



Is Imperial Oil Limited Still Canada's Best Oil Stock?

Description

In its investor presentation, **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) lists its numerous competitive advantages. These factors have allowed the company to average a return-on-capital rate of nearly 20%, clearly standing out in an industry of so-so results.

While most Canadian energy producers have been plagued by asset divestitures, cost cutting, equity raises, and dividend cuts, Imperial has been paying dividends for over 100 years.

Image Source: Imperial Oil Limited Investor Presentation
Image source: Imperial Oil Limited investor presentation

But there's one advantage that Imperial Oil felt necessary to highlight: its relationship with **Exxon Mobil Corporation** ([NYSE:XOM](#)).

Exxon is well known for its savvy capital allocation. Over the years it's been able to continue earnings growth while maintaining an impressive return on capital, despite its mammoth size. Fortunately, Exxon also owns nearly 70% of Imperial Oil, resulting in a major operational advantage.

The chief advantage is shared knowledge. Imperial's CEO was a once a vice president at Exxon, and several other board members moved over from Exxon. Capital is also shared, given the financial incentives for Exxon to see Imperial succeed. The two companies are partners on numerous projects, and Exxon's \$350 billion size allows it to funnel capital and projects to Imperial at a market-beating cost.

These advantages have allowed Imperial to generate impressive results. From 2010 to mid-2016, production rose from 250,000 barrels per day to about 350,000, all while production costs dropped. Returns on capital have consistently averaged above 20%. In the past decade Imperial has also returned roughly \$12 billion to shareholders, over one-third of its current market cap.

Perhaps Exxon's biggest gift to Imperial is its diversified business strategy. Because of its chemicals and downstream divisions, 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 2015 generating

record profitability. That's a huge advantage when competitors are struggling for cash.

Count on a bright future

If oil prices remain volatile, different energy companies will sway with varying magnitudes. Over the long term, however, Imperial is set up for continued success.

Since 2000 Imperial shares have gained about 380%, more than both the TSX overall and its bigger brother Exxon. Over the past 12 months, however, shares have struggled, losing 4% versus a gain of 24% for Exxon. And despite Brent oil prices shooting up 26% year-to-date, Imperial shares are *down* 11% over that time period.

With these lacklustre results, Imperial shares now trade at just 16.5 times forward earnings—a discount compared to Exxon's 21 times earnings. At that price, oil bulls should strongly consider investing in Imperial; the company looks ready to repeat its long history of success.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date

2025/08/18

Date Created

2016/09/13

Author

rvanzo

default watermark