



Exxon Mobil Corporation (XOM)

Updated February 3rd, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	9.9%	Market Cap:	\$264.7 B
Fair Value Price:	\$46	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	2/10/2020
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	3/10/2020
Dividend Yield:	5.8%	5 Year Price Target	\$80	Years Of Dividend Growth:	37
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	6.1%

Overview & Current Events

Exxon Mobil is an energy giant with a market capitalization of \$265 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. 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. However, in 2019, the upstream segment generated 83% of the total earnings of Exxon due to the depressed margins in the downstream and chemical segments.

In late January, Exxon reported (1/31/20) financial results for the fourth quarter of fiscal 2019. Production remained flat over last year's quarter, as a 4% increase in liquids was offset by a 5% decrease in gas. Excluding non-recurring gains of \$3.9 billion, which resulted from asset sales, adjusted earnings-per-share plunged -71%, from \$1.41 to \$0.41, primarily due to depressed margins in the downstream and chemical segments.

While downstream and chemical earnings used to support the earnings of Exxon amid suppressed oil prices, they failed to support them in 2019 because of depressed margins. Due the daunting business performance of Exxon and the massive sell-off of the entire energy sector due to the threat of coronavirus, Exxon has fallen to its 10-year lows.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$6.22	\$8.42	\$9.70	\$7.37	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$2.44	\$3.50	\$6.17
DPS	\$1.74	\$1.85	\$2.18	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.57	\$4.05
Shares¹	4,979	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,269	4,269	4,250

Cyclicality is the nature of Exxon's industry. The performance in 2019 is a stern reminder that results are driven by commodity prices and hence they are highly volatile. We have lowered our long-term earnings-per-share forecast from \$7.30 to \$6.17 to be on the safe side but 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 by 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. Guyana, one of the most exciting growth projects in the energy sector, will be the other major growth driver of Exxon. The company recently announced major discoveries in the area and thus it has now nearly tripled its estimated reserves in the area, from 3.2 billion barrels in early 2018 to more than 8.0 billion barrels now.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.5	9.5	10.7	12.3	12.8	21.5	45.8	25.3	14.0	30.2	17.7	13.0
Avg. Yld.	2.7%	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	5.8%	5.0%

During the past decade, Exxon Mobil has traded at 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-

¹ In millions.

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



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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 depressed earnings expected this year, the stock is trading at a price-to-earnings ratio of 17.7 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 value range. Note that earnings returning to a normalized level will offset this lower valuation multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	28%	22%	22%	33%	36%	75%	159%	94%	66%	141%	102%	65.6%

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. It is also impressive that other oil companies drilled about 40 dry holes in Guyana whereas Exxon has a nearly 90% success rate in this area.

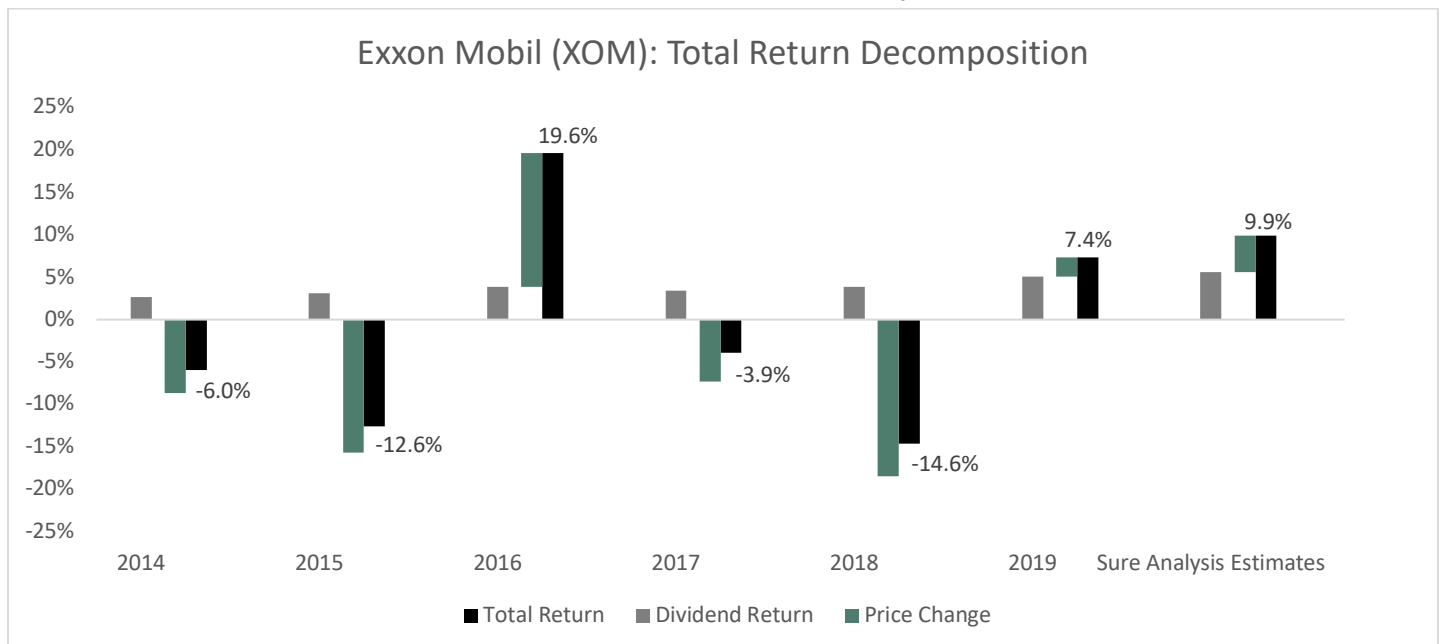
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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.

Exxon is a dividend aristocrat. In April, the oil major is expected to announce its 38th consecutive dividend hike. The current payout ratio of the stock is extreme, 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 many disappointing earnings reports in a row, Exxon may offer a 9.9% average annual return over the next five years thanks to its exciting growth projects in Guyana and the Permian. Investors should also note that the stock is offering an all-time high dividend yield of 5.8%. We thus rate Exxon as a buy for those looking for a defensive high-yield energy stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	370.13	467.03	451.51	420.84	394.11	239.85	200.63	237.16	279.33	
Gross Profit (\$B)	93.07	111.14	101.16	88.38	80.64	56.22	43.70	56.36	67.73	
Gross Margin	25.1%	23.8%	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	
SG&A Exp.	14683	14983	13877	12877	12598	11501	10443	10649	11480	
Operating Profit	40122	54104	49881	40301	34082	12883	2771	13819	22124	
Op. Margin	10.8%	11.6%	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	
Net Profit	30460	41060	44880	32580	32520	16150	7840	19710	20840	
Net Margin	8.2%	8.8%	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	
Free Cash Flow	21542	24370	21899	11245	12164	3854	5919	14664	16440	
Income Tax	21561	31051	31045	24263	18015	5415	-406	-1174	9532	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	302.51	331.05	333.80	346.81	349.49	336.76	330.31	348.69	346.20	
Cash & Equivalents	7825	12664	9582	4644	4616	3705	3657	3177	3042	
Acc. Receivable	32284	30044	28373	25993	18541	13243	16033	21274	19638	
Inventories	12976	15024	14542	16135	16678	16245	15080	16992	18958	
Total Liab. (\$B)	149.83	170.31	162.14	166.31	168.43	159.95	156.48	154.19	147.67	
Accounts Payable	30780	33969	33789	30920	25286	18074	17801	21701	21063	
Long-Term Debt	15014	16773	11150	22324	28746	37449	41537	41009	36493	
Total Equity (\$B)	146.84	154.40	165.86	174.00	174.40	170.81	167.33	187.69	191.79	
D/E Ratio	0.10	0.11	0.07	0.13	0.16	0.22	0.25	0.22	0.19	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.4%	13.0%	13.5%	9.6%	9.3%	4.7%	2.4%	5.8%	6.0%	
Return on Equity	23.7%	27.3%	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	
ROIC	20.8%	23.8%	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	
Shares Out.	4,979	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	
Revenue/Share	75.58	95.77	97.56	95.23	92.04	57.16	48.03	55.72	65.42	
FCF/Share	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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