



Imperial Oil Limited: Value Play or Value Trap?

Description

Imperial Oil Limited ([TSX:IMO](#))(NYSE:IMO), one of the world's largest integrated oil and gas companies, announced second-quarter earnings results before the market opened on July 31, and its stock responded by making a slight move to the downside in the trading session that followed. Let's take a closer look at the quarterly results to determine if the stock responded correctly, and then determine if it is a value play or value trap today.

A disappointing quarterly performance

Here's a summary of Imperial's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings Per Share	\$0.14	\$1.45
Revenue	\$7.30 billion	\$10.05 billion

Source: Imperial Oil Limited

In the second quarter of fiscal 2015, Imperial's net income decreased 90.3% to \$120 million, its earnings per share decreased 90.3% to \$0.14, and its revenue decreased 27.3% to \$7.3 billion when compared with the same quarter a year ago. The company noted that these very weak results could be attributed to "the significant decline in global crude oil prices, the absence of a gain of \$478 million from the divestment of conventional upstream producing assets in 2014, and a net charge, largely non-cash, of \$320 million associated with the recently enacted Alberta corporation income tax rate increase."

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Average realized price of conventional crude oil decreased 22.9% to \$48.43 per barrel
2. Average realized price of natural gas decreased 55.1% to \$1.83 per thousand cubic feet

3. Gross oil equivalent production increased 19.9% to 344,000 barrels per day
4. Gross crude oil and natural gas liquids production increased 23.4% to 322,000 barrels per day
5. Gross natural gas production decreased 15.2% to 134 million cubic feet per day
6. Refinery throughput volume decreased 10.8% to 373,000 barrels per day
7. Net petroleum product sales decreased 0.6% at 478,000 barrels per day
8. Petrochemical sales decreased 9% to 242,000 tonnes
9. Capital and exploration expenditures decreased 41.4% to \$819 million
10. Cash flow from operating activities decreased 62.3% to \$377 million

On a positive note, Imperial announced that it will be maintaining its dividend of \$0.13 per share in the third quarter, and it will be paid out on October 1 to shareholders of record at the close of business on September 4.

What should you do with Imperial's stock today?

It was a horrible quarter for Imperial, so I think its stock reacted correctly by moving lower as the overall market moved higher. With this being said, I think the stock represents a great long-term investment opportunity because it trades at inexpensive forward valuations and because it has one of the most impressive streaks of annual dividend increases in the market today.

First, Imperial's stock trades at just 22.2 times fiscal 2015's estimated earnings per share of \$2.18 and a mere 16.3 times fiscal 2016's estimated earnings per share of \$2.96, both of which are inexpensive compared with the industry average price-to-earnings multiple of 25.8.

Second, Imperial pays an annual dividend of \$0.52 per share, giving its stock a 1.1% yield at today's levels. A 1.1% yield is far from impressive, but it is very important to note that the company has increased its annual dividend payment for 20 consecutive years, which shows that it is highly dedicated to maximizing shareholder value.

With all of the information above in mind, I think Imperial Oil is one of the top value and dividend-growth plays in the energy sector today. Foolish investors should strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Energy Stocks
2. Investing

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Date

2025/08/22

Date Created

2015/08/03

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