



Imperial Oil (IMO)

Updated November 2nd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	8.6%	Market Cap:	\$24.5 B
Fair Value Price:	\$39	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/1/2021
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	12/31/2021
Dividend Yield:	2.4%	5 Year Price Target	\$48	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	22.7%

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\$24.5 billion. Imperial Oil reports financial results in Canadian dollars, but the figures shown in 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 late October, Imperial Oil reported (10/29/21) financial results for the third quarter of fiscal 2021. The company grew its production 19% over the depressed level in last year's quarter caused by the pandemic. It thus grew its production to a 30-year high level. This growth resulted primarily from strong production at Kearl. Moreover, the average price of WTI and WCS nearly doubled over last year's quarter. In addition, the chemical segment posted 30-year high earnings thanks to wide margins amid strong demand. As a result, Imperial Oil switched from a marginal profit to a profit of \$1.02 per share. Thanks to its ongoing recovery, the company raised its dividend by 22.7% in the first quarter and resumed share repurchases. Given the 7-year high price of oil, which has resulted from the recovery of global oil consumption amid tight supply from OPEC+, we have raised our earnings-per-share forecast for this year from \$2.00 to \$2.80.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.77	\$4.35	\$2.98	\$3.30	\$1.17	\$0.56	\$0.86	\$2.20	\$2.16	-\$1.90	\$2.80	\$3.41
DPS	\$0.44	\$0.48	\$0.46	\$0.45	\$0.39	\$0.44	\$0.50	\$0.58	\$0.64	\$0.66	\$0.83	\$1.16
Shares¹	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9	734.1	700.0	650.0

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. Moreover, the energy market faced a downturn last year due to the pandemic. However, the pandemic has begun to subside and the energy market is recovering strongly 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. Furthermore, thanks to its positive momentum and business outlook, Imperial Oil has resumed share repurchases and thus it will provide an additional boost to its earnings-per-share. Overall, we expect Imperial Oil to grow its earnings-per-share by 4.0% per year on average over the next five years.

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	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	---	12.5	14.0
Avg. Yld.	1.0%	1.1%	1.1%	0.9%	1.1%	1.4%	1.6%	1.9%	2.4%	3.9%	2.4%	2.4%

Imperial Oil is currently trading at a price-to-earnings ratio of 12.5. This valuation level is lower 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 enjoy a 2.3% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

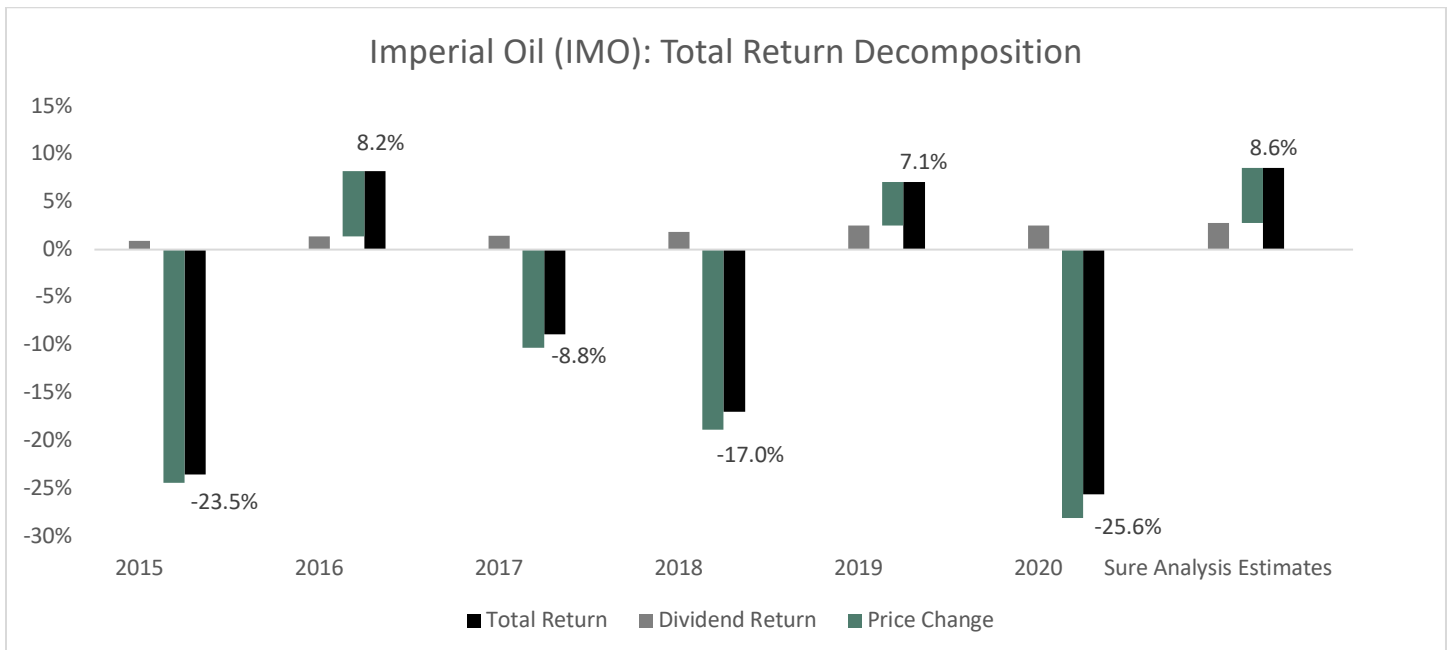
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11.7%	11.0%	15.4%	13.6%	33.3%	78.6%	58.1%	26.4%	29.6%	---	29.6%	34.2%

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 26 consecutive years. The company's 10-year average dividend growth rate (again, in Canadian dollars) is 9%. Imperial Oil seems laser-focused on returning capital to shareholders. The company paid the same dividend for eight consecutive quarters due to the pandemic but it raised its dividend by 23% as soon as it began to recover. Furthermore, the company benefits from leveraging the expertise of its major shareholder, Exxon Mobil.

Final Thoughts & Recommendation

Imperial Oil has rallied 35% since our last research report, in August, but it is still reasonably valued. We expect the stock to offer an 8.6% average annual return over the next five years and thus lower our rating from "buy" to "hold". However, Imperial is suitable 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	2020
Revenue	29,484	29,723	30,395	31,403	19,735	17,669	21,182	25,694	24,257	15,336
Gross Profit	5,491	6,023	4,609	4,920	2,366	1,167	1,195	3,148	2,358	(1,174)
Gross Margin	18.6%	20.3%	15.2%	15.7%	12.0%	6.6%	5.6%	12.3%	9.7%	-7.7%
SG&A Exp.	1,181	1,081	1,051	974	875	844	681	701	678	553
Operating Profit	4,216	4,858	3,439	3,886	1,434	252	373	2,433	1,645	(1,737)
Op. Margin	14.3%	16.3%	11.3%	12.4%	7.3%	1.4%	1.8%	9.5%	6.8%	-11.3%
Net Profit	3,409	3,767	2,746	3,428	879	1,635	378	1,786	1,658	(1,386)
Net Margin	11.6%	12.7%	9.0%	10.9%	4.5%	9.3%	1.8%	6.9%	6.8%	-9.0%
Free Cash Flow	576	(798)	(2,918)	(802)	(648)	711	1,366	1,876	2,104	(52)
Income Tax	1,047	1,227	883	1,120	628	211	71	586	(116)	(411)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	24,908	29,517	34,954	35,172	31,109	30,895	33,082	30,437	32,296	29,824
Cash & Equivalents	1,177	485	255	185	146	290	950	725	1,315	605
Acc. Receivable	2,243	1,986	1,957	1,326	1,139	1,500	2,157	1,857	2,066	1,505
Inventories	981	1,113	1,289	1,293	1,163	1,051	1,193	1,349	1,464	1,438
Goodwill & Int.	259	261	262	242	161	138	148	137	142	130
Total Liabilities	11,860	13,055	16,618	15,764	14,229	12,337	13,651	12,457	13,712	13,028
Accounts Payable	4,229	4,271	4,243	3,419	2,154	2,368	3,083	2,708	3,261	2,473
Long-Term Debt	1,160	1,520	5,784	5,792	5,696	3,448	3,697	3,413	3,580	3,665
Total Equity	13,048	16,462	18,336	19,408	16,881	18,558	19,431	17,980	18,584	16,796
D/E Ratio	0.09	0.09	0.32	0.30	0.34	0.19	0.19	0.19	0.19	0.22

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	15.0%	13.8%	8.5%	9.8%	2.7%	5.3%	1.2%	5.6%	5.3%	-4.5%
Return on Equity	28.1%	25.5%	15.8%	18.2%	4.8%	9.2%	2.0%	9.5%	9.1%	-7.8%
ROIC	26.1%	23.4%	13.0%	13.9%	3.7%	7.3%	1.7%	8.0%	7.6%	-6.5%
Shares Out.	847.6	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9	734.1
Revenue/Share	34.54	34.92	35.73	36.92	23.20	20.78	25.05	31.72	31.71	20.86
FCF/Share	0.68	(0.94)	(3.43)	(0.94)	(0.76)	0.84	1.61	2.32	2.75	(0.07)

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

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