Why Imperial Oil Limited Is a Solid Bet on a Rebound in Crude

Description

The sharp collapse in crude and the increasingly uncertain outlook continues to bite deep in the oil patch. Not only are there concerns about which companies will survive, but of those survivors, which will be best placed to bounce back strongly when oil finally rebounds? Despite claims that oil could remain around US$50 per barrel for over a decade, one company that is well positioned to weather the current harsh operating environment is **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO).

Now what?

Since oil began its downward spiral a year ago, Imperial Oil's share price has fallen by 23% over that period, although it has not been hit as hard as some of its smaller peers. This, in part, can be explained by the market taking a more positive view of the company and its ability to survive the oil rout.

You see, Imperial Oil, like **Suncor Energy Corp.**, is an integrated energy major with upstream, or oil producing, operations and downstream, or refining, operations. This gives it a major advantage over oil companies that only have upstream operations. Imperial has the opportunity to use its downstream business to offset the reduced profitability of its upstream business.

As a result of low oil prices, its refining business is able to generate higher margins and becomes more profitable. For the second quarter 2015, its refining results were disappointing primarily because of planned maintenance outages and increased maintenance costs.

However, utilization rates remained high, which should see a marked improvement in its performance for the remainder of 2015 when coupled with the completion of maintenance and weak crude prices.

Imperial's chemical business also continues to thrive. It reported its highest quarterly earnings on record for the second quarter primarily because of strong margins, and this will obviously continue for as long as oil prices remain weak.

Another of Imperial's advantages is that it is one of the most efficient users of capital in the energy patch. It has delivered a solid return on capital employed despite weak oil prices. It also highlights the efficiency of its business as well as its ability to unlock value for shareholders.

Then, like the majority of oil sands operators, the breakeven price per barrel for its existing operations is relatively low, and this means that those operations can remain profitable in the current harsh operating environment.

It also continues to retain a high degree of liquidity, having boosted the capacity of its existing floating rate loan facility with **Exxon Mobile Corp.,** its majority owner, by $1.5 billion to $7.75 billion during the second quarter.

Each of these characteristics mean that Imperial is well positioned to weather the current operating environment. It has remained profitable for the first six months of 2015, reporting net income of $541 million.

So what?

More importantly, these features mean that Imperial Oil will be well positioned to take advantage of the long-awaited rebound in oil when it occurs. Then you have the sustainable dividend yielding a modest 1%, which will continue to reward investors while they wait. Each of these features of its business makes Imperial Oil one of the best bets on a rebound on oil because it is capable of remaining profitable even in the current environment.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSEMKT:IMO (Imperial Oil Limited)
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