How Exxon Mobil Corporation Is Helping Imperial Oil Limited

Description

In a frantic search for financing amid low oil prices, most Canadian energy producers have been plagued by asset divestitures, cost cutting, equity raises, and dividend cuts.

Imperial Oil Limited (TSX:IMO)(NYSE:IMO) has avoided most of the pressure, however, continuing its streak of production and dividend growth. In fact, the company has been paying dividends for over 100 years. Looking to the future, cash flows look strong, operating costs are coming down, and investment levels remain relatively high.

What's allowed Imperial Oil to navigate the market turbulence better than nearly every other competitor? Its close relationship with **Exxon Mobil Corporation** (NYSE:XOM) may be a major factor.

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Big brother Exxon

As Imperial Oil's largest shareholder (with a 69.6% interest), Exxon literally has billions of dollars in incentives to help Imperial succeed. That's probably why it's shared some significant human and capital resources with the company.

Imperial's CEO was a once a vice president at Exxon along with other board members as well. To support some of Imperial's larger projects, Exxon has not only kicked in operational and technological advice, but it has also become a direct financial partner. This gives Imperial a reliable source of funding that other competitors can only dream of.

Exxon has clearly imprinted its business model onto Imperial–namely, a focus on capital returns along with big share buybacks and dividends. If you look at Imperial's return on capital metrics, they clearly stand out among an industry of so-so results. In regards to returning capital to shareholders, Imperial also leads the industry with over $12 billion in buybacks and dividends over the previous decade (a third of its current market cap).

Image source: Imperial Oil corporate presentation

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Exxon has also influenced Imperial by building an incredibly diversified business stream. A major reason why oil majors such as Exxon Mobil or **Chevron Corporation** do so well in a downturn is due to their refining segments; refineries typically experience higher profits during falling oil prices.

This benefit is clearly shown in Imperial's profit break down. During periods of rapidly rising oil prices, like 2010, most profits were generated from oil production (upstream). During times of falling oil prices, the company's refining segment (downstream) picked up the slack. Having billions of extra income during oil routs puts Imperial in an incredibly advantageous position.

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Advantages should continue

With Exxon remaining the largest shareholder, Imperial should continue to benefit from sharing capital, ideas, and brainpower. Some have even speculated that Exxon might buy out Imperial's minority shareholders. Either way, expect Imperial to continue its relentless focus on generating high shareholder returns–a focus that's allowed it to beat competitors over the long term, especially during times of crisis.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:XOM (Exxon Mobil Corporation)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)

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