



# Imperial Oil (IMO)

Updated February 4<sup>th</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$20	<b>5 Year CAGR Estimate:</b>	9.3%	<b>Market Cap:</b>	\$14.7 B
<b>Fair Value Price:</b>	\$20	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	3/1/2021
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	-0.4%	<b>Dividend Payment Date:</b>	4/1/2021
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$27	<b>Years Of Dividend Growth:</b>	5
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	3.1%

## 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\$14.7 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 2019 and 2020, the average discount of WCS to WTI was \$13 and \$12, respectively.

In early February, Imperial Oil reported (2/2/21) financial results for the fourth quarter of fiscal 2020. The company grew its production 16% over the prior year's quarter, from 398,000 barrels per day to 460,000 barrels per day, which is a 30-year high production rate for the company. This growth resulted from record production of 284,000 barrels per day at Kearl, which exceeded its previous quarterly record by 40,000 barrels per day. Nevertheless, due to the suppressed oil prices and refining margins caused by the pandemic, Imperial Oil posted just a marginal adjusted profit in the quarter and incurred its first annual loss in a whole decade.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$3.77	\$4.35	\$2.98	\$3.30	\$1.17	\$0.56	\$0.86	\$2.20	\$2.16	-\$1.90	<b>\$1.40</b>	<b>\$1.96</b>
<b>DPS</b>	\$0.44	\$0.48	\$0.46	\$0.45	\$0.39	\$0.44	\$0.50	\$0.58	\$0.64	\$0.66	<b>\$0.68</b>	<b>\$0.80</b>
<b>Shares<sup>1</sup></b>	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9	734.1	<b>730.0</b>	<b>700.0</b>

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. However, we expect the pandemic to subside and the energy market to recover in the second half of this 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 7.0% per year on average over the next five years off its mid-cycle level (5-year average) of \$1.40.

<sup>1</sup> 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.8	10.3	14.1	14.4	31.5	---	35.6	13.9	12.4	---	14.3	14.0
Avg. Yld.	1.0%	1.1%	1.1%	0.9%	1.1%	1.4%	1.6%	1.9%	2.4%	3.9%	3.4%	2.9%

Imperial Oil is currently trading at 14.3 times its mid-cycle earnings. This valuation level is slightly higher than our assumed fair price-to-earnings ratio of 14.0. If the stock trades at our fair value estimate in five years, it will incur a modest -0.4% annualized drag due to the contraction of its valuation level.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

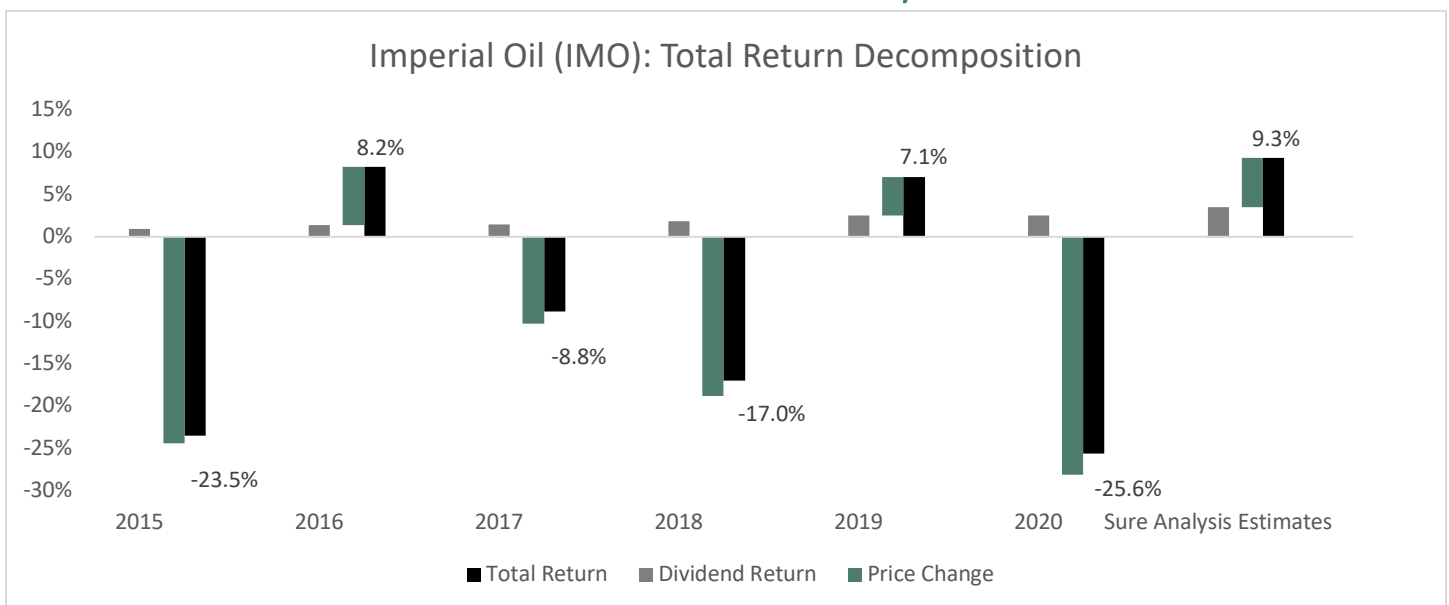
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11.7%	11.0%	15.4%	13.6%	33.3%	78.6%	58.1%	26.4%	29.6%	---	48.6%	40.7%

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 has paid the same dividend for eight consecutive quarters due to the pandemic, but it is likely to maintain its shareholder-friendly character when the pandemic wanes. Furthermore, the company benefits from leveraging the expertise of its major shareholder, Exxon Mobil.

## Final Thoughts & Recommendation

Imperial Oil has been greatly affected by the pandemic but we expect the pandemic to subside and the energy sector to recover later this year. The stock has nearly doubled in just four months thanks to the enthusiasm of the market over the massive vaccination program. However, shares remain attractive, as the security could still offer a 9.3% average annual return over the next five years. We thus maintain our hold rating 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	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	29,484	29,723	30,395	31,403	19,735	17,669	21,182	25,694	24,257
<b>Gross Profit</b>	5,491	6,023	4,609	4,920	2,366	1,167	1,195	3,148	2,358
<b>Gross Margin</b>	18.6%	20.3%	15.2%	15.7%	12.0%	6.6%	5.6%	12.3%	9.7%
<b>SG&amp;A Exp.</b>	1,181	1,081	1,051	974	875	844	681	701	678
<b>Operating Profit</b>	4,216	4,858	3,439	3,886	1,434	252	373	2,433	1,645
<b>Op. Margin</b>	14.3%	16.3%	11.3%	12.4%	7.3%	1.4%	1.8%	9.5%	6.8%
<b>Net Profit</b>	3,409	3,767	2,746	3,428	879	1,635	378	1,786	1,658
<b>Net Margin</b>	11.6%	12.7%	9.0%	10.9%	4.5%	9.3%	1.8%	6.9%	6.8%
<b>Free Cash Flow</b>	576	(798)	(2,918)	(802)	(648)	711	1,366	1,876	2,104
<b>Income Tax</b>	1,047	1,227	883	1,120	628	211	71	586	(116)

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	24,908	29,517	34,954	35,172	31,109	30,895	33,082	30,437	32,296
<b>Cash &amp; Equivalents</b>	1,177	485	255	185	146	290	950	725	1,315
<b>Acc. Receivable</b>	2,243	1,986	1,957	1,326	1,139	1,500	2,157	1,857	2,066
<b>Inventories</b>	981	1,113	1,289	1,293	1,163	1,051	1,193	1,349	1,464
<b>Goodwill &amp; Int.</b>	259	261	262	242	161	138	148	137	142
<b>Total Liabilities</b>	11,860	13,055	16,618	15,764	14,229	12,337	13,651	12,457	13,712
<b>Accounts Payable</b>	4,229	4,271	4,243	3,419	2,154	2,368	3,083	2,708	3,261
<b>Long-Term Debt</b>	1,160	1,520	5,784	5,792	5,696	3,448	3,697	3,413	3,580
<b>Total Equity</b>	13,048	16,462	18,336	19,408	16,881	18,558	19,431	17,980	18,584
<b>D/E Ratio</b>	0.09	0.09	0.32	0.30	0.34	0.19	0.19	0.19	0.19

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	15.0%	13.8%	8.5%	9.8%	2.7%	5.3%	1.2%	5.6%	5.3%
<b>Return on Equity</b>	28.1%	25.5%	15.8%	18.2%	4.8%	9.2%	2.0%	9.5%	9.1%
<b>ROIC</b>	26.1%	23.4%	13.0%	13.9%	3.7%	7.3%	1.7%	8.0%	7.6%
<b>Shares Out.</b>	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9
<b>Revenue/Share</b>	34.54	34.92	35.73	36.92	23.20	20.78	25.05	31.72	31.71
<b>FCF/Share</b>	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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