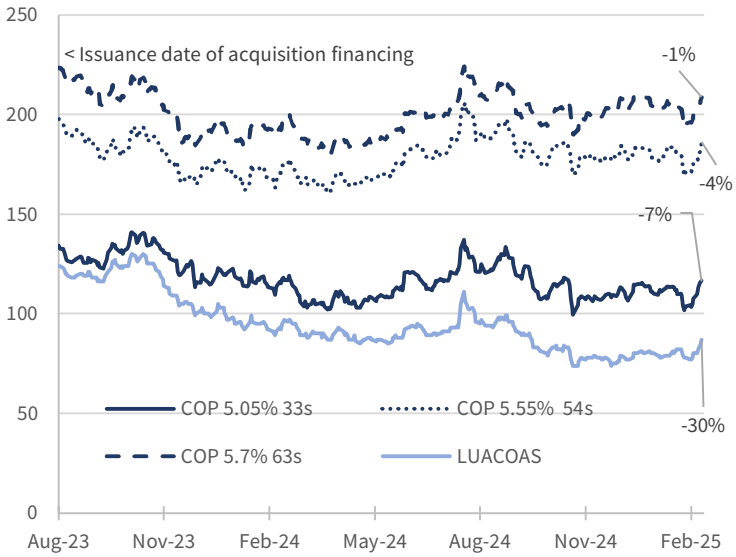


ConocoPhillips: time to COP the consequences

Josephine Richardson (*)

In Aug 2023 ConocoPhillips (ticker COP) issued $2.7bn of debt to buy the remaining 50% of the Surmont oil facility, a Canadian oil sands field.[1] The deal was completed in Oct 2023,[2] and on 6 Feb 2025, as part of its fourth-quarter earnings call, ConocoPhillips (ticker COP) confirmed its production figures for 2024, with 6.14% coming from bitumen or oil sands.[3]

Figure 1. ConocoPhillips bond z-spreads since issuance, compared to Bloomberg US Agg OAS. Source: Bloomberg, accessed 3 Mar 2025.



This environmentally destructive method of oil production is frequently used for investment exclusions, often with a 5% production or revenue target. Investment exclusions, by reducing the pool of potential investors, have been shown to widen costs-of-capital or reduce prices for debt,[4] which can result in secondary market underperformance.

Even though this acquisition was funded in Aug 2023, it has taken 18 months for full-year reporting to confirm the increase. As the reporting is digested by investment committees, **any resulting divestment flows can be expected within the next few months.** The mechanics of this process could have been inferred by investors from the timeline of the acquisition.[5]

ConocoPhillips is a frequent bond issuer, but the three securities used to finance the acquisition are of particular relevance,[6] since this capital more directly led to the increased bitumen production. These bonds have underperformed the market since issuance, having widened in the last year; the longest dated bond maturing in 2063 is nearly back to issuance spread. **Investors who anticipated the production increases could have mitigated these losses, and would also have avoided funding oil sands extraction while waiting for reporting to catch-up.**

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[1] "ConocoPhillips to offer notes to fund $3 billion Surmont oil facility buyout", Reuters, 9 Aug 2023.
[2] "ConocoPhillips Completes Purchase of Remaining 50% Interest in Surmont", ConocoPhillips, 4 Oct 2023.
[3] "4Q24 Supplemental Information", ConocoPhillips, 6 Feb 2025.
[4] "Does ESG Negative Screening Work?", SSRN, 30 Apr 2022.
[5] For our earlier work identifying this timeline please see "ConocoPhillips crossing oil sands exclusion thresholds", AFII, 16 Aug 2023, "ConocoPhillips Q4 2023 oil sands production breaches exclusion thresholds", AFII, 13 Feb 2024 and "ConocoPhillips: a Marathon journey towards exclusion", AFII, 30 Sep 2024.
[6] $1bn 10y (ISIN US20826FBF27), $1bn 31y (ISIN US20826FBG00) and $0.7bn 40y (ISIN US20826FBH82) bonds.

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Investment exclusions

As previous reported, several investors have exclusion policies linked to oil sands production or share of revenue, often with a 5% threshold.

We have also previously detailed a number of investors with such thresholds who already seem to have excluded ConocoPhillips from their investment universes. For example Nordea Asset Management, a Nordic investor, has a 5% threshold for oil sands revenue.[7] Nordea excludes ConocoPhillips for oil sands involvement.[8]

We have not seen any notable new exclusion announcements from investors in the last few months.

Nevertheless, there are other investors with exclusion thresholds that do not yet seem to have publicly excluded ConocoPhillips, meaning the size of an imminent potential divestment flow could be significant. This includes potential flows from Norges Bank Investment Management (NBIM), the largest sovereign wealth fund in the world. While there it has no explicit oil sands threshold, it has excluded the oil sands pure play producers, and has not yet excluded ConocoPhillips.[9,10]

For a (non-exhaustive) list of investors with these exclusion policies, please see Table 4 in the Appendix.

Note in our earlier report we saw that PensionDanmark, a Danish pension fund, which excludes companies that have 5% of more of their revenue coming from oil sands, was excluding ConocoPhillips under this criteria. However, its latest exclusion list dated Feb 2025 no longer includes ConocoPhillips.[11]

ConocoPhillips Q4 2024 reporting

On 6 Feb 2025 ConocoPhillips announced part of its 2024 results, although it has yet to release its full 2024 annual report.

Production

The complete acquisition (raising ownership from 50% to 100%) of the Surmont field was announced in Aug 2023, and completed in Q4 2023. This field is ConocoPhillips' sole production asset for oil sands.[12] This purchase therefore would be expected to double ConocoPhillips' production. In practice, the acquisition resulted in a 25% increase in 2023 (due to consolidation only in Q4), and just under a doubling from 2022 to 2024, as shown in Table 1 (overleaf). Figure 2

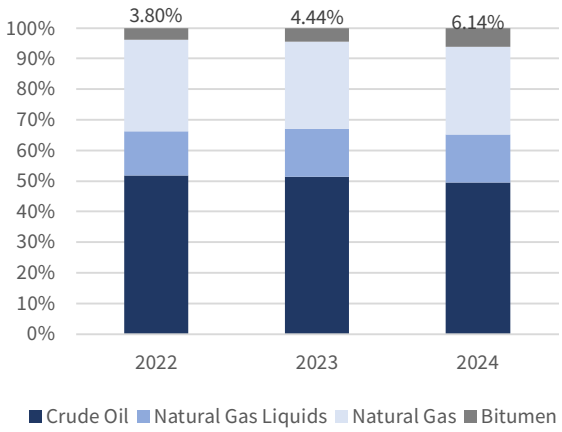
[7] "Exclusions", Nordea, accessed 3 Mar 2025.
[8] "Exclusion List", Nordea, Nov 2024.
[9] "Exclusion decisions and decisions to revoke exclusion", Norges Bank Investment Management, 13 May 2020.
[10] "Observation and exclusion of companies", Norges Bank Investment Management, 18 Mar 2019.
[11] "Exclusion list", PensionDanmark, 25 Feb 2025.
[12] "Canada", ConocoPhillips, accessed 28 Feb 2025.

gives the percentage of total production by type. Bitumen is 6.14% for 2024, the only production area to have meaningfully increased across the three prior years.

Table 1. ConocoPhillips production. Source: ConocoPhillips

Production (MBOED)	2022	2023	2024
Crude Oil	898	936	982
Natural Gas Liquids	252	287	312
Natural Gas	521	522	572
Bitumen	66	81	122

Figure 2. ConocoPhillips production as a percentage of total. Source: ConocoPhillips



Estimated Revenue 1

Revenue by product has not historically been disclosed by ConocoPhillips in its annual reports, and less information is included in the Q4 2024 update. Here we estimate its revenue from oil sands production.

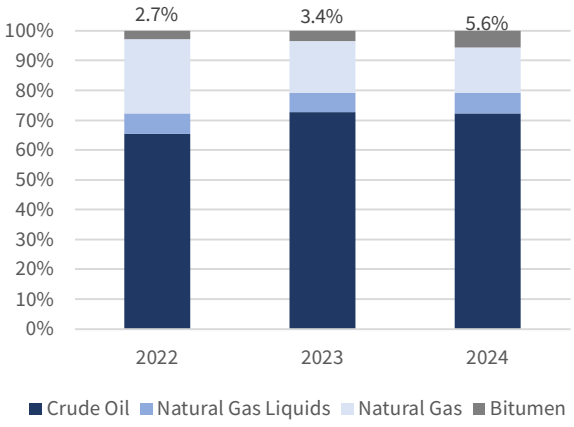
MSCI have recently published a methodology for calculating oil firm revenue figures, which includes a waterfall framework depending on what information is disclosed by the company.[13] The methodology explains that if revenue by product is not reported, but production volume and realised prices are, then these should be combined to estimate the revenue by product.

Table 2 shows annual production multiplied by average realised price by product, as reported by ConocoPhillips. The total implied revenue using this method for 2024 is $38.1bn, far below the total reported figure of $57.0bn, but these calculations are still a good estimate to show the relative importance of each product.

*Table 2. ConocoPhillips production * average realised prices by product. Source: ConocoPhillips, AFII.*

Estimated revenue ($bn)	2022	2023	2024
Crude Oil	31.9	27.0	27.5
Natural Gas Liquids	3.4	2.4	2.6
Natural Gas	12.1	6.5	5.8
Bitumen	1.3	1.2	2.1

*Figure 3. ConocoPhillips production * average realised price as a percentage of total. Source: ConocoPhillips, AFII.*



[13] "MSCI Fossil Fuels and Power Generation Metrics Methodology", MSCI, Feb 2025.

As shown in Figure 3, using this estimation method 5.6% of revenue is attributable to bitumen production.

Estimated Revenue 2a

ConocoPhillips' 2023 annual report gives further details into the value attributed to the Surmont field. As this is the year the acquisition completed, there are some pro-forma figures released on a hypothetical combined entity which give an indication of the standalone revenue.[14]

Figure 4 shows (unaudited) figures for the combined entity using 2023 results. The as-reported figures for ConocoPhillips include 50% of Surmont for the full year, and 100% for Q4 (once the acquisition was complete). Assuming uniform production throughout the year, this is equivalent to 62.5% of Surmont's financials.

This assumption implies a standalone 2023 revenue figure for Surmont of $6.8bn which is 11.2% of the combined entity (as shown in Figure 4).

Figure 4. Supplemental Pro Forma (unaudited) figures on Surmont acquisition. Source: ConocoPhillips 2023 annual report page 85.

	Millions of Dollars		
	Year Ended December 31, 2023		
	As reported	Pro forma Surmont	Pro forma Combined
Total Revenues and Other Income	$ 58,574	2,561	61,135
Income (loss) before income taxes	16,288	659	16,947
Net Income (Loss)	10,957	501	11,458
Earnings per share:			
Basic net income (loss)	$ 9.08		9.50
Diluted net income (loss)	9.06		9.47

Estimated Revenue 2b

It is also disclosed that on an audited basis, the contribution to revenue and other income between acquisition date and year end from the Surmont acquisition was $572mn.[15] Assuming this represents revenue for 50% of the asset for 88 days (4 Oct 2023 – 31 Dec 2023), this implies a full year figure of $4.7bn and an implied 2023 total for the combined entity of $60.3bn. Using these figures, in 2023 Surmont contributed 7.9% of the revenues of the fully combined entity.

In summary, the revenue attributable to oil sands production is not reported. Our estimations give a range of 5.6%-11.2% using either 2023 revenue, or 2024 production and price figures.

[14] "2023 Annual Report", ConocoPhillips, 15 Feb 2024.
[15] Page 85 of "2023 Annual Report", ConocoPhillips, 15 Feb 2024.

Bond performance

Figure 5 (overleaf) shows the performance of the Aug 2023 issued ConocoPhillips bonds since that date, along with the relative spread move at the dates of our published research. Spread levels are shown in Table 3.

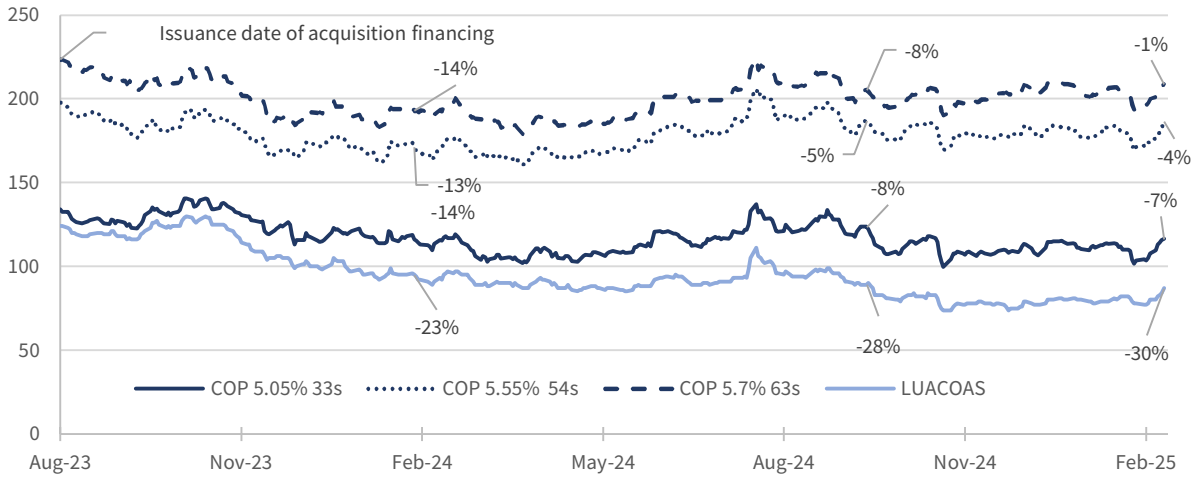
Table 3. ConocoPhillips bond z-spread levels, compared to Bloomberg US Agg OAS. Source: Bloomberg, accessed 3 Mar 2025.

	Issuance	AFII report 1	AFII report 2	Spot
	17-Aug-23	28-Feb-24	30-Sep-24	28-Feb-25
COP 5.05% 33s	134.2	117.4	123.7	116.3
COP 5.55% 54s	197.8	174.4	187.0	186.4
COP 5.7% 63s	223.6	197.2	205.4	208.8
LUACOAS	124.0	95.0	89.0	87.0

The performance of these bonds since issuance has been lacklustre. The 33s have tightened 7%, the 54s 4%, and the 363s only 1%. All three bonds widened since our initial report in Feb 2024, and widened further since the follow-up report in Sep 2024.

We compare their performance with the Bloomberg US Agg Corporate Average OAS, designed to represent a benchmark US investment-grade bond index. While we acknowledge there may be maturity differences between this index and the bonds in question, the difference in performance is stark. The index tightened 23% between Aug 2023 and Feb 2024, and has since continued to rally, with a total tightening of 30% between Aug 2023 and today.

Figure 5. ConocoPhillips bond z-spreads since issuance, compared to Bloomberg US Agg OAS. Source: Bloomberg, accessed 3 Mar 2025.



The bonds issued by ConocoPhillips to fund its oil sands acquisition have underperformed a key benchmark since issuance, and widened in the last twelve months. This may have contributed to poor benchmarked returns for investors who have held the bonds over this period.

Conclusions

ConocoPhillips Q4 2024 reporting confirms 6.14% of its full-year production came from bitumen.

The proportion of revenue that this contributed is not explicitly disclosed, but our estimates give a potential range of 5.6%-11.2%.

As the reporting is digested, this may trigger divestments from investors who have exclusion thresholds linked to oil sands production. This timeline could have been anticipated since the announcement of the acquisition in early 2023.

The performance of the bonds issued in Aug 2023 to fund the acquisition has been underwhelming; for example the longest bonds, the 2063s, are trading nearly back at issuance spread. When comparing performance to the Bloomberg US Global Aggregate benchmark, all three securities have underperformed significantly.

Investors who anticipated the production increases could have mitigated these losses, and would also have avoided funding oil sands extraction while waiting for reporting to catch-up.

Appendix

Table 4. Oil sands exclusion policies. Source: Various.

Asset owner/manager/fund	Total AUM (all asset classes estimated)	Oil Sands threshold	Arctic threshold	Policy Source	Exclusions
Norges Bank Investment Management	$1.5 trn	No set threshold, but four oil sands producers already excluded		Announcement May-20	Not excluded as Feb-25
Axa	€945 bn	5% of production OR 5% of total oil sands production		Policy Dec-24	No public list
Generali	€618 bn	5% of revenue	10% of revenue	Policy undated	No public list
Aegon Asset Management	€293 bn	5% of production	5% of production	Policy Nov-24	Not excluded as Jan-23
Robeco	€200 bn	10% of revenue	5% of revenue	Policy Jan-25	Not excluded as Feb-25
Oddo BHF	€125 bn	5% of revenue		Policy undated	No public list
KLP	€70 bn	5% of revenue		Policy Aug-23	Not excluded as Dec-24
PensionDanmark	€49 bn	5% of revenue		Policy Feb-25	Not excluded as Feb-25
Coutts	€46 bn	5% of revenue		Policy Apr-24	No public list
BlackRock's iShares ESG Aware USD Corporate Bond ETF	€1 bn	5% of revenue		Policy accessed Feb-25	Not excluded as Feb-25

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