



Imperial Oil Limited: King of the Oil Sands and the Best Play on a Rebound in Oil

Description

It has been a tough year for the energy patch and oil sands in particular. The collapse of oil prices left many companies reeling, forcing them to slash capital expenditures and dividends. It also brought into question the viability of a range of oil sands projects because of their high breakeven costs.

Regardless, **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) has ploughed ahead with a number of projects and recently brought the Kearl Expansion online ahead of schedule, highlighting its solid track record and why it is the one Canadian oil stock that every investor should own.

Now what?

Imperial has earned itself a reputation as one of the most efficient operators in Canada's oil sands industry, consistently generating a solid return on capital employed, or ROCE. For the first quarter 2015, despite sharply lower oil prices, it generated an ROCE of 11%, which was almost double **Suncor Energy Inc.'s** 6% for the same period. This is a continuation of its solid track record, which produced an ROCE for 2014 that was better than any of the other Canadian integrated energy majors.

It also highlights the quality of its assets and the efficiency of its operations, indicating that it can remain profitable even if softer crude prices remain in play for a sustained period.

Imperial remains committed to boosting production through a range of projects that it has under development. On completion, these will boost revenue, replacing some of the revenue lost because of softer crude prices.

The earlier-than-planned completion of the Kearl Expansion is an impressive achievement in the harsh operating environment we are now witnessing. This is also despite the project having a breakeven cost of US\$95 per barrel, well above the US\$60 per barrel that WTI is trading at. This confirms the commitment Imperial has to ensuring that its operations continue to grow.

More importantly, breakeven costs from this project, just like other oil sands projects, will fall over time. This is because oil sands are much like mining projects. They require significant upfront investments to bring them to commercial production, but once online they continue for the remainder of their

productive life with relatively low cost structures because those initial costs are defrayed over time.

This can be seen with Imperial's Kearl Phase One asset, which now has breakeven costs of US\$42 per barrel, well below the current price of WTI. With the Kearl Expansion estimated to have a life of 40 years, I certainly don't expect this to change, plus it also gives plenty of time for the oil price to bounce back.

Let's not forget Imperial's refining operations. These allow it to offset falling profitability in its upstream operations as oil prices fall because they are able to generate higher margins on the refined products they produce.

So what?

For all of these reasons, I believe that Imperial remains the king of the oil sands, and it is well positioned to remain profitable even if oil prices remain stubbornly low for a lengthy period. When this is considered in conjunction with its solid record of returning capital to shareholders, having given back almost \$13 billion over the last 11 years through dividend payments and share buybacks, it is one of the best plays on oil in the patch.

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1. Energy Stocks
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1. Editor's Choice

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