



Exxon Mobil Corporation (XOM)

Updated May 6th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	5.7%	Market Cap:	\$260.8 B
Fair Value Price:	\$47	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	5/12/2021
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.2%	Dividend Payment Date:	6/10/2021
Dividend Yield:	5.7%	5 Year Price Target	\$63	Years Of Dividend Growth:	38
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	6.1%

Overview & Current Events

Exxon Mobil is a diversified energy giant with a market capitalization of \$260.8 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 severely hurt all the segments of Exxon. It 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 was not the case last year. Exxon was expelled from the Dow Jones Index in 2020, after 92 years of continuous presence.

In late April, Exxon reported (4/30/21) financial results for the first quarter of fiscal 2021. Production in the Permian grew 12% sequentially and total production grew 3%. The price of oil rallied thanks to the deep production cuts of OPEC and Russia while refining and chemical margins improved. As a result, the adjusted earnings-per-share of Exxon jumped from \$0.03 in the previous quarter to \$0.65. Given also an expected recovery in the demand for refined products at the second half of this year, we have raised our earnings-per-share forecast for the full year from \$2.20 to \$3.60.

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	\$3.60	\$4.82
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 poised to recover later this year. Until recently, Exxon expected to grow its production from about 4.0 to 5.0 million barrels per day by 2025. However, it recently withdrew its guidance and now expects flat output due to its commitment to its dividend, which will result in lower investment in growth projects. Exxon has about 10 billion barrels of oil equivalent in the Permian 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, is the other major growth project 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. Despite flat output, we expect Exxon to grow its earnings-per-share by 6.0% per year on average over the next five years off this year's low comparison base, mostly thanks to improved margins.

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	---	16.9	13.0
Avg. Yld.	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	7.8%	5.7%	5.7%

¹ In millions.

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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 a price-to-earnings ratio of 16.9. If its earnings multiple falls to 13.0 in five years, the stock will incur a -5.2% 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%	---	96.7%	74.7%

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.

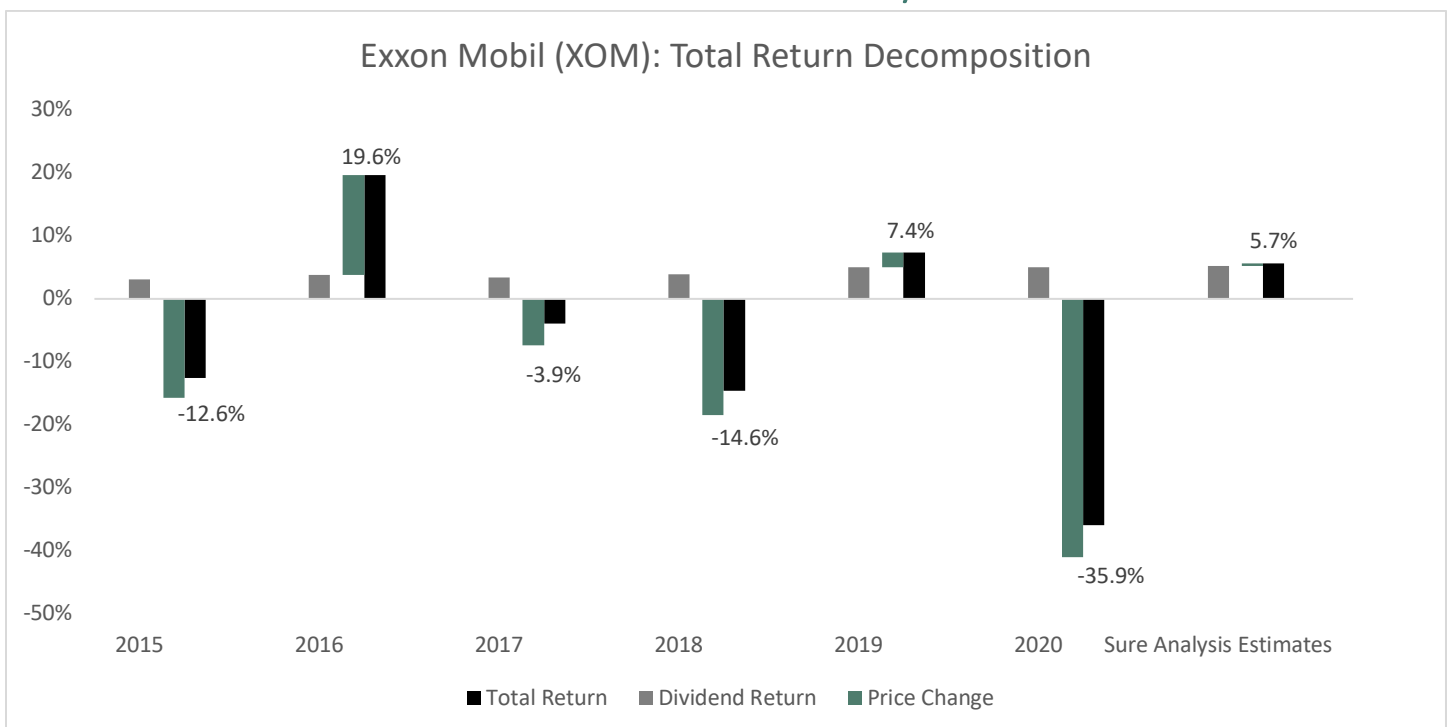
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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 nine 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 doubled in just six months thanks to the aggressive OPEC+ production cuts, the massive ongoing vaccination program and pressure from shareholders for changes in management. As a result, the stock may now offer just a 5.7% average annual return over the next five years. We thus lower our rating from “buy” to “hold”.

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	178.57
Gross Profit (\$B)	111.14	101.16	88.38	80.64	56.22	43.70	56.36	67.73	55.96	8.13
Gross Margin	23.8%	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%	4.6%
SG&A Exp.	14983	13877	12877	12598	11501	10443	10649	11480	11398	10168
Operating Profit	54104	49881	40301	34082	12883	2771	13819	22124	12766	-29,448
Op. Margin	11.6%	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%	-16.5%
Net Profit	41060	44880	32580	32520	16150	7840	19710	20840	14340	-22,440
Net Margin	8.8%	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%	-12.6%
Free Cash Flow	24370	21899	11245	12164	3854	5919	14664	16440	5355	-2,614
Income Tax	31051	31045	24263	18015	5415	-406	-1174	9532	5282	-5,632

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	332.75
Cash & Equivalents	12,664	9,582	4,644	4,616	3,705	3,657	3,177	3,042	3,089	4,364
Acc. Receivable	30,044	28,373	25,993	18,541	13,243	16,033	21,274	19,638	21,100	16,339
Inventories	15,024	14,542	16,135	16,678	16,245	15,080	16,992	18,958	18,528	18,850
Total Liab. (\$B)	170.31	162.14	166.31	168.43	159.95	156.48	154.19	147.67	163.66	168.62
Accounts Payable	33969	33789	30920	25286	18074	17801	21701	21063	24694	17499
Long-Term Debt	16773	11150	22324	28746	37449	41537	41009	36493	45250	65960
Total Equity (\$B)	154.40	165.86	174.00	174.40	170.81	167.33	187.69	191.79	191.65	157.15
D/E Ratio	0.11	0.07	0.13	0.16	0.22	0.25	0.22	0.19	0.24	0.42

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%	-6.5%
Return on Equity	27.3%	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%	-12.9%
ROIC	23.8%	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%	-9.5%
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	41.81
FCF/Share	5.00	4.73	2.54	2.84	0.92	1.42	3.45	3.85	1.25	-0.61

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

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