Why Imperial Oil Ltd. Fell 3.1% on Friday

Description

Imperial Oil Ltd. (TSX:IMO)(NYSE:IMO), Canada's largest petroleum refiner, released its second-quarter earnings results before the market opened on Friday, and its stock responded by falling about 3.1% in the day's trading session. Let's take a closer look at the results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity.

Breaking down Imperial Oil's Q2 performance

Here's a quick breakdown of 10 of the most notable statistics from Imperial Oil's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Revenues and other income	$7,033 million	$6,248 million	12.6%
Net income (U.S. GAAP)	($77 million)	($181 million)	57.5%
Net income per share (EPS)	($0.09)	($0.21)	57.1%
Cash generated from operating activities	$492 million	$443 million	11.1%
Capital and exploration expenditures	$143 million	$335 million	(57.3%)
Total production (barrels of oil-equivalents per day)	331,000	329,000	0.6%
Refinery throughput (barrels per day)	358,000	246,000	45.5%
Refinery capacity utilization	85%	58%	2,700 basis points

Petroleum product sales (barrels per day)	486,000	470,000	3.4%
Petrochemical sales (tonnes)	201,000	232,000	(13.4%)

Should you buy Imperial Oil on the dip?

It was a good quarter overall for Imperial Oil when you consider that it increased its revenues, reduced its expenses, and grew its production compared with the year-ago period. The second quarter also capped off a solid first half of the year for the company, in which its revenues increased 23.7% year over year to $14.19 billion, and it reported net income of $256 million, or $0.30 per share, compared with a net loss of $282 million, of $0.33 per share, in the year-ago period.

With all of this being said, I think the decline in Imperial Oil's stock represents an attractive buying opportunity for long-term investors for two primary reasons.

First, it's undervalued. Imperial Oil's stock now trades at just 19.4 times fiscal 2017's estimated EPS of $1.86 and only 14.3 times fiscal 2018's estimated EPS of $2.52, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 23.2.

Second, it's a dividend-growth aristocrat. Imperial Oil pays a quarterly dividend of $0.16 per share, equal to $0.64 per share annually, which gives it a 1.8% yield. A 1.8% yield is far from high, but it's very important to note that the company has raised its annual dividend payment for 22 consecutive years, and its 6.7% hike in April has it on pace for 2017 to mark the 23rd consecutive year with an increase.

With all of the information provided above in mind, I think Foolish investors seeking exposure to the oil and gas industry should consider using the post-earnings weakness in Imperial Oil to begin scaling in to long-term positions.

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