



This Analyst Thinks Imperial Oil Limited Has 60% Upside

Description

On October 24 **Credit Suisse Group AG** upgraded **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) to “outperform” from “neutral” with a \$50 price target (up from \$48). That target represents nearly 60% upside.

In September **Raymond James Financial, Inc.** also upgraded Imperial to “outperform.”

Why is Wall Street getting excited?

The biggest expectation is that Imperial Oil will ramp its free cash flow generation over the next few years, even without major advances in the price of oil. Credit Suisse specifically called for “renewed stock buybacks” once the cash flow generation is realized.

Should you buy Imperial stock today?

One of the best long-term energy plays

For years many analysts have been calling Imperial Oil the next **Exxon Mobil Corporation** ([NYSE:XOM](#)). The reasons are simple.

The biggest factor is that Exxon owns a 69.7% ownership stake in Imperial; ensuring its survival and growth is in its best interest. It should be no surprise that Imperial copied Exxon’s successful financial model: a focus on capital efficiency while returning capital regularly to shareholders through dividends and buybacks.

Imperial also has a very similar operating model.

In 2015 Exxon turned an \$18.1 billion profit even as its upstream segment experienced a 75% dip in profitability. This success stemmed from its sizable downstream and chemicals segments.

Imperial has similar advantages. Because of its own chemicals and downstream divisions, it can fund expansion projects even when oil prices collapse. It’s made more than \$5 billion from these two

segments over the past five years.

Now is the time to buy

So, Imperial clearly has a best-in-class operating model under its watchful parent Exxon Mobil. Why is now the time to buy?

After years of outpacing oil prices and major competitors, Imperial has lagged the market considerably. In downturns, Imperial Oil stock typically outperforms considering its diversified model. In an upward market, it tends to lag for that same reason.

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Still, Imperial stock has lagged even close competitors like **Suncor Energy Inc.** (which has some of the same assets and a very similar business model).

While the market is focused on buying high-volatility energy names to take advantage of rising oil, prudent investors can buy into a long-term, sustainable, proven outperformer at a discount. If energy prices continue to advance, Imperial will, of course, benefit. If they revert to weakness, expect Imperial shares to dominate the competition.

Today, Imperial stock looks like the best of both worlds, especially if you're cautiously optimistic about the future of oil.

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)

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