Imperial Oil (IMO)

Updated February 3rd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$30.9 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	-9.0%	**Ex-Dividend Date:**	3/2/2023
% Fair Value:	66%	**5 Year Valuation Multiple Estimate:**	8.6%	**Dividend Payment Date:**	4/1/2023
Dividend Yield:	2.6%	**5 Year Price Target**	$48	**Years Of Dividend Growth:**	7
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Sell

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 $30.9 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 2021 and 2022, the average discount of WCS to WTI was $13 and $18, respectively.

In late January, Imperial Oil reported (1/31/23) financial results for the fourth quarter of fiscal 2022. Production dipped -1% over the prior year's quarter but remained close to 30-year highs thanks to strong production at Kearl. Moreover, refinery utilization improved from 97% to an all-time high of 101% while the price of oil greatly increased over the prior year's period due to the sanctions of western countries on Russia. As a result, Imperial Oil more than doubled its earnings-per-share in the quarter and achieved record earnings-per-share of $8.36 in the full year. Thanks to promising prospects at Kearl, we expect Imperial Oil to grow its production this year. On the other hand, we expect the price of oil to moderate and thus we expect lower earnings-per-share this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.98	$3.30	$1.17	$0.56	$0.86	$2.20	$2.16	-$1.90	$2.74	$8.36	***$5.50***	***$3.43***
DPS	$0.46	$0.45	$0.39	$0.44	$0.50	$0.58	$0.64	$0.66	$0.82	$1.13	***$1.32***	***$1.64***
Shares[1]	847.6	847.6	847.6	847.6	831.2	790.0	749.9	734.1	689.5	603.0	***580.0***	***550.0***

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. On the bright side, the energy market is currently recovering strongly from the pandemic. 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 exceptionally high oil prices amid the war in Ukraine, Imperial Oil is thriving. Nevertheless, whenever the war ends, the price of oil is likely to begin to deflate. Due to the high comparison base formed by the expected earnings-per-share this year, we expect earnings-per-share to decline -9.0% per year on average over the next five years.

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[1] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.1	14.4	31.5	---	35.6	13.9	12.4	---	10.4	5.7	***9.3***	***14.0***
Avg. Yld.	1.1%	0.9%	1.1%	1.4%	1.6%	1.9%	2.4%	3.9%	2.9%	2.4%	***2.6%***	***3.4%***

Imperial Oil is currently trading at a price-to-earnings ratio of 9.3, which is much 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 an 8.6% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

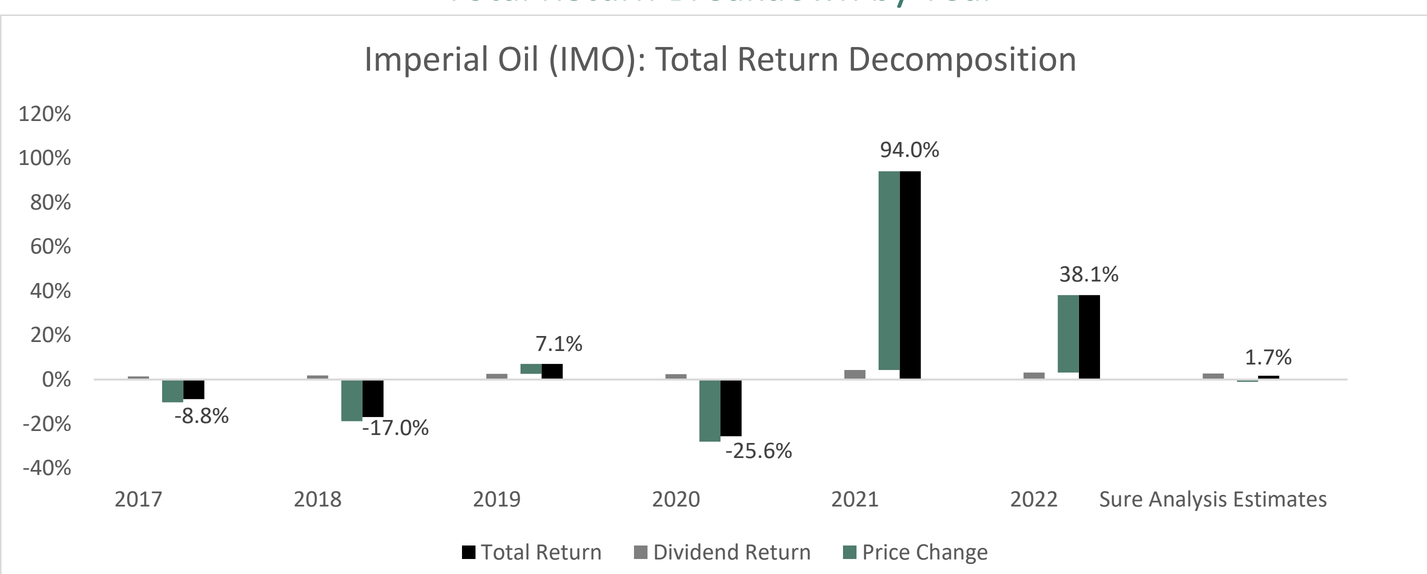
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	15.4%	13.6%	33.3%	78.6%	58.1%	26.4%	29.6%	---	29.9%	13.5%	***24.0%***	***47.7%***

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 27 consecutive years. The company's 10-year average dividend growth rate (again, in Canadian dollars) is 10%. 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% in 2021, by 26% last year and by 29% this year. Furthermore, the company benefits from leveraging the expertise of its major shareholder, Exxon Mobil.

Final Thoughts & Recommendation

Imperial Oil is trading around its all-time highs. Oil prices and the stock of Imperial Oil are likely to remain strong in the short run but we expect oil prices to deflate in the next few years, as producers will eventually grow their output at such high prices and sanctions on Russia may loosen. We thus expect the stock to offer a 1.7% average annual return over the next five years, as its 2.6% dividend and an 8.6% annualized valuation tailwind may be partly offset by a -9.0% annual decline of earnings-per-share. We rate the stock as a sell. Even at more attractive stock prices, Imperial Oil 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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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	29,723	30,395	31,403	19,735	17,669	21,182	25,694	24,257	15,336	28,379
Gross Profit	6,023	4,609	4,920	2,366	1,167	1,195	3,148	2,358	(1,174)	3,281
Gross Margin	20.3%	15.2%	15.7%	12.0%	6.6%	5.6%	12.3%	9.7%	-7.7%	11.6%
SG&A Exp.	1,081	1,051	974	875	844	681	701	678	553	625
Operating Profit	4,858	3,439	3,886	1,434	252	373	2,433	1,645	(1,737)	2,630
Op. Margin	16.3%	11.3%	12.4%	7.3%	1.4%	1.8%	9.5%	6.8%	-11.3%	9.3%
Net Profit	3,767	2,746	3,428	879	1,635	378	1,786	1,658	(1,386)	1,977
Net Margin	12.7%	9.0%	10.9%	4.5%	9.3%	1.8%	6.9%	6.8%	-9.0%	7.0%
Free Cash Flow	(798)	(2,918)	(802)	(648)	711	1,366	1,876	2,104	(52)	3,484
Income Tax	1,227	883	1,120	628	211	71	586	(116)	(411)	641

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	29,517	34,954	35,172	31,109	30,895	33,082	30,437	32,296	29,824	31,985
Cash & Equivalents	485	255	185	146	290	950	725	1,315	605	1,689
Acc. Receivable	1,986	1,957	1,326	1,139	1,500	2,157	1,857	2,066	1,505	3,034
Inventories	1,113	1,289	1,293	1,163	1,051	1,193	1,349	1,464	1,438	1,405
Goodwill & Int.	261	262	242	161	138	148	137	142	130	130
Total Liabilities	13,055	16,618	15,764	14,229	12,337	13,651	12,457	13,712	13,028	14,939
Accounts Payable	4,271	4,243	3,419	2,154	2,368	3,083	2,708	3,261	2,473	4,066
Long-Term Debt	1,520	5,784	5,792	5,696	3,448	3,697	3,413	3,580	3,665	3,583
Total Equity	16,462	18,336	19,408	16,881	18,558	19,431	17,980	18,584	16,796	17,047
LTD/E Ratio	0.09	0.32	0.30	0.34	0.19	0.19	0.19	0.19	0.22	0.21

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.8%	8.5%	9.8%	2.7%	5.3%	1.2%	5.6%	5.3%	-4.5%	6.4%
Return on Equity	25.5%	15.8%	18.2%	4.8%	9.2%	2.0%	9.5%	9.1%	-7.8%	11.7%
ROIC	23.4%	13.0%	13.9%	3.7%	7.3%	1.7%	8.0%	7.6%	-6.5%	9.6%
Shares Out.	847.6	847.6	847.6	847.6	847.6	831.2	790.0	749.9	734.1	689.5
Revenue/Share	34.92	35.73	36.92	23.20	20.78	25.05	31.72	31.71	20.86	39.79
FCF/Share	(0.94)	(3.43)	(0.94)	(0.76)	0.84	1.61	2.32	2.75	(0.07)	4.89

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