

Rating: Buy
 S&P 500: 1518

ConocoPhillips Downstream Blessing

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	36,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	12
<i>Price (US\$/sh)</i>	84.29	<i>Natural Gas and Oil Production/Ebitda (%)</i>	68
<i>Pricing Date</i>	7/25/07	<i>Adjusted Reserves/Production NTM</i>	10.3
<i>Shares (mm)</i>	1658	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	139,800	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$mm)</i>	40,000	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	180,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.00
<i>Present Value (PV) (US\$mm)</i>	225,700	<i>Present Value Proven Reserves(US\$/boe)</i>	15.47
<i>Net Present Value (US\$/share)</i>	112	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.58
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.10
<i>McDep Ratio - EV/PV</i>	0.80	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.9	<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\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of COP since 2002 see www.mcdep.com/2copc.htm

Summary and Recommendation

Buy-recommended **ConocoPhillips (COP)** offers unlevered appreciation potential of 26% to estimated net present value (NPV) of \$112 a share revised up from \$100 a share on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Second quarter results reported on July 25 were blessed with record downstream unlevered cash flow (Ebitda) along with record refining margin (NY Harbor 3-2-1) (see table [Next Twelve Months Operating and Financial Estimates](#)). Despite eliminating Venezuelan oil from our valuation, NPV for the mega cap stock looks low compared to our estimates for some thirty other producers (see table [Functional Cash Flow and Present Value](#)). Chief Executive Jim Mulva remains a statesman in his expressed belief that COP and the government of Hugo Chavez will reach agreement on compensation for properties that we would say have been confiscated, stolen or otherwise expropriated. Fortunately it hardly matters considering the company's rich suite of resources. Regardless, the trend in long-term oil price appears to be up despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). Finally, COP stock also has positive momentum as it trades above its 200-day average.

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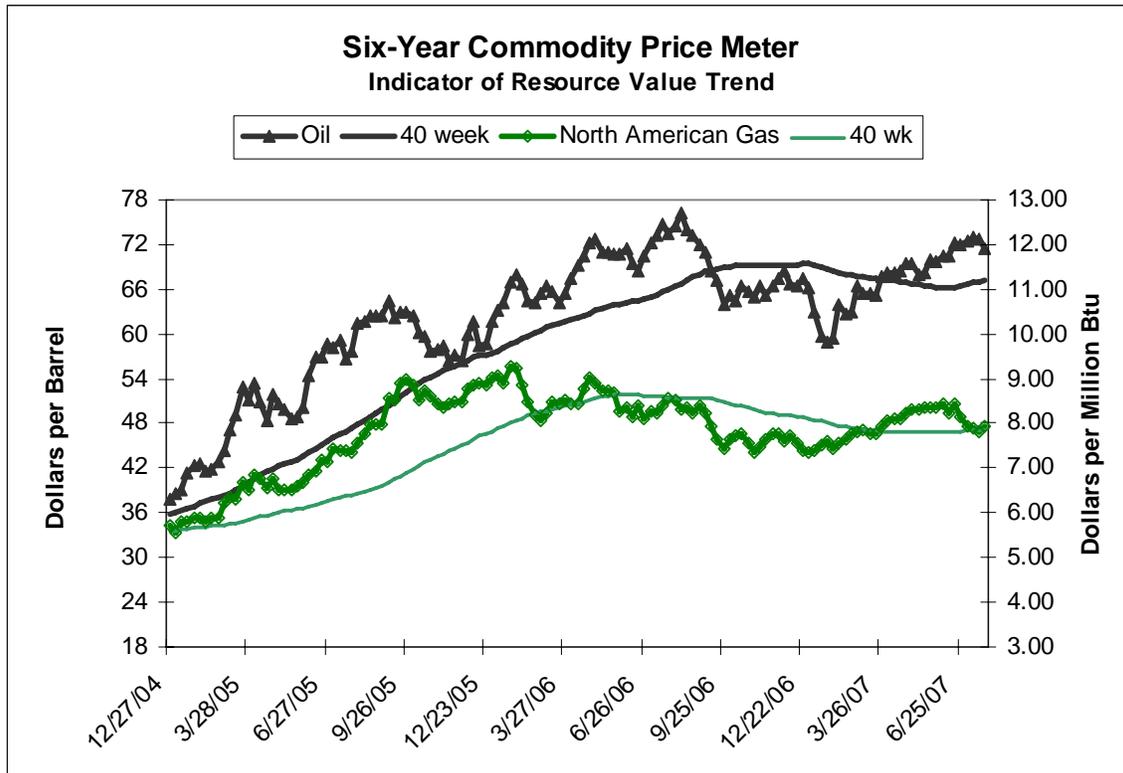
ConocoPhillips
Next Twelve Months Operating and Financial Estimates

	<i>Q2</i>	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>6/30/06</i>	<i>9/30/06</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>6/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	3,632	3,597	3,156	3,464	3,452	3,452	3,452	3,455	3,452
Overseas (or Int'l)	1,876	1,790	1,814	1,858	1,681	1,650	1,650	1,709	1,650
Total	5,508	5,387	4,970	5,322	5,133	5,102	5,102	5,164	5,102
Oil (mbd)	1,619	1,574	1,530	1,586	1,530	1,430	1,480	1,506	1,467
Total gas & oil (bcf)	1,385	1,364	5,165	1,335	1,303	1,259	1,286	5,183	5,076
Total gas & oil (mbd)	2,537	2,472	2,358	2,473	2,386	2,280	2,330	2,367	2,318
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.58	7.23	6.81	7.56	6.36	7.22	6.99	7.49
U.S. (or North America)	5.68	5.80	6.02	6.19	6.53	5.49	6.24	6.11	6.46
Overseas (or Int'l)	6.18	6.12	6.48	6.65	6.26	6.26	6.26	6.37	6.26
Total	5.85	5.91	6.19	6.35	6.44	5.74	6.24	6.19	6.40
Oil (\$/bbl)									
WTI Cushing	70.47	70.42	66.05	58.08	64.91	74.48	74.58	68.01	74.07
Worldwide	61.52	62.30	58.40	53.38	59.56	68.34	68.44	62.26	67.60
Total gas & oil (\$/mcf)	8.66	8.76	8.49	7.98	8.68	9.28	9.52	8.86	9.47
NY Harbor 3-2-1 (\$/bbl)	15.39	11.67	10.50	11.68	24.96	14.68	10.24	15.39	13.10
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,876	1,921	6,932	1,930	2,050	1,745	1,980	7,705	8,138
Overseas (or Int'l)	1,056	1,008	4,289	1,112	958	951	951	3,971	3,772
Total	2,932	2,929	11,221	3,042	3,008	2,696	2,931	11,677	11,910
Oil	9,063	9,021	32,614	7,619	8,293	8,991	9,319	34,222	36,137
Other	36,481	37,953	145,005	32,206	38,096	38,096	38,096	146,494	152,384
Total	48,476	49,903	188,841	42,867	49,397	49,783	50,346	192,393	200,431
Expense (\$mm)									
			155,025	35,575	39,406	40,723	42,039	157,742	164,360
Ebitda (\$mm)									
Exploration and Production	7,197	5,789	24,268	5,105	5,770	5,960	6,247	23,083	24,504
Other	3,289	3,100	9,549	2,187	4,221	3,100	2,060	11,567	11,567
Total Ebitda	10,486	8,889	33,816	7,292	9,991	9,060	8,307	34,651	36,071
Exploration	134	197	834	262	259	200	200	921	800
Deprec., Deplet., & Amort.	1,965	2,211	7,358	2,024	2,016	2,016	2,016	8,072	8,232
Other non cash	50	217	633	-	-	-	-	-	-
Ebit	8,337	6,264	24,991	5,006	7,716	6,844	6,091	25,658	27,039
Interest	360	308	1,087	307	319	319	319	1,264	1,276
Ebt	7,977	5,956	23,904	4,699	7,397	6,525	5,772	24,394	25,763
Income Tax	2,792	2,085	8,367	1,645	2,589	2,284	2,020	8,538	9,017
Net Income (\$mm)									
Exploration and Production	3,290	2,391	10,872	2,192	2,738				
Other	1,907	1,775	5,453	1,194	2,516				
Unallocated	(12)	(294)	(787)	(332)	(446)				
Total	5,185	3,872	15,538	3,054	4,808	4,241	3,752	15,856	16,746
Shares (millions)									
Per share (\$)	1,678	1,676	1,610	1,669	1,658	1,658	1,658	1,660	1,658
Ebitda Margin (E&P)	3.09	2.31	9.65	1.83	2.90	2.56	2.26	9.55	10.10
Ebitda Margin (E&P)	60%	48%	55%	48%	51%	51%	51%	50%	51%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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ConocoPhillips
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	4,150	10.0	8.9	37,000	16%
Rest of World Natural Gas	1,920	13.5	7.8	15,000	7%
Oil	18,430	9.8	6.5	120,000	53%
Downstream	11,570		4.7	54,000	24%
	36,070	10.3	6.3	226,000	100%
Debt (US\$mm)					40,000
Net Present Value (US\$mm)					186,000
Shares (mm)					1,658
Net Present Value - Standard Estimate (US\$/sh)					112
Net Present Value - Approximation by Correlation (US\$/sh)					124



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