



Why I'd Wait to Buy Imperial Oil Limited

Description

There's little doubt that **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) is one of the finest oil companies in Canada. Although **Suncor Energy** might give it a run for its money, the oil sands giant has a lot of positive things going for it.

It all starts with the company's ownership. Imperial Oil is still majority-owned by **Exxon Mobil**, the largest oil and gas company on the planet. Partly because of this ownership, Imperial Oil's management is known as very conservative stewards of capital. One glance at the company's balance sheet confirms it.

Besides that, Imperial Oil has been producing in the oil sands for a long time. It has some of the lowest cost production in the region, which is extremely important in an environment where oil looks to persist at below \$50 per barrel. And since the infrastructure is long paid for, all the company has to worry about is restraining itself when it comes to reinvesting some of that cash flow in new projects.

It isn't just me who has noticed Imperial Oil is among the highest quality names in the sector. The market has noticed as well, to the point where the stock is perhaps priced a little irrationally.

On January 26, 2014, shares of Imperial Oil changed hands at \$45.82, while the price of oil was approximately \$95 per barrel.

On January 26, 2015, shares of Imperial Oil changed hands at \$48.05, while the price of oil had more than halved, trading at \$45 per barrel.

Am I the only one who sees a big issue here? Why would Imperial Oil's shares be worth *more* in 2015?

There's one main reason. Investors are fleeing lesser quality oil names and putting the proceeds into Imperial. Judging from the performance of some of the mid-tier names in the sector, there's a lot of money being taken out of the weaker names and rotated into Imperial. Investors want to be around for the recovery in the commodity, so instead of moving money out of the sector completely, they put it into quality.

This is a logical move at this point in time. But what happens when the sector does eventually recover?

Some investors will be happy to hold Imperial Oil, but many others will see the sector improving and realize the threat of bankruptcy for the smaller players is now over. The exact opposite thing will now happen — money will rotate out of Imperial Oil and into riskier names.

Even if oil stays below \$50 for the foreseeable future, I'm still not overly bullish on Imperial Oil. Investors will eventually get impatient with the sector and sell, causing the stock to go down slowly. Additionally, a weak operating environment opens up the company to a new kind of disappointment — earnings. A weak earnings report could be all the prodding investors need to leave the name as well.

Imperial Oil is the closest thing the energy sector has to a bond-like substitute. When the market is declining, it's the stock to own. If you believe oil has bottomed, I'd recommend avoiding the stock. Take another look at it when it finally starts selling off. That's the time to buy, not now.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSEMKT:IMO (Imperial Oil Limited)
2. TSX:IMO (Imperial Oil Limited)

Category

1. Energy Stocks
2. Investing

Date

2025/08/23

Date Created

2015/01/27

Author

nelsonpsmith

default watermark