Should You Be a Long-Term Buyer of Imperial Oil Limited Today?

Description

Imperial Oil Limited (TSX:IMO)(NYSE:IMO), the largest petroleum refiner and one of the largest producers of crude oil and natural gas in Canada, announced first-quarter earnings results before the market opened on April 30, and its stock has responded by falling about 3% in the trading sessions since. Let's take a closer look at the quarterly results to determine if this weakness represents a long-term buying opportunity, or a warning sign.

Lower commodity prices drag earnings and revenues down

Here's a summary of Imperial's first-quarter results compared with what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$0.50	$0.40	$1.11
Revenue	$6.20 billion	$6.72 billion	$9.23 billion

Source: Financial Times

Imperial's diluted earnings per share decreased 55% and its revenue decreased 32.8% compared with the first quarter of fiscal 2014, as its net income decreased 55.5% to $421 million. These weak results can be attributed to two primary factors.

First, commodity prices have fallen dramatically in the last year, leading to Imperial's average realized price of conventional crude oil decreasing 62% to $27.21 per barrel and its average realized price of natural gas decreasing 52% to $3.15 per thousand cubic feet.

Second, the company's sales volume declined slightly compared with the year-ago period, including its petroleum product sales decreasing 0.4% to 474,000 barrels per day and its petrochemical sales decreasing 2.2% to 225,000 tonnes per day.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Gross production increased 0.9% to 333,000 barrels of oil equivalents per day
2. Crude oil and natural gas liquids production increased 16% to 290,000 barrels per day
3. Natural gas production decreased 21.4% to 143 million cubic feet per day
4. Refinery throughput volume increased 4% to 393,000 barrels per day
5. Revenues decreased 44.7% to $1.81 billion in its upstream segment
6. Revenues decreased 30.1% to $4.96 billion in its downstream segment
7. Revenues decreased 23.8% to $349 million in its chemical segment
8. Income before income taxes decreased 55.5% to $561 million
9. Cash flow from operating activities decreased 74.1% to $281 million
10. Capital and exploration expenditures decreased 14.9% to $1.05 billion

Imperial also announced that it will be maintaining its dividend of $0.13 per share in the second quarter, and it will be paid out on July 1 to shareholder of record at the close of business on June 4.

Should you buy shares of Imperial Oil on the dip?

I think the post-earnings weakness in Imperial's stock represents nothing more than a long-term buying opportunity. I think this because the stock trades at attractive forward valuations, including just 17 times next year's estimated earnings per share of $3.06, which is very inexpensive compared with the industry average price-to-earnings multiple of 23.8.

I think Imperial's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of $61 by the conclusion of fiscal 2016, representing upside of more than 17% from today's levels.

Also, Imperial pays an annual dividend of $0.52 per share, giving its stock a 1% yield at current levels, and this will provide additional returns to investors going forward, especially if these returns are reinvested.

I think Imperial Oil represents one of the best long-term investment opportunities in the oil and gas industry today. Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

CATEGORY

1. Dividend Stocks
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