



Exxon Mobil Corporation (XOM)

Updated November 1st, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$111	5 Year CAGR Estimate:	-1.5%	Market Cap:	\$456 B
Fair Value Price:	\$169	5 Year Growth Estimate:	-13.0%	Ex-Dividend Date:	11/14/2022
% Fair Value:	66%	5 Year Valuation Multiple Estimate:	8.8%	Dividend Payment Date:	12/9/2022
Dividend Yield:	3.3%	5 Year Price Target	\$84	Years Of Dividend Growth:	40
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Exxon Mobil is a diversified energy giant with a market capitalization of \$456 billion. In 2021, the upstream segment generated 62% of the total earnings of Exxon while the downstream and chemical segments generated 8% and 30% of the total earnings, respectively.

In late October, Exxon reported (10/28/22) financial results for the third quarter of fiscal 2022. Its production in Permian reached an all-time high but its total production remained flat sequentially. Oil prices dipped -12% sequentially but gas prices skyrocketed and refining margins improved due to the sanctions of western countries on Russia for its invasion in Ukraine. As a result, Exxon grew its earnings-per-share 7% sequentially, from \$4.14 to an all-time high of \$4.45, and exceeded the analysts' consensus by an impressive \$0.65. We have thus raised our forecast from \$10.10 to \$13.00. In contrast to previous rallies of oil and gas prices, producers have boosted their output conservatively, fearing that the rally will prove short-lived due to the secular shift of most countries from fossil fuels to clean energy sources. As long as producers remain cautious, the oil price is likely to remain high. Oil prices are likely to remain above average in the short run, but we do not expect them to remain so high for years. We believe that oil and gas prices have already peaked.

Moreover, Exxon raised its dividend by 3% and thus it extended its dividend growth streak to 40 years. It also has a \$30 billion share repurchase program for 2022-2023. This amount can reduce the share count by 6% at current stock prices. However, as the stock price is at a fresh all-time high and is infamous for its cyclicity, we do not applaud this program. Exxon has made the same mistake in the past.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$9.70	\$7.37	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$2.44	-\$0.33	\$5.38	\$13.00	\$6.48
DPS	\$2.18	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.48	\$3.49	\$3.64	\$3.84
Shares¹	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,269	4,272	4,275	4,150	3,700

Cyclicity 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. Until recently, Exxon expected to grow its production from about 4.0 to 5.0 million barrels per day by 2025. However, it has now withdrawn its guidance and 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 oil major has announced some major discoveries in the area this year and thus it has boosted its estimated reserves. Exxon has more than tripled its estimated reserves in the area, from 3.2 billion barrels in early 2018 to about 11.0 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. Due to the high comparison base formed by record earnings-per-share this year, we expect earnings-per-share to decline -13.0% 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.7	12.3	12.8	21.5	45.8	25.3	14.0	30.2	---	10.8	8.5	13.0
Avg. Yld.	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	7.8%	6.0%	3.3%	4.6%

During the past decade, Exxon has traded at an average price-to-earnings ratio of 20.4, 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 8.5. If it trades at a price-to-earnings ratio of 13.0 in five years, it will enjoy an 8.8% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	33%	36%	75%	159%	94%	66%	141%	---	64.9%	28.0%	59.3%

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.

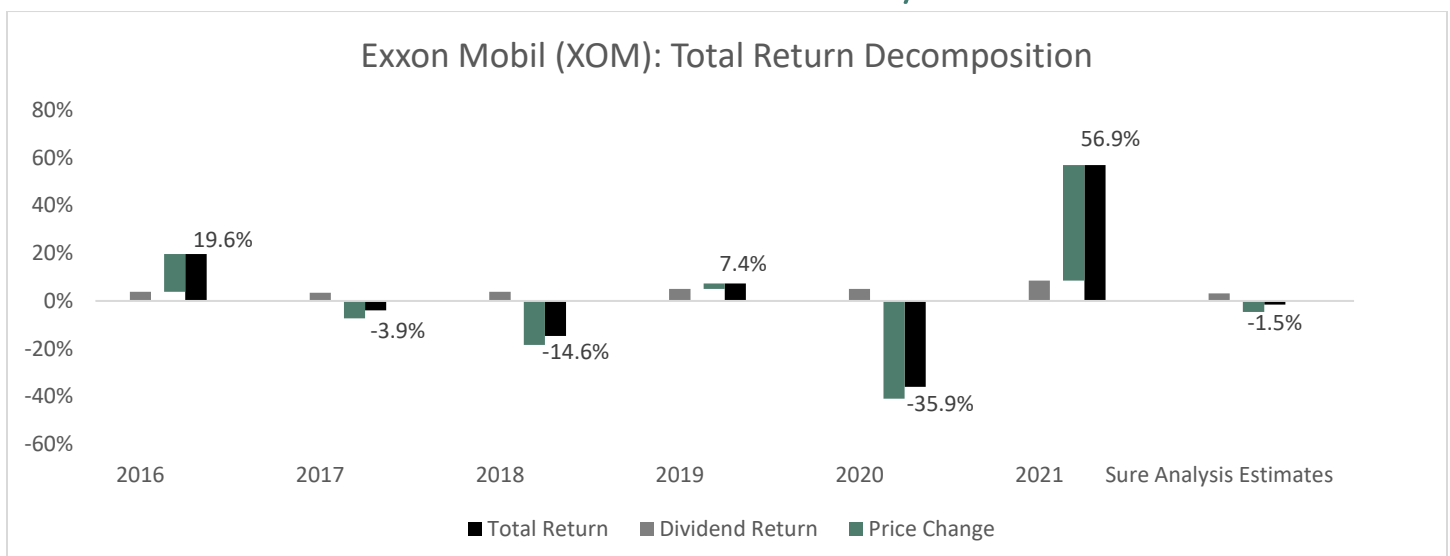
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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 40 consecutive annual dividend raises. However, the oil major paid the same dividend for ten consecutive quarters and struggled to defend its dividend during the pandemic.

Final Thoughts & Recommendation

Exxon is thriving thanks to the high prices of oil and gas and the almost record refining margins, which have resulted from the war in Ukraine. As a result, the stock has rallied 74% this year, to an all-time high. The stock is likely to maintain its strong momentum in the short run, but it could offer an average annual return of -1.5%, as its 3.3% dividend and its 8.8% valuation tailwind could be offset by a -13.0% annual decline of earnings-per-share. We thus rate it as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	451.51	420.84	394.11	239.85	200.63	237.16	279.33	255.58	178.57	276.69
Gross Profit (\$B)	101.16	88.38	80.64	56.22	43.70	56.36	67.73	55.96	8.13	64.89
Gross Margin	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%	4.6%	23.5%
SG&A Exp.	13877	12877	12598	11501	10443	10649	11480	11398	10168	9,574
Operating Profit	49881	40301	34082	12883	2771	13819	22124	12766	-29,448	24,019
Op. Margin	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%	-16.5%	8.7%
Net Profit	44880	32580	32520	16150	7840	19710	20840	14340	-22,440	23,040
Net Margin	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%	-12.6%	8.3%
Free Cash Flow	21899	11245	12164	3854	5919	14664	16440	5355	-2,614	36,053
Income Tax	31045	24263	18015	5415	-406	-1174	9532	5282	-5,632	7,636

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	333.80	346.81	349.49	336.76	330.31	348.69	346.20	362.60	332.75	338.24
Cash & Equivalents	9,582	4,644	4,616	3,705	3,657	3,177	3,042	3,089	4,364	6,802
Acc. Receivable	28,373	25,993	18,541	13,243	16,033	21,274	19,638	21,100	16,339	26,883
Inventories	14,542	16,135	16,678	16,245	15,080	16,992	18,958	18,528	18,850	18,780
Total Liab. (\$B)	162.14	166.31	168.43	159.95	156.48	154.19	147.67	163.66	168.62	163.24
Accounts Payable	33789	30920	25286	18074	17801	21701	21063	24694	17499	26623
Long-Term Debt	11150	22324	28746	37449	41537	41009	36493	45250	65960	45943
Total Equity (\$B)	165.86	174.00	174.40	170.81	167.33	187.69	191.79	191.65	157.15	168.58
LTD/E Ratio	0.07	0.13	0.16	0.22	0.25	0.22	0.19	0.24	0.42	0.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.5%	9.6%	9.3%	4.7%	2.4%	5.8%	6.0%	4.0%	-6.5%	6.9%
Return on Equity	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%	-12.9%	14.1%
ROIC	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%	-9.5%	10.2%
Shares Out.	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4269	4272	4275
Revenue/Share	97.56	95.23	92.04	57.16	48.03	55.72	65.42	59.86	41.81	64.72
FCF/Share	4.73	2.54	2.84	0.92	1.42	3.45	3.85	1.25	-0.61	8.43

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

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