



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

COP - NYSE - as of	5/2/17	\$46.70
Price Target		\$65.00
52-Week Range	\$38.80 -	\$53.17
Shares Outstanding (mm)		1249.2
Market Cap. (\$mm)		\$58,337.1
1-Mo. Average Daily Volume		8,353,784
Institutional Ownership		69.0%
Debt/Total Capital	Q1'17	36.5%
ROE	FY'16	-10.3%
Book Value / Share	Q1'17	\$ 28.65
Price / Book Value		1.6x
Dividend & Yield	\$1.06	2.3%
LTM EBITDA Margin		31.6%

### EPS - FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	(\$0.95)	(\$0.02) A	--	--
2Q	(\$0.79)	(\$0.04)	\$0.00	--
3Q	(\$0.66)	\$0.06	\$0.10	--
4Q	(\$0.26)	\$0.24	\$0.25	--
Year	(\$2.66)	\$0.05	\$0.34	\$1.65
P/E	nm	137.0x		27.5x

### Revenue (\$B)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$5.0	\$7.8	A	--
2Q	\$5.6	\$7.1	\$7.3	--
3Q	\$6.5	\$7.5	\$7.7	--
4Q	\$7.3	\$8.2	\$8.1	--
Year	\$24.4	\$29.6	\$30.8	\$35.4
				\$36.3

**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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## ConocoPhillips

COP – NYSE — Long-term Buy-2

### Q1'17 Narrows Loss, Raise Estimates

#### Investment Highlights

- COP reported Q1'17 adjusted EPS of (\$0.02) vs. (\$0.95) a year ago, just below the consensus estimate of \$0.01.
- Headline EPS for the period of \$0.62 benefited from a \$996M positive tax adjustment, or \$0.80/share. This was partially offset by \$0.18/share of other adjustments, primarily a non-cash impairment charge.
- Q1 production of 1,593 Mboe/d was up ~1% yr/yr and exceeded our forecast by 49 Mmboe/d. Adjusting for the impact of dispositions and excluding output from Libya, production was ~2% higher yr/yr. Average realized pricing of \$36.18/Boe in Q1 was 58% higher yr/yr and up in all categories while operating expenses were 4% lower.
- The company raised its dividend by 6% for Q1, paid off \$839M of debt due to mature this year and repurchased \$158M of stock. With ~\$16.3B of asset sales anticipated to close this year, we believe COP is well-positioned to continue executing on its strategic realignment.
- Excluding the potential impact of those asset sales on production and costs, we are increasing our EPS estimates for 2017 and 2018 from \$0.05 to \$0.34, and from \$1.65 to \$1.70, respectively.
- We reiterate our 24-month price target of \$65, at which the company's EV/Mcfe multiple would be \$2.68, a 20% discount to the sector average of \$3.37, a discount we believe is reasonable given currently-extended traditional valuation metrics and our current outlook.

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

**ADDITIONAL DISCUSSION**

COP made further progress on the three elements of its strategic initiatives in Q1, reducing debt by \$839M, repurchasing 2.2M shares and raising the quarterly dividend by 6% yr/yr. Announcements in late March and early April of asset sale agreements tee up \$13.3B of proceeds later this year, positioning the company to significantly further deleverage. At quarter-end total debt was \$26.4B, or 36.4%, of total capitalization.

The sales transactions would reduce production by ~390 Mboe/d, or ~25% of current output, but are anticipated to reduce operating costs by ~\$1.6B with additional savings from lower interest expense. We will await the closing of the deals to incorporate those changes and are holding our 2017 production forecast relatively unchanged, at 1,563 Mboe/d vs. our prior 1,565 Mboe/d, primarily reflecting the still unsettled situation in Libya, which did contribute ~10 Mboe/d in Q1. Cost reductions are slowing, but were still better than prior-year levels, which with continued firming in pricing leads us to increase our 2017 adjusted EPS estimate from \$0.05 to \$0.34 and our 2018 estimate from \$1.65 to \$1.70.

**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	7,050	7,470	7,900	29,938	35,350
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				22	
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	7,253	7,685	8,127	<b>30,836</b>	<b>36,340</b>
Expenses:													
Commodity Purchases	22,099	12,426	2,225	2,002	2,819	2,948	9,994	3,191	3,073	3,216	3,322	12,802	15,032
O & M	8,909	7,016	1,354	1,445	1,526	1,342	5,667	1,298	1,271	1,308	1,329	5,206	5,493
S, G & A	735	953	186	167	203	167	723	157	154	153	152	615	665
Exploration Expenses	2,045	4,192	505	610	457	343	1,915	258	265	286	303	1,113	1,735
Depletion, Depreciation & amortization	8,329	9,113	2,247	2,329	2,425	2,061	9,062	1,979	1,872	1,901	1,907	7,658	7,516
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	182	186	188	786	838
Accretion on Discounted Liabilities	484	483	109	112	108	96	425	95	92	96	97	380	405
Interest & Debt Expense	648	920	281	312	335	317	1,245	315	313	313	312	1,253	1,235
Forex Transaction (Gains) / Losses	(66)	(75)	16	(17)	13	(31)	(19)	10	-	-	-	10	-
<b>Total Costs &amp; Other Deductions</b>	<b>46,127</b>	<b>38,174</b>	7,239	7,219	8,170	7,262	<b>29,890</b>	7,709	7,222	7,457	7,610	<b>29,998</b>	<b>32,919</b>
Pre-Tax Inc.	9,390	(7,239)	(2,224)	(1,644)	(1,654)	(8)	(5,530)	62	31	228	518	838	3,421
Income Taxes	3,583	(2,868)	(768)	(586)	(628)	11	(1,971)	(728)	11	80	181	(456)	1,197
%	38.2%	39.6%	34.5%	35.6%	38.0%	-137.5%	35.6%	-1174.2%	35.0%	35.0%	35.0%	-54.4%	35.0%
Net Income Including Noncontrolling Interests	5,807	(4,371)	(1,456)	(1,058)	(1,026)	(19)	(3,559)	790	20	148	336	1,295	2,224
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	-					-					-	
Net Income	5,738	(4,428)	(1,469)	(1,071)	(1,040)	(35)	(3,615)	777	3	130	317	1,228	2,124
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	1,249.1	1,249.0	1,248.9	1,249.0	1,248.4
<b>EPS - fully diluted, ex-Disc. Ops.</b>	<b>\$ 3.70</b>	<b>\$ (3.57)</b>	<b>\$ (1.18)</b>	<b>\$ (0.86)</b>	<b>\$ (0.84)</b>	<b>\$ (0.03)</b>	<b>\$ (2.90)</b>	<b>\$ 0.62</b>	\$ 0.00	\$ 0.10	\$ 0.25	<b>\$ 0.98</b>	<b>\$ 1.70</b>
Adjusted EPS		\$ (1.40)	\$ (0.95)	\$ (0.79)	\$ (0.66)	\$ (0.26)	\$ (2.66)	\$ (0.02)				<b>\$ 0.34</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%	40.1%	41.1%	42.8%	41.6%	43.5%
Operating margin	16.9%	-23.4%	-44.3%	-29.5%	-25.4%	-0.1%	-22.7%	0.8%	0.4%	3.0%	6.4%	2.7%	9.4%
S, G & A as % of revenues	1.3%	3.1%	3.7%	3.0%	3.1%	2.3%	3.0%	2.0%	2.1%	2.0%	1.9%	2.0%	1.8%
Depr. & Depl. as % of revenues	3.7%	13.6%	10.1%	10.9%	7.0%	4.7%	7.9%	3.3%	3.7%	3.7%	3.7%	3.6%	4.8%
<b>Rate of Change Analysis</b>													
Revenues	-4.7%	-44.3%	-37.3%	-35.6%	-13.2%	7.2%	-21.3%	55.0%	30.1%	17.9%	12.0%	26.6%	17.8%
Pre-tax Inc.	-35.0%	-177.1%	524.7%	1706.6%	-5.0%	-99.8%	-23.6%	-102.8%	-101.9%	-113.8%	-6569.5%	-115.2%	308.1%
EPS - operating	-32.6%	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	73.1%
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%					61.1%	26.1%
Shares Out.	0.5%	-0.3%					0.3%					0.3%	-0.1%
Working Cap.	-41.7%	85.2%					-30.9%					65.9%	28.6%
notes:	Production: 570 Mmboe; Q3- sold Nigeria operation	Production: 580 Mmboe; Q2- Canadian wildfires; Q4- APLNG train 1 on-line; Sarmont 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 San Juan Basin assets			Est. Production: 570 Mmboe, pre-divestitures	Est. Production: 578 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	Q1'17p	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	6,938	(4,371)	(1,456)	(2,514)	(1,400)	(19)	(3,615)	790	20	148	336	1,295	2,224
Depletion, Depreciation & Amortization	8,329	9,113	2,247	2,329	2,425	2,061	9,062	1,979	1,872	1,901	1,907	7,658	7,516
(Increase) / Decrease in Working Capital	1,093	(1,304)	(229)	823	255	(310)	875	(1,150)	210	(170)	(180)	(1,291)	(747)
Operating Cash Flow	16,360	3,438	562	638	1,640	1,732	6,322	1,619	2,102	1,879	2,063	7,662	8,993
(Capex / Acquisitions)	(17,085)	(10,050)	(1,821)	(1,133)	(916)	(999)	(4,869)	(948)	(1,400)	(1,350)	(1,250)	(4,948)	(5,000)
Asset Sales / (Adjustments)	1,603	1,952	135	228	56	867	1,286	35	250	250	250	785	1,200
Other Item(s)	-	-	-	-	-	-	-	-	-	-	-	-	-
(Dividends)	(3,525)	(3,664)	(313)	(313)	(314)	(313)	(1,253)	(331)	(331)	(331)	(331)	(1,324)	(1,389)
Free Cash Flow	(2,647)	(8,324)	(1,437)	(580)	466	1,287	1,486	375	621	448	732	2,175	3,804
Debt Issued	2,994	2,498	4,594	-	-	-	4,594	-	-	-	-	-	-
(Debt Repaid)	(2,014)	(103)	(64)	(763)	(12)	(1,412)	(2,251)	(839)	(250)	(250)	(250)	(1,589)	(1,550)
Common stock sold	35	82	42	3	7	11	63	-	-	-	-	-	-
(Common stock acquired)	-	-	-	-	-	(126)	(126)	(158)	-	-	-	(158)	(2,500)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	(1,632)	(5,847)	3,135	(1,340)	461	(240)	3,766	(622)	371	198	482	428	(246)
EBITDA	\$ 21,268	\$ 9,231	\$ 945	\$ 1,669	\$ 1,686	\$ 2,531	\$ 6,831	\$ 2,789	\$ 2,481	\$ 2,727	\$ 3,040	\$ 11,037	\$ 13,907
EBITDA / Share	\$ 17.07	\$ 7.43	\$ 0.76	\$ 1.34	\$ 1.35	\$ 2.03	\$ 5.48	\$ 2.23	\$ 1.99	\$ 2.18	\$ 2.43	\$ 8.84	\$ 11.14
margin	38.3%	29.8%	18.8%	29.9%	25.9%	34.9%	28.0%	35.9%	34.2%	35.5%	37.4%	35.8%	38.3%
yr/yr change	-12.7%	-56.5%	-61.8%	-45.9%	-9.4%	38.3%	-26.2%	194.0%	48.2%	61.4%	19.9%	61.1%	26.1%
CF Multiple	4.0x	6.3x					9.1x					6.2x	5.8x
Balance Sheet Analysis													
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17p	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	3,100	3,470	3,670	4,150	4,150	3,900
Notes & A/R	6,807	4,514	3,954	3,316	3,163	3,414	3,414	3,890	3,630	3,840	4,060	4,060	4,540
Inventories	1,331	1,124	1,072	1,150	1,108	1,018	1,018	1,010	1,000	1,000	1,000	1,000	1,000
Other Current Assets	1,868	783	735	641	1,280	517	517	520	520	520	520	520	520
Total Current Assets	15,068	8,789	10,934	9,259	9,641	8,609	8,609	8,520	8,620	9,030	9,730	9,730	9,960
Investments	25,139	21,186	21,806	22,024	21,283	21,091	21,091	21,200	21,310	21,420	21,530	21,530	21,640
PP&E, net	75,444	66,446	66,000	63,685	61,649	58,331	58,331	58,090	58,370	58,580	58,690	58,690	59,180
Other Assets / Intangibles, net	888	1,063	1,094	1,086	1,711	1,741	1,741	1,750	1,760	1,770	1,780	1,780	1,790
Total Assets	116,539	97,484	99,834	96,054	94,284	89,772	89,772	89,560	90,060	90,800	91,730	91,730	92,570
A/P	8,026	4,933	4,165	3,818	3,686	3,653	3,653	4,510	4,210	4,460	4,710	4,710	5,270
ST Debt & Current Maturities	182	1,427	2,079	1,331	1,336	1,089	1,089	1,088	1,000	1,000	1,000	1,000	1,550
Accrued Income / Other Taxes	1,051	499	701	554	394	484	484	470	440	460	490	490	550
Other Current Liabilities	2,278	2,397	1,880	1,645	2,121	1,683	1,683	1,680	1,680	1,680	1,680	1,680	1,680
Total Current Liabilities	11,537	9,256	8,825	7,348	7,537	6,909	6,909	7,748	7,330	7,600	7,880	7,880	9,050
Long-term Debt	22,383	23,453	27,376	27,346	27,353	26,186	26,186	25,347	25,340	25,320	24,770	24,770	22,450
Deferred Income Tax Liabilities	15,070	10,999	10,332	9,655	9,034	8,949	8,949	8,900	8,860	8,820	8,780	8,780	8,740
Employee Benefits Obligations	2,964	2,286	2,493	2,533	2,471	2,552	2,552	2,540	2,530	2,520	2,510	2,510	2,500
Other Long-term Obligations	12,312	11,408	11,401	11,341	11,433	9,950	9,950	10,000	10,050	10,100	10,150	10,150	10,200
Total Liabilities	64,266	57,402	60,427	58,223	57,828	54,546	54,546	54,535	54,110	54,360	54,090	54,090	52,940
Shareholder's Equity	52,273	40,082	39,407	37,831	36,170	35,226	35,226	35,792	35,950	36,440	37,640	37,640	39,630
Book Value per share	\$ 41.96	\$ 32.27	\$ 31.66	\$ 30.39	\$ 29.03	\$ 28.26	\$ 28.28	\$ 28.65	\$ 28.78	\$ 29.18	\$ 30.14	\$ 30.14	\$ 31.74
Current Ratio	1.3x	0.9x	1.2x	1.3x	1.3x	1.2x	1.2x	1.1x	1.2x	1.2x	1.2x	1.2x	1.1x
Total Debt/Cap.-Net of Cash	23.2%	33.2%	33.2%	35.6%	36.6%	36.7%	36.7%	36.4%	35.7%	35.1%	33.0%	33.0%	29.9%
ROE: DuPont	11.0%	-11.0%	-14.9%	-11.3%	-11.5%	-0.4%	-10.3%	2.2%	0.0%	0.4%	0.8%	3.3%	5.4%

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	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

**Other Disclosures**

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