



Imperial Oil (IMO)

Updated February 4th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	12.7%	Market Cap:	\$17.2 B
Fair Value Price:	\$29	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/4/2020
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.0%	Dividend Payment Date:	4/1/2020
Dividend Yield:	3.1%	5 Year Price Target	\$38	Years Of Dividend Growth:	4
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	10.3%

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\$17 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 different from the well-known integrated oil majors, such as Exxon Mobil and Chevron, in one aspect. While the earnings of these companies greatly depend on the prices of WTI and Brent, the earnings of Imperial Oil are affected to a great extent by the prices of WTI and WCS (Western Canada Select). The latter usually trades at a deep discount to WTI, so it differentiates the earnings of Imperial Oil compared to those of the oil majors. In 2018 and 2019, the average discount of WCS to WTI was \$26 and \$13, respectively.

In late January, Imperial Oil reported (1/31/20) financial results for the fourth quarter of fiscal 2019. In the year, the company grew its production 3.9%, from 383,000 barrels per day to 398,000 barrels per day. The company also benefited from a decrease in Alberta's corporate tax rate, from 12% to 8% by 2022. This non-cash benefit comprised 30% of the annual earnings of Imperial Oil. However, refinery throughput and product sales were negatively affected by significant turnaround activity and an incident in the fractionator tower at Sarnia. As a result, earnings-per-share fell - 2%, from \$2.20 in 2018 to \$2.16 in 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.48	\$3.77	\$4.35	\$2.98	\$3.30	\$1.17	\$0.56	\$0.86	\$2.20	\$2.16	\$2.10	\$2.68
DPS	\$0.40	\$0.44	\$0.48	\$0.46	\$0.45	\$0.39	\$0.44	\$0.50	\$0.58	\$0.64	\$0.72	\$0.95
Shares¹	847.6	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9	720.0	650.0

Imperial Oil's earnings-per-share history has been volatile, largely due to the high volatility of oil prices, particularly during the 2014-2017 downturn, and the volatility of refining margins. Indeed, 2017 earnings-per-share were less than one-fourth of their peak levels. On the other hand, 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. Consequently, we expect 5% earnings-per-share growth rate for the next five years. For this year, we are conservative in our earnings-per-share estimate, as oil prices have had a rough start due to the threat of the coronavirus and the results of Imperial Oil are very sensitive to the underlying oil prices.

¹ In millions.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.5	11.8	10.3	14.1	14.4	31.5	---	35.6	13.9	12.4	11.0	14.0
Avg. Yld.	1.0%	1.0%	1.1%	1.1%	0.9%	1.1%	1.4%	1.6%	1.9%	2.4%	3.1%	2.5%

Imperial Oil is trading at a price-to-earnings ratio of 11.0, which is lower 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 enjoy a 5.0% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

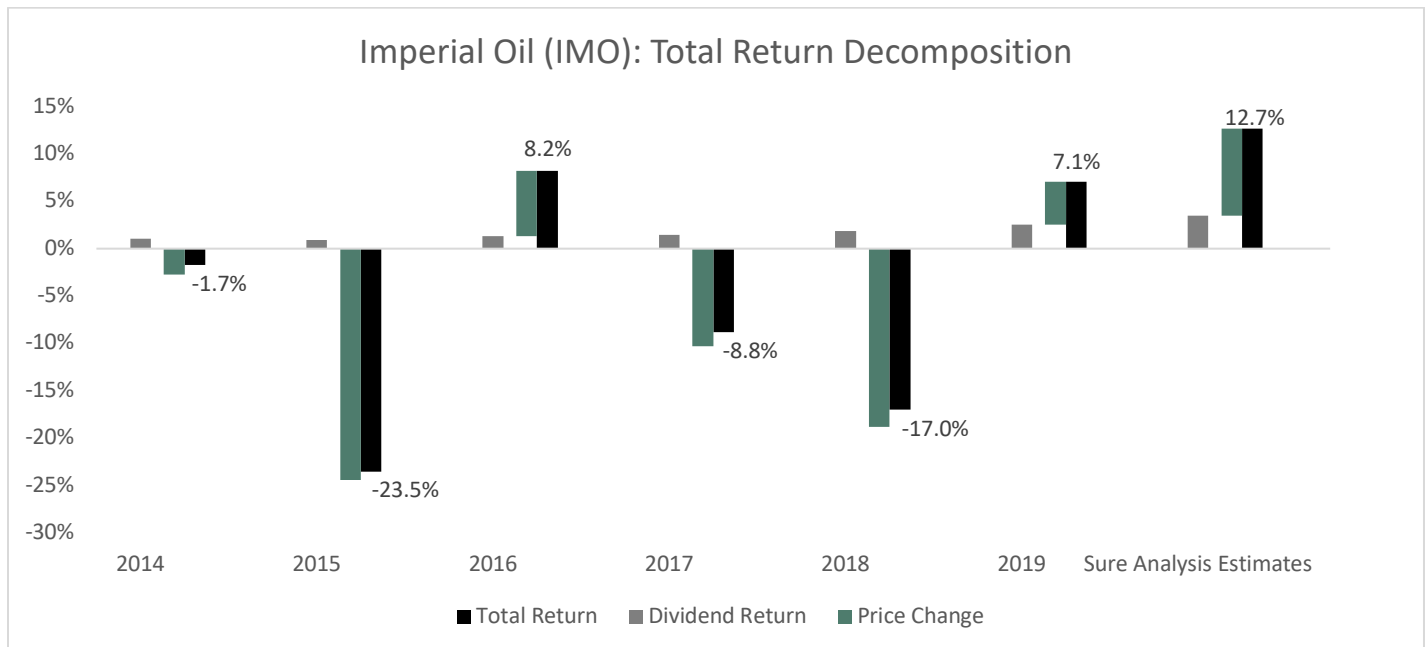
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	16.1%	11.7%	11.0%	15.4%	13.6%	33.3%	78.6%	58.1%	26.4%	29.6%	34.3%	35.6%

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

Imperial Oil has incurred a -15% correction since mid-January due to the massive sell-off of the entire energy sector, which has resulted from the threat of the coronavirus. As a result, the stock is trading near its 10-year lows and has become markedly attractive. We expect the stock to offer a 12.7% average annual return over the next five years, partly thanks to its opportune valuation. Therefore, we rate the stock as a buy but only for investors who can tolerate the pronounced volatility that results from the dramatic swings of the price of oil.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	24186	30819	31062	31777	32818	20963	18915	22473	26980	
Gross Profit	5228	6825	7361	5991	6335	3595	2413	2486	4435	
Gross Margin	21.6%	22.1%	23.7%	18.9%	19.3%	17.1%	12.8%	11.1%	16.4%	
SG&A Exp.	1037	1181	1081	1051	974	875	844	681	701	
Operating Profit	2729	4216	4858	3439	3886	1434	252	373	2433	
Op. Margin	11.3%	13.7%	15.6%	10.8%	11.8%	6.8%	1.3%	1.7%	9.0%	
Net Profit	2143	3409	3767	2746	3428	879	1635	378	1786	
Net Margin	8.9%	11.1%	12.1%	8.6%	10.4%	4.2%	8.6%	1.7%	6.6%	
Free Cash Flow	-629	576	-798	-2918	-802	-648	711	1366	1876	
Income Tax	721	1047	1227	883	1120	628	211	71	586	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	20577	24908	29517	34954	35172	31109	30895	33082	30437	
Cash & Equivalents	267	1177	485	255	185	146	290	950	725	
Acc. Receivable	2000	2243	1986	1957	1326	1139	1500	2157	1857	
Inventories	773	981	1113	1289	1293	1163	1051	1193	1349	
Goodwill & Int.	267	259	261	262	242	161	138	148	137	
Total Liabilities	9401	11860	13055	16618	15764	14229	12337	13651	12457	
Accounts Payable	3469	4229	4271	4243	3419	2154	2368	3083	2708	
Long-Term Debt	756	1160	1520	5784	5792	5696	3448	3697	3413	
Total Equity	11175	13048	16462	18336	19408	16881	18558	19431	17980	
D/E Ratio	0.07	0.09	0.09	0.32	0.30	0.34	0.19	0.19	0.19	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.5%	15.0%	13.8%	8.5%	9.8%	2.7%	5.3%	1.2%	5.6%	
Return on Equity	21.3%	28.1%	25.5%	15.8%	18.2%	4.8%	9.2%	2.0%	9.5%	
ROIC	20.4%	26.1%	23.4%	13.0%	13.9%	3.7%	7.3%	1.7%	8.0%	
Shares Out.	847.60	847.60	847.60	847.60	847.60	847.60	847.60	831.24	790.0	
Revenue/Share	28.31	36.11	36.50	37.36	38.58	24.65	22.24	26.57	33.30	
FCF/Share	-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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