



Independent Stock Idea

January 28, 2009

rating: buy
s&p 500: 862 intraday

ConocoPhillips (COP) Harvesting Accounting Losses

<i>Symbol</i>	COP	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	20,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	49.86	<i>Natural Gas and Oil Production/Ebitda (%)</i>	80
<i>Pricing Date</i>	1/28/09	<i>Adjusted Reserves/Production NTM</i>	10.4
<i>Shares (mm)</i>	1486	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (US\$mm)</i>	74,100	<i>PV/Ebitda</i>	10.3
<i>Debt (US\$mm)</i>	47,000	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	121,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	19.30
<i>Present Value (PV) (US\$mm)</i>	208,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.86
<i>Net Present Value (US\$/share)</i>	109	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.64
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.73
<i>McDep Ratio - EV/PV</i>	0.58	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	3.8	<i>Indicated Annual Dividend (US\$/sh)</i>	1.88
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of COP since 2002 see www.mcdep.com/2cocp.htm			

Summary and Recommendation

Currently estimated Net Present Value (NPV) of \$109 a share is more than double stock price for buy-recommended **ConocoPhillips (COP)**. Released today, fourth quarter results displayed a reduction in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table Next Twelve Months Operating and Financial Estimates). Accounting write-downs, previously disclosed on January 16, harvest bookkeeping losses, which have the effect of boosting reported earnings in the future. COP is taking advantage of volatile markets just as investors would when harvesting tax losses. Looking behind earnings, our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil, and to an industry multiple for downstream. Latest calculations build to NPV concentrated 23% on natural gas, 60% on oil and 17% on downstream (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures). We like COP stock for its lowest McDep Ratio among U.S. Integrated Oil Producers in our coverage and we have confidence in management.

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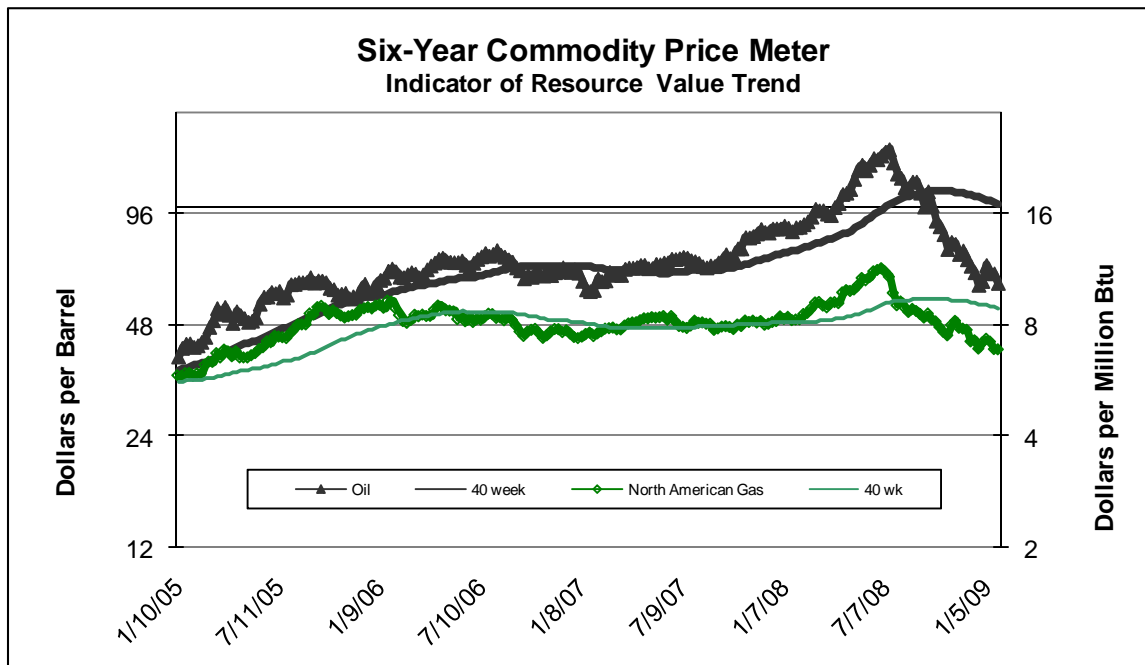
ConocoPhillips									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	3,276	3,134	3,096	3,145	3,096	3,096	3,096	3,096	3,096
Overseas (or Int'l)	1,705	1,635	1,803	1,701	1,736	1,631	1,635	1,803	1,701
Total	4,981	4,769	4,899	4,846	4,832	4,727	4,731	4,899	4,797
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	1,431	1,375	1,501	1,427	1,501	1,501	1,501	1,501	1,501
Total gas & oil (bcf)	1,248	1,198	1,279	4,907	1,245	1,250	1,264	1,279	5,038
Total gas & oil (mbd)	2,261	2,170	2,318	2,235	2,306	2,289	2,290	2,318	2,301
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.03	4.62	4.93	5.73	5.08
U.S. (or North America)	5.97	8.43	5.02	7.75	3.63	3.34	3.56	4.13	3.66
Overseas (or Int'l)	7.98	9.82	8.55	9.23	8.55	8.55	8.55	8.55	8.55
Total	6.66	8.91	6.32	8.27	5.40	5.14	5.28	5.76	5.40
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	44.74	49.86	52.65	54.65	50.48
Worldwide	78.84	105.28	49.76	87.18	37.09	41.33	43.65	45.30	40.78
Total gas & oil (\$/mcf)	10.76	14.38	7.60	12.27	5.91	6.29	6.59	6.92	6.43
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	7.57	7.78	6.23	3.44	6.26
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	1,800	2,432	1,429	8,916	1,011	940	1,013	1,178	4,141
Overseas (or Int'l)	1,252	1,478	1,419	5,749	1,337	1,270	1,287	1,419	5,312
Total	3,052	3,909	2,848	14,666	2,347	2,209	2,300	2,597	9,453
Oil	10,380	13,318	6,871	45,525	5,010	5,645	6,028	6,256	22,939
Other	40,866	54,146	35,184	185,991	35,184	35,184	35,184	35,184	140,737
Total	54,298	71,373	44,904	246,182	42,542	43,039	43,512	44,037	173,130
Expense	44,710	60,537	38,962	209,253	38,085	37,924	38,242	38,587	152,838
Ebitda (\$mm)									
Exploration and Production	7,094	8,749	4,344	30,103	3,679	3,927	4,164	4,426	16,196
Other	2,494	2,087	1,598	6,826	778	1,188	1,106	1,024	4,096
Total Ebitda	9,588	10,836	5,942	36,929	4,457	5,115	5,270	5,450	20,292
Exploration	268	267	473	1,337	400	400	400	400	1,600
Deprec., Deplet., & Amort.	2,206	2,361	2,264	9,012	2,264	2,264	2,264	2,264	9,056
Other non cash	157			-					-
Ebit	6,957	8,208	3,205	26,580	1,793	2,451	2,606	2,786	9,636
Interest	236	239	279	935	279	279	279	279	1,116
Ebt	6,721	7,969	2,926	25,645	1,514	2,172	2,327	2,507	8,520
Income Tax	2,352	2,789	1,024	8,976	530	760	814	878	2,982
Net Income (\$mm)									
Exploration and Production	3,257	4,366	1,150						
Other	1,383	1,103	791						
Unallocated	(271)	(289)	(39)						
Total	4,369	5,180	1,902	16,669	984	1,412	1,512	1,630	5,538
Shares (millions)	1,612	1,528	1,486	1,545	1,486	1,486	1,486	1,486	1,486
Per share (\$)	2.71	3.39	1.28	10.79	0.66	0.95	1.02	1.10	3.73
Ebitda Margin (E&P)	53%	51%	45%	50%	50%	50%	50%	50%	50%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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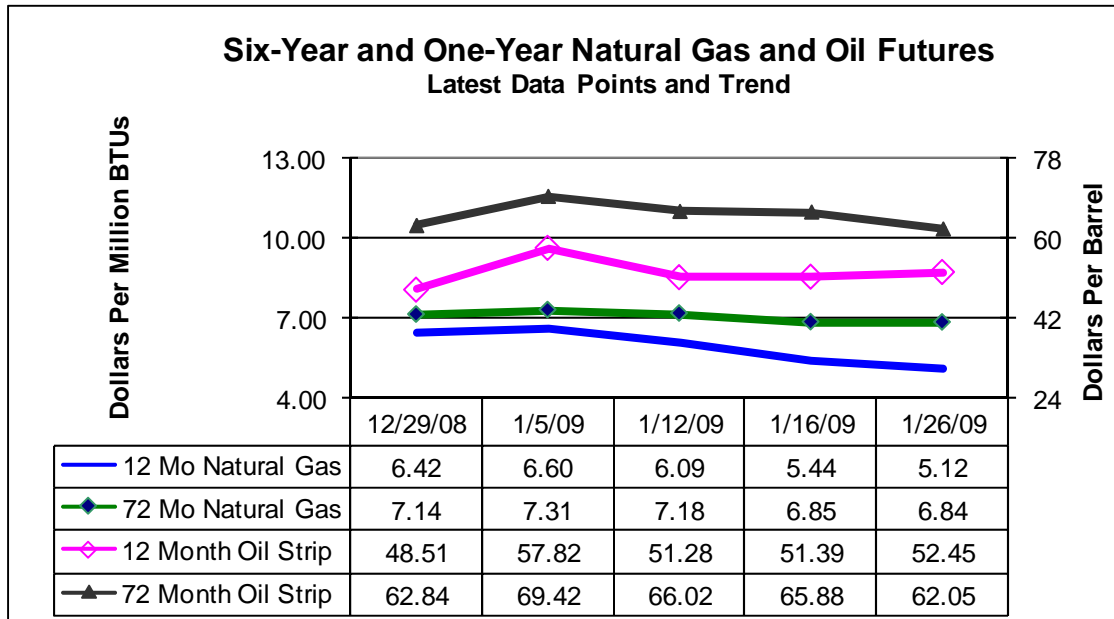
ConocoPhillips					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,070	10.4	13.0	27,000	13%
Rest of World Natural Gas	2,660	9.0	7.9	21,000	10%
Oil	11,460	10.7	11.0	126,000	60%
Downstream	4,100		8.5	35,000	17%
	20,290	10.4	10.3	209,000	100%
Debt (US\$mm)					47,000
Net Present Value (US\$mm)					162,000
Shares (mm)					1,486
Net Present Value - Standard Estimate (US\$/sh)					109
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					109





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