



Imperial Oil (IMO)

Updated August 23rd, 2018 by Nick McCullum

Key Metrics

Current Price: \$32	5 Year CAGR Estimate: 11.0%	Volatility Percentile: 48.0%
Fair Value Price: \$27	5 Year Growth Estimate: 13.0%	Momentum Percentile: 47.2%
% Fair Value: 152%	5 Year Valuation Multiple Estimate: -3.8%	Valuation Percentile: 31.7%
Dividend Yield: 1.8%	5 Year Price Target: \$49	Total Return Percentile: 76.8%

Overview & Current Events

Imperial Oil is one of Canada's largest integrated oil businesses. The company operates through three reporting segments: Upstream, Downstream, and Chemical. Imperial Oil is headquartered in Calgary, Alberta, Canada. Exxon Mobil (XOM) owns approximately 70% of Imperial Oil's common equity. Imperial Oil is cross-listed on both the Toronto Stock Exchange and the New York Stock Exchange, where it trades with a market capitalization of US\$25 billion under the ticker 'TRI'. Imperial Oil reports financial results in Canadian dollars, but the figures shown in the data tables of this research report have been converted to U.S. dollars and refer to the company's NYSE-listed shares.

In late July, Imperial Oil reported (7/26/18) financial results for the second quarter of fiscal 2018. In the quarter, revenue increased by 35.7%, driven primarily by higher oil prices. Net income of CAD\$196 million improved considerably from the CAD\$77 million loss reported in the same period a year ago. The corresponding per-share metrics are earnings-per-share of \$0.24 versus a loss of \$0.09 per share last year. Through the first six months of the fiscal year, Imperial Oil's net income has increased by 178% year-on-year while earnings-per-share have risen 187%, partially reflected the benefit of its ongoing share repurchase plan. While Imperial Oil's financial performance was much improved from the comparable period last year, shares fell following the announcement as earnings came in well below expectations due to higher than expected costs incurred in maintenance work at various energy projects.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$3.58	\$1.76	\$2.48	\$3.77	\$4.35	\$2.98	\$3.30	\$1.17	\$0.56	\$0.86	\$1.90	\$3.50
DPS	\$0.31	\$0.35	\$0.40	\$0.44	\$0.48	\$0.46	\$0.45	\$0.39	\$0.44	\$0.50	\$0.52	\$0.75
Shares	859.40	847.60	847.60	847.60	847.60	847.60	847.60	847.60	847.60	831.24	800.0	750.0

Imperial Oil's earnings-per-share history has been volatile, largely due to the downturn in oil prices that began in 2014. Indeed, 2017 earnings-per-share were less than one-fourth of their peak levels. With that said, we believe the company is capable of generating earnings-per-share around \$1.90, with continued growth to \$3.50 in 2023.

There are a number of factors that lead us to believe that continued growth is possible for Imperial Oil. According to the company's estimates, Canada has the third-highest level of oil reserves worldwide, behind only Venezuela and Saudi Arabia. Opportunistic share repurchases should also play a role in Imperial Oil's per-share growth. The company's share count has declined by just 0.7% per year over the last decade, but looking back over a longer time horizon, Imperial Oil has repurchased 50% of its outstanding stock since 1995. More recently, Imperial Oil's share count declined by 3.7% between 2Q2017 and 2Q2018. The second quarter saw Imperial Oil renew its share repurchase plan, which allows the company to buy back approximately 40 million shares of stock over the twelve months ending June 26th, 2019. For context, the company had 818.8 million shares outstanding at the end of the most recent reporting period.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.2	20.8	15.5	11.8	10.3	14.1	14.4	31.5	---	35.6	17.0	14.0
Avg. Yld.	0.7%	0.9%	1.0%	1.0%	1.1%	1.1%	0.9%	1.1%	1.4%	1.6%	1.8%	1.5%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Using our 2018 earnings-per-share estimate of \$1.90, Imperial Oil is trading at a price-to-earnings ratio of 17.0. This elevated price-to-earnings ratio is artificially high due to the depressed nature of last year's earnings. Once earnings rebound, we believe a fair price-to-earnings ratio for Imperial Oil is around 14. As shares revert to a lower valuation over time, this will introduce a headwind to future returns that is more than offset by rising per-share earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	56.9%	27.9%	25.4%	27.4%	24.9%	17.1%	18.0%	11.6%	7.5%	7.3%	10.0%	20.0%
Debt/A	46.8%	46.0%	45.7%	47.6%	44.2%	47.5%	44.8%	45.7%	39.9%	41.3%	40.0%	45.0%
Int. Cov.	N/A	441	442	N/A	N/A	340	1255	50	39	8.3	10.0	15.0
Std. Dev.	41.9%	28.7%	19.2%	32.3%	19.9%	14.8%	21.9%	26.8%	20.1%	14.4%	17.0%	17.0%
Payout	8.7%	19.9%	16.1%	11.7%	11.0%	15.4%	13.6%	33.3%	78.6%	58.1%	27.4%	21.4%

Imperial Oil is one of the highest-quality energy businesses in the Canadian markets, a categorization which may not be evident from examining the quality metrics in the above table. The company has a credit rating of AA+ from S&P, which is higher than all of its peers in the Canadian energy space. Moreover, the company has paid 100+ years of consecutive dividends and has increased its dividend (in Canadian dollars) for 23 consecutive years. The company's 10-year average dividend growth rate (again, in Canadian dollars) is 6.5%. Imperial Oil seems laser-focused on returning capital to shareholder and we expect this to continue moving forward.

Final Thoughts & Recommendation

The last several years have been quite difficult for Imperial Oil. Declining oil prices have impacted its profitability and pushed its dividend payout ratio to decade-high levels. With that said, the company's rebound is well underway. We expect the company's earnings to surge over the next five years, which will be partially offset by a revaluation of the company's price-to-earnings multiple. With all this in mind, Imperial Oil appears priced for low double-digit total returns. The company earns a buy recommendation from Sure Dividend at current prices, especially for investors that are looking to add international energy exposure to their investment portfolios.

Total Return Breakdown by Year

