



Imperial Oil (IMO)

Updated February 4th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	-0.5%	Market Cap:	\$34.0 B
Fair Value Price:	\$87	5 Year Growth Estimate:	-9.0%	Ex-Dividend Date:	3/5/2025
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	4/1/2025
Dividend Yield:	3.0%	5 Year Price Target	\$54	Years Of Dividend Growth:	29
Dividend Risk Score:	A	Retirement Suitability Score:	A	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 \$34.0 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 2023 and 2024, the average discount of WCS to WTI was \$19 and \$15, respectively.

In late January, Imperial Oil reported (1/31/25) results for Q4-2024. Production grew 2% over the prior year's quarter, to a new fourth-quarter record, thanks to record fourth-quarter output at Kearl. However, oil prices declined and refining margins returned to normal levels after two years of sky-high levels amid the Ukrainian crisis. As a result, earnings-per-share dipped -4%. Imperial Oil has raised its dividend by 20% this year and is likely to keep thriving in the near term thanks to above average oil prices. It also expects to grow output this year and thus it is likely to post earnings-per-share close to those achieved last year, a nearly 15-year high level. We also praise management for reliable production growth. Nevertheless, investors should be aware of the high sensitivity of the earnings of Imperial Oil to the price of oil.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.17	\$0.56	\$0.86	\$2.20	\$2.16	-\$1.90	\$2.74	\$8.36	\$6.31	\$6.16	\$6.20	\$3.87
DPS	\$0.39	\$0.44	\$0.50	\$0.58	\$0.64	\$0.66	\$0.82	\$1.13	\$1.43	\$1.75	\$1.99	\$2.36
Shares¹	847.6	847.6	831.2	790.0	749.9	734.1	689.5	603.0	553.7	516.5	500.0	450.0

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 has recovered 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 abnormally high oil prices amid the war in Ukraine and tension in the Middle East, Imperial Oil is thriving. Nevertheless, due to the cyclical nature of the oil industry, the price of oil is likely to deflate in the upcoming years. 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.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	31.5	---	35.6	13.9	12.4	---	10.4	5.7	8.4	11.4	10.8	14.0
Avg. Yld.	1.1%	1.4%	1.6%	1.9%	2.4%	3.9%	2.9%	2.4%	2.7%	2.6%	3.0%	4.4%

Imperial Oil is currently trading at a price-to-earnings ratio of 10.8, which 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 5.3% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

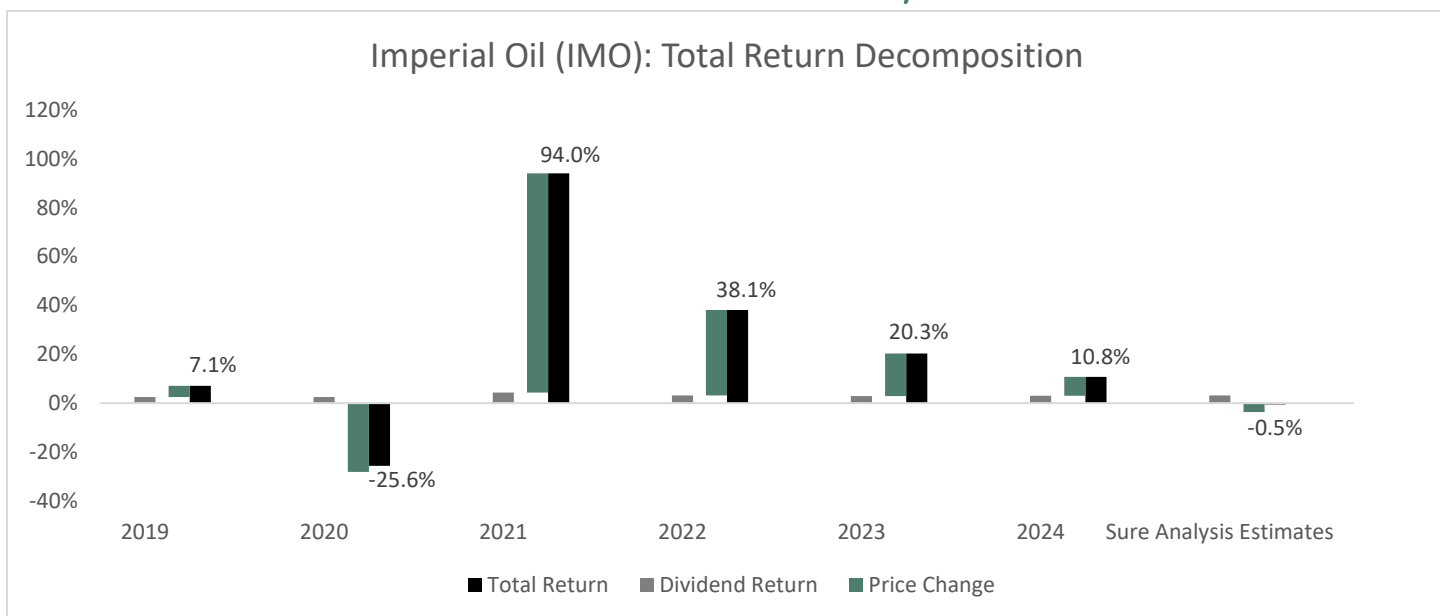
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	33.3%	78.6%	58.1%	26.4%	29.6%	---	29.9%	13.5%	22.7%	28.4%	32.1%	61.1%

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 29 consecutive years. The company's 10-year average dividend growth rate (in USD) is 14%. 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% in 2022, by 31% in 2023, by 20% in 2024 and by 20% this year. Furthermore, the company benefits from leveraging the expertise of its major shareholder, Exxon Mobil.

Final Thoughts & Recommendation

Imperial Oil is thriving but we expect oil prices to deflate in the next few years, as producers will eventually grow their output at such high prices and the effect of sanctions on Russia may fade. The stock of Imperial Oil has rallied 50% off its bottom in 2022 and hence it has become risky from a long-term perspective. It may offer a -0.5% average annual return over the next five years, as its 3.0% dividend and a 5.3% annualized valuation tailwind may be offset by a -9.0% annual decline of earnings-per-share. We maintain our sell rating. Even at lower 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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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	19,735	17,669	21,182	25,694	24,257	15,336	28,379	43,991	35,771	37,592
Gross Profit	2,366	1,167	1,195	3,148	2,358	(1,174)	3,281	7,833	5,269	---
Gross Margin	12.0%	6.6%	5.6%	12.3%	9.7%	-7.7%	11.6%	17.8%	14.7%	---
SG&A Exp.	875	844	681	701	678	553	625	691	695	---
Operating Profit	1,434	252	373	2,433	1,645	(1,737)	2,630	7,138	4,570	---
Op. Margin	7.3%	1.4%	1.8%	9.5%	6.8%	-11.3%	9.3%	16.2%	12.8%	---
Net Profit	879	1,635	378	1,786	1,658	(1,386)	1,977	5,642	3,621	3,494
Net Margin	4.5%	9.3%	1.8%	6.9%	6.8%	-9.0%	7.0%	12.8%	9.6%	9.3%
Free Cash Flow	(648)	711	1,366	1,876	2,104	(52)	3,484	6,884	1,443	3,001
Income Tax	628	211	71	586	(116)	(411)	641	1,648	1,096	1,057

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	31,109	30,895	33,082	30,437	32,296	29,824	31,985	32,069	31,056	---
Cash & Equivalents	146	290	950	725	1,315	605	1,689	2,762	651	---
Acc. Receivable	1,139	1,500	2,157	1,857	2,066	1,505	3,034	3,477	3,379	---
Inventories	1,163	1,051	1,193	1,349	1,464	1,438	1,405	1,671	2,225	---
Goodwill & Int.	161	138	148	137	142	130	130	122	125	---
Total Liabilities	14,229	12,337	13,651	12,457	13,712	13,028	14,939	15,555	14,305	---
Accounts Payable	2,154	2,368	3,083	2,708	3,261	2,473	4,066	4,564	3,741	---
Long-Term Debt	5,696	3,448	3,697	3,413	3,580	3,665	3,583	2,630	2,674	---
Total Equity	16,881	18,558	19,431	17,980	18,584	16,796	17,047	16,514	16,751	---
LTD/E Ratio	0.34	0.19	0.19	0.19	0.19	0.22	0.21	0.16	0.16	---

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.7%	5.3%	1.2%	5.6%	5.3%	-4.5%	6.4%	17.6%	11.5%	---
Return on Equity	4.8%	9.2%	2.0%	9.5%	9.1%	-7.8%	11.7%	33.6%	21.8%	---
ROIC	3.7%	7.3%	1.7%	8.0%	7.6%	-6.5%	9.6%	28.4%	18.8%	---
Shares Out.	847.6	847.6	831.2	790.0	749.9	734.1	689.5	641.5	575.9	530.6
Revenue/Share	23.20	20.78	25.05	31.72	31.71	20.86	39.79	68.58	62.11	70.85
FCF/Share	(0.76)	0.84	1.61	2.32	2.75	(0.07)	4.89	10.73	2.51	5.66

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

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