



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

COP - NYSE - as of	7/27/17	\$44.66
Price Target		\$65.00
52-Week Range	\$38.80 -	\$53.17
Shares Outstanding (mm)		1248.7
Market Cap. (\$mm)		\$55,767.9
1-Mo. Average Daily Volume		7,831,754
Institutional Ownership		69.3%
Debt/Total Capital	Q2'17	29.6%
ROE	FY'16	-10.3%
Book Value / Share	Q2'17	\$ 24.66
Price / Book Value		1.8x
Dividend & Yield	\$1.06	2.4%
LTM EBITDA Margin		24.9%

EPS (Operating) - FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	(\$0.95)	(\$0.02)	A --	--
2Q	(\$0.79)	\$0.14	A --	--
3Q	(\$0.66)	\$0.15	\$0.01	--
4Q	(\$0.26)	\$0.35	\$0.15	--
Year	(\$2.66)	\$0.53	\$0.28	\$1.85
P/E	nm	162.4x		32.6x

Revenue (\$B)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$5.0	\$7.8	A --	--
2Q	\$5.6	\$8.9	A --	--
3Q	\$6.5	\$6.1	\$5.6	--
4Q	\$7.3	\$6.5	\$5.9	--
Year	\$24.4	\$29.1	\$28.1	\$27.3

Company Description: *Houston, TX – based ConocoPhillips is the world's largest independent oil and gas exploration and production company. In 2016 the company produced approximately 573 Mmboe from proved reserves of approximately 6.4 Bboe from operations in 21 countries.*

Energy

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 July 28, 2017

ConocoPhillips

COP – NYSE — Long-term Buy-2

Q2'17 Exceeds Outlook, Trim Estimates on Lower Post-Divestiture Volume and Price Forecasts

Investment Highlights

- COP reported Q2'17 adjusted EPS of \$0.14 vs. (\$0.79) a year ago, exceeding our \$0.05 and the consensus estimate of \$0.01.
- The GAAP loss per share of \$2.78 reflected \$6.3B of non-cash impairment charges related to the divestitures in Canada, the San Juan basin, and Texas, partially offset by ~\$1.4B of asset sales gains.
- Q2 production of 1,437 Mboe/d was ~3% higher yr/yr, excluding divestitures, and 68 Mmboe/d above our forecast. Average realized pricing of \$36.08/Boe for the quarter was up 30% yr/yr, while operating expenses were ~8% lower yr/yr at approximately \$51/Boe, excluding impairments.
- The company paid off \$3.24B of debt in the quarter, with an additional \$2.4B of debt reduction anticipated for Q3. Further, COP repurchased \$980M of stock in Q2 and sees total repurchases of ~\$3B for the year.
- Giving effect to the impact of concluded and pending asset sales on production and costs, as well as allowing for the recent softening of the commodity price strip, we are reducing our EPS estimates for 2017 and 2018 from \$0.53 to \$0.28, and from \$1.85 to \$1.37, respectively.
- With cash flows remaining relatively unchanged, however, we reiterate our 24-month price target of \$65, at which the company would trade in line with historical financial valuation metrics vs. our forward estimates, which we believe is reasonable given our current outlook.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

COP further executed on the three elements of its strategic initiatives in Q2, with \$3.4B of debt reduction, share repurchases totaling \$980M, and the announcement of asset divestitures in the San Juan Basin and Barnett shale plays worth as much as \$3.3B. Management targeted debt falling below \$20.0B and share repurchases totaling ~\$3.0B by year-end 2017.

With the Canada sale concluded and the US sales pending, we are adjusting our H2'17 and 2018 production forecasts from 1,375 and 1,256 Mboepd to 1,346 and 1,245 Mboepd, a ~25% reduction from 2016 production of 1,569 Mboepd. On a total production basis, our 2017 forecast is now 14% below 2016 output while our 2018 forecast is ~21% lower. However, we do see organic production growth holding in the low single-digit growth range through 2018 on a modest pace of Capex outlays.

We believe the company's reduced operating cost structure and interest expense levels, combined with the impact of share repurchases, will keep cash flows relatively unchanged from our prior forecasts. Our 2017 EBITDA/share forecast falls from \$6.77 to \$6.44 while our 2018 forecast declines from \$7.70 to \$7.38.

SUITABILITY RATING

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the company's long operating history, global diversification, and improving capital and cost structures. This is balanced, however, against the pronounced cyclicality of the energy industry and still-challenging industry conditions.

CONSIDERATIONS AND RISKS

The energy production industry is highly capital intensive, highly competitive, and is subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, geopolitical events, weather patterns, and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations. Operating financial risks include success rates and costs related to expansion of the reserve base.

Additional information is available upon request.

ConocoPhillips (COP)

Financial Model (\$'s in MM's) FYE Dec.

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Sales & Other Operating Revenues	52,524	29,564	5,121	5,348	6,415	6,809	23,693	7,518	6,781	5,310	5,620	25,229	26,240
Equity in Earnings of Affiliates	2,529	655	(149)	80	(60)	181	52	200	178	201	214	792	970
Gain on Dispositions	98	591	23	128	51	158	360	22	1,876			1,898	
Other Income	366	125	20	19	110	106	255	31	47	50	50	178	80
Total Revenues	55,517	30,935	5,015	5,575	6,516	7,254	24,360	7,771	8,882	5,561	5,884	28,097	27,290
Expenses:													
Commodity Purchases	22,099	12,426	2,225	2,002	2,819	2,948	9,994	3,192	2,922	2,422	2,479	11,014	11,356
O & M	8,909	7,016	1,354	1,445	1,526	1,342	5,667	1,298	1,327	1,098	1,122	4,845	4,770
S, G & A	735	953	186	167	203	167	723	157	134	113	114	518	500
Exploration Expenses	2,045	4,192	505	610	457	343	1,915	551	98	108	109	866	909
Depletion, Depreciation & amortization	8,329	9,113	2,247	2,329	2,425	2,061	9,062	1,979	1,625	1,292	1,307	6,203	5,224
Impairments & Other Unusual Items	856	2,245	136	62	123	(182)	139	175	6,528	-	-	6,703	-
Taxes Other than Income Taxes	2,088	901	180	197	161	201	739	231	198	140	142	711	659
Accretion on Discounted Liabilities	484	483	109	112	108	96	425	95	92	72	73	332	318
Interest & Debt Expense	648	920	281	312	335	317	1,245	315	306	269	238	1,128	890
Forex Transaction (Gains) / Losses	(66)	(75)	16	(17)	13	(31)	(19)	10	13	-	-	23	-
Pre-Tax Inc.	9,390	(7,239)	(2,224)	(1,644)	(1,654)	(8)	(5,530)	(232)	(4,361)	48	300	(4,245)	2,665
Income Taxes	3,583	(2,868)	(768)	(586)	(628)	11	(1,971)	(831)	(935)	17	105	(1,644)	933
%	38.2%	39.6%	34.5%	35.6%	38.0%	-137.5%	35.6%	358.2%	21.4%	35.0%	35.0%	38.7%	35.0%
Net Income Including Noncontrolling Interests	5,807	(4,371)	(1,456)	(1,058)	(1,026)	(19)	(3,559)	599	(3,426)	31	195	(2,601)	1,732
Net Inc. Attributable to Noncontrolling Interests	(69)	(57)	(13)	(13)	(14)	(16)	(56)	(13)	(14)	(18)	(19)	(64)	(100)
Net Inc. Attributable to Disc. Ops.	1,131	-					-		12			-	
Net Income	5,738	(4,428)	(1,469)	(1,071)	(1,040)	(35)	(3,615)	586	(3,440)	13	176	(2,665)	1,632
Shares Outstanding (fully diluted)	1,245.9	1,241.9	1,244.6	1,244.9	1,246.0	1,246.3	1,245.4	1,248.7	1,236.8	1,216.8	1,198.8	1,225.3	1,188.8
EPS - fully diluted, ex-Disc. Ops.	\$ 3.70	\$ (3.57)	\$ (1.18)	\$ (0.86)	\$ (0.84)	\$ (0.03)	\$ (2.90)	\$ 0.47	\$ (2.78)	\$ 0.01	\$ 0.15	\$ (2.17)	\$ 1.37
Adjusted EPS	\$ (1.40)	\$ (0.95)	\$ (0.79)	\$ (0.66)	\$ (0.26)	\$ (2.66)	\$ (0.02)	\$ 0.14	\$ 0.01	\$ 0.15	\$ 0.28	\$ 1.37	
Dividends to Common	\$ 2.840	\$ 2.940	\$ 0.250	\$ 0.250	\$ 0.250	\$ 0.250	\$ 1.000	\$ 0.265	\$ 0.265	\$ 0.265	\$ 0.265	\$ 1.060	\$ 1.113
Margin Analysis													
Production gross margin	44.1%	37.2%	28.6%	38.2%	33.3%	40.9%	35.7%	42.2%	52.2%	36.7%	38.8%	43.6%	40.9%
Operating margin	16.9%	-23.4%	-44.3%	-29.5%	-25.4%	-0.1%	-22.7%	-3.0%	-49.1%	0.9%	5.1%	-15.1%	9.8%
S, G & A as % of revenues	1.3%	3.1%	3.7%	3.0%	3.1%	2.3%	3.0%	2.0%	1.5%	2.0%	1.9%	1.8%	1.8%
Depr. & Depl. as % of revenues	3.7%	13.6%	10.1%	10.9%	7.0%	4.7%	7.9%	7.1%	1.1%	1.9%	1.9%	3.1%	3.3%
Rate of Change Analysis													
Revenues	-4.7%	-44.3%	-37.3%	-35.6%	-13.2%	7.2%	-21.3%	55.0%	59.3%	-14.7%	-18.9%	15.3%	-2.9%
Pre-tax Inc.	-35.0%	-177.1%	524.7%	1706.6%	-5.0%	-99.8%	-23.6%	-89.6%	165.3%	-102.9%	-3849.1%	-23.2%	-162.8%
EPS - operating	-32.6%	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	-163.1%
Dividends	5.2%	3.5%	-65.8%	-65.8%	-66.2%	-66.2%	-66.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
EBITDDA / Share	-12.7%	-56.5%					-26.2%					17.4%	14.7%
Shares Out.	0.5%	-0.3%					0.3%					-1.6%	-3.0%
Working Cap.	-41.7%	85.2%					-30.9%					20.1%	1788.0%
notes:	Production: 570 Mmboe; Q3- sold Nigeria operation	Production: 580 Mmboe; Q2- Canadian wildfires; Q4- APLNG train 1 on-line; Surmont oil sands expansion	Q1- 66% reduction to dividend	sold Cook Inlet, AK operation	sold Senegal & Indonesia offshore blocks; first shipment from APLNG train 2		Production: 573 Mmboe	3/29- announce \$13.3B sale of Canadian assets	4/13- announce \$3.0B sale of San Juan Basin assets; 5/17- close CAN sale; 6/29- announce \$305M sale of Barnett shale assets			Est. Production: 491 Mmboe, post-CAN, USA divestitures	Est. Production: 454 Mmboe

Source: Company reports and Hilliard Lyons estimates

ConocoPhillips (COP) (\$'s in MM's)

Cash Flow Analysis													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17p	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	6,938	(4,371)	(1,456)	(2,514)	(1,040)	(19)	(3,615)	599	(3,440)	13	176	(2,665)	1,632
Depletion, Depreciation & Amortization	8,329	9,113	2,247	2,329	2,425	2,061	9,062	1,979	1,625	1,292	1,307	6,203	5,224
(Increase) / Decrease in Working Capital	1,093	(1,304)	(229)	823	255	(310)	875	1,801	(3,390)	1,330	(130)	(393)	(648)
Operating Cash Flow	16,360	3,438	562	638	1,640	1,732	6,322	4,379	(5,205)	2,635	1,353	3,144	6,208
(Capex / Acquisitions)	(17,085)	(10,050)	(1,821)	(1,133)	(916)	(999)	(4,869)	(966)	(1,020)	(1,475)	(1,325)	(4,786)	(4,880)
Asset Sales / (Adjustments)	1,603	1,952	135	228	56	867	1,286	35	10,707	300	250	11,292	1,200
Other Item(s)	-	-	-	-	-	-	-	(203)	(2,450)	-	-	(2,653)	-
(Dividends)	(3,525)	(3,664)	(313)	(313)	(314)	(313)	(1,253)	(331)	(331)	(322)	(318)	(1,302)	(1,323)
Free Cash Flow	(2,647)	(8,324)	(1,437)	(580)	466	1,287	1,486	2,914	1,701	1,137	(39)	5,695	1,205
Debt Issued	2,994	2,498	4,594	-	-	-	4,594	-	-	-	-	-	-
(Debt Repaid)	(2,014)	(103)	(64)	(763)	(12)	(1,412)	(2,251)	(839)	(3,240)	(2,400)	-	(6,479)	(2,500)
Common stock sold	35	82	42	3	7	11	63	-	-	-	-	-	-
(Common stock acquired)	-	-	-	-	-	(126)	(126)	(158)	(980)	(950)	(950)	(3,038)	(500)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	(1,632)	(5,847)	3,135	(1,340)	461	(240)	3,766	1,917	(2,519)	(2,213)	(989)	(3,822)	(1,795)
EBITDA	\$ 21,268	\$ 9,231	\$ 417	\$ 931	\$ 1,178	\$ 2,030	\$ 6,831	\$ 2,215	\$ 2,222	\$ 1,609	\$ 1,845	\$ 7,891	\$ 8,779
EBITDA / Share	\$ 17.07	\$ 7.43	\$ 0.34	\$ 0.75	\$ 0.95	\$ 1.63	\$ 5.48	\$ 1.77	\$ 1.80	\$ 1.32	\$ 1.54	\$ 6.44	\$ 7.38
yr/yr change	-12.7%	-56.5%	-83.1%	-69.8%	-36.7%	10.9%	-26.2%	429.4%	140.2%	39.8%	-5.5%	17.4%	14.7%
margin	38.3%	29.8%	8.3%	16.7%	18.1%	28.0%	28.0%	28.5%	25.0%	28.9%	31.4%	28.1%	32.2%
Balance Sheet Analysis													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash & Equivalents	5,062	2,368	5,173	4,152	4,090	3,660	3,660	3,361	7,500	5,290	4,300	4,300	2,500
Notes & A/R	6,807	4,514	3,954	3,316	3,163	3,414	3,414	3,359	3,500	2,780	2,940	2,940	3,410
Inventories	1,331	1,124	1,072	1,150	1,108	1,018	1,018	1,097	1,090	1,080	1,070	1,070	1,060
Other Current Assets	1,868	783	735	641	1,280	517	517	2,911	2,910	2,910	2,910	2,910	2,910
Total Current Assets	15,068	8,789	10,934	9,259	9,641	8,609	8,609	10,728	15,000	12,060	11,220	11,220	9,880
Investments	25,139	21,186	21,806	22,024	21,283	21,091	21,091	21,153	23,020	23,140	23,260	23,260	23,380
PP&E, net	75,444	66,446	66,000	63,685	61,649	58,331	58,331	54,440	41,040	41,740	42,280	42,280	44,030
Other Assets / Intangibles, net	888	1,063	1,094	1,086	1,711	1,741	1,741	1,652	1,660	1,670	1,680	1,680	1,690
Total Assets	116,539	97,484	99,834	96,054	94,284	89,772	89,772	87,973	80,720	78,610	78,440	78,440	78,980
A/P	8,026	4,933	4,165	3,818	3,686	3,653	3,653	3,531	5,150	3,230	3,410	3,410	3,960
ST Debt & Current Maturities	182	1,427	2,079	1,331	1,336	1,089	1,089	1,095	1,000	1,000	1,000	1,000	1,550
Accrued Income / Other Taxes	1,051	499	701	554	394	484	484	756	530	330	350	350	410
Other Current Liabilities	2,278	2,397	1,880	1,645	2,121	1,683	1,683	2,144	2,140	2,140	2,140	2,140	2,140
Total Current Liabilities	11,537	9,256	8,825	7,348	7,537	6,909	6,909	7,526	8,820	6,700	6,900	6,900	8,060
Long-term Debt	22,383	23,453	27,376	27,346	27,353	26,186	26,186	25,340	22,468	22,280	20,010	20,010	17,800
Deferred Income Tax Liabilities	15,070	10,999	10,332	9,655	9,034	8,949	8,949	7,568	7,530	7,490	7,450	7,450	7,410
Employee Benefits Obligations	2,964	2,286	2,493	2,533	2,471	2,552	2,552	2,534	2,520	2,510	2,500	2,500	2,490
Other Long-term Obligations	12,312	11,408	11,401	11,341	11,433	9,950	9,950	9,404	9,450	9,500	9,550	9,550	9,600
Total Liabilities	64,266	57,402	60,427	58,223	57,828	54,546	54,546	52,372	50,788	48,480	46,410	46,410	45,360
Shareholder's Equity	52,273	40,082	39,407	37,831	36,170	35,226	35,226	35,601	30,499	30,130	32,030	32,030	33,620
Book Value per share	\$ 41.96	\$ 32.27	\$ 31.66	\$ 30.39	\$ 29.03	\$ 28.26	\$ 28.28	\$ 28.51	\$ 24.66	\$ 24.76	\$ 26.72	\$ 26.14	\$ 28.28
Current Ratio	1.3x	0.9x	1.2x	1.3x	1.3x	1.2x	1.2x	1.4x	1.7x	1.8x	1.6x	1.6x	1.2x
Total Debt/Cap.-Net of Cash	23.4%	34.7%	35.3%	36.9%	37.9%	37.8%	37.8%	37.2%	29.6%	33.7%	31.5%	31.5%	31.8%
ROE: DuPont	11.0%	-11.0%	-14.9%	-11.3%	-11.5%	-0.4%	-10.3%	1.6%	-11.3%	0.0%	0.5%	-8.3%	4.9%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures**Definitions of Ratings:**

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Definitions of Suitability:

1 - A large cap, core holding with a solid history.

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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