



Conoco Calls Bought as Oil Firms above \$50 Level

Ticker/Price: COP (\$65.90)

Analysis:

Conoco Philips (COP) with 1,000 June \$67.50 calls bought this afternoon for \$4.15 and follows 1,000 of the \$65 calls bought last week for \$5.30. The June \$70/\$55 bull risk reversal opened 1,000X on 12/28, the June \$72.50 calls bought 1,500X on 11/19, and the June \$67.5 puts sold to open on 12/4. Shares are a bit extended after bouncing the last three weeks back above weekly cloud resistance. COP is basing under \$68/\$69 with a move higher targeting a volume node at \$73/\$74. The \$77.3B energy leader trades 19X earnings, 2.15X sales, and 21.15X FCF with a 1.86% yield. COP saw 6% production growth in 2018 with new projects in APME and Alaska going operational late in the year which should be a tailwind into 2019. They generated almost \$4B in FCF last year and continue to divest assets to shore up their base. COP expects EPS and revenues to return to positive growth in FY20. Analysts have an average target for shares of \$76.25 with 13 buy ratings and 8 hold ratings. BAML downgraded shares to Neutral on 1/4 but concedes that higher oil prices would driver material upside for COP. Tudor Pickering upgraded shares on 12/14 to Buy and Wolfe upgrading to Outperform on 12/10. Simmons positive in October noting that COP is a strong balance of capital discipline, lack of exposure to Permian differentials, and top tier upstream economics. Short interest is 1.2%, slightly higher into year-end but still far below the 2017 highs near 2.7%. Institutional ownership rose 9% last quarter. AQR a top buyer of 3.95M shares.

Hawk Vision:



Trading Strategy: COP is one of the safer names and one to play with price correlations but overall fundamentals in Oil remain questionable, so avoiding the group for now.

Confidence Ranking: \$\$