



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

COP - NYSE - as of	5/17/17	\$46.41
Price Target		\$65.00
52-Week Range	\$38.80 -	\$53.17
Shares Outstanding (mm)		1249.2
Market Cap. (\$mm)		\$57,974.8
1-Mo. Average Daily Volume		7,038,759
Institutional Ownership		70.7%
Debt/Total Capital	Q1'17	36.1%
ROE	FY'16	-10.3%
Book Value / Share	Q1'17	\$ 28.50
Price / Book Value		1.6x
Dividend & Yield	\$1.06	2.3%
LTM EBITDA Margin		31.6%

### EPS (Operating) - FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	(\$0.95)	(\$0.02)	A	--
2Q	(\$0.79)	\$0.00	\$0.05	--
3Q	(\$0.66)	\$0.10	\$0.15	--
4Q	(\$0.26)	\$0.25	\$0.35	--
Year	(\$2.66)	\$0.34	\$0.53	\$1.70
P/E	nm	87.3x		25.1x

### Revenue (\$B)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$5.0	\$7.8	A	--
2Q	\$5.6	\$7.3	\$8.8	--
3Q	\$6.5	\$7.7	\$6.1	--
4Q	\$7.3	\$8.1	\$6.5	--
Year	\$24.4	\$30.8	\$29.1	\$36.3
			\$28.6	

**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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## ConocoPhillips

COP – NYSE — Long-term Buy-2

**Closes \$13.3B Canadian Asset Sale**

### Investment Highlights

- COP announced the closing of its Canadian asset sale to Cenovus Energy (CVE - \$9.26 – not rated) of its 50%-owned, non-operated interest in the Foster Creek Christina Lake tar sands joint venture and western Canada gas assets. The assets accounted for approximately 280 Mboe/d of production, ~18% of the 2016 exit rate, and ~1.3B Boe, or ~20%, of reserves.
- About half of the \$10.6B cash proceeds are to be applied to reduce debt to ~\$20.0B by year-end, which we are modelling over the course of the year, with another ~\$5B reduction planned through 2019. There is a five-year earn-out provision for potential upside to crude prices and COP also received 208M shares of Cenovus common stock.
- We are reducing our 2017 production forecast from 570 Mmboe to 502 Mmboe, reflecting the mid-Q2 effective date, and our 2018 forecast from 578 Mmboe to 469 Mmboe. The offset of reduced operating costs, interest expense and shares outstanding, however, increases our adjusted EPS estimate for 2017 from \$0.34 to \$0.53 and for 2018 from \$1.70 to \$1.85.
- We reiterate our 24-month price target of \$65, at which the company's EV/Mcfe multiple would be \$3.12, an 8% discount to the sector average of \$3.38 when factoring for the reduction to the reserve base. We view this discount as reasonable given currently-extended traditional financial valuation metrics and our current outlook.

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

**ADDITIONAL DISCUSSION**

COP closed yesterday on the first of two divestitures announced earlier this year, the second being San Juan Basin gas-oriented assets anticipated to close in Q3, which will lower reserves and production but also reduce the company's net debt to total capitalization ratio from 36.1% at Q1 to an estimated 22.7% for Q2 and 22.2% by year-end. That presumes long-term debt is at ~\$20B by the end of 2017 and trending lower still through 2019, effectively within the range of management's three year strategic goal within the next few quarters.

The balance sheet impact of the divestiture will be minimal, in our view, but we do expect a non-cash gain of ~\$2.4B to be reflected on the income statement. On an operating basis, however, we see reduced operating and interest expenses, and an accelerating pace of share repurchases resulting in an increase to our operating EPS estimates for 2017 from \$0.34 to \$0.53, and for 2018 from \$1.70 to \$1.85.

Our expectations for the pace of share repurchases is significantly more measured than management's comments could support, as the company doubled the authorization to \$6B in conjunction with announcing the deal, and has stated that buybacks could reach \$3B this year.

**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 cost structure. This is balanced, however, against the pronounced cyclicity 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	Q2'17E	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	6,190	5,890	6,230	25,828	27,580
Equity in Earnings of Affiliates	2,529	655	(149)	80	(60)	181	52	200	173	185	197	755	910
Gain on Dispositions	98	591	23	128	51	158	360	22	2,400			2,422	
Other Income	366	125	20	19	110	106	255	31	30	30	30	121	80
<b>Total Revenues</b>	<b>55,517</b>	<b>30,935</b>	5,015	5,575	6,516	7,254	<b>24,360</b>	7,771	8,793	6,105	6,457	<b>29,126</b>	<b>28,570</b>
Expenses:													
Commodity Purchases	22,099	12,426	2,225	2,002	2,819	2,948	9,994	3,191	2,741	2,613	2,701	11,246	12,204
O & M	8,909	7,016	1,354	1,445	1,526	1,342	5,667	1,298	1,134	1,045	1,045	4,522	4,295
S, G & A	735	953	186	167	203	167	723	157	137	128	129	551	540
Exploration Expenses	2,045	4,192	505	610	457	343	1,915	258	237	232	247	974	1,408
Depletion, Depreciation & amortization	8,329	9,113	2,247	2,329	2,425	2,061	9,062	1,979	1,495	1,277	1,174	5,926	4,694
Impairments	856	2,245	136	62	123	(182)	139	175	-	-	-	175	-
Taxes Other than Income Taxes	2,088	901	180	197	161	201	739	231	162	151	153	697	681
Accretion on Discounted Liabilities	484	483	109	112	108	96	425	95	82	78	79	334	329
Interest & Debt Expense	648	920	281	312	335	317	1,245	315	286	269	238	1,108	890
Forex Transaction (Gains) / Losses	(66)	(75)	16	(17)	13	(31)	(19)	10	-	-	-	10	-
Pre-Tax Inc.	9,390	(7,239)	(2,224)	(1,644)	(1,654)	(8)	(5,530)	62	2,518	312	692	3,584	3,529
Income Taxes	3,583	(2,868)	(768)	(586)	(628)	11	(1,971)	(728)	881	109	242	505	1,235
%	38.2%	39.6%	34.5%	35.6%	38.0%	-137.5%	35.6%	-1174.2%	35.0%	35.0%	35.0%	14.1%	35.0%
Net Income Including Noncontrolling Interests	5,807	(4,371)	(1,456)	(1,058)	(1,026)	(19)	(3,559)	790	1,637	203	450	3,079	2,294
Net Inc. Attributable to Noncontrolling Interests	(69)	(57)	(13)	(13)	(14)	(16)	(56)	(13)	(17)	(18)	(19)	(67)	(100)
Net Inc. Attributable to Disc. Ops.	1,131	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>5,738</b>	<b>(4,428)</b>	(1,469)	(1,071)	(1,040)	(35)	<b>(3,615)</b>	777	1,620	185	431	<b>3,012</b>	<b>2,194</b>
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	1,249.2	1,242.2	1,233.2	1,224.2	1,237.2	1,184.2
EPS - fully diluted, ex-Disc. Ops.	\$ 3.70	\$ (3.57)	\$ (1.18)	\$ (0.86)	\$ (0.84)	\$ (0.03)	\$ (2.90)	\$ 0.62	\$ 1.30	\$ 0.15	\$ 0.35	\$ 2.43	\$ 1.85
<b>Adjusted EPS</b>	<b>\$ 2.84</b>	<b>\$ 2.94</b>	<b>\$ 0.25</b>	<b>\$ 0.25</b>	<b>\$ 0.25</b>	<b>\$ 0.25</b>	<b>\$ 1.00</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>	<b>\$ 0.26</b>	<b>\$ 1.06</b>	<b>\$ 1.11</b>
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
<b>Margin Analysis</b>													
Production gross margin	44.1%	37.2%	28.6%	38.2%	33.3%	40.9%	35.7%	42.2%	55.9%	40.1%	42.0%	45.9%	42.2%
Operating margin	16.9%	-23.4%	-44.3%	-29.5%	-25.4%	-0.1%	-22.7%	0.8%	28.6%	5.1%	10.7%	12.3%	12.4%
S, G & A as % of revenues	1.3%	3.1%	3.7%	3.0%	3.1%	2.3%	3.0%	2.0%	1.6%	2.1%	2.0%	1.9%	1.9%
Depr. & Depl. as % of revenues	3.7%	13.6%	10.1%	10.9%	7.0%	4.7%	7.9%	3.3%	2.7%	3.8%	3.8%	3.3%	4.9%
<b>Rate of Change Analysis</b>													
Revenues	-4.7%	-44.3%	-37.3%	-35.6%	-13.2%	7.2%	-21.3%	55.0%	57.7%	-6.3%	-11.0%	19.6%	-1.9%
Pre-tax Inc.	-35.0%	-177.1%	524.7%	1706.6%	-5.0%	-99.8%	-23.6%	-102.8%	-253.2%	-118.9%	-8745.5%	-164.8%	-1.5%
EPS - operating	-32.6%	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	-23.9%
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%					73.4%	-6.6%
Shares Out.	0.5%	-0.3%					0.3%					-0.7%	-4.3%
Working Cap.	-41.7%	85.2%					-30.9%					31.8%	1876.5%
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- announces \$3.0B sale of Sun Juan Basin assets; 5/17- close CAN sale			Est. Production: 502 Mmboe, post-CAN divestiture	Est. Production: 469 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	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	6,938	(4,371)	(1,456)	(2,514)	(1,040)	(19)	(3,615)	599	1,620	185	431	3,012	2,194
Depletion, Depreciation & Amortization	8,329	9,113	2,247	2,329	2,425	2,061	9,062	1,979	1,495	1,277	1,174	5,926	4,694
(Increase) / Decrease in Working Capital	1,093	(1,304)	(229)	823	255	(310)	875	1,801	(3,360)	1,080	(140)	(623)	(560)
Operating Cash Flow	16,360	3,438	562	638	1,640	1,732	6,322	4,379	(245)	2,542	1,465	8,315	6,328
(Capex / Acquisitions)	(17,085)	(10,050)	(1,821)	(1,133)	(916)	(999)	(4,869)	(966)	(1,400)	(1,350)	(1,250)	(4,966)	(5,020)
Asset Sales / (Adjustments)	1,603	1,952	135	228	56	867	1,286	35	10,600	250	250	11,135	1,200
Other Item(s)	-	-	-	-	-	-	-	-	-	-	-	-	-
(Dividends)	(3,525)	(3,664)	(313)	(313)	(314)	(313)	(1,253)	(331)	(329)	(327)	(324)	(1,311)	(1,318)
Free Cash Flow	(2,647)	(8,324)	(1,437)	(580)	466	1,287	1,486	3,117	8,626	1,115	141	13,173	1,190
Debt Issued	2,994	2,498	4,594	-	-	-	4,594	-	-	-	-	-	-
(Debt Repaid)	(2,014)	(103)	(64)	(763)	(12)	(1,412)	(2,251)	(839)	(1,780)	(1,780)	(1,780)	(6,179)	(2,500)
Common stock sold	35	82	42	3	7	11	63	-	-	-	-	-	-
(Common stock acquired)	-	-	-	-	-	(126)	(126)	(158)	(350)	(450)	(500)	(1,458)	(2,500)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	(1,632)	(5,847)	3,135	(1,340)	461	(240)	3,766	2,120	6,496	(1,115)	(2,139)	5,536	(3,810)
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	9,860	8,750	6,610	6,610	2,800
Notes & A/R	6,807	4,514	3,954	3,316	3,163	3,414	3,414	3,359	4,400	3,050	3,230	3,230	3,570
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	18,260	15,790	13,820	13,820	10,340
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	43,540	44,120	44,670	44,670	46,870
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	86,480	84,720	83,430	83,430	82,280
A/P	8,026	4,933	4,165	3,818	3,686	3,653	3,653	3,531	5,100	3,540	3,750	3,750	4,140
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	370	390	390	430
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	8,770	7,050	7,280	7,280	8,260
Long-term Debt	22,383	23,453	27,376	27,346	27,353	26,186	26,186	25,340	23,310	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	51,580	48,830	46,790	46,790	45,560
Shareholder's Equity	52,273	40,082	39,407	37,831	36,170	35,226	35,226	35,601	34,900	35,890	36,640	36,640	36,720
Book Value per share	\$ 41.96	\$ 32.27	\$ 31.66	\$ 30.39	\$ 29.03	\$ 28.26	\$ 28.28	\$ 28.50	\$ 28.10	\$ 29.10	\$ 29.93	\$ 29.62	\$ 31.01
Current Ratio	1.3x	0.9x	1.2x	1.3x	1.3x	1.2x	1.2x	1.4x	2.1x	2.2x	1.9x	1.9x	1.3x
Total Debt/Cap.-Net of Cash	23.2%	33.2%	33.2%	35.6%	36.6%	36.7%	36.7%	36.1%	23.1%	23.3%	23.7%	23.7%	27.5%
ROE: DuPont	11.0%	-11.0%	-14.9%	-11.3%	-11.5%	-0.4%	-10.3%	2.2%	4.6%	0.5%	1.2%	8.2%	6.0%

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	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

**Other Disclosures**

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