



Exxon Mobil Corporation (XOM)

Updated February 5th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	9.9%	Market Cap:	\$211.4 B
Fair Value Price:	\$42	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	2/9/2021
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	3/10/2021
Dividend Yield:	7.0%	5 Year Price Target	\$62	Years Of Dividend Growth:	38
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	6.1%

Overview & Current Events

Exxon Mobil is a diversified energy giant with a market capitalization of \$211.4 billion. In 2019, the upstream segment generated 83% of the total earnings of Exxon due to the depressed margins in the downstream and chemical segments but in 2020 the upstream segment incurred losses of -\$20 billion due to the pandemic.

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. Exxon was expelled from the Dow Jones Index in 2020, after 92 years of continuous presence.

In early February, Exxon reported (2/2/21) financial results for the fourth quarter of fiscal 2020. Production in the Permian grew 42% over the prior year's quarter but total production remained flat sequentially due to OPEC quotas. On the bright side, margins in chemicals improved and thus this segment posted its best results in 2 years. As a result, Exxon switched from an adjusted loss per share of -\$0.18 in the third quarter to an adjusted profit per share of \$0.03. Thanks to the aggressive production cuts of OPEC+, the price of oil has recovered to pre-COVID levels. Given also an expected recovery in the demand for refined products at the second half of this year, we expect Exxon to earn \$2.20 per share this year. The stock of Exxon has rallied 50% in just three months thanks to these positive factors and increasing pressure from major shareholders for changes in management.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$8.42	\$9.70	\$7.37	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$2.44	-\$0.33	\$2.20	\$4.79
DPS	\$1.85	\$2.18	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.48	\$3.48	\$3.60
Shares¹	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,269	4,272	4,275	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 this year. In order to calculate future 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 about 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. Management has stated that 90% of new reserves have a production cost of \$35 per barrel and thus it views the dividend as viable at Brent prices above \$45. However, we believe that the dividend will come under pressure if the pandemic extends beyond this year. 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.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.5	10.7	12.3	12.8	21.5	45.8	25.3	14.0	30.2	---	15.3	13.0
Avg. Yld.	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	7.8%	7.0%	5.8%

During the past decade, Exxon has traded at an average price-to-earnings ratio of 20.2, 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 view as fair. Exxon is currently trading at 15.3 times its mid-cycle earnings. If its earnings multiple falls to 13.0 in five years, the stock will incur a -3.3% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	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.

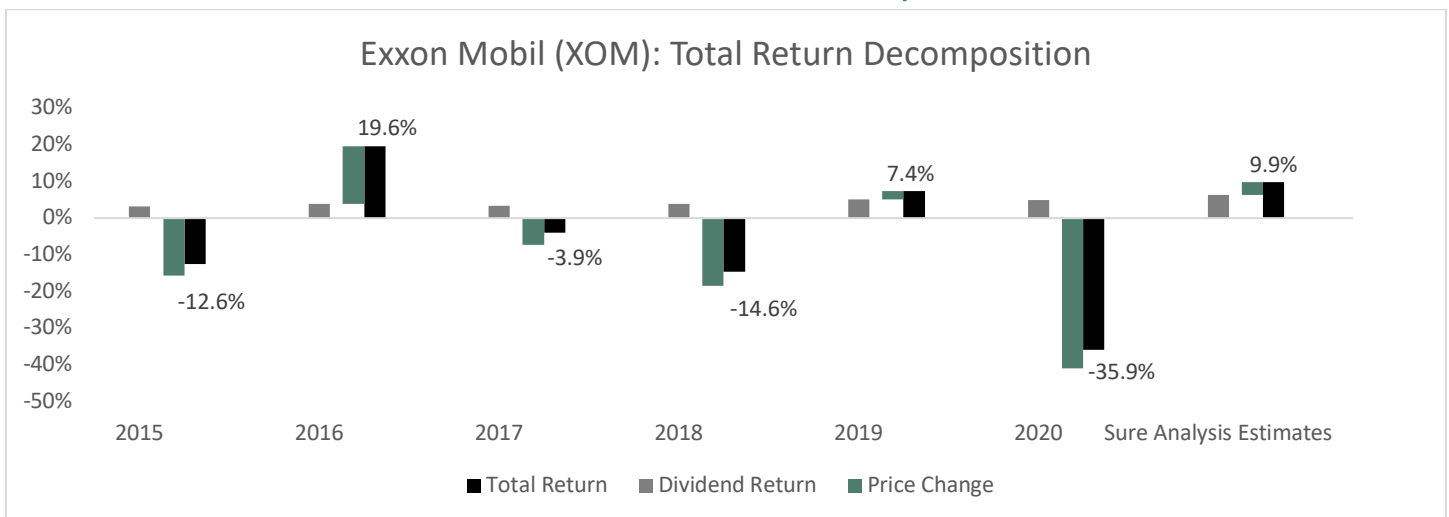
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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 38 consecutive annual dividend raises. However, the oil major has paid the same dividend for eight consecutive quarters and it is struggling to maintain its dividend amid the pandemic. We expect Exxon to defend its dividend growth streak but the dividend will come under pressure in the event of a prolonged pandemic.

Final Thoughts & Recommendation

Exxon has rallied 50% in just three months thanks to the aggressive OPEC+ production cuts, the massive ongoing vaccination program and pressure from shareholders for changes in management. Nevertheless, the stock could still offer a 9.9% average annual return over the next five years. We thus maintain our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	467.03	451.51	420.84	394.11	239.85	200.63	237.16	279.33	255.58	181.5
Gross Profit (\$B)	111.14	101.16	88.38	80.64	56.22	43.70	56.36	67.73	55.96	---
Gross Margin	23.8%	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%	---
SG&A Exp.	14983	13877	12877	12598	11501	10443	10649	11480	11398	---
Operating Profit	54104	49881	40301	34082	12883	2771	13819	22124	12766	-28883
Op. Margin	11.6%	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%	-15.9%
Net Profit	41060	44880	32580	32520	16150	7840	19710	20840	14340	-22440
Net Margin	8.8%	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%	-12.4%
Free Cash Flow	24370	21899	11245	12164	3854	5919	14664	16440	5355	---
Income Tax	31051	31045	24263	18015	5415	-406	-1174	9532	5282	-5632

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	331.05	333.80	346.81	349.49	336.76	330.31	348.69	346.20	362.60	---
Cash & Equivalents	12664	9582	4644	4616	3705	3657	3177	3042	3089	---
Acc. Receivable	30044	28373	25993	18541	13243	16033	21274	19638	21100	---
Inventories	15024	14542	16135	16678	16245	15080	16992	18958	18528	---
Total Liab. (\$B)	170.31	162.14	166.31	168.43	159.95	156.48	154.19	147.67	163.66	---
Accounts Payable	33969	33789	30920	25286	18074	17801	21701	21063	24694	---
Long-Term Debt	16773	11150	22324	28746	37449	41537	41009	36493	45250	---
Total Equity (\$B)	154.40	165.86	174.00	174.40	170.81	167.33	187.69	191.79	191.65	---
D/E Ratio	0.11	0.07	0.13	0.16	0.22	0.25	0.22	0.19	0.24	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.0%	13.5%	9.6%	9.3%	4.7%	2.4%	5.8%	6.0%	4.0%	---
Return on Equity	27.3%	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%	---
ROIC	23.8%	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%	---
Shares Out.	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4269	4272
Revenue/Share	95.77	97.56	95.23	92.04	57.16	48.03	55.72	65.42	59.86	42.50
FCF/Share	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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