The Stock Picker's Guide to Imperial Oil in 2014

Description

Canadian integrated oil heavy weight **Imperial Oil** (TSX:IMO)(NYSE:IMO) – which is controlled by **Exxon Mobil** (NYSE:XOM) – is consistently one of the standout performers in Canada's oil patch. Based on its better than expected fourth quarter 2013 financial results, coupled with the development of a range of upstream projects, I expect it to continue performing strongly in 2014.

Beats fourth-quarter analyst estimates

Imperial Oil's fourth quarter 2013 earnings per share fell by almost 2% year-over-year to $1.24, but still beat the consensus analyst estimate by almost 35%. This strong financial performance can be attributed primarily to a significant increase in production, which saw Imperial Oil report record fourth quarter 2013 downstream earnings of $625 million.

For this period production jumped 15% year over year to an average of 329,000 barrels of oil per day. With this significant increase primarily driven by the Kearl oil sands project start-up and the Celtic acquisition.

Solid portfolio of projects under development

With Imperial Oil currently engaged in developing a range of projects, I would expect to see production continue to increase. These projects span both its upstream and downstream operations, with the most significant being the continued development of the Kearl expansion. It is expected that when completed in 2015, it will add additional production of 78,000 barrels of oil daily.

The other major upstream project is the Cold Lake Nabiye project. It is expected to commence operations at the end of 2014, adding an additional 40,000 barrels of oil daily.

Imperial Oil has also embarked on a joint venture to construct a rail loading terminal in Edmonton. The terminal is expected to be completed in 2015 with a capacity to ship up to 100,000 barrels of oil daily. This will ease some of the transport infrastructure constraints — which are impacting the majority of players in Canada's oil patch — allowing Imperial Oil to increase its capacity to ship its oil to crucial markets.

There is also good news emerging on the logistics front. Many of the transportation constraints impacting the patch and driving a higher price differential between Canadian crude and West Texas Intermediate appear set to be alleviated.

Enbridge's Northern Gateway pipeline continues to move closer to approval and the outlook for the prospects of the northern section of **TransCanada's** Keystone pipeline being approved are increasingly positive. When completed they will alleviate many of the transportation constraints impacting the industry.

I expect to see production continue increasing throughout 2014. When considered in conjunction with higher than expected crude prices and a closing price differential between Canadian crude and West Texas Intermediate earnings should continue to grow.

Finally, Imperial Oil continues to reward patient investors with a steadily growing dividend yielding 1.1%. Over the last five years, this dividend has had a compound annual growth rate of just over 5%.

Foolish bottom line

After delivering a solid fourth-quarter 2013 results, Imperial Oil remains well positioned to continue growing production between now and 2015. This, coupled with a falling price differential between Canadian crude and West Texas Intermediate, should allow it to continue delivering solid financial results.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:XOM (Exxon Mobil Corporation)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)

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