BLUEGRASS CAPITAL RESEARCH

Sam Anness | *Analyst*
Energy | *Exploration and Production*
October 31, 2025

ConocoPhillips

Pipeline to Payouts

With shares down 11% YTD following commodity volatility and a softened Q2, ConocoPhillips remains a top-tier E&P company. Management is making adjustments: editing the cost structure, lowering capex levels, capturing synergies, internal cost reductions, and expanding the LNG backlog; creating a clear path for growth, we believe, is not fully priced in. **We initiate $COP as a BUY with a one-year price target of $109.**

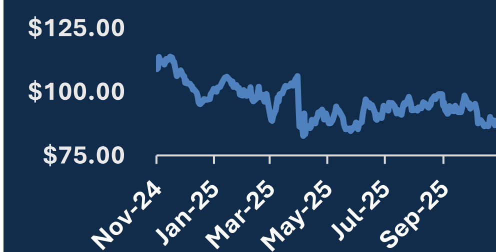
TICKER:	$COP
RATING:	BUY
PRICE:	$88.86
PRICE TARGET:	$109.00
MARKET CAP:	$111bn
52-W RANGE:	$79.88 - $115.38
P/E:	11.91x
IMPLIED UPSIDE:	23%

Thesis Point 1 In September 2025, ConocoPhillips announced a workforce cut of 20-25%. This move is strategically meant to rebase its cost structure, streamline its portfolio, and lift free cash flow. Building on this, the November 2024 Marathon Oil acquisition has now identified $1B in business synergies, along with more than $1B of additional internal cost reduction and margin enhancement, as announced in their Q2 call. This leaner expense base, spearheaded by the restructuring of the workforce, coupled with a lower quarter-to-quarter capex per Q2 earnings, improves capital efficiency and paves a path to steadier future returns. These actions support the recent enlargement of the asset sales target to $5 billion, from the already achieved $2 billion, along with the forecasted $7B FCF inflection by 2029, supporting greater future cash returns to shareholders through dividends and share repurchases.

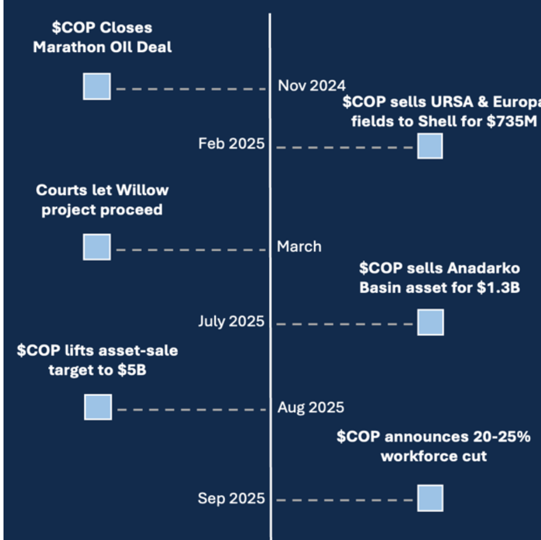
Thesis Point 2 Traditionally, ConocoPhillips has concentrated its capex in upstream production, markedly achieving ~2,400 MBOED as reported on its 2025 Q2 earnings. However, as E&P is constantly exposed to risks in commodity price swings, project execution, and political developments, increased diversification into the liquefied natural gas (LNG) value chain has gained prominence. A midstream sub-vertical of the energy industry, LNG yields access to premium markets with long-term contracts and steadier cash flows and offers clear grounds for the expansion of this domain. ConocoPhillips has built a multinational LNG portfolio, acting as an operator in some and a supplier in others, notably a 30% equity stake and 5 MTPA offtake in the Port Arthur facility. In a market that has been historically dominated by state-backed energy programs along with public competitors to ConocoPhillips, such as Shell and Chevron, CEO Ryan Lance has made enhanced LNG exposure a cornerstone of ConocoPhillips's strategy. This development comes at a crucial time, as global LNG demand has surged, with the US government recently emphasizing the necessity of this natural resource in energy and in global trade influence. Enhancement of this LNG portfolio, coupled with deferred tax benefits of approximately $0.5 billion under the One Big Beautiful Bill, positions ConocoPhillips to enhance capital efficiency and sustain growth in operating income.

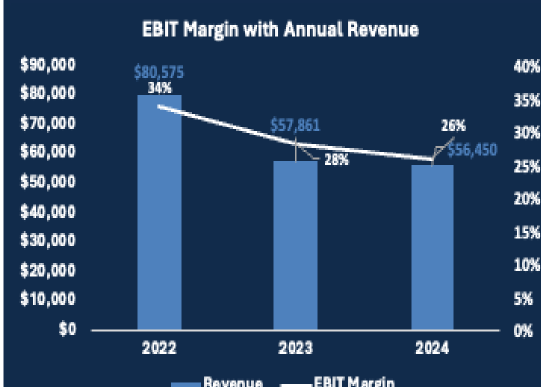
Company Overview Formed in 2002 through the merger of Conoco and Phillips Petroleum, ConocoPhillips ($COP) is a global leader in exploration and production (E&P). An independent company, ConocoPhillips, is headquartered in Houston, Texas, and has operations in 14 countries across North America, Europe, Africa, and Asia. ConocoPhillips prides itself on maintaining a diversified, low-cost-of-supply portfolio anchored by unconventional plays in North America. At the end of 2024, the company had total assets of about $123 billion, total production of ~2,000 MBOED, and revenue streams roughly split between 49% crude oil, 29% natural gas, 16% NGL, and 6% bitumen. Finally, they are coming off a cooled Q2, with an adjusted EPS of $1.42 (-28% YoY), while the Marathon Oil acquisition continues to display promise with over $1B in synergies and steady capital returns.

1 Year Price History



Recent Events Timeline





Risk 1 As ConocoPhillips continues its push into LNG, the timeline of projects hinges on U.S export approvals. If approvals slow or pause, like the US did to these exports in January 2024, major projects in Port Arthur and Qatar can slip off schedule and suffer cash delays. Beyond LNG policy, projects across the portfolio also face executional difficulties, including construction and supply-chain delays, weather, litigation, and plant accidents, such as the Alpine CD1 gas blowout in 2022. These shortcomings force revisions to capex allocations and defer cash and free cash flows, materially impacting future valuations.

Risk 2 ConocoPhillips continues to experience the headwinds of a volatile commodity market. Over the course of 2024, prices of WTI crude oil ranged from a high of $87 per barrel in April all the way down to $66 per barrel in September. Given that the prices and demands of these assets can swing with general economic slowdowns, geopolitical tensions, or even global health crises such as COVID-19, commodity stability is rare. Obstacles such as these soften the overall commodities market and pressure valuations such as the company's recent $5 billion sales target, as well as future cash flows and dividends.

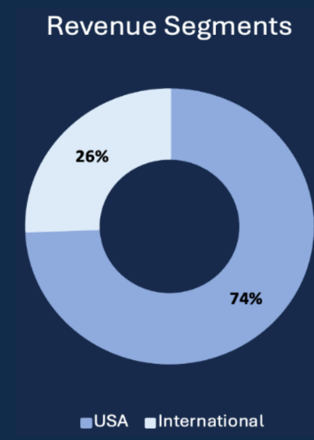
Catalysts A key catalyst driving future valuation for ConocoPhillips centers around a step-up in long-term LNG contracting. On October 31st, the company was reported as the "mystery charterer" behind a long-term lease for a brand-new Capital Clean Energy Carriers LNG vessel, signaling progress on the logistics side of a long-term LNG strategy. If ConocoPhillips continues to sign long-duration offtake deals at attractive terms, investors could see clearer, steadier future cash flows, as well as increased dividends and stock repurchases.

Valuation

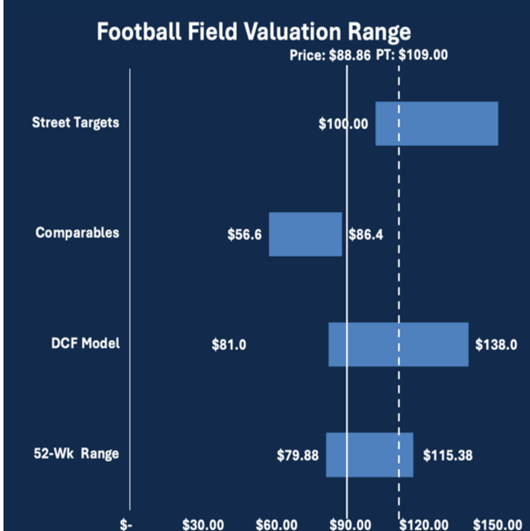
DCF Analysis ($mm)	FY2024 12/31/24	FY2025 12/31/2025	FY2026 12/31/26	FY2027 12/31/27	FY2028 12/31/28	FY2029 12/31/29	FY2030 12/31/30	FY2031 12/31/31	FY2032 12/31/32	FY2033 12/31/33	FY2034 12/31/34	FY2035 12/31/35
Revenue	56,450	59,224	63,414	67,755	72,240	76,858	81,596	86,441	91,378	96,390	101,459	106,565
Revenue Growth	*-2%*	*5%*	*7%*	*7%*	*7%*	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*	*5%*
USA	43,585	45,740	48,942	52,259	55,685	59,212	62,830	66,530	70,300	74,127	77,999	81,899
International	14,946	15,684	16,782	17,919	19,094	20,303	21,544	22,813	24,106	25,418	26,745	28,083
Other	(2,081)	(2,200)	(2,310)	(2,423)	(2,539)	(2,657)	(2,778)	(2,902)	(3,027)	(3,155)	(3,285)	(3,416)
EBIT	14,703	14,467	15,853	16,939	18,060	19,214	20,399	21,610	22,845	24,098	25,365	26,641
EBIT Margin	*26%*	*24%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Tax Expense	4,427	4,503	4,915	5,232	5,558	5,892	6,233	6,579	6,930	7,283	7,638	7,992
Effective Tax Rate	*30%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*30%*	*30%*	*30%*	*30%*	*30%*
NOPAT	10,276.00	9,964.00	10,938.86	11,706.62	12,501.56	13,322.00	14,165.95	15,031.15	15,915.02	16,814.73	17,727.13	18,648.82
D&A	9,605	10,676	11,414	12,045	12,682	13,322	13,962	14,599	15,230	15,851	16,459	17,050
Capex	12,118	12,897	13,951	14,605	15,251	15,884	16,501	17,096	17,666	18,207	18,714	19,182
Changes in NWC	(213)	(678)	951	941	923	897	861	816	761	696	620	533
UFCF	7,976	8,421	7,451	8,206	9,010	9,863	10,766	11,718	12,717	13,762	14,852	15,985
PV of FCF		8,380	7,163	7,434	7,693	7,936	8,164	8,373	8,564	8,734	8,883	9,009

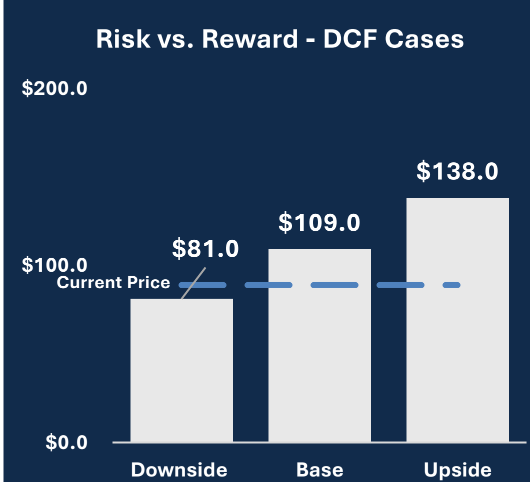
Our base case DCF projection assumes a 4.3x EV/EBIT exit multiple and a revenue CAGR of about 6% through FY2035. These projections reflect a leaner cost structure, captured synergies, and a stepped-up LNG backlog. Our projected EBIT margin at about 25% reflects these drivers, in which executing on them lifts margins and should produce steadier future cash flows. Please reference the bottom of the appendix on the next page for descriptions of our downside and upside DCF projections.

Conclusion In ConocoPhillips, investors can find a company positioned at the intersection of a proven upstream portfolio and an expanding LNG business. Despite cyclical headwinds, the path is straightforward: keep upstream production efficient and build upon contracted LNG. As the LNG backlog converts to cash, shareholder returns should follow. Our $109 price target implies approximately 23% upside from current levels.



Terminal Value	
Exit Multiple Method	
2034 EBIT	$26,641
EV/EBIT Exit Multiple	4.3x
Terminal Value	$114,557
PV of Terminal Value	$64,567
PV of Projection Period	$90,333
PV of Terminal Value	$64,567
Implied TEV	$154,900
(-) Debt	$23,529
(+) Cash	$5,340
Implied Equity Value	$136,711
Diluted Shares Outstanding	1,249
Implied Share Price	$109.46
Upside/Downside	23.2%





Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	56,450	59,224	63,414	67,755	72,240	8.6%
EBITDA	24,308	25,143	27,268	28,984	30,742	8.1%
EBIT	14,703	14,467	15,853	16,939	18,060	7.1%
NOPAT	10,276	9,964	10,939	11,707	12,502	6.8%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	43.1%	42.5%	43.0%	42.8%	42.6%	42.8%
EBIT Margin	26.0%	24.4%	25.0%	25.0%	25.0%	25.1%
Revenue Growth	-2.4%	4.9%	7.1%	6.8%	6.6%	4.6%
EBIT Growth	-10.5%	-1.6%	9.6%	6.8%	6.6%	2.2%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	13.8x	13.1x	14.8x	13.4x	12.2x	13.5x
EV/Sales	2.3x	2.2x	2.0x	1.9x	1.8x	2.0x
EV/EBITDA	5.3x	5.1x	4.7x	4.4x	4.2x	4.7x
FCF Yield	7.2%	7.6%	6.8%	7.5%	8.2%	7.5%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
EOG Resources, Inc. (NYSE:EOG)	$57,897	$57,277	10.3x	$22,798	$11,808
Diamondback Energy, Inc. (NasdaqGS:FANG)	$40,971	$59,869	10.0x	$13,410	$9,739
Chevron Corporation (NYSE:CVX)	$312,077	$338,319	19.8x	$189,265	$36,614
Exxon Mobil Corporation (NYSE:XOM)	$480,511	$512,517	16.0x	$329,816	$62,382
ConocoPhillips	$107,921	$126,110	11.6x	$59,386	$14,467

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
EOG Resources, Inc. (NYSE:EOG)	4.9x	61.7%	51.8%	32.2%	(5.4%)
Diamondback Energy, Inc. (NasdaqGS:FANG)	6.1x	75.4%	72.6%	40.9%	49.8%
Chevron Corporation (NYSE:CVX)	9.2x	39.2%	19.3%	10.3%	(3.1%)
Exxon Mobil Corporation (NYSE:XOM)	8.2x	31.0%	18.9%	11.6%	(4.0%)
ConocoPhillips	8.7x	48.2%	42.3%	24.4%	2.3%

High	9.24x	75.4%	72.6%	40.9%	49.8%
75th Percentile	8.72x	61.7%	51.8%	32.2%	2.3%
Average	7.43x	51.1%	41.0%	23.9%	7.9%
Median	8.22x	48.2%	42.3%	24.4%	-3.1%
25th Percentile	6.15x	39.2%	19.3%	11.6%	-4.0%
Low	4.85x	31.0%	18.9%	10.3%	-5.4%

General Dynamics Valuation

Implied Enterprise Value (25th Percentile)	$	88,934
Implied Enterprise Value (Median)	**$**	**118,858**
Implied Enterprise Value (75th Percentile)	$	126,110
Implied Share Price (25th Percentile)	$	56.64
Implied Share Price (Median)	**$**	**80.60**
Implied Share Price (75th Percentile)	$	86.41

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	0.59
Risk Free Rate	4.39%
Cost of Equity	5.71%
Weighted Average Cost of Debt	3.30%
Tax Rate	31.00%
Cost of Debt	0.40%
Total Equity	$110,082
Total Debt	$18,189
Equity/Total Capitalization	83.39%
Debt/Total Capitalization	17.61%
WACC	6.11%

Downside Case: Our downside case projects poor revenue growth, driven by stalls to LNG expansion, along with a volatile and inflated commodity market. For this case we used an EV/EBITDA multiple of 3.3x, bringing our downside valuation to $81.

Upside Case: Our upside case displays high revenue growth because of a prosperous build-up of LNG backlog. This assumes a successful integration of the renewed cost structure and that additional savings are captured. Our EV/EBITDA multiple is 5.3x, pushing our price up to $138.