



ConocoPhillips

Equity Analysis

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Basic Information

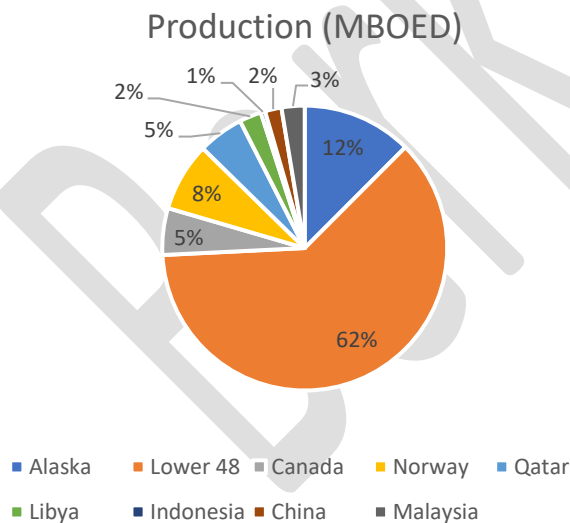
ConocoPhillips

Stock Price	122.31
Beta	1.32
Sector	Energy
Industry	Oil and Gas

ConocoPhillips (COP) is an energy company that specializes in hydrocarbon exploration and production.

Company Profile

ConocoPhillips is based in Houston, Texas. According to its 10-K filings, the company is active in 13 countries. In December 2022, the company was exploring oil and gas in Colombia, Exploring and producing in the USA, Canada, Norway, Libya, Malaysia, China, and Austria, and finally producing oil in Qatar.



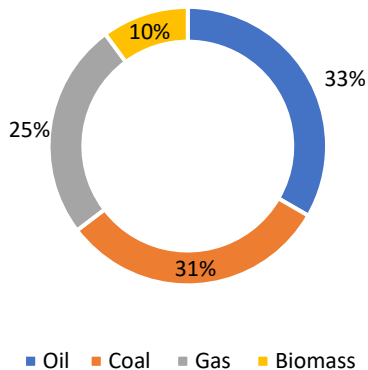
In 2022, ConocoPhillips employed approximately 9,500 people worldwide and had total assets of \$94 billion. In 2022, the company produced 1,739 thousand barrels of oil equivalent per day. As can be seen from this table, its main production is coming from The USA mainland. ConocoPhillips produces 74% of its products in the USA. In Alaska, it has 3 production areas. The First one is the Greater Prudhoe Area in which ConocoPhillips has only 36.1% of its interest, the main interest holder being Hilcorp. In the Greater

Kuparuk Area, it has 89.2 – 94.7% and the Western North Slope is completely owned by ConocoPhillips.

Industry Profile

Oil and Gas production is an important part of the world economy. Oil and Gas are some of the main materials used in energy production.

Energy Production - 2022

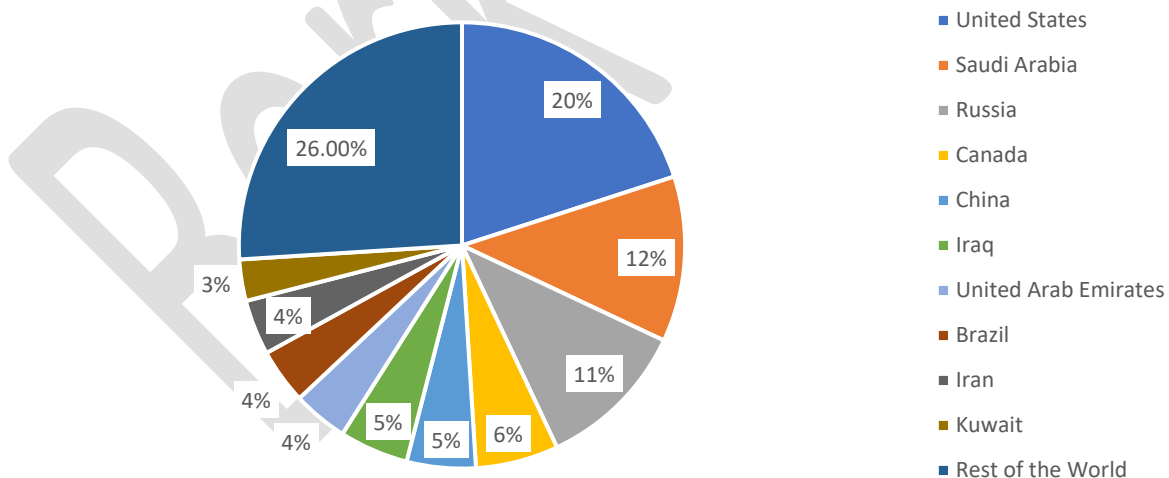


In 2022, Oil and Gas was the source of the world's energy production by 58% (yearbook, n.d.). The Oil and Gas industry is a capital-intensive industry since it requires high-priced extraction tools, vehicles, and means to store them so, the barriers to entry are very low.

Recent Events

Saudi Arabia is one of the largest Oil producers in the world and according to the WSJ Article, Saudi Arabia will cut its oil output until the end of the year (Wall Street Journal, 2023). This will increase the price of energy materials.

Oil Production Percentage - 2022

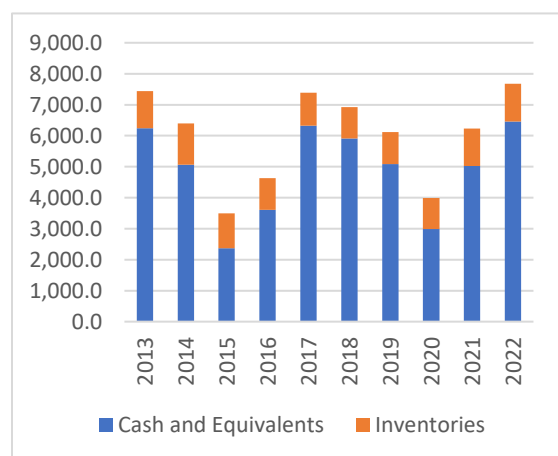


Saudi Arabia produced 12% and Russia produced 11% of the oil that was produced in 2022 in the world. Both of the countries Voluntarily cut their oil production which will lead to a short supply of oil and increase the value of oil produced by ConocoPhillips. Crude Oil contracts went up in price after the two countries' announcement (Wall Street Journal, 2023).

Financial Statement Analysis

Liquidity Ratios:	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average	Graph
Current Ratio	1.26	1.31	0.95	1.25	1.76	1.79	2.40	2.25	1.34	1.46	1.58	
Quick Ratio	1.18	1.19	0.83	1.10	1.64	1.66	2.26	2.06	1.23	1.36	1.45	
Cash Ratio	0.43	0.44	0.26	0.53	0.87	0.83	1.15	1.23	0.46	0.72	0.69	
Receivables Turnover		7.03	5.38	6.27	7.84	8.99	9.06	6.37	9.99	11.53	8.05	
Days Sales outstanding		51.94	67.84	58.26	46.57	40.59	40.27	57.33	36.55	31.66	47.89	
Total Asset Turnover		0.45	0.28	0.25	0.36	0.51	0.46	0.28	0.60	0.85	0.45	
Fixed Asset Turnover		0.71	0.42	0.38	0.56	0.80	0.74	0.46	0.87	1.21	0.68	
Working Capital Turnover		7.07	9.65	19.22	3.30	2.80	2.07	1.13	4.27	7.90	6.38	
Operating Profit Margin	5.84%	-3.68%	-59.95%	-64.40%	-44.45%	4.69%	-2.05%	-48.62%	6.51%	21.74%	-0.18	

In 2022, current and quick ratios (a ratio that includes current assets subtracted from the inventor) are lower than average. This shows that a company might have a hard time covering its short-term liabilities using its assets that it can liquidate quickly. However, their cash ratio (which inspects the ratio of cash and short-term investments that can be converted to cash quickly to current liabilities) is increasing and in 2022, it will be higher than the average of 10 years.



Since the interest rates are increasing COP is holding the highest amount of cash in 10 years. Because the interest rates increased since 2020, their short-term bond investments also increased as well. In 2020, they had \$2,634 million notes receivable but in 2021 and 2022 they had \$6,543 million and \$7,075 million notes receivable, which is approximately 148% and 8% increase in order.

Fixed asset turnover has been increasing during recent years which shows that COP can generate more revenue compared to their buildings, equipment, or other types of fixed assets.

Competitor Analysis

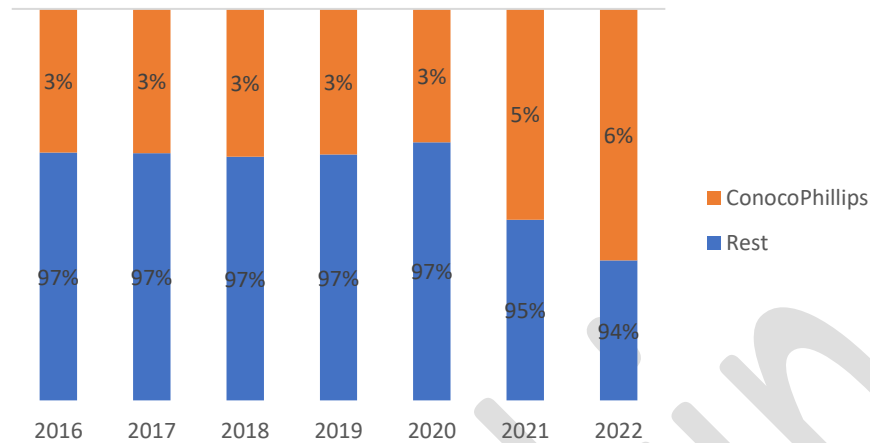
	Ticker	Price	EPS	P/E	Intirinsic Price
Exxon Mobil Corporation	XOM	\$ 116.44	13.26	8.78	\$ 113.51
Chevron Corporation	CVX	\$ 166.20	18.36	9.05	\$ 157.17
Shell plc	Shel	\$ 63.93	11.52	5.55	\$ 98.62
TotalEnergies SE	TTE	\$ 65.97	7.91	8.34	\$ 67.72
ConocoPhillips	COP	\$ 122.31	14.62	8.37	\$ 125.16

For competitor analysis, I chose Exxon Mobil Corporation (\$467.17 billion market cap.), Chevron Corporation (\$317.61 billion market cap.), Shell PLC (\$212.35 billion market cap.) and Total Energies (\$166.92 billion market cap.). ConocoPhillips has the median Price-to-earnings ratio, if we exclude ConocoPhillips from our comparison, our new median Price-to-earnings ratio becomes 8.56. Exxon Mobil and Chevron Corporation have a higher price-to-earnings ratio than the median (Shown in red). It means that for every dollar of earnings, the investor pays more than the median. Shell, Total Energies, and ConocoPhillips have a lower P/E ratio, which is ideal for investors.

	Ticker	EV	EBIT	EV/EBIT
Exxon Mobil Corporation	XOM	206,602,000	77,753,000	2.66
Chevron Corporation	CVX	164,720,000	50,190,000	3.28
Shell plc	Shel	201,758,000	67,995,000	2.97
TotalEnergies SE	TTE	142,310,000	45,672,000	3.12
ConocoPhillips	COP	58,188,000	29,283,000	1.99

ConocoPhillips has the lowest Enterprise Value to EBIT ratio. That shows ConocoPhillips is the most financially stable company in the analysis. All 5 companies have an average of 2.8 EV/EBIT ratio and a median of 2.97. Compared to average EV/EBIT Exxon and ConocoPhillips are better than the other 3 companies (which are shown in red).

Total Revenue Comparison



	2016	2017	2018	2019	2020	2021	2022
Total Revenue (In Millions)	\$ 717,870	\$ 877,614	\$ 1,072,393	\$ 973,208	\$ 613,057	\$ 945,493	\$ 1,357,510

The 5 companies in the analysis generated a revenue of \$1,357,510,000,000 in 2022. From 2016 to 2020, ConocoPhillips accounted for 3% of these total revenues however in 2021 it increased its market share by 2 percent and again in 2022, it increased its market share to 6%. As Saudi Arabia and Russia limit their outputs, I estimate that ConocoPhillips will increase its market share even higher.

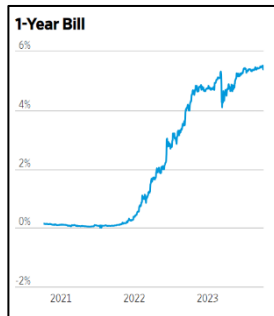
Cash Flow Analysis

Weighted Average Cost of Capital

The weighted average cost of capital shows us a company's cost of capital and to discount the future cash flows to find the present value, we need to find the cost of capital first.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average
Debt	29.21%	30.15%	38.30%	43.64%	39.01%	31.83%	29.82%	33.99%	30.51%	25.74%	33.22%
Equity	70.79%	69.85%	61.70%	56.36%	60.99%	68.17%	70.18%	66.01%	69.49%	74.26%	66.78%

In this table, you can see the capital structure of ConocoPhillips through the years. After 2020, they started to finance their business activities using more equity and less debt. This can be attributed to the COVID pandemic. After 2021, the Fed started to raise interest rates to fight inflation. While they are raising the rates, ConocoPhillips, started to change its capital structure and in 2022, its debt percentage became lower than the average of the last 10 years. In ConocoPhillips's 10-Q form, its capital structure was 25.68% debt and 74.32% equity.



This graph (Wall Street Journal, 2023) shows the interest rate on a 1-year treasury bill. Since the interest rates also increased in 2023, they will try to aim for a capital structure of around 22% debt, and 78% equity. Since the interest rates are going up, the company will not be issuing bonds as their outstanding bonds mature.

Currently, 1-year treasury rates are at 5.42%. ConocoPhillips's beta is 1.32. In its 10-Q form, it has an ROE of 31.44% and a retention rate of 78.38% which makes the growth rate 24.64%. If we use the formula, we find the cost of equity as follows:

$$K = 5.4\% + 1.32 * (24.64\% - 12\%) = 22.11\%$$

In 10-K filings ConocoPhillips had an interest rate of 4.84% and the effective tax rate of 34% so, ConocoPhillips's Weighted cost of capital is:

$$78\% * 22.112\% + 4.82\% * (1 - 0.34) = 17.95\%$$

Forecasted Cash Flows

In 2022, ConocoPhillips had a net cash flow of \$1,520,000,000. Its growth rate for 2022 was 24.64% so, its forecasted cash flows become:

(In Millions)	2022	2023 F	2024 F	2025 F	2026 F	2027 F
Cash Flow	1,520.0	1,894.6	2,361.5	2,943.5	3,668.8	30,589.9

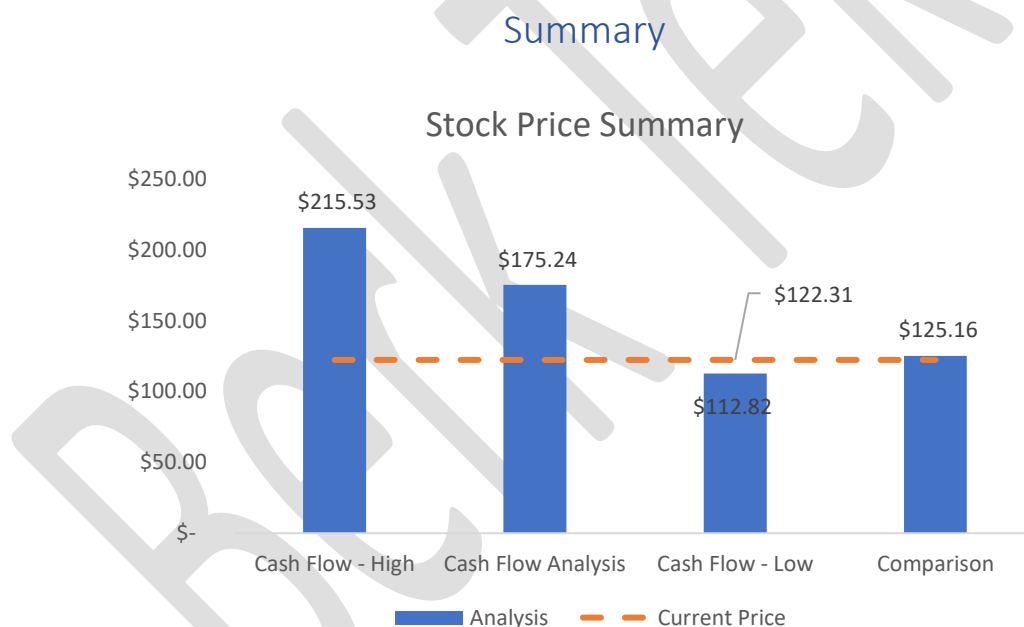
I calculated forecasted cash flows using 2022's net cash flows multiplied by the growth rate. After discounting them to WACC, which is 17.95%, the value of ConocoPhillips's stock price will be **\$175.24** in 5 years (Assuming a long-term growth rate of 3% and outstanding shares of 1,220,228,000)

Sensitivity Analysis						
Long Term Growth Rate	\$ 175.24	Short Term Growth Rate				
		5.00%	15.00%	24.64%	27.00%	30.00%
	1%	\$ 70.47	\$ 100.59	\$ 138.00	\$ 148.56	\$ 162.86
	2%	\$ 78.97	\$ 112.82	\$ 154.88	\$ 166.74	\$ 182.82
	3%	\$ 89.23	\$ 127.58	\$ 175.24	\$ 188.69	\$ 206.92
	4%	\$ 101.77	\$ 145.62	\$ 200.15	\$ 215.53	\$ 236.39
	5%	\$ 117.33	\$ 168.01	\$ 231.05	\$ 248.83	\$ 272.95

In this table, you can see the sensitivity analysis I conducted. The analysis tests the sensitivity of stock price concerning Long-term and Short-term growth rates. The stock price, if the growth rates I picked are correct, is shown in green, and the stock prices that are highly possible range are shown in yellow. Even though it is still possible, all things stay the same, I would doubt if the stock price goes out of the yellow box.

Sensitivity Analysis						
		Short Term Growth Rate				
		5.00%	15.00%	24.64%	27.00%	30.00%
Long Term Growth Rate	\$ 175.24					
	1%	\$ 70.47	\$ 100.59	\$ 138.00	\$ 148.56	\$ 162.86
	2%	\$ 78.97	\$ 112.82	\$ 154.88	\$ 166.74	\$ 182.82
	3%	\$ 89.23	\$ 127.58	\$ 175.24	\$ 188.69	\$ 206.92
	4%	\$ 101.77	\$ 145.62	\$ 200.15	\$ 215.53	\$ 236.39
	5%	\$ 117.33	\$ 168.01	\$ 231.05	\$ 248.83	\$ 272.95

This sensitivity analysis shows if the price will fall, or increase based on the combination of Short-term and Long-term growth rates.



While COP's current price is \$122.31, the prediction of stock price based on cash flow analysis is \$175.24 in this report. According to a comparison analysis that included COP's close competitors, COP should be valued at \$125.16, which is very close to the current price. This report concludes that COP is a good investment that an investor should consider if he/she wants to include an energy stock in their portfolio.

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