3 Reasons to Avoid Imperial Oil Limited

Description

Even though they have their naysayers, oil sands companies like **Imperial Oil Limited** (TSX: IMO) have found hope for the future and are expanding accordingly.

Although this might seem great on paper, there are certain factors that make me want to avoid buying shares of Imperial Oil.

Let me explain…

1. Mega-project fails to impress

The Kearl oil sands facility had been a major thorn in the side of CEO Rich Kruger, as delays to get it up and running seemed to be the norm rather than the exception. Now that it is operating, the facility produces 73,000 barrels per day, which is far below its potential capacity. Because of the delays, and added expense, the internal rate of return of the project has been reduced.

Sadly, once you begin building, you cannot stop midway through a project of this magnitude, and now that the facility is up and running, the company can only hope that there won't be any unplanned maintenance.

2. A subsidiary at heart

As of the last filing, **Exxon Mobil Corporation** (NYSE: XOM) had a 69% stake in Imperial Oil. We know that management is pretty much working for its majority shareholder. I usually like it when a reputable company takes a position in a smaller one — **The Coca-Cola Company** (NYSE: KO) with **Monster Beverage Corp** (NASDAQ: MNST) for example — but Exxon isn't a small shareholder, so what it votes on passes immediately.

As a minority shareholder, I cannot be confident that Imperial Oil Limited is working for my best interests. This is another reason why I am staying away from this company.

3. Better Alternatives

If you want to expose yourself to the oil sands sector in Canada, there are many alternatives. Personally, I prefer **Suncor Energy Inc.** (TSX: SU)(NYSE: SU). Unlike Imperial Oil Limited, it is independent, so management does not answer to a single majority shareholder. Suncor's management is shareholder oriented, as it lowered capex for 2014 and stopped a joint venture with **Total SA** due to the unfavourable economics of the project.

I like these types of conservative managers who know when to pull the plug on projects before it's too late. Again, these are multi-year expansion plans that if unprofitable can wreak havoc on the bottom line.

In spite of these shutdowns, Suncor instead opted to accelerate its share buyback program and increase the dividend.

The bottom line

Suncor is only one alternative to Imperial Oil. There are many other companies that offer better upside potential without the headaches of project delays and majority shareholder incentives not aligned with ours.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:MNST (Monster Beverage Corporation)
2. NYSE:KO (The Coca-Cola Company)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:XOM (Exxon Mobil Corporation)
5. TSX:IMO (Imperial Oil Limited)
6. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date
2025/07/02
Date Created
2014/08/25
Author
fdenault