



Exxon Mobil Corporation (XOM)

Updated November 6th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	19.4%	Market Cap:	\$140.5 B
Fair Value Price:	\$42	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/10/2020
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	12/10/2020
Dividend Yield:	10.5%	5 Year Price Target	\$62	Years Of Dividend Growth:	37
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	6.1%

Overview & Current Events

Exxon Mobil is an energy giant with a market capitalization of \$140.5 billion. Not only is the company gigantic, it is also diversified. Prior to the oil market downturn in 2014, 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.

The pandemic has severely hurt all the segments of Exxon. It has caused suppressed oil prices, reduced output and depressed refining and chemical margins. The latter used to provide a buffer to the results of Exxon during downturns but this is not the case this time. Due to the pandemic and the poor results of Exxon even before the pandemic, Exxon has plunged near its 20-year lows. It was thus recently expelled from Dow Jones, after 92 years of continuous presence.

In late October, Exxon reported (10/30/20) financial results for the third quarter of fiscal 2020. Production rose 1% sequentially, refinery utilization improved from 70% to 76% and chemical margins improved. As a result, Exxon narrowed its adjusted loss per share from -\$0.70 to -\$0.18. Exxon has cut its capital expenses 27% this year in order to protect its dividend and will slow the development of its promising growth projects in the Permian and Guyana.

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	-\$0.40	\$4.79
DPS	\$1.74	\$1.85	\$2.18	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.48	\$3.60
Shares¹	4,979	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,269	4,271	4,250

Cyclicality is the nature of Exxon's industry. The performance in 2019 and 2020 is a stern reminder that results are driven by commodity prices and hence they are highly volatile. However, we believe that the energy market is now near the bottom of its cycle and expect it to recover from next year. In order to calculate potential returns, we have used mid-cycle (5-year average) earnings-per-share of \$3.26 as a base. Thanks to its promising growth projects, Exxon expects to grow its production from 4.0 to 5.0 million barrels per day by 2025. The 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 2025. Guyana, one of the most exciting growth projects in the energy sector, will be the other major growth driver of Exxon. The company has nearly tripled its estimated reserves in the area, from 3.2 billion barrels in early 2018 to nearly 9.0 billion barrels now, including two major discoveries in the third quarter. Overall, we expect Exxon to grow its earnings-per-share by 8.0% per year on average over the next five years off its mid-cycle level.

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	10.1	13.0
Avg. Yld.	2.7%	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	10.5%	5.8%

¹ In millions.

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



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During the past decade, Exxon 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 2009-2015, 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. The stock is currently trading at 10.1 times its mid-cycle earnings. If its earnings multiple rises to 13.0 in five years, the stock will enjoy a 5.1% annualized gain in its returns.

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%	107%	75.1%

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.

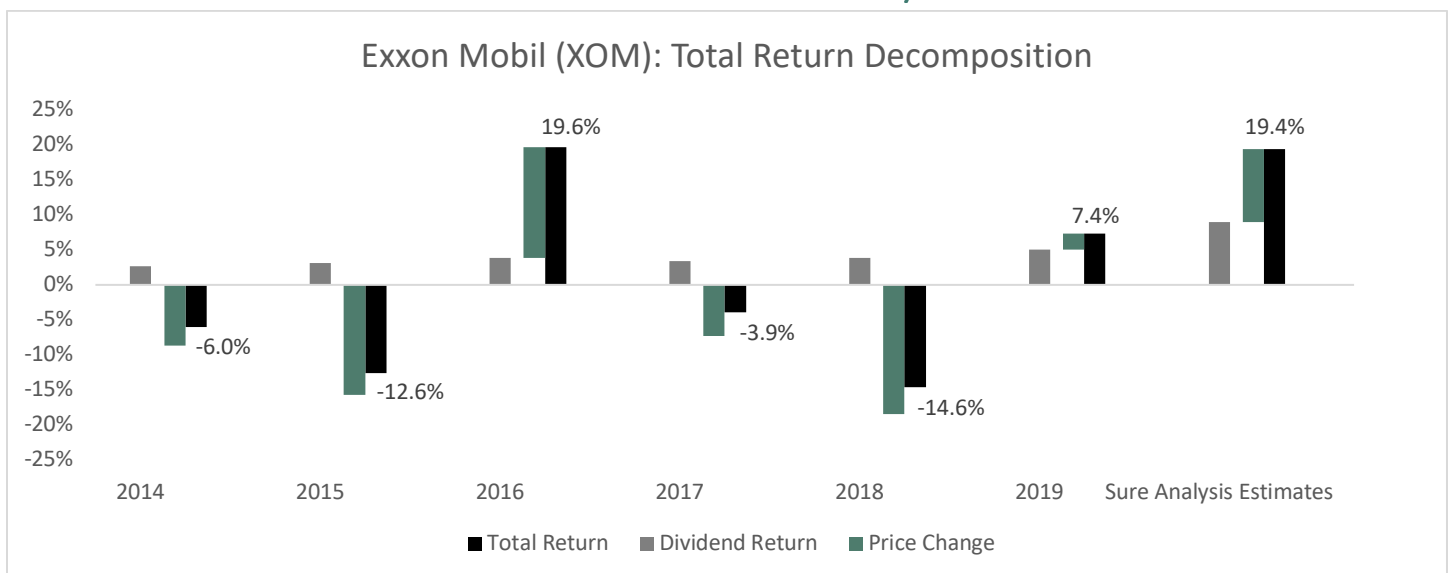
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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, with 37 consecutive annual dividend raises. However, the oil major has paid the same dividend for seven consecutive quarters and it is struggling to maintain its dividend amid the pandemic. Despite the extreme current payout ratio, we expect Exxon to defend its dividend growth streak thanks to its financial strength. However, the dividend will come under pressure in the event of a prolonged pandemic.

Final Thoughts & Recommendation

Exxon is suffering from the collapse in the demand for oil products, which has been caused by the pandemic. As a result, the stock has plunged near its 20-year lows and is offering an all-time high dividend yield of 10.5%. However, we expect the pandemic to subside and the oil major to recover from next year. Exxon could offer a 19.4% average annual return over the next five years. We thus rate it as a buy for those looking for a defensive high-yield energy stock but patience is required.

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	255.58
Gross Profit (\$B)	93.07	111.14	101.16	88.38	80.64	56.22	43.70	56.36	67.73	55.96
Gross Margin	25.1%	23.8%	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%
SG&A Exp.	14683	14983	13877	12877	12598	11501	10443	10649	11480	11398
Operating Profit	40122	54104	49881	40301	34082	12883	2771	13819	22124	12766
Op. Margin	10.8%	11.6%	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%
Net Profit	30460	41060	44880	32580	32520	16150	7840	19710	20840	14340
Net Margin	8.2%	8.8%	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%
Free Cash Flow	21542	24370	21899	11245	12164	3854	5919	14664	16440	5355
Income Tax	21561	31051	31045	24263	18015	5415	-406	-1174	9532	5282

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	362.60
Cash & Equivalents	7825	12664	9582	4644	4616	3705	3657	3177	3042	3089
Acc. Receivable	32284	30044	28373	25993	18541	13243	16033	21274	19638	21100
Inventories	12976	15024	14542	16135	16678	16245	15080	16992	18958	18528
Total Liab. (\$B)	149.83	170.31	162.14	166.31	168.43	159.95	156.48	154.19	147.67	163.66
Accounts Payable	30780	33969	33789	30920	25286	18074	17801	21701	21063	24694
Long-Term Debt	15014	16773	11150	22324	28746	37449	41537	41009	36493	45250
Total Equity (\$B)	146.84	154.40	165.86	174.00	174.40	170.81	167.33	187.69	191.79	191.65
D/E Ratio	0.10	0.11	0.07	0.13	0.16	0.22	0.25	0.22	0.19	0.24

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%	4.0%
Return on Equity	23.7%	27.3%	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%
ROIC	20.8%	23.8%	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%
Shares Out.	4,979	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,269
Revenue/Share	75.58	95.77	97.56	95.23	92.04	57.16	48.03	55.72	65.42	59.86
FCF/Share	4.40	5.00	4.73	2.54	2.84	0.92	1.42	3.45	3.85	1.25

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

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