3 Reasons to Buy and Hold Imperial Oil Limited

Description

Every holiday season, we're reminded that the best gifts come in small packages. The same thing applies to dividends. Case in point: **Imperial Oil Limited** (TSX: IMO)(NYSEMKT: IMO).

Over the past decade, the stock's yield has averaged just 1.5%. That's certainly not enough to attract the attention of most income investors. Yet Imperial's dividend and share price have both grown steadily, producing an impressive total return of 140% over that period.

Of course, you can't buy past performance. However, there's good reason to believe Imperial will continue to generate solid returns. Here's why…

1. Shareholder-first management

In the oil business, we have a handy tool to determine how well executives are managing our money: return on capital employed, or ROCE. This measures the profits a business generates while accounting for the amount of capital needed to earn those returns. Over the past five years, Imperial has generated an average annual ROCE of 25%, more than double its nearest oil sands rival.

How did the firm pull this off? Imperial is disciplined. Executives only invest in the most profitable projects. If management can't find enough new ventures to fund, they regularly return excess capital back to shareholders.

While that might sound obvious, this type of common sense is sadly lacking in the energy business. Given all that, you can confidently say Imperial is the best steward of shareholder capital in the oil patch.

2. The company is gushing cash

In the past two decades, Imperial has repurchased over half of its outstanding shares. This hasallowed investors to more than double their stake in a wonderful business. And between 2003 and2012, Imperial paid out nearly $14 billion to shareholders in dividends and buybacks — more than **Cenovus Energy Inc**, **Suncor Energy Inc**, and **Canadian Natural Resources Limited** *combined*.

More importantly, Imperial has the resource base to continue growing that payout. The firm owns thousands of acres across Canada and is sitting on about 16 billion barrels of proved plus probable oil reserves. And as anyone inside the industry knows, these are Grade A assets.

Most of the company's growth will come from its Cold Lake and Kearl oil sands projects. Imperial has other expansion avenues as well, namely the Montney, Cardium, and Horn River basins. And don't forget about the firm's big positions in the Beaufort Sea and Mackenzie Delta. In total, executives plan to grow output at a 10% annual clip over the next decade.

3. It's not outrageously expensive

The recent market turmoil has battered equities, and no other sector has been hit harder than the oil patch. Imperial is no exception. Over the past three months, shares of the energy giant have plunged 15%.

Is it time to bail? Nope. If you believe in buying good companies when the market throws a sale, then the stock may be worth a look. On most metrics — such as EV/EBITDAX, price to earnings, or price to book — the stock is trading at its cheapest valuation in years.

The bottom line? Don't dismiss Imperial Oil because of its small yield. This is a top-tier business that will produce reliable returns for decades to come. If you've been waiting for an opportunity to buy this stock, Mr. Market has just handed you a chance.

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2. Investing

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Date
2025/08/22
Date Created
2014/11/10
Author
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