



What Rich Kruger Has Planned for Imperial Oil

Description

In March, Rich Kruger took over as **Imperial Oil's** (TSX: IMO, NYSEMKT: IMO) new chief executive. Not one to play a shrinking violet, Kruger has set an ambitious goal of more than doubling the company's daily production by 2020. But the linchpin of this expansion – Phase I of the company's Kearl oil sands project – came in behind schedule and over budget. Now the word on the street is that Imperial is no longer qualified to tackle the oil sands. Kruger's job is to kill those doubts.

Big ambitions

Kruger's resume certainly suggests he's qualified to lead the company. Previously, he headed **ExxonMobil's** ([NYSE: XOM](#)) – which has a 69% ownership stake in Imperial – upstream business where he oversaw a four million BOE/d operation sprawled across 20 countries. Kruger has experience in nearly every facet of Exxon's production unit including onshore, deepwater, liquified natural gas, and the Arctic. And Kruger is no stranger to Imperial. During his previous tenure at Exxon, he had oversight responsibility of the Kearl mining project.

This experience will serve Kruger well at Imperial Oil. At a time when industry rivals are reining in production and cutting costs, Kruger is setting bold production targets. His goal is to more than double Imperial's daily production from 283,000 BOE/d in 2012 to 600,000 BOE/d by 2020.

And Imperial certainly has the assets in place to pull it off. The company's operations in Cold Lake hit a record 160,000 bpd during the first quarter of 2013. The project's Nabiye expansion is half completed with Imperial expecting it to add 40,000 bpd of production by late 2014. In addition, Imperial thinks it has another three to four billion barrels of economic reserves at its Grand Rapids, Clyden, Aspen, and Corner in situ assets.

Natural gas will play an important role in the company's future as well. In June, the company applied to the National Energy Board for an LNG export terminal on British Columbia's west coast. Imperial also has substantial unconventional gas reserves in the Cardium, Montney and Horn River Basin.

Everything hinges on Kearl

Yet as exciting as those opportunities are, Kruger's reign as chief executive will be judged primarily on the success of the Kearl oil sands megaproject. The first phase of the project's construction came in six months late and \$5 billion over budget due to regulatory hurdles over transporting massive equipment pieces on U.S. and Canadian highways. Cost inflation in the industry is also rampant, as new projects in the oil sands spur material and labour shortages.

Bay Street is worried. In a research note to clients in April, CIBC World Markets noted that delays and cost overruns at Kearl have tarnished Imperial's reputation as a 'premium operator'. Analysts are baking higher expenses into their projections. If Kruger is to win over investors, Kearl must come in on-time and on-budget.

But Kruger is confident those cost overruns won't be repeated. Phase two of Kearl's construction is already underway and Imperial is taking steps to avoid another fiasco. Exxon has also lent its top operations manager to oversee the project and bigger equipment pieces are being built and assembled in Edmonton to eliminate any transportation problems.

At the moment, the second phase of construction at Kearl is going as planned.

Foolish bottom line

A change in management can be a nerve wracking time for shareholders. A new captain can rub other senior executives the wrong way and new leadership style may conflict with the rest of the organization – *cough, cough, J.C. Penny*. But after this year's smooth transition at IMO, investors should have nothing to worry about.

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