



Imperial Oil (IMO)

Updated May 14th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	13.4%	Market Cap:	\$10.5 B
Fair Value Price:	\$20	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	6/3/2020
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.0%	Dividend Payment Date:	7/1/2020
Dividend Yield:	4.6%	5 Year Price Target	\$23	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	F	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\$10.5 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 early May, Imperial Oil reported (5/1/20) financial results for the first quarter of fiscal 2020. The company grew its production 8%, from 388,000 barrels per day to 419,000 barrels per day, thanks to record bitumen production at Kearl. However, results were negatively affected by the coronavirus, which caused a collapse in the price of oil. As a result, Imperial Oil incurred non-cash charges of \$301 million due to the devaluation of its inventories and switched from a profit of \$0.30 per share in last year's quarter to a loss of -\$0.20 per share. Due to the pandemic, which has sent oil prices to 18-year lows, we now expect Imperial Oil to incur a loss of -\$1.30 per share this year.

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	-\$1.30	\$1.62
DPS	\$0.40	\$0.44	\$0.48	\$0.46	\$0.45	\$0.39	\$0.44	\$0.50	\$0.58	\$0.64	\$0.64	\$0.74
Shares¹	847.6	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9	740.0	710.0

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. Even worse, the energy market is currently facing an unprecedented downturn due to the pandemic, which has caused a collapse in the demand for oil products and thus in the oil price. However, we expect the pandemic to subside and the energy market to recover from next year. In addition, as Canada has the third-highest level of oil reserves worldwide, behind only Venezuela and Saudi Arabia, Imperial Oil has strong growth prospects in the long run. On the other hand, Imperial Oil recently suspended its share repurchases due to the pandemic. While the company will probably resume share repurchases after the pandemic, they are not likely to provide a great boost to the 5-year return of the stock. Overall, we expect Imperial Oil to grow its earnings-per-share by 3.0% per year on average over the next five years off their mid-cycle level (5-year average) of \$1.40.

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	10.0	14.0
Avg. Yld.	1.0%	1.0%	1.1%	1.1%	0.9%	1.1%	1.4%	1.6%	1.9%	2.4%	4.6%	3.3%

Imperial Oil is currently trading at 10.0 times its mid-cycle earnings. This valuation level 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 7.0% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

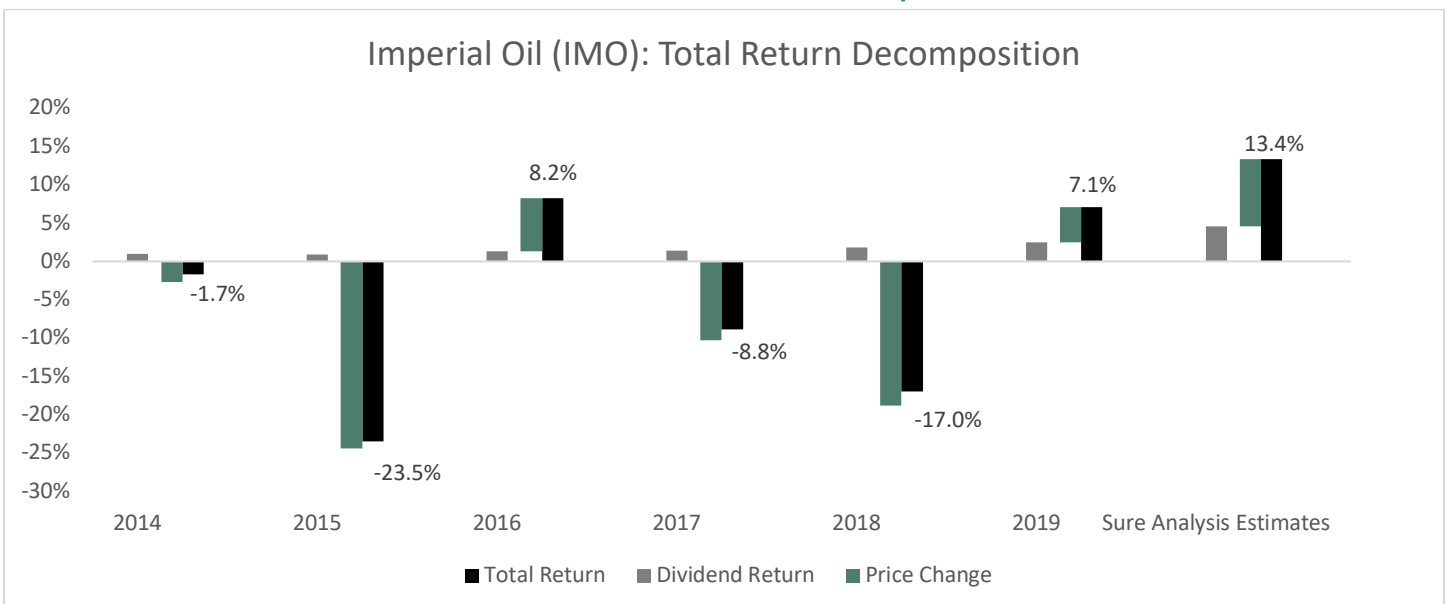
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	16.1%	11.7%	11.0%	15.4%	13.6%	33.3%	78.6%	58.1%	26.4%	29.6%	45.7%	45.7%

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. The company may freeze or reduce its dividend due to the pandemic this year, but it is likely to maintain its shareholder-friendly character when the pandemic wanes from the horizon. Furthermore, the company benefits from leveraging the expertise of its major shareholder, Exxon Mobil.

Final Thoughts & Recommendation

Imperial Oil has plunged -50% since mid-January due to the collapse of the oil price, which has resulted from the coronavirus. As a result, the stock is trading near its 10-year lows and has become attractive. We expect the stock to offer a 13.4% average annual return over the next five years. 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	22,910	29,484	29,723	30,395	31,403	19,735	17,669	21,182	25,694	24,257
Gross Profit	3,952	5,491	6,023	4,609	4,920	2,366	1,167	1,195	3,148	2,358
Gross Margin	17.2%	18.6%	20.3%	15.2%	15.7%	12.0%	6.6%	5.6%	12.3%	9.7%
SG&A Exp.	1,037	1,181	1,081	1,051	974	875	844	681	701	678
Operating Profit	2,729	4,216	4,858	3,439	3,886	1,434	252	373	2,433	1,645
Op. Margin	11.9%	14.3%	16.3%	11.3%	12.4%	7.3%	1.4%	1.8%	9.5%	6.8%
Net Profit	2,143	3,409	3,767	2,746	3,428	879	1,635	378	1,786	1,658
Net Margin	9.4%	11.6%	12.7%	9.0%	10.9%	4.5%	9.3%	1.8%	6.9%	6.8%
Free Cash Flow	(629)	576	(798)	(2,918)	(802)	(648)	711	1,366	1,876	2,104
Income Tax	721	1,047	1,227	883	1,120	628	211	71	586	(116)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	20,577	24,908	29,517	34,954	35,172	31,109	30,895	33,082	30,437	32,296
Cash & Equivalents	267	1,177	485	255	185	146	290	950	725	1,315
Acc. Receivable	2,000	2,243	1,986	1,957	1,326	1,139	1,500	2,157	1,857	2,066
Inventories	773	981	1,113	1,289	1,293	1,163	1,051	1,193	1,349	1,464
Goodwill & Int.	267	259	261	262	242	161	138	148	137	142
Total Liabilities	9,401	11,860	13,055	16,618	15,764	14,229	12,337	13,651	12,457	13,712
Accounts Payable	3,469	4,229	4,271	4,243	3,419	2,154	2,368	3,083	2,708	3,261
Long-Term Debt	756	1,160	1,520	5,784	5,792	5,696	3,448	3,697	3,413	3,580
Total Equity	11,175	13,048	16,462	18,336	19,408	16,881	18,558	19,431	17,980	18,584
D/E Ratio	0.07	0.09	0.09	0.32	0.30	0.34	0.19	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%	5.3%
Return on Equity	21.3%	28.1%	25.5%	15.8%	18.2%	4.8%	9.2%	2.0%	9.5%	9.1%
ROIC	20.4%	26.1%	23.4%	13.0%	13.9%	3.7%	7.3%	1.7%	8.0%	7.6%
Shares Out.	847.6	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9
Revenue/Share	26.82	34.54	34.92	35.73	36.92	23.20	20.78	25.05	31.72	31.71
FCF/Share	(0.74)	0.68	(0.94)	(3.43)	(0.94)	(0.76)	0.84	1.61	2.32	2.75

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

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