Is Imperial Oil Limited Still the Safest Oil Stock?

Description

Despite operating one of Canada's largest oil and gas businesses, **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) hardly blinked during the latest industry downturn. While Brent crude prices fell over 50%, shares of Imperial have stayed roughly flat since 2012. The company's stock hasn't generated much in returns, but it has certainly beat nearly every other competitor in its industry, many of which are now facing insolvency.

Now that oil markets are starting to correct, will Imperial maintain its proven status as an incredibly safe oil stock? Here are three reasons why it should remain a great pick for cautious energy investors.

imo brent
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A major backer

With a 69.7% ownership stake, **Exxon Mobil Corporation** has fully imprinted its strategy onto Imperial. Imperial's CEO was a once a vice president at Exxon, along with several other board members. Its biggest lesson: focus on high returns on capital.

Over the past five years, Imperial has averaged a return-on-capital rate of nearly 20%. Competitors such as **Cenovus Energy**, **Suncor Energy**, and **Husky Energy** average closer to 10%. Imperial's impressive results stem from its disciplined investment strategy. From 2010 to 2015, production rose from 250, 000 barrels per day to over 400, 000, all while dropping production costs.

Diversified revenue streams

One of the keys to Imperial Oil's relative success during the recent oil rout has been the company's diversified businesses. While many companies focus primarily on either upstream (production) or downstream (refining, distribution, and retail), Imperial Oil has a roughly 50/50 earnings mix. This is a huge advantage during downturns.

With both a chemicals and downstream division, Imperial can fund expansion projects even when oil prices collapse. It's made more than $7 billion from these two segments over the past five years with the past 12 months generating record profitability. That’s a huge advantage when competitors are struggling for cash.

The ability to drive cash back into the business despite industry conditions is a big reason why Imperial has seen sizable production growth at a time when many competitors are struggling to survive.

Image Source: Imperial Oil Investor Presentation

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Acquisition opportunities abound

Over the next few decades, macro tailwinds should help support continued growth in the global demand for oil.

Estimates by both OPEC and the IEA have demand growing by roughly 1% annually for the next decade. While this is much lower than previous decades, the tailwinds are fairly reliable. They include a climbing global population and bigger, richer economies. Imperial Oil expects these trends to continue until at least 2040.

To meet this growing demand, a significant amount of supply will need to come online, even with today's oversupplied market. Today roughly 90 million barrels a day of energy liquids are produced globally. Over the next 10 years nearly a quarter of that supply will be retired. This means that even before additional demand is considered, the market will be undersupplied.

While Imperial is growing its output organically to meet rising demand, ample opportunities should come through acquisitions. Similarly sized competitor Suncor has made over $3 billion in acquisitions this year alone, taking advantage of depressed industry pricing. Don't be surprised to see Imperial follow suit, setting up yet another long-term opportunity to grow both volumes and shareholder value.

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Date
2025/08/23
Date Created
2016/07/14
Author
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