



This Oil and Gas Giant Posted a Strong Q3 and Could Be a Great Long-Term Buy

Description

Imperial Oil Ltd. ([TSX:IMO](#))(NYSE:IMO) recently released its third-quarter results, which showed revenues down 4%, while the company netted an earnings per share of \$0.44, missing analyst expectations of \$0.46.

At first glance, it looks like Imperial had a poor quarter, but let's take a closer look at the results to see whether the stock is a good buy or not.

Net income declined from a year ago

Imperial posted net income of \$371 million in Q3, which, at first glance, looks horrible in comparison to the \$1 billion in profit that the company recorded just one year ago. However, the prior-year results include a one-time gain of \$716 million.

Production slowed down as a result of multiple issues

Imperial produced a daily average of 390,000 oil-equivalent barrels in Q3, down from 393,000 a year ago. The company blames a fire at its Syncrude Mildred Lake location as well as a shutdown at the Norman Wells location for the declines in production.

Imperial noted that it did see improved performance from its operations at Kearl and Cold Lake, but unfortunately, the gains achieved at these sites were not enough to offset the declines.

Imperial's refinery throughput of 385,000 barrels per day was also down from 407,000 barrels in the prior year. The company's lower utilization rate (91% this quarter vs. 97% a year ago) was due to planned maintenance that took place in September; otherwise, Imperial says its utilization would have been at 99%.

Petroleum sales were near record levels

Despite a lack of production, Imperial continues to see its product sales average 500,000 barrels a day as it remain near record levels. A year ago, sales averaged slightly higher with an average of 505,000

barrels being sold per day.

Cash flow has improved

Imperial's cash from operations of \$837 million in Q3 were up over 8% from last year, and year to date, the company's operations have brought in \$419 million more in cash this year for an increase of 33%.

Although investors may be tempted to look at a company's bottom line in an industry battling low commodity prices and an uncertain future, strong cash flow provides flexibility and long-term strength, which will help Imperial remain competitive in troubling times.

Improved profitability among different segments

Upstream operations posted a profit of \$62 million this quarter compared to a loss of \$26 million a year ago, and the company's downstream net income of \$292 million would also be an improvement if not for last year's gains, which boosted the segment's profits.

A big reason for the improved income figures is that compared to last year, oil prices have been improving, and Imperial has been able to realize a higher average price per barrel.

Is the stock a buy?

One oil and gas company has already seen [demand start to rise for drilling in 2018](#), and that could be a good sign for the industry. If Imperial is already able to do well amid a low price of oil, then there could be tremendous upside for the stock if the commodity price continues to rise.

The initial response to the quarterly results was mild, with the stock rising less than 3% on the day of the earnings release, but over the long term, investors could see great returns, as [there is reason to believe the worst might be over for oil and gas stocks](#).

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