

**Date:** November 22<sup>nd</sup>, 2021

**Sector:** Energy

**Company:** Energy Transfer LP, ConocoPhillips

**Transaction:** Buy 600 units | Buy 150 units

Ticker: NYSE: ET | NYSE: COP

Price (as of 11/19/21): \$8.70 |

Price Target: \$14 | 85

52 Week High: \$11.55 | \$77.98

**Sector Team:** Christopher Levins, Michael Gallagher, Max Grossberg, Philip Vattes

The Energy Sector Team (“the Team”) is requesting approval to purchase 600 units in Energy Transfer LP (NYSE: ET), a leading energy midstream firm. The Company is currently trading at \$8.70 (as of 11/19/2021), but through extensive analysis the Team believes the value of the units are \$14.00, implying an upside of 60.9%. The Fund is also requesting approval to purchase 150 units in ConocoPhillips (NYSE: COP), a leading energy upstream firm. The Company is currently trading at \$69.61 (as of 11/19/2021), but through extensive analysis the Team believes the value of the units are \$85.00, implying an upside of 22.11%. The Team utilized both a discounted cash flow analysis and public comparables to arrive at an implied valuation. The Team initially bought 675 units of ET on 2/26/2021 at a price of \$6.92, and 175 units of COP on 4/9/2021 at a price of \$51.23. The recent energy downtrend is an excellent time to buy into a high free cash flow midstream name and leading upstream company at the current price.

### **Company Description:**

Energy Transfer: Energy Transfer LP transfers natural gas and other energy resources through North American based pipelines. Other energy resources include crude oil and refined products. The company has an investment with Sunoco LP a fuel distributor, which brings in about 25% of revenue. ET owns roughly 4,820 miles of NGL pipelines and other NGL storage assets. ET is a master limited partnership which adds tax complexities but typically unitholders receive cash distributions.

ConocoPhillips: ConocoPhillips is the world’s largest independent exploration & production company, operating across 14 countries. These operating segments are broken down to Europe & North America, Alaska, Asia Pacific & Middle East, and Canada. The company focuses on balance sheet strength, free cash flow generation, dividend distributions, and ESG. Conoco currently holds an industry leading “A” credit rating.

### **ET Thesis:**

- *Consistent Cash Flows Continue to Drive Balance Sheet Health:* When first pitched in February, one of our catalysts was the reduction of high levels through reducing growth capital spending to bring in \$1.7 billion of additional annual cash flow. As a result, ET reduced long-term debt by \$6B YTD.
- *Rising Leader in Natural Gas Exports:* ET is in a position to continue to grow into new markets as their global NGL exports doubled in the past 18 months to 20% and is expected to continue to grow by entering new markets out of North America

### **Risks:**

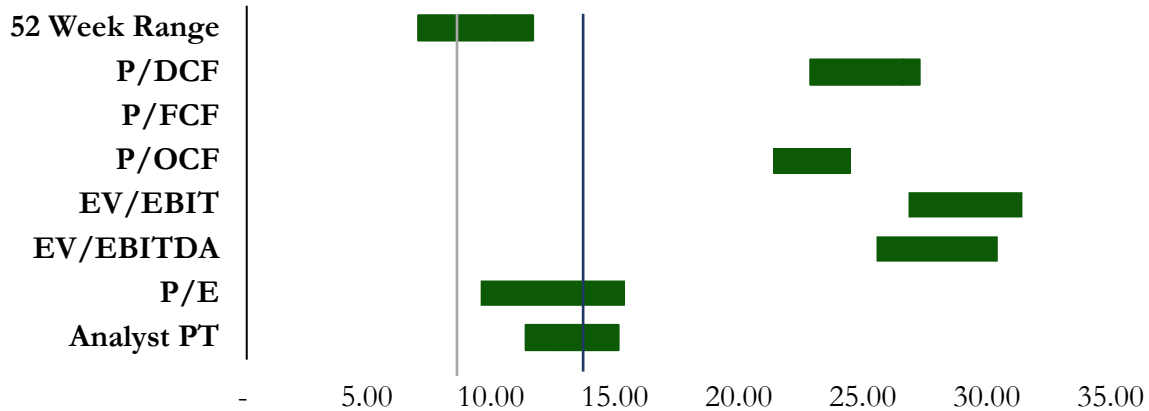
- Construction delays for developing pipelines
- Lower than expected production out of major basins in the US
- Regulatory outcomes

### **COP Thesis:**

- *Industry Leading Balance Sheet:* ConocoPhillips’ balance sheet gives advantages through periodic cycles. The company is the top credit rating among competitors and have used cash on their balance sheet to pay back long-term debt and make strategic acquisitions.
- *Strong Dividend:* Conoco targets to give 30% of cash back to shareholders, which resulted in an increase in dividends since 2016
- *Permian Basin Acquisition:* Conoco acquired approximately 225,000 net acres in Texas’ Delaware Basin, a part of the Permian Basin. The deal leaves Conoco with 175,000 thousand barrels of crude oil equivalent per day, and the company expects to grow this output to 200,000 thousand barrels of crude oil equivalent per day.

## Risks:

- Commodity pricing of WTI Crude oil
- Regulatory environment (federal land exposure)
- Lower production due to failed execution



## COP Valuation

