



Exxon Mobil Corporation (XOM)

Updated May 2nd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$79	5 Year CAGR Estimate:	10.4%	Volatility Percentile:	17.9%
Fair Value Price:	\$54	5 Year Growth Estimate:	13.2%	Momentum Percentile:	42.4%
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.1%	Growth Percentile:	97.5%
Dividend Yield:	4.3%	5 Year Price Target	\$101	Valuation Percentile:	9.3%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	65.2%

Overview & Current Events

Exxon Mobil is an energy giant with a market capitalization of \$333 billion. Not only is the company gigantic, it is also diversified. Prior to the oil market downturn, the company generated ~90% of its earnings from its upstream segment. That has changed lately. In 2018, the oil major generated 60% of its earnings from its upstream segment, 26% from its downstream (mostly refining) segment and the remaining 14% from its chemicals segment.

In late April, Exxon reported (4/26/19) financial results for the first quarter of fiscal 2019. The company posted production of 4.0 million barrels per day, up 2% over last year's quarter. However, its earnings-per-share plunged 49%, from \$1.09 to \$0.55, and missed the analysts' consensus of \$0.68 by 19%. Half of the earnings decrease resulted from poor margins in refining and chemicals, as well as heavy scheduled maintenance. Refining margins were affected by the collapse of the discount of Canadian crude to WTI due to Alberta's enforced production cuts and additional takeaway capacity in Permian.

The performance of Exxon was much worse than that of Chevron, as the former is much more dependent on its downstream business than the latter and hence the poor margins of this division had a greater impact on Exxon. Due to the disappointing report of Exxon, we have lowered our earnings-per-share estimate for this year from \$5.25 to \$4.20.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.98	\$6.22	\$8.42	\$9.70	\$7.37	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$4.20	\$7.80
DPS	\$1.66	\$1.74	\$1.85	\$2.18	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.90
Shares	4,727	4,979	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,250	4,200

Despite being a diversified cash-generating machine, cyclicality is the nature of Exxon's industry. The earnings-per-share numbers depict this picture well, ranging from \$1.88 to \$9.70 in the last decade. The latest earnings report is a stern reminder that results are driven by commodity prices and hence they are highly volatile. While the usual driver of results is the price of oil, in the latest report the key drivers were the margins in refining and chemicals.

Share repurchases used to be an important return driver but have taken a back seat lately. Nevertheless, we remain positive regarding the long-term growth prospects of Exxon. The oil major has greatly increased its capital expenses in order to grow its production from 4.0 to 5.0 million barrels per day until 2025. Permian will be a major growth driver, as the oil giant has about 10 billion barrels of oil equivalent in the area and expects to reach production of more than 1.0 million barrels per day in the area by 2024. As a result, we expect Exxon to grow its earnings-per-share to approximately \$7.80 over the next five years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.8	10.5	9.5	10.7	12.3	12.8	21.5	45.8	25.3	14.0	18.8	13.0
Avg. Yld.	2.3%	2.7%	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.3%	3.9%

Disclosure: This analyst is long the security discussed in this research report.



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During the past decade, Exxon Mobil has traded with an average price-to-earnings ratio in the 17 to 18 range, but this includes “artificial” years when profits dropped dramatically while the share price held up much better. During 2009-2015, the average multiple was closer to 13 or 14 times earnings. This is a number we are more comfortable with given our expectation of “normalized” earnings over the intermediate-term. Due to the disappointing earnings this year, the stock is trading at a price-to-earnings ratio of 18.8 right now. As the company grows its earnings in the upcoming years, we expect its price-to-earnings ratio to drop to our assumed fair range. If this occurs, the stock will incur a 7.1% annualized drag in its returns over the next five years 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	42%	28%	22%	22%	33%	36%	75%	159%	94%	66%	82%	50%

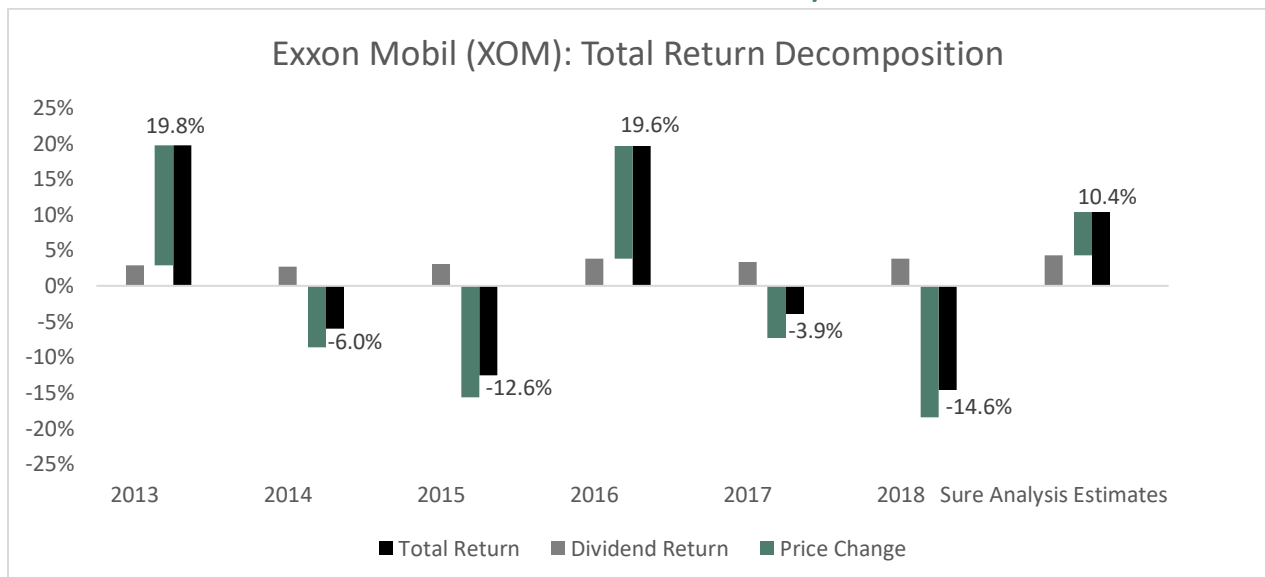
Exxon’s competitive advantage is its unparalleled scale and its enviable expertise in the energy sector. The standard technical procedures followed by most oil companies have been written by Exxon. Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments offer a good deal of ballast. Exxon is much more defensive than most oil majors during recessions and downturns of the energy sector but it rallies less than its peers during good times. Overall, it is a defensive energy stock.

The current payout ratio of the stock may seem elevated, but this is due to the cyclical nature of profits. Moreover, the debt load is exceptionally well covered, as Exxon has one of the strongest balance sheets in the sector.

Final Thoughts & Recommendation

Despite its disappointing earnings report, Exxon has advanced 5% since our previous research report. Although profits depend on oil and gas prices and downstream margins, we believe Exxon stands a good shot at generating significant income in the years to come. Over the next five years, we expect Exxon to offer a 10.4% average annual return thanks to 13.2% earnings-per-share growth off its low base this year and its 4.3% dividend yield, which will be partly offset by a 7.1% annualized contraction of its valuation level. We thus believe that this security is a buy for those looking for a conservative higher-yield opportunity in the energy space.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	303.44	370.13	467.03	451.51	420.84	394.11	239.85	200.63	237.16	279.33
Gross Profit (\$B)	91.67	93.07	111.14	101.16	88.38	80.64	56.22	43.70	56.36	67.73
Gross Margin	30.2%	25.1%	23.8%	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%
SG&A Exp.	14735	14683	14983	13877	12877	12598	11501	10443	10649	11480
Operating Profit	28182	40122	54104	49881	40301	34082	12883	2771	13819	22124
Op. Margin	9.3%	10.8%	11.6%	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%
Net Profit	19280	30460	41060	44880	32580	32520	16150	7840	19710	20840
Net Margin	6.4%	8.2%	8.8%	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%
Free Cash Flow	5947	21542	24370	21899	11245	12164	3854	5919	14664	16440
Income Tax	15119	21561	31051	31045	24263	18015	5415	-406	-1174	9532

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	233.32	302.51	331.05	333.80	346.81	349.49	336.76	330.31	348.69	346.20
Cash & Equivalents	10693	7825	12664	9582	4644	4616	3705	3657	3177	3042
Acc. Receivable	N/A	32284	30044	28373	25993	18541	13243	16033	21274	19638
Inventories	11553	12976	15024	14542	16135	16678	16245	15080	16992	18958
Total Liab. (\$B)	117.93	149.83	170.31	162.14	166.31	168.43	159.95	156.48	154.19	147.67
Accounts Payable	24236	30780	33969	33789	30920	25286	18074	17801	21701	21063
Long-Term Debt	9605	15014	16773	11150	22324	28746	37449	41537	41009	36493
Total Equity (\$B)	110.57	146.84	154.40	165.86	174.00	174.40	170.81	167.33	187.69	191.79
D/E Ratio	0.09	0.10	0.11	0.07	0.13	0.16	0.22	0.25	0.22	0.19

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.4%	11.4%	13.0%	13.5%	9.6%	9.3%	4.7%	2.4%	5.8%	6.0%
Return on Equity	17.3%	23.7%	27.3%	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%
ROIC	15.3%	20.8%	23.8%	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%
Shares Out.	4,727	4,979	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270
Revenue/Share	62.59	75.58	95.77	97.56	95.23	92.04	57.16	48.03	55.72	65.42
FCF/Share	1.23	4.40	5.00	4.73	2.54	2.84	0.92	1.42	3.45	3.85

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

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