Imperial Oil Undaunted by Falling Oil Prices

Description

Damn the torpedoes! You can't help but admire an energy company that is moving ahead with expansion plans, even as others in the same category introduce dramatic cutbacks.

I'm talking about energy giant **Imperial Oil** (TSX:IMO)(NYSEMKT:IMO), which released its fourth-quarter earnings on Monday, including this pledge from company president and CEO Rich Kruger.

"Imperial plans and operates its businesses with a long-term perspective that results in resiliency across a wide range of market conditions. Our resiliency is achieved in large part due to our long-life, high-quality assets, integrated business model and ongoing focus on business fundamentals. Consequently, our near-term investment plans remain largely unchanged. However, we will continue to closely monitor and respond to market conditions, rigorously examining operating costs and capital investments to maximize value in whatever business environment we operate in."

Now, Imperial didn't exactly shoot out the lights with its Q4 earnings report. Imperial's Q4 net income fell by more than a third to $671 million, or $0.79 a share, from $1.06 billion, or $1.24 a share, a year earlier.

However, earnings for the full year 2014 were nearly $3.8 billion, the second highest in company history, Kruger noted. "Upstream earnings of $2.1 billion and Downstream earnings of $1.6 billion highlighted the strength of our value chain integration."

Imperial has plans to double output from its $20 billion Kearl oi sands project in Alberta and is also boosting production from the $2 billion Nabiye facility.

Of course, perhaps Imperial can afford to be a bit cavalier. After all, it has deep pockets as it's majority-owned by U.S. energy giant **Exxon Mobil** (NYSE:XOM).

Survey says

Still, there's no doubt Imperial's plans go against the grain compared with the rest of Canada's oil and gas industry. The Canadian Association of Petroleum Producers has reduced its forecast for western

Canadian oil production to 3.6 million barrels a day in 2015, about 65,000 barrels a day less than predicted in June.

Further, a survey released on Monday by human resources specialist Mercer suggests that nearly half of the oil and gas companies (44%) it questioned plan to cut back on capital expenditures as a result of the decline in oil prices. More than a third (38%) said they would reduce selling, general, and administrative operating expenses. A quarter said it was “too early to tell” how their business strategy might change.

On the staffing side, 32% said they plan to decrease “buying” talent from outside their organization and 18% said they plan to freeze or cut compensation But, 32% said it was too early to know the impact to their human capital strategy.

“These results are clear indicators of how quickly market conditions can disrupt employer strategies,” Mercer said. “For example, in a previous Mercer oil and gas survey released in early 2014, 66% of respondents identified ‘buying’ talent as their top talent management strategy.”

So things are changing, and changing fast, in Canada’s oil patch. A 50% drop in crude oil prices will have that effect. But it’s comforting that some companies, like Imperial, are still thinking long term, and not panicking with immediate cuts to their business.

The strategy might hurt Imperial in the short term, no question, but as a buy-and-hold investor, I’m thinking long term anyway, and my thoughts on the oil and gas sector are in sync with the country’s second largest oil and gas company. This too shall pass.

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