



What Should You Do With Imperial Oil Limited After its Q4 Miss?

Description

Imperial Oil Limited ([TSX:IMO](#))(NYSE:IMO), one of the world's largest integrated oil and gas companies, announced weaker-than-expected fourth-quarter earnings results on the morning of February 2, and its stock has responded by making a slight move lower.

It now sits about 25% below its 52-week high of \$55.37 reached back in April 2015, so let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity or if it could continue lower from here.

The results that fell well short of analysts' expectations

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Earnings Per Share	\$0.12	\$0.30	\$0.79
Revenue	\$6.23 billion	\$6.84 billion	\$8.03 billion

Source: *Financial Times*

Imperial Oil's earnings per share decreased 84.8% and its revenue decreased 22.5% compared with the fourth quarter of fiscal 2014.

These very weak results can be attributed to the lower commodity price environment, which led to the company's average realized price of conventional crude oil decreasing 44.4% to \$33.61 per barrel, its average realized price of synthetic crude oil decreasing 31.1% to \$56.56 per barrel, its average realized price of natural gas liquids decreasing 56.4% to \$17.74 per barrel, and its average realized price of natural gas decreasing 30.8% to \$2.25 per thousand cubic feet.

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

1. Net income decreased 84.8% to \$102 million
2. Gross oil-equivalent production increased 27% to 400,000 barrels per day
3. Gross natural gas production decreased 23.3% to 122 million cubic feet per day
4. Refinery throughput volume increased 4.6% to 390,000 barrels per day
5. Imperial Oil's share of Syncrude production decreased 12.3% to 64,000 barrels per day
6. Petroleum product sales decreased 2.7% to 467,000 barrels per day
7. Petrochemical sales increased 11.7% to 239,000 tonnes
8. Cash flows from operating activities decreased 62.9% to \$405 million

Imperial Oil also announced that it will be maintaining its dividend of \$0.14 per share in the first quarter of fiscal 2016, and it will be paid out on April 1 to shareholders of record at the close of business on March 4.

What should you do with Imperial Oil's stock today?

It was a challenging quarter for Imperial Oil, so I think the post-earnings weakness in its stock is warranted. However, I think its stock represents an attractive long-term investment opportunity for three reasons.

First, although it was a weak quarter compared with the year-ago period, investors must not overlook the fact that Imperial Oil remained profitable in a time where many major oil producers are reporting net losses. This reflects the resiliency of its business model and the ability of its management team to effectively navigate the lower crude price environment.

Second, I think oil bottomed in January and will slowly recover over the course of 2016. This is where investors must realize that if Imperial Oil can make its operations efficient enough to turn a profit with \$30 oil, imagine what it will be able to do with \$40, \$50, and \$60 oil.

Third, Imperial Oil has a great dividend. It pays an annual dividend of \$0.56 per share, which gives its stock a yield of about 1.4%. A 1.4% yield may not seem like a legitimate reason for buying the stock at first glance, but it is highly important for investors to note that the company has raised its annual dividend payment for 21 consecutive years, and its 7.7% increase in July 2015 puts it on pace for 2016 to mark the 22nd consecutive year with an increase.

With all of the information provided above in mind, I think Imperial Oil is one of the best and safest investment options for long-term investors seeking to play a rebound in oil and gas prices.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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