

## ConocoPhillips

## 4Q23 First Look: Strong production, lower costs drives EPS / Cflow beat

Maintain Rating: BUY | PO: 140.00 USD | Price: 112.32 USD

## Clean EPS beat; strong production, lower costs

Adjusted EPS of \$2.40 beat consensus and BofA of \$2.07/\$2.08 respectively. Versus our estimate the beat looks like a combination of lower operating costs & DD&A, mainly ex US and production above the top end of guidance. Cash flow before w/c of \$5.3bn looks in line with \$5.2bn consensus shifting the EPS beat towards non-cash costs. FCF of \$2.6bn after capex of \$2.9bn, came above the high end of \$2.44bn - \$2.84bn implied from prior FY guidance of \$11bn, but is mostly catch up from a light YTD. FY23 capex of \$11.15bn (ex \$100mn of acquisitions) met the midpoint of guidance (\$11.0-\$11.3bn). FCF covered outgoing cash returns of \$2.5bn including \$1.1bn in b/back. Total FY23 cash return met guidance of \$11.0bn. Net debt increased \$2.7bn q/q to \$13.3bn, almost all of which is the \$2.7bn debt funded acquisition of Surmont. Note this was the first full quarter following the acquisition of an incremental 50% of Surmont in Canada. Bottom line: Solid, with forward cash return guidance in line (see below).

## \$9.0bn of cash returns &gt;40% of cash flow

4Q production of 1,902 mboed was at the high end of guidance (1.86 -1.90). Lower 48 oil increased modestly by 0.7% to 576 mbd, marking the 5<sup>th</sup> consecutive quarter of linear growth, 7.9% growth y/y. Looking towards 1Q24, COP is guiding 1Q24 production to 1.88-1.92mm boepd, matches consensus (1.90mm boepd) and roughly flat q/q. FY guide of 1.91-1.95mm boepd also matches consensus as does capex of \$11.0-11.5bn and follows through on soft guidance at 3Q, suggesting 2H23 was a good run-rate. The focus of the market will likely be cash returns - with a 2024 target of \$9.0bn, which versus our estimate translates to ~40% of operating cash flow, exceeding the low end of management's framework of >30%. Ordinary & variable dividends are now announced together and will be paid on March 1st: note COP's variable return of capital (VROC) dividend is \$0.20 vs \$0.60 paid in 4Q23. At that run rate, and with an ordinary dividend of \$0.58/sh following the 14% increase last quarter, we estimate COP's implied share buyback program will be ~\$5.4bn which would be flat yoy (4% of shares outstanding).

## Outlook: more space for higher dividends: Buy

Management's outlook for 2024 looks in line with the l/term plan laid out at the 2023 strategy update: oil & gas production of 3% ex the acquisition of the additional 50% of Surmont. While oil growth has not been called out, COP's long-term guidance is ~55%. With a transparent cash returns framework, we see COP generating \$22.0bn of cash from operations (\$80 Brent), and \$11.0bn of FcF after \$11.25bn of capex. With payout guided to \$9.0bn, COP will generate \$2.0bn of excess cash adding to an already solid b/sheet with \$6.6bn of cash at the end of the year, leaving the door open for higher cash returns. At our base case, which assumes l/term \$75 Brent, we see COP's free cashflow easily sustained above \$10bn and growing as several major long-life projects come onstream (Willow, Qatar LNG, Port Arthur LNG and unconventional growth in the L48 and Canada). Recall COP's points to a growth CAGR of ~4.5% over the next 10 years. The output is a portfolio break-even we believe will remain below \$40/bbl and could support a greater tilt towards ordinary dividends as the primary basis for cash returns – and route to market recognition of value that is key to achieve our \$140 PO.

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## Stock Data

Price	112.32 USD
Price Objective	140.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-1-7
52-Week Range	91.53 USD - 127.35 USD
Mkt Val (mn) / Shares Out (mn)	147,726 USD / 1,315.2
Free Float	99.8%
Average Daily Value (mn)	555.90 USD
BofA Ticker / Exchange	COP / NYS
Bloomberg / Reuters	COP US / COP.N
ROE (2023E)	21.4%
Net Dbt to Eqty (Dec-2022A)	21.2%
ESGMeter™	High

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FcF - free cash flow

LNG – Liquefied Natural Gas

## 4Q23 Earnings summary

The table below summarizes 4Q23 earnings versus estimates and prior period results.

### Exhibit 1: COP 4Q23 Earnings Variance

Y/Y and Q/Q Comparison (\$ in Millions, except in per share data)

Segment Earnings	4Q23E	4Q23E	4Q22A	YOY	3Q23A	QOQ
E&P - US	2,140	2,188	2,450	-13%	2,129	3%
E&P - International	861	503	1,170	-26%	758	-34%
<b>Total E&amp;P</b>	<b>3,001</b>	<b>2,691</b>	<b>3,620</b>	<b>-17%</b>	<b>2,887</b>	<b>-7%</b>
Emerging Businesses	-	-	-	-	-	-
Corporate & Other	(139)	(234)	(245)	-43%	(286)	-18%
<b>Total Corporate &amp; Other</b>	<b>(139)</b>	<b>(234)</b>	<b>(245)</b>	<b>-43%</b>	<b>(286)</b>	<b>-18%</b>
<b>Net Income (Adjusted)</b>	<b>2,862</b>	<b>2,457</b>	<b>3,375</b>	<b>-15%</b>	<b>2,601</b>	<b>-6%</b>
Special Items	145	-	(126)	-215%	197	-
<b>Net Income (Reported)</b>	<b>3,007</b>	<b>2,457</b>	<b>3,249</b>	<b>-7%</b>	<b>2,798</b>	<b>-12%</b>
EPS (Adjusted)	<b>2.41</b>	<b>2.08</b>	<b>2.72</b>	<b>-11%</b>	<b>2.17</b>	<b>-4%</b>
EPS (Reported)	<b>2.53</b>	<b>2.08</b>	<b>2.61</b>	<b>-3%</b>	<b>2.33</b>	<b>-11%</b>
Dividend	0.58	0.58	0.51	<b>14%</b>	0.51	<b>1%</b>

Source: BofA Global Research; Company data

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## Price objective basis & risk

### ConocoPhillips (COP)

Our price objective of \$140/share assumes ex growth discounted cash flow value, which assumes \$75 Brent and \$70 West Texas Intermediate (WTI) long term. We also assume long-term Henry Hub natural gas as \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 7.6%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

The risks to our price objective are (1) the oil and gas price and margin environment, (2) significant delays to the new upstream projects critical to its production targets, and (3) inability to capture the price environment due to cost pressures (operating expense, capex, and taxation). Upside risks to our price objective are higher oil prices and lower capital expenditure spending.

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### ConocoPhillips (COP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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