



Exxon Mobil Corporation (XOM)

Updated January 31st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$110	5 Year CAGR Estimate:	-1.1%	Market Cap:	\$455 B
Fair Value Price:	\$137	5 Year Growth Estimate:	-9.0%	Ex-Dividend Date:	2/13/2023
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	3/10/2023
Dividend Yield:	3.3%	5 Year Price Target	\$85	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 \$455 billion. In 2022, the upstream segment generated 67% of the total earnings of Exxon while the downstream and chemical segments generated 27% and 6% of the total earnings, respectively.

In late January, Exxon reported (1/31/23) financial results for the fourth quarter of fiscal 2022. Its production in Permian reached an all-time high and its total production rose 3%. However, oil and gas prices moderated off their blowout levels in previous quarters. As a result, Exxon saw its earnings-per-share dip -24% sequentially, from \$4.45 to \$3.40. In the full year, Exxon posted record earnings-per-share of \$14.06. Thanks to the sustained tailwind from the sanctions of western countries on Russia, we expect strong earnings-per-share of about \$10.50 in 2023. 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% in the fourth quarter 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 7% at current stock prices. However, as the stock price is at an 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$7.37	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$2.44	-\$0.33	\$5.38	\$14.06	\$10.50	\$6.55
DPS	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.48	\$3.49	\$3.55	\$3.64	\$3.84
Shares¹	4,335	4,201	4,156	4,148	4,239	4,270	4,269	4,272	4,275	4,138	4,050	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. Exxon previously expected to grow its production from 4.0 to 5.0 million barrels per day by 2025. It then changed its guidance to a flat output due to its commitment to its dividend, which would result in lower investment in growth projects. However, it recently improved its guidance, now expecting 3% annual production growth until 2025 and a much lower breakeven point thanks to the addition of exceptionally low-cost barrels. 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. 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 almost record earnings-per-share expected this year, we expect earnings-per-share to decline -9.0% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.3	12.8	21.5	45.8	25.3	14.0	30.2	---	10.8	6.5	10.5	13.0
Avg. Yld.	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	7.8%	6.0%	3.9%	3.3%	4.5%

During the past decade, Exxon has traded at an average price-to-earnings ratio of 19.9, 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 10.5. If it trades at a price-to-earnings ratio of 13.0 in five years, it will enjoy a 4.4% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	36%	75%	159%	94%	66%	141%	---	64.9%	25.2%	34.7%	58.7%

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.

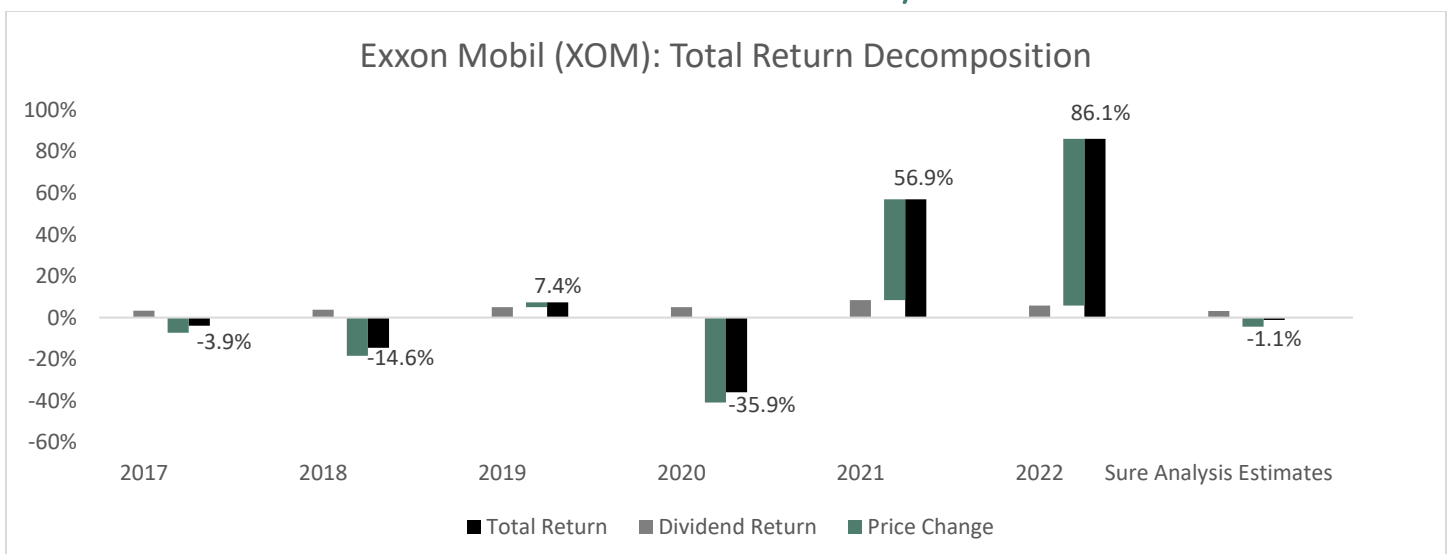
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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 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 50% in 12 months, 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 -1.1%, as its 3.3% dividend and its 4.4% valuation tailwind could be offset by a -9.0% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	420.84	394.11	239.85	200.63	237.16	279.33	255.58	178.57	276.69	398.68
Gross Profit (\$B)	88.38	80.64	56.22	43.70	56.36	67.73	55.96	8.13	64.89	103.07
Gross Margin	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%	4.6%	23.5%	25.9%
SG&A Exp.	12877	12598	11501	10443	10649	11480	11398	10168	9,574	10,095
Operating Profit	40301	34082	12883	2771	13819	22124	12766	-29,448	24,019	64,028
Op. Margin	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%	-16.5%	8.7%	16.1%
Net Profit	32580	32520	16150	7840	19710	20840	14340	-22,440	23,040	55,740
Net Margin	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%	-12.6%	8.3%	14.0%
Free Cash Flow	11245	12164	3854	5919	14664	16440	5355	-2,614	36,053	58,390
Income Tax	24263	18015	5415	-406	-1174	9532	5282	-5,632	7,636	20,176

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	346.81	349.49	336.76	330.31	348.69	346.20	362.60	332.75	338.24	369.07
Cash & Equivalents	4,644	4,616	3,705	3,657	3,177	3,042	3,089	4,364	6,802	29,640
Acc. Receivable	25,993	18,541	13,243	16,033	21,274	19,638	21,100	16,339	26,883	41,749
Inventories	16,135	16,678	16,245	15,080	16,992	18,958	18,528	18,850	18,780	24,435
Total Liab. (\$B)	166.31	168.43	159.95	156.48	154.19	147.67	163.66	168.62	163.24	166.59
Accounts Payable	30920	25286	18074	17801	21701	21063	24694	17499	26623	63197
Long-Term Debt	22324	28746	37449	41537	41009	36493	45250	65960	45943	41193
Total Equity (\$B)	174.00	174.40	170.81	167.33	187.69	191.79	191.65	157.15	168.58	195.05
LTD/E Ratio	0.13	0.16	0.22	0.25	0.22	0.19	0.24	0.42	0.27	0.21

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.6%	9.3%	4.7%	2.4%	5.8%	6.0%	4.0%	-6.5%	6.9%	15.7%
Return on Equity	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%	-12.9%	14.1%	30.7%
ROIC	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%	-9.5%	10.2%	24.0%
Shares Out.	4,335	4,201	4,156	4,148	4,239	4,270	4269	4272	4275	4205
Revenue/Share	95.23	92.04	57.16	48.03	55.72	65.42	59.86	41.81	64.72	94.81
FCF/Share	2.54	2.84	0.92	1.42	3.45	3.85	1.25	-0.61	8.43	13.89

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

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