



## Imperial Oil Ltd. (TSX:IMO): Does the Rally Have Legs?

### Description

**Imperial Oil Ltd.** ([TSX:IMO](#))(NYSE:IMO) is up more than 25% in the past three months, and investors are wondering if the bounce off the five-year low could be the beginning of an extended [recovery](#).

### Operations

Imperial Oil is an integrated energy company with refining, marketing, and production assets generating revenue right across the oil value chain.

The company reported solid Q1 2018 numbers, delivering \$516 million in net income, or \$0.62 per share, compared to \$333 million, or \$0.39 per share, in the first quarter last year.

Total oil production actually slipped year over year, coming in at 370,000 barrels per day (bbl/d), compared to 378,000, but ongoing investment at the Kearn oil sands operation should boost production at the site by 20% to 240,000 bbl/d in 2020. Imperial Oil owns 71% of Kearn.

The company is also a 25% partner in Syncrude. Imperial Oil's share of production from the first quarter was 65,000 bbl/d. Syncrude was hit by a major power outage in June and is expected to be shut down until the end of July.

In the downstream operations, Imperial Oil benefited from improved margins compared to last year. Refining throughput was 408,000 bbl/d, representing a 10,000 bbl/d increase in the quarter.

On the marketing side, the company owns more than 2,000 Esso and Mobil-branded gas stations. Imperial Oil recently signed an agreement with PC Optimum that will enable members to earn points on purchases at Esso stations. This could provide a boost to sales in the coming years, given the popularity of the loyalty program.

### Dividend and share buybacks

Imperial Oil recently raised its dividend by 20% to \$0.19 per share. That's good for a [yield](#) of 1.8%.

The company is also buying back shares. Imperial Oil repurchased 7.2 million common shares in Q1 2018 at a cost of \$250 million and had planned to maximize its allowable buybacks through the end of the second quarter.

## Ownership

It is important to note that Imperial Oil is 69.6% owned by **ExxonMobil**, which has a market capitalization of US\$350 billion.

At the time of writing, Imperial Oil's market capitalization is about \$35 billion.

The ownership by the U.S. giant provides important financial backing, but it also come with tight strings. Imperial Oil has a number of potential growth projects in Canada, but most are in the evaluation stage.

Whether or not ExxonMobil plans to continue to hold the position is unknown, but investors should keep the situation in mind when evaluating the stocks.

## Should you buy?

The integrated business model provides a nice hedge against volatility in oil prices. Margins are improving, and the PC Optimum deal should be positive for the retail operations. The 20% dividend increase is a sign management is positive on the cash flow outlook, and oil prices appear to be in solid recovery mode.

Pipeline bottlenecks in Canada remain an issue, but once that gets sorted out, you could see the parent company give Imperial Oil the green light to expand its operations.

If you are an oil bull and tend to be a buy-and-hold investor, Imperial Oil might be a good pick today. The stock currently trades at \$43 per share, down from the 2014 high near \$58, so the upside potential is attractive, even after the recent surge.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
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