Dividend Investors: 3 Reasons to Buy Imperial Oil Limited

Description

Sometimes, bad things happen to good stocks. Case in point: **Imperial Oil Limited** (TSX: IMO)(NYSEMKT: IMO).

When I last wrote about the company in November, shares were trading at $55. As if on cue, the stock promptly collapsed. Last week, Imperial shares were trading for as low as $46 each on the Toronto Stock Exchange.

What happened? Well, a couple of things.

First, Imperial temporarily halted operations at its flagship Kearl oil sands project. The move cut short what had been a steady increase in output at the mine. It was also surprising given that these types of reliability issues tend to only dog much older projects.

Then energy prices crashed. If an oil business earns fewer dollars on every barrel it sells, the company's profits are going to suffer. It doesn't take a rocket scientist to figure that out.

So, is it time to panic? Hardly. If you believe in buying good companies when their shares are on sale, Calgary-based Imperial may be worth a look. Here's why…

First, the problems at Kearl are just the reality of doing business in the oil sands. These are big, complicated facilities. Stuff can break down and go wrong.

Kearl, along with the company's other oil sands assets, will likely be in operation for the next 50 years. Over that period, there will be some downtime. But when you think of these assets over those kinds of timetables, the current troubles are rather trivial.

Secondly, Imperial seems to emerge stronger through each business cycle. The company's raw scale is a competitive advantage. Its integration of production and refining operations helps to smooth out the volatility.

However, the real key to Imperial's success is a culture of disciplined capital allocation. Sounds boring, I know. But Imperial avoids high-risk projects that are sensitive to oil-price volatility, and instead focuses on projects that are low-cost and profitable. This is how the firm routinely squeezes out more profit per barrel than rivals.

Finally, the stock is gushing cash. Between 2003 and 2012, 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*. Over the past two decades, Imperial has repurchased over half of its outstanding shares. This has allowed investors to more than double their stake in a wonderful business.

More importantly, Imperial has the resource base to continue growing that payout. The firm 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.

To be sure, if oil prices resume their decline, then Imperial shares will fall in lockstep. But the company's rock-solid business and growing dividends should help to limit the damage. That's why long-term investors should be willing to ride out the short-term ups and downs.

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