



Imperial Oil (IMO)

Updated May 3rd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	8.4%	Volatility Percentile:	46.5%
Fair Value Price:	\$27	5 Year Growth Estimate:	7.0%	Momentum Percentile:	25.6%
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Growth Percentile:	66.3%
Dividend Yield:	2.4%	5 Year Price Target	\$37	Valuation Percentile:	45.4%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	45.0%

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\$22 billion. 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.

Imperial Oil is completely different from the well-known integrated oil majors, such as Exxon Mobil and Chevron, in one aspect. While the well-known oil majors generate most of their earnings from their upstream segment, Imperial Oil generates most of its earnings from its downstream segment. In 2018, Imperial Oil generated essentially all its earnings (CAD\$2.3 billion) from its downstream segment (CAD\$2.4 billion) while the earnings of the chemical segment (CAD\$0.3 billion) almost offset upstream losses. The reason behind the great contribution of downstream to the earnings of Imperial Oil is the fact that its refineries enjoy high margins thanks to the use of heavy Canadian crude as input. This type of crude trades at a deep discount to WTI, which in turn trades at a wide discount to Brent. This competitive advantage of Imperial Oil is paramount.

In late April, Imperial Oil reported (4/26/19) financial results for the first quarter of fiscal 2019. Thanks to 5% production growth and higher Canadian crude oil prices over last year's quarter, the upstream segment switched from a loss of CAD\$44 million to a profit of CAD\$58 million. However, the downstream segment was severely affected by the collapse of the discount of Western Canadian Select (WCS) to WTI, from \$24 in last year's quarter to \$12 per barrel, and lower refinery utilization. Thus, the earnings of the downstream segment plunged 51%, from CAD\$521 to CAD\$257 million. The earnings-per-share of the company shrank 39% and missed the analysts' estimates by 17%. In late March, Alberta somewhat alleviated its enforced production cuts and hence we expect improvement in refining margins, given also the favorable seasonality. Nevertheless, due to the collapse of the discount of WCS to WTI and the resultant markedly weak performance, we have revised our earnings-per-share forecast for this year from \$2.50 to \$1.90.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.76	\$2.48	\$3.77	\$4.35	\$2.98	\$3.30	\$1.17	\$0.56	\$0.86	\$2.20	\$1.90	\$2.66
DPS	\$0.35	\$0.40	\$0.44	\$0.48	\$0.46	\$0.45	\$0.39	\$0.44	\$0.50	\$0.58	\$0.68	\$0.90
Shares	847.60	847.60	847.60	847.60	847.60	847.60	847.60	847.60	831.24	790.0	760.0	700.0

Imperial Oil's earnings-per-share history has been volatile, largely due to the high volatility of refining margins and the downturn in oil prices that began in 2014. Indeed, 2017 earnings-per-share were less than one-fourth of their peak levels. The collapse of the earnings in the first quarter, which resulted from the collapse of the discount of WCS to WTI, is just a reminder of the volatile nature of the results of the company. With that said, we expect approximate 7.0% earnings-per-share growth beyond this year thanks to the promising growth prospects of the company.

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.



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Canada has the third-highest level of oil reserves worldwide, behind only Venezuela and Saudi Arabia. Imperial Oil expects to grow its production by 15% from 2018 to 2020. Opportunistic share repurchases should also play a role in Imperial Oil's per-share growth. The company's share count has decreased by 5% in the last 12 months and management intends to maintain a significant buyback rate. Management also raised the dividend by 16% this year.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	20.8	15.5	11.8	10.3	14.1	14.4	31.5	---	35.6	13.9	14.7	14.0
Avg. Yld.	0.9%	1.0%	1.0%	1.1%	1.1%	0.9%	1.1%	1.4%	1.6%	1.9%	2.4%	2.4%

Imperial Oil is trading at a price-to-earnings ratio of 14.7, which is slightly higher than our assumed fair price-to-earnings ratio of 14.0. If the stock approaches our fair value estimate over the next five years, it will incur a 1.0% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

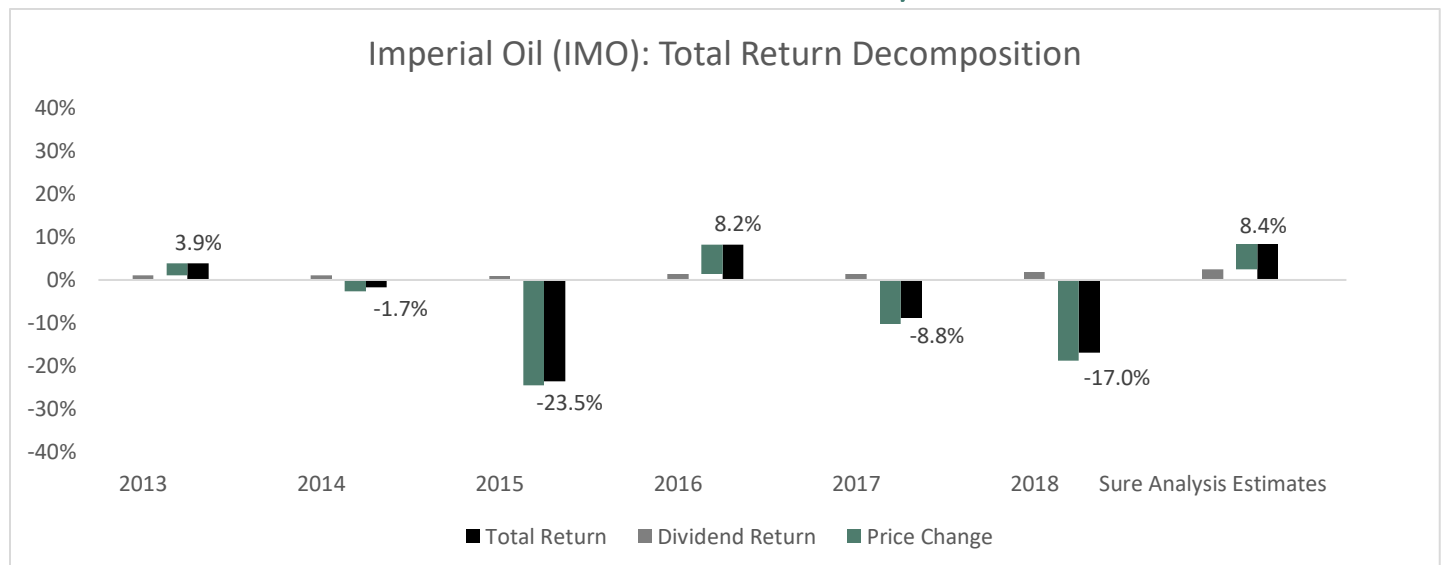
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	19.9%	16.1%	11.7%	11.0%	15.4%	13.6%	33.3%	78.6%	58.1%	26.4%	35.8%	33.8%

Imperial Oil is one of the highest-quality energy businesses in the Canadian market. 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 25 consecutive years. The company's 10-year average dividend growth rate (again, in Canadian dollars) is 7%. Imperial Oil seems laser-focused on returning capital to shareholders and we expect this to continue moving forward. Furthermore, the company benefits from leveraging the expertise of its major shareholder, Exxon Mobil.

Final Thoughts & Recommendation

The collapse of the discount of WCS to WTI in the first quarter led Imperial Oil to post disappointing results. However, we expect improved margins in the next two quarters and remain optimistic for earnings growth in the upcoming years. As we expect the stock to offer an 8.4% average annual return over the next five years, we rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	18745	24186	30819	31062	31777	32818	20963	18915	22473	26980
Gross Profit	4625	5228	6825	7361	5991	6335	3595	2413	2486	4435
Gross Margin	24.7%	21.6%	22.1%	23.7%	18.9%	19.3%	17.1%	12.8%	11.1%	16.4%
SG&A Exp.	974	1037	1181	1081	1051	974	875	844	681	701
Operating Profit	1848	2729	4216	4858	3439	3886	1434	252	373	2433
Op. Margin	9.9%	11.3%	13.7%	15.6%	10.8%	11.8%	6.8%	1.3%	1.7%	9.0%
Net Profit	1390	2143	3409	3767	2746	3428	879	1635	378	1786
Net Margin	7.4%	8.9%	11.1%	12.1%	8.6%	10.4%	4.2%	8.6%	1.7%	6.6%
Free Cash Flow	-611	-629	576	-798	-2918	-802	-648	711	1366	1876
Income Tax	547	721	1047	1227	883	1120	628	211	71	586

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	16583	20577	24908	29517	34954	35172	31109	30895	33082	30437
Cash & Equivalents	487	267	1177	485	255	185	146	290	950	725
Acc. Receivable	1627	2000	2243	1986	1957	1326	1139	1500	2157	1857
Inventories	770	773	981	1113	1289	1293	1163	1051	1193	1349
Goodwill & Int.	249	267	259	261	262	242	161	138	148	137
Total Liabilities	7625	9401	11860	13055	16618	15764	14229	12337	13651	12457
Accounts Payable	2668	3469	4229	4271	4243	3419	2154	2368	3083	2708
Long-Term Debt	133	756	1160	1520	5784	5792	5696	3448	3697	3413
Total Equity	8958	11175	13048	16462	18336	19408	16881	18558	19431	17980
D/E Ratio	0.01	0.07	0.09	0.09	0.32	0.30	0.34	0.19	0.19	0.19

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	9.1%	11.5%	15.0%	13.8%	8.5%	9.8%	2.7%	5.3%	1.2%	5.6%
Return on Equity	17.0%	21.3%	28.1%	25.5%	15.8%	18.2%	4.8%	9.2%	2.0%	9.5%
ROIC	15.1%	20.4%	26.1%	23.4%	13.0%	13.9%	3.7%	7.3%	1.7%	8.0%
Shares Out.	847.6	847.60	847.60	847.60	847.60	847.60	847.60	847.60	831.24	790.0
Revenue/Share	21.88	28.31	36.11	36.50	37.36	38.58	24.65	22.24	26.57	33.30
FCF/Share	-0.71	-0.74	0.68	-0.94	-3.43	-0.94	-0.76	0.84	1.61	2.32

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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