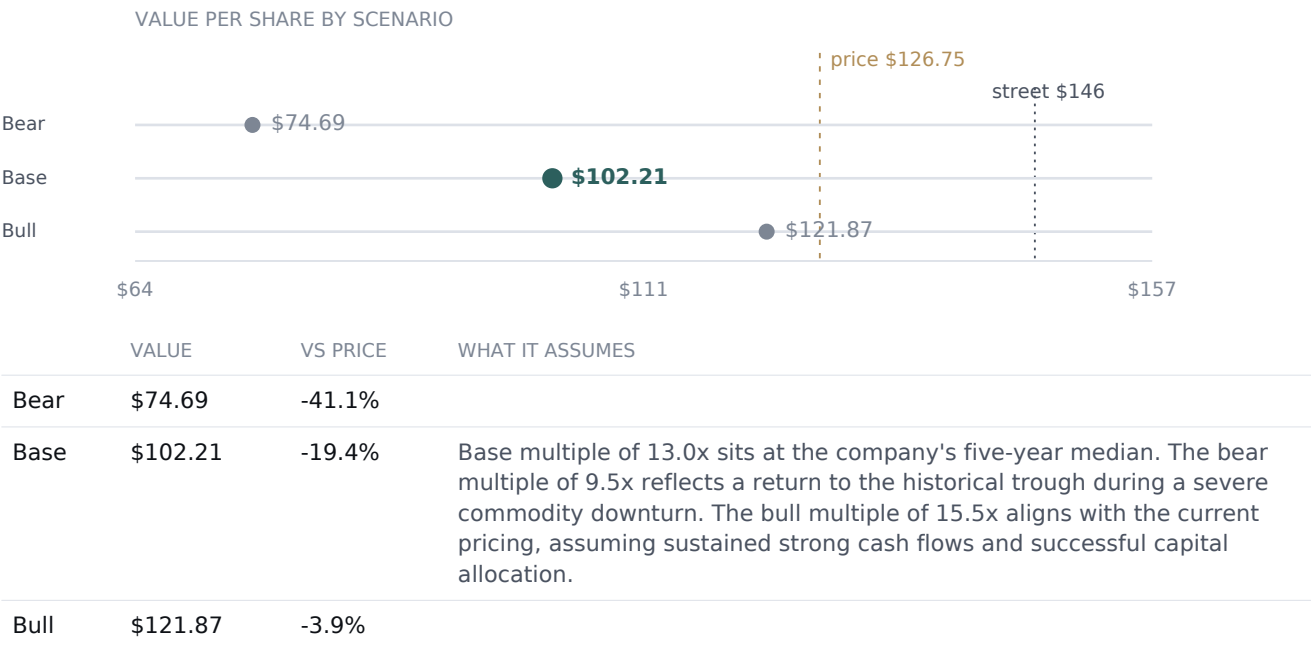


EQUITY RESEARCH / COP

ConocoPhillips

SHORT CANDIDATE · historical study through 2026-10-02 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$126.75	\$102.21	-19.4%	\$97.89	\$152.27B	16.8x



STREET CHECK

Street target **\$146** (+15.6% vs price) · 19 buy / 8 hold / 0 sell · forward P/E 12.7x · EPS estimates \$10.61 this year, \$9.66 next

Our base case is **0.70x** the Street target: clearly away from the Street.

Consensus is shown for calibration only. The model never receives it.

Thesis

ConocoPhillips is trading at a clear valuation premium that lacks a margin of safety. The stock closes at \$126.75, commanding a 16.77x trailing P/E, which exceeds the company's five-year historical maximum of 14.74x and median of 12.7x. Our base-case model, applying a normalized 13.0x multiple to a 4% forecast EPS growth, yields a target of \$102.21, approximately 19.4% below the current price. The market has priced out the deep cyclicity typical of independent E&P producers by assuming the Marathon Oil integration, \$7 billion FCF inflection target by 2029, and >30% cash return ratios will permanently elevate the earnings floor without discounting for historical revenue drawdowns or commodity price volatility.

What the market may be missing

The price reflects a narrative overshoot that assumes durable, non-cyclical growth and synergy execution, ignoring the company's unhedged operational model and historical earnings volatility. The multiple expansion fails to account for the fact that operating cash flow growth was negative last year (-1.63%) and that realized prices are highly sensitive to WTI and Henry Hub fluctuations. The market is paying for momentum and capital return promises rather than normalized, cycle-adjusted earnings power.

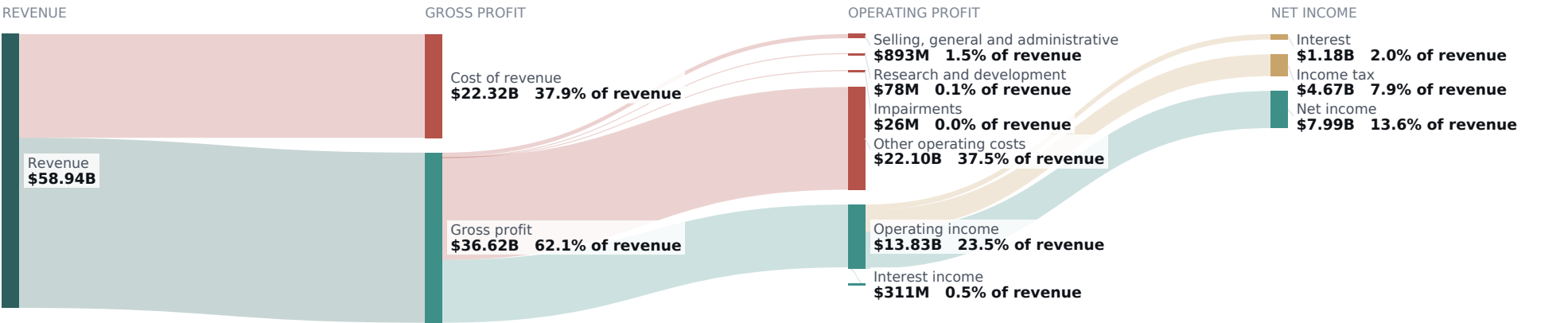
Why the opportunity exists

A narrative overshoot. The market is offering a 16.77x trailing P/E, exceeding the company's five-year maximum of 14.74x, by pricing in permanent execution on the Marathon Oil synergies and the \$7 billion FCF inflection target without discounting for inherent commodity cyclicity. The valuation multiple is anchored to current momentum and capital return promises rather than normalized, cycle-adjusted earnings power. Evidence: Fact sheet shows 5-year own_pe_5y max of 14.74x and median 12.7x; business read notes unhedged strategy and sensitivity to volatile commodity prices; valuation plan notes the premium reflects confidence in cash returns and Marathon Oil integration.

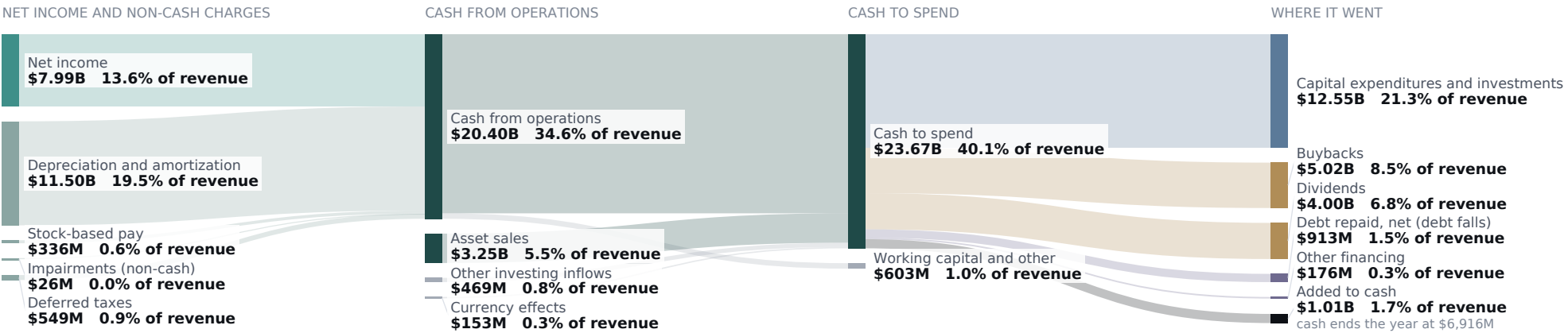
Follow the money: fiscal 2025

Of every \$100 of revenue, \$38 went to cost of revenue, \$39 to operating costs and \$9.9 to interest and tax, and \$14 became net income. Operations turned that into \$34 of cash; \$15 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 2.0 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0001163165-26-000009. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Exploration and production company focused on crude oil, bitumen, LNG, natural gas, and NGLs, operating globally with a stated strategy to reduce operational GHG emissions intensity while navigating commodity price volatility and regulatory constraints.

What it sells

Crude oil, bitumen, LNG, natural gas, and NGLs extracted from existing and new hydrocarbon reserves through exploration and production operations. Explores for, produces, transports, and markets crude oil, bitumen, natural gas, NGLs, and LNG globally.

Customers and channels

Products are sold globally through pipelines and transportation networks, subject to gathering, processing, compression, and pipeline facilities. Sales are affected by export/import restrictions and market-driven pricing mechanisms. Specific customer concentration or contract types are not disclosed in the provided excerpt. Sells to commercial offtake counterparties and global markets. Holds 10.2 MTPA of LNG offtake agreements in North America commencing 2026-2031 and 6.7 MTPA regasification capacity in Europe. Realizations tracked against WTI, Brent, and Henry Hub benchmarks.

Unit economics and costs

Production economics are highly sensitive to commodity prices, with lower prices limiting economically producible reserves and increasing impairment risk. Costs include drilling, equipment, services, specialized personnel, and transportation/diluents. Additionally, climate compliance adds rising expenses for purchasing emission credits/offsets, deploying low-carbon technologies, and potentially reducing the economic end-of-field life of high-intensity assets. Cost of supply is defined as the WTI equivalent price generating a 10% after-tax return on a fully burdened basis. 2025 production and operating expenses totaled \$10.3B, DD&A \$11.5B. Targeting >\$1B in incremental cost reductions and margin enhancements by year-end 2026, including \$0.8B from restructuring and lease operating improvements. Q2 2026 total realized price was \$62.33/BOE, up 36% YoY. Crude realized \$99.40/BBL. Production and operating expenses decreased by \$141M in Q2 2026 primarily due to increased efficiencies. DD&A increased due to higher rates from finalized Marathon Oil purchase price allocations and lower proved developed reserves. Surmont royalties operate on a sliding scale of 25% to 40% post-payout, indexed to WTI prices between \$55 CAD and \$120 CAD.

Segments

- **Alaska** - 199 MBOED avg production, \$730M net income. Explores for, produces, transports and markets crude oil, NGLs and natural gas. Contributed 11% of consolidated liquids production and 1% of consolidated natural gas production as of June 30, 2026.
- **Lower 48** - 1,484 MBOED avg production, \$5,264M net income. Operations located in the U.S. Lower 48 states and commercial operations. Contributed 69% of consolidated liquids production and 74% of consolidated natural gas production as of June 30, 2026.

- **Canada** - 177 MBOED avg production, \$741M net income. Includes the Surmont oil sands development in Alberta, the Montney unconventional play in British Columbia and commercial operations. Contributed 8% of consolidated liquids production and 4% of consolidated natural gas production as of June 30, 2026.
- **Europe, Middle East and North Africa** - 224 MBOED avg production, \$1,224M net income. Principally located in the Norwegian sector of the North Sea, Qatar, Libya, Equatorial Guinea, Syria and commercial operations in the U.K. Contributed 8% of consolidated liquids production and 18% of consolidated natural gas production as of June 30, 2026.
- **Asia Pacific** - 70 MBOED avg production, \$1,167M net income. Operations in China, Malaysia, Australia and commercial operations in China, Singapore and Japan. Contributed 4% of consolidated liquids production and 3% of consolidated natural gas production as of June 30, 2026.
- **Corporate and Other** - \$1,138M net loss, holds corporate overhead, interest, and non-segment items.

Revenue drivers

- Sales volumes of crude oil, bitumen, LNG, natural gas, and NGLs
- Realized commodity prices tied to market fluctuations
- Successful reserve replacement through organic development or acquisitions
- Execution of long-lead, capital-intensive projects on budget and schedule
- Efficient production from mature properties and reservoir optimization
- Commodity prices (crude oil, bitumen, natural gas, LNG, NGLs).
- Production volumes (2,375 MBOED in 2025, up 20% YoY).
- Marathon Oil acquisition volumes and integration synergies.

Competitive position

Operates in a highly competitive E&P industry competing against private, public, and state-owned firms for resources, personnel, equipment, and market share. Faces emerging competition from alternative fuels and must compete for specialized talent such as geologists, geophysicists, and engineers. One of the world's leading E&P companies by production and reserves. Operates an unhedged strategy across a diverse, low-cost portfolio. Maintains an 'A' credit rating, targets peer-leading distributions, and uses a rigorous capital allocation framework focused on low cost of supply resources to maximize free cash flow through price cycles.

Industry direction

Industry is navigating energy transition pressures, with increased focus on reducing Scope 1 and 2 GHG emissions intensity, managing flaring and methane, and exploring low-carbon investment opportunities. Regulatory and market shifts are driving changes in production practices, asset valuations, and infrastructure development. Energy sector remains subject to volatility from macroeconomic conditions, OPEC Plus output decisions, geopolitical tensions, tariffs, and environmental regulations. Increasing governmental focus on climate change, carbon pricing, emissions trading, and methane regulations is raising compliance costs and potentially impacting operational economics and demand.

Recent developments

- Completed sale of noncore Lower 48 assets for ~\$1.7B, achieving the full \$5B disposition target ahead of schedule.
- Entered agreement with BP to acquire 42% interest in a Kirkuk area, northern Iraq joint venture, with expected closing by end of 2026.
- Executed agreement for re-entry into Syria to increase production from gas fields.
- Advanced commercial LNG strategy with additional 2 MTPA offtake agreements, bringing total LNG offtake to 12 MTPA.
- Q2 2026 production decreased 4% YoY (after adjusting for dispositions) to 2,248 MBOED.
- Increased Q2 2026 share repurchases to \$2.0B, doubling the quarterly pace.
- Q2 capital expenditures and investments totaled \$3.0B, with over half allocated to flexible, short-cycle unconventional plays in Lower 48.
- Completed Marathon Oil acquisition in Nov 2024; achieved >\$1B run-rate synergies and ~\$1B one-time tax benefits by end of 2025.

Management outlook

Third-quarter 2026 production is expected to be 2.29 to 2.32 MMBOED. All full-year guidance items remain unchanged. 2026 operating plan capital expenditure guidance is currently expected to be approximately \$12 to \$12.5 billion. The company anticipates returning greater than 30 percent of cash from operating activities through cycles and remains on track to achieve its \$7 billion free cash flow inflection by 2029. Anticipates cyclical and volatile commodity prices. Maintains an unhedged strategy and disciplined investment framework. Plans 2026 capital expenditures of ~\$12B, production of 2.33-2.36 MMBOED, and DD&A of \$11.7-11.9B. Committed to returning >30% of net cash from operating activities to shareholders through growing dividends and share repurchases, aiming for balance sheet strength and competitive returns. Focus on replacing produced reserves through organic development or acquisitions, optimizing reservoirs, executing long-lead projects on budget, and efficiently operating mature properties. Committed to reducing operational GHG emissions intensity while balancing financial returns, potentially adjusting capital expenditures and production in response to price and regulatory conditions.

Accounting flags

- DD&A rates increased due to finalized allocations of the Marathon Oil purchase price to specific assets and lower proved developed reserves as of Dec 31, 2025.
- Fair value measurement change associated with the Surmont contingent consideration arrangement.
- Pending claims and settlements and gain/loss on asset sales excluded from adjusted earnings.
- Consolidating tax adjustments impacted 'Other' income/expense in Q2 2026.
- Leasehold impairment and capitalized unproved property (\$10B) rely on management's judgment regarding prospect failure probabilities.
- Suspended exploratory well costs (\$243M) depend on 'sufficient progress' judgments for approvals and permits.

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$56.31B	\$51.82B	+4.9% y/y
Net income	\$9.28B	\$7.99B	
Diluted EPS	\$7.56	\$6.35	16.8x trailing P/E
Operating cash flow	\$21.93B	\$19.80B	-1.6% y/y
Cash and short-term investments	\$7.69B		
Net debt	\$15.60B		
Share repurchases	\$5.30B	\$5.02B	3.5% yield
Market capitalisation	\$152.27B		

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-08-06). No matching year-to-date fact, so these stay on fiscal-year figures: sbc. Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$462.0M (Short-term debt) falls due within twelve months of 2026-06-30; the price date is 94 days later, so check in the filing whether any of it matured or was refinanced before 2026-10-02. WACC anch

The counter-case

COP has demonstrated significant cost discipline, targeting over \$1 billion in incremental cost reductions and margin enhancements by year-end 2026, including \$0.8 billion from restructuring. Q2 2026 total realized prices increased 36% year-over-year to \$62.33/BOE, and production and operating expenses decreased by \$141 million. The company's active buyback program and strong balance sheet provide a near-term price floor, suggesting the current multiple may be justified by a permanently improved cost structure and lower cost of capital compared to historical cycles. COP successfully delivers on its aggressive capital allocation framework, maintaining an 'A' credit rating while executing the Marathon Oil integration to yield >\$1 billion in annual run-rate synergies. Continued asset dispositions exceeding \$5 billion ahead of schedule, coupled with a disciplined focus on low-cost supply and successful realization of the \$7 billion FCF inflection by 2029, justify the current premium multiple as the market prices in a structurally improved efficiency floor and durable shareholder returns.

Valuation

COP is a cyclical E&P company with highly volatile earnings and no disclosed FCFF figure in the provided data. The trailing P/E is positive and well-defined, making an earnings multiple valuation the only feasible approach given the software's DCF limitations and missing capital spending/FCFF inputs.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	9.5x forward EPS \$7.86 (reported diluted, growth +4.0%)	\$74.69	-41.1%
Base (P/E)	13.0x forward EPS \$7.86 (reported diluted, growth +4.0%)	\$102.21	-19.4%
Bull (P/E)	15.5x forward EPS \$7.86 (reported diluted, growth +4.0%)	\$121.87	-3.9%

- Anchors from the company's own history: base-case growth band -5.3% to +32.8% a year; worst revenue decline -75% (2014-2020); own trailing P/E 8.1-14.74x (median 12.7x) over the last five fiscal year ends.
- Probability-weighted value \$97.89 (-22.8% vs price) at 30%/50%/20% weights.

The bear case assumes a severe commodity downturn resembling historical troughs, compressing realized prices, forcing immediate capex cuts, and triggering asset impairments, which reverts the multiple to 9.5x and yields a target of \$74.69. The base case assumes moderate commodity prices, successful Marathon Oil integration, and 4% EPS growth, reversion to the historical median multiple of 13.0x, targeting \$102.21. The bull case assumes sustained strong realized prices, continued synergy realization, and a premium multiple of 15.5x as investors price in durable FCF generation, targeting \$121.87.

No listed peer was judged comparable. The fact sheet explicitly states that peer data is unavailable for this quarter, so I cannot assess comparability against listed peers. The valuation multiple is therefore anchored strictly to the company's own five-year P/E range (8.1x-14.7x), its current 16.8x trailing multiple, and the strong cash return profile driven by the Marathon Oil integration and disciplined capital allocation.

What would change the view

Key debates

- Crude oil and natural gas price trajectory: COP maintains an unhedged strategy, meaning nearly all equity value is directly leveraged to realized WTI and Henry Hub prices. A sustained price drop would compress margins and force immediate capex cuts. (Revenue drivers include realized commodity prices; business read notes unhedged strategy and sensitivity to WTI/Brent benchmarks.)
- Capital expenditure discipline and free cash flow conversion: The investment thesis hinges on the company's commitment to low-cost supply and returning >30% of cash from operations. Failure to maintain the \$12B capex guidance or meet the \$7B FCF target by 2029 would erode the multiple expansion. (2026 operating plan capital guidance of \$12-12.5B; target to return >30% of net cash from operating activities.)
- Regulatory and ESG compliance costs: Rising carbon pricing and emissions intensity rules could increase operating expenses, reduce proved reserve estimates, or trigger impairments, directly impacting the earnings base. (Accounting flags mention potential impairments due to emissions intensity; business read notes climate regulations raising compliance costs.)

Sensitivities the company discloses

- Interest rates: Hypothetical 10% change gives No material impact on interest expense associated with floating-rate debt
- Foreign currency exchange rates: Adverse hypothetical 10% change gives No material impact to income
- Proved reserve estimates: Lower by 10 percent across all calculations gives Before-tax DD&A in 2025 would have increased by an estimated \$1,250 million

Catalysts

- Q3 2026 production delivery within the 2.29 to 2.32 MMBOED guidance range
- Realization of the \$1 billion incremental cost reduction and margin enhancement target by year-end 2026
- Completion of the Kirkuk joint venture acquisition from BP by end of 2026
- Updates on Marathon Oil synergy integration and tax benefit realization
- OPEC+ output decision shifts impacting WTI and Brent benchmark prices

Invalidation

- Sustained WTI crude and Henry Hub gas prices significantly above current realized levels for multiple quarters
- Announcement of a special dividend or accelerated share repurchase program signaling management confidence in intrinsic value
- Achievement of the \$7 billion FCF inflection target by 2029 ahead of schedule with confirmed operational margin expansion
- Successful execution of all guided 2026 capital expenditures and production targets without cost overruns
- Strategic acquisition of complementary low-cost assets that permanently lower the company's average cost of supply

Risks

- Volatile and prolonged low commodity prices impacting revenues, cash flows, and dividends
- Rising climate compliance and carbon pricing costs increasing operating expenses
- Reserve estimation imprecision and related DD&A increases
- Geopolitical tensions and export/import restrictions affecting global sales
- Infrastructure and pipeline capacity constraints
- Asset impairments triggered by low commodity prices or high emissions intensity

Short side

The model indicates clear overvaluation (base case \$102.21 vs price \$126.75), warranting a short investigation. However, specific borrow availability and short interest data are not disclosed in the provided filings, preventing a precise assessment of borrow costs and squeeze risk. Timing risk is elevated given the company's active buyback program and capital return framework that could artificially support the share price. The unbounded loss potential remains standard for any equity short and necessitates strict position sizing.

Open questions

What is the current short interest, borrow fee, and availability of the stock? (missing fact)

Essential for calculating borrow costs, sizing the position, and assessing squeeze risk before entering. Watch: Next quarterly filing or broker notice prior to trade execution.

What are the exact terms and remaining authorization amount for the company's share repurchase program? (missing fact)

Buybacks provide a mechanical price floor that could exacerbate short losses if executed aggressively near resistance levels. Watch: Next earnings release or regulatory filing disclosing buyback execution.

Limitations

The valuation relies solely on an earnings multiple model due to missing capital spending data (capex is flagged in data_gaps) and the absence of a disclosed FCF figure, making a DCF infeasible. The software warning notes that even the bull case (15.5x multiple) values the stock only -3.9% below the price, suggesting the assumed 4% EPS growth or the 13.0x base multiple may be too conservative for a long thesis, or that the narrative premium is structural and harder to quantify in a simple multiple model. For a short thesis, this limitation is acceptable as the downside target (\$102.21) is clearly below the price. Software checks raised during valuation: even the bull case values the stock -4% below the price; for a short, the adverse scenario should show a loss. Either explain why every scenario sits below the price, or acknowledge that the bull case may be too mild. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: bull case below price; core line items missing:capex,operating income; exposure quote unverified:consumer demand; exposure quote unverified:regulation.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-17 (accession 0001163165-26-000009).

10-Q for the quarter ended 2026-06-30, filed 2026-08-06 (accession 0001163165-26-000032).

8-K for the earnings release dated 2026-08-06, filed 2026-08-06 (accession 0001163165-26-000030).

- Price: historical close of \$126.75 on 2026-10-02.
- 8 cited claims and 11 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 485 · memo SHA-256 bcae80153db3aeb3... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.