

Rating: Buy  
 S&P 500: 1516

## **ConocoPhillips**

### **Low Stock Price for Strong Cash Flow**

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	36,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	81.65	<i>Natural Gas and Oil Production/Ebitda (%)</i>	69
<i>Pricing Date</i>	10/24/07	<i>Adjusted Reserves/Production NTM</i>	10.7
<i>Shares (mm)</i>	1644	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	134,200	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$mm)</i>	44,000	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	178,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.80
<i>Present Value (PV) (US\$mm)</i>	228,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.92
<i>Net Present Value (US\$/share)</i>	112	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.65
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.09
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	2.0	<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](http://www.mcdep.com/2copc.htm)

### **Summary and Recommendation**

Buy-recommended **ConocoPhillips (COP)** offers unlevered appreciation potential of 28% to estimated net present value (NPV) of \$112 a share that depends 54% on oil production, 24% on downstream refining/marketing and 23% on natural gas. Third quarter results reported today continue to reflect a high, if not record, unlevered cash flow (Ebitda) without the recently expropriated Venezuelan operations that were written off last quarter (see table [Next Twelve Months Operating and Financial Estimates](#)). Downstream (Other) Ebitda was only a third less than in the second quarter while the industry margin in New York Harbor was half the unusually high level in the previous quarter. NPV looks easy to justify as unlevered cash flow multiple (PV/Ebitda), considering adjusted reserve life, is still quite low at 6.3 times (see table [Functional Cash Flow and Present Value](#)). A strong trend for crude oil price helps oil cash flow while a steep discount for natural gas points to catch up potential for cash flow from the clean fuel (see chart [Six-Year Commodity Price Meter](#)). As strong cash flow has repaid debt, Chairman Jim Mulva can express management's confidence in the business by stepping up the tax-effective return to shareholders through stock repurchase.

Kurt H. Wulff, CFA

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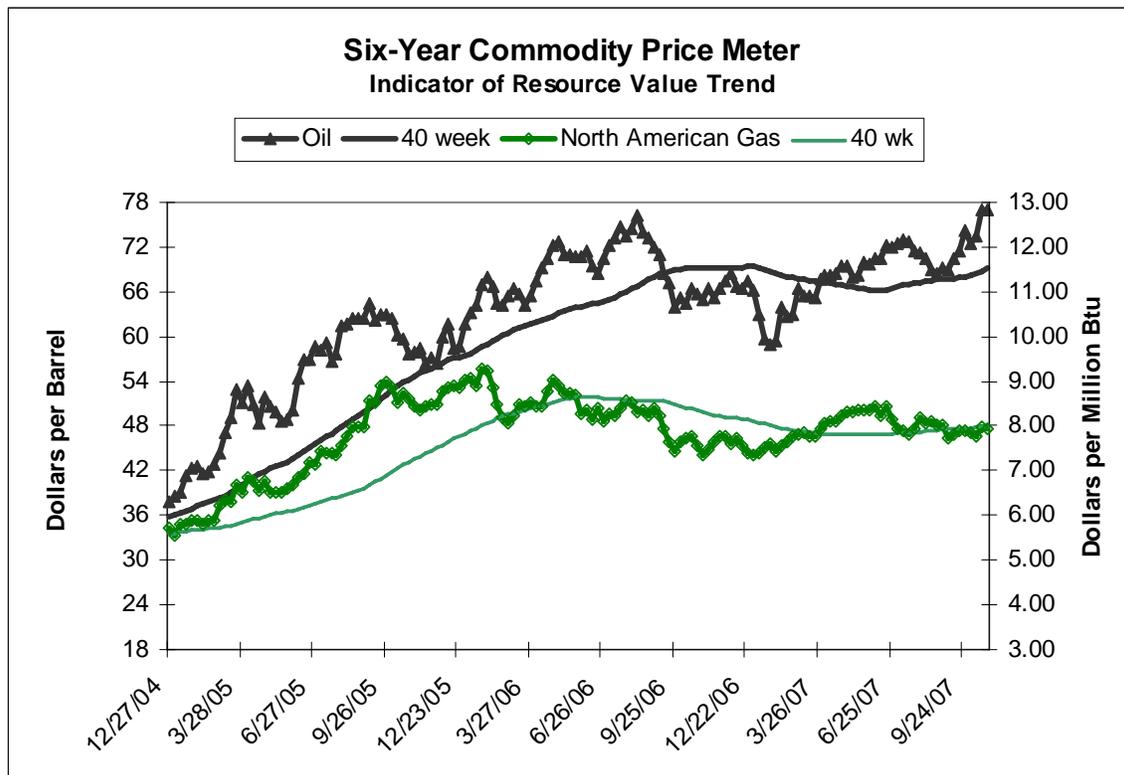
**ConocoPhillips**  
**Next Twelve Months Operating and Financial Estimates**

	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/06	6/30/07	9/30/07	12/31/07	2007E	3/31/08	6/30/08	9/30/08	9/30/08
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	3,597	3,452	3,404	3,404	<b>3,431</b>	3,404	3,404	3,404	<b>3,404</b>
Overseas (or Int'l)	1,790	1,681	1,512	1,873	<b>1,730</b>	1,858	1,681	1,512	<b>1,731</b>
Total	5,387	5,133	4,916	5,277	<b>5,161</b>	5,262	5,085	4,916	<b>5,135</b>
Oil (mbd)									
Total gas & oil (bcf)	1,364	1,301	1,210	1,243	<b>5,089</b>	1,228	1,212	1,210	<b>4,892</b>
Total gas & oil (mbd)	2,472	2,383	2,191	2,252	<b>2,324</b>	2,249	2,220	2,191	<b>2,228</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	6.95	<b>6.87</b>	7.87	7.53	7.76	<b>7.53</b>
U.S. (or North America)	5.80	6.53	5.29	5.97	<b>5.99</b>	6.76	6.47	6.66	<b>6.47</b>
Overseas (or Int'l)	6.12	6.26	6.17	6.17	<b>6.32</b>	6.17	6.17	6.17	<b>6.17</b>
Total	5.91	6.44	5.56	6.04	<b>6.10</b>	6.55	6.37	6.51	<b>6.37</b>
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	86.12	<b>71.15</b>	84.42	82.44	80.91	<b>83.47</b>
Worldwide	62.30	59.56	67.88	77.45	<b>64.10</b>	74.92	73.17	71.81	<b>74.78</b>
Total gas & oil (\$/mcf)	8.76	8.67	9.16	10.23	<b>8.99</b>	10.17	9.97	9.93	<b>10.08</b>
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	5.49	<b>13.69</b>	9.38	14.14	14.02	<b>10.76</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	1,921	2,050	1,656	1,869	<b>7,505</b>	2,095	2,004	2,087	<b>8,055</b>
Overseas (or Int'l)	1,008	958	859	1,064	<b>3,992</b>	1,044	944	859	<b>3,910</b>
Total	2,929	3,008	2,515	2,933	<b>11,497</b>	3,139	2,949	2,945	<b>11,965</b>
Oil	9,021	8,276	8,568	9,776	<b>34,240</b>	9,354	9,135	9,064	<b>37,331</b>
Other	37,953	38,113	36,850	36,850	<b>144,019</b>	36,850	36,850	36,850	<b>147,401</b>
Total	49,903	49,397	47,933	49,560	<b>189,757</b>	49,343	48,934	48,860	<b>196,697</b>
<b>Expense</b>									
Ebitda (\$mm)									
Exploration and Production	5,789	5,770	5,852	6,482	<b>23,209</b>	6,371	6,163	6,125	<b>25,141</b>
Other	3,100	4,221	2,719	2,060	<b>11,186</b>	2,187	4,221	2,719	<b>11,186</b>
Total Ebitda	8,889	9,991	8,570	8,542	<b>34,395</b>	8,558	10,384	8,844	<b>36,327</b>
Exploration	197	259	218	218	<b>957</b>	200	200	200	<b>818</b>
Deprec., Deplet., & Amort.	2,211	2,016	2,133	2,133	<b>8,306</b>	2,100	2,100	2,100	<b>8,433</b>
Other non cash	217	-	188		<b>188</b>				<b>-</b>
<b>Ebit</b>	6,264	7,716	6,031	6,191	<b>24,944</b>	6,258	8,084	6,544	<b>27,076</b>
Interest	308	319	391	391	<b>1,408</b>	391	391	391	<b>1,564</b>
<b>Ebt</b>	5,956	7,397	5,640	5,800	<b>23,536</b>	5,867	7,693	6,153	<b>25,512</b>
Income Tax	2,085	2,589	1,974	2,030	<b>8,238</b>	2,053	2,692	2,153	<b>8,929</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,391	2,738	2,469						
Other	1,775	2,516	1,521						
Unallocated	(294)	(446)	(324)						
Total	3,872	4,808	3,666	3,770	<b>15,298</b>	3,814	5,000	3,999	<b>16,583</b>
<b>Shares (millions)</b>	1,676	1,658	1,644	1,644	<b>1,653</b>	1,644	1,644	1,644	<b>1,644</b>
Per share (\$)	2.31	2.90	2.23	2.29	<b>9.25</b>	2.32	3.04	2.43	<b>10.09</b>
Ebitda Margin (E&P)	48%	51%	53%	51%	<b>51%</b>	51%	51%	51%	<b>51%</b>
Tax Rate	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

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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	4,110	10.1	9.0	37,000	16%
Rest of World Natural Gas	1,990	12.8	7.5	15,000	7%
Oil	19,040	10.5	6.4	122,000	54%
Downstream	11,190		4.8	54,000	24%
	36,330	10.7	6.3	228,000	100%
Debt (US\$mm)					44,000
Net Present Value (US\$mm)					184,000
Shares (mm)					1,644
Net Present Value - Standard Estimate (US\$/sh)					112
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					115



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