

Inside Conoco Phillips: Last Quarter's Progress

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Conoco's oil production last quarter exceeded its expectations, leading to a 4% revenue growth. It announced the sale of its Anadarko Basin assets, giving away 400,000 barrels per day of oil and getting \$1.3 billion. Even with the sale of this asset, its production expectations for the full year remain unchanged. This is a testament to how much Conoco has improved its oil production processes. It keeps on producing more oil for less time and money.

A little less than a year ago, Conoco bought Marathon oil, primarily for its Eagle Ford and Bakken assets. At the time, it expected to be gaining 2 billion barrels of oil reserves, save \$500 million in operational synergies, and sell \$2 billion worth of existing assets to help offset the cost of purchasing Marathon. The integration of Marathon has gone better than expected. In the past 8 months, it now is gaining 2.5 billion barrels of oil reserves thanks to an underestimation of Marathon's Permian assets, it has saved over \$1 billion in synergies, and it has already exceeded its asset sale goal of \$2 billion by half a billion. It now expects to sell about \$5 billion of assets whose cost of supply just isn't low enough to meet Conoco's standards. Marathon had 10 working rigs when it was operating its land. As a combined company, Conoco is producing more with 30% fewer rigs.

The price of oil has been choppy lately, given a lot of moving parts geopolitically as well as OPEC rolling back production cuts, adding more supply to the market. Oil lately has hovered around Conoco's "mid-cycle" price of \$60-\$65 per barrel. Despite demand growing more than expected in the first half of this year, the extra supply from OPEC has kept prices lower. Expanding the view to a longer time frame CEO Ryan Lance says, "we're at all-time highs in the demand side, and I don't think that's stopping. We wonder where the supply is going to come over the next 2-5 years. We are investing in long term projects for that very need. On the gas side, we see the market going from 400 million tons to 700 million tons in the next 5 to 10 years".



Conoco currently has the strongest portfolio it's ever had as a company. It is on track to nearly double its free cash flow in the next 4 years. Even at mid-cycle prices, that means more money returned to us shareholders, and growing profits. We think the stock will be rising quite a bit.