b>	1,500	2,989	3,000	2,300	<b>9,789</b>	<b>10,189</b>
Total Ebitda	6,465	7,976	<b>33,816</b>	6,813	8,924	9,277	8,863	<b>33,877</b>	<b>35,475</b>
Exploration	112	391	<b>834</b>	200	200	200	200	<b>800</b>	<b>800</b>
Deprec., Deplet., & Amort.	1,180	2,002	<b>7,358</b>	2,100	2,100	2,100	2,100	<b>8,400</b>	<b>8,400</b>
Other non cash	-	366	<b>633</b>	-	-	-	-	<b>-</b>	<b>-</b>
<b>Ebit</b>									
Interest	5,173	5,217	<b>24,991</b>	4,513	6,624	6,977	6,563	<b>24,677</b>	<b>26,275</b>
Interest	115	304	<b>1,087</b>	304	304	304	304	<b>1,216</b>	<b>1,216</b>
<b>Ebt</b>									
Income Tax	5,058	4,913	<b>23,904</b>	4,209	6,320	6,673	6,259	<b>23,461</b>	<b>25,059</b>
Income Tax	1,770	1,720	<b>8,367</b>	1,473	2,212	2,335	2,191	<b>8,211</b>	<b>8,771</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,802	2,389	<b>10,872</b>						
Other	657	1,114	<b>5,453</b>						
Unallocated	(171)	(309)	<b>(787)</b>						
Total	3,288	3,194	<b>15,538</b>	2,736	4,108	4,337	4,069	<b>15,250</b>	<b>16,288</b>
<b>Shares (millions)</b>									
Per share (\$)	1,405	1,672	<b>1,610</b>	1,672	1,672	1,672	1,672	<b>1,672</b>	<b>1,672</b>
Ebitda Margin (E&P)	2.34	1.91	<b>9.65</b>	1.64	2.46	2.59	2.43	<b>9.12</b>	<b>9.74</b>
Ebitda Margin (E&P)	59%	53%	<b>55%</b>	52%	53%	54%	54%	<b>53%</b>	<b>54%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

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