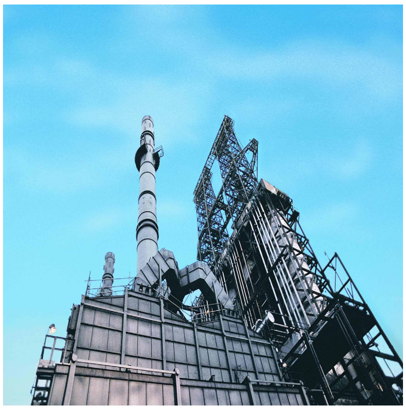

Should You Buy This Under-the-Radar Energy Stock Right Now?

Description

A steep drop in the price of oil over the past six weeks has hit the share prices of Canadian energy stocks, and investors wondering if this is a good time to start a contrarian position in the sector.

Let's take a look at **Imperial Oil** (TSX:IMO)(NYSE:IMO) to see if it might be an interesting pick for your portfolio today.

New development

Imperial Oil doesn't appear to be overly concerned about the recent difficulties in the Canadian energy market. The company just announced plans to go ahead with a $2.6 billion investment to develop its Aspen oil sands project.

The facility is expected to have a 30-year life and will produce 75,000 barrels of bitumen per day once completed in 2022.

Investors should see the decision as an indication that big oil companies still see value in bringing projects online, despite the challenges faced with pipeline delays and low Western Canadian Select pricing.

Imperial Oil is majority-owned by **ExxonMobil**, so the final approval would have to have come from the U.S. energy giant.

Dividends

Imperial oil has paid a dividend every year for more than a century and has increased the payout for 24 straight years. The company increased the quarterly distribution from $0.16 to $0.19 in the spring, and investors should see another generous hike in 2019. The existing payout provides a yield of 1.8%.

Diversified assets

Imperial oil is an integrated energy company with production, refining, and retail locations. The large differential between WTI and WCS pricing is providing a nice boost to the results of the downstream segments, which benefit from lower input costs and sell the finished product based on WTI or Brent pricing.

In Q3 2018, the downstream operations earned $502 million, while the production or upstream operations earned $222 million.

The retail group includes the company’s Esso-branded gas stations. Canadians can now use the popular Optimum loyalty card to collect points at the Esso locations. Optimum started as the loyalty program at Shoppers Drug Mart, but has expanded its partnerships in the past year.

Should you buy?

Imperial Oil is making good money and currently trades at just $41 per share compared to $55 four years ago. The downstream results for the third quarter were the best in 30 years, and the upstream earnings are the highest in the past four years.

The decision to go ahead with the Aspen development is an interesting event, given the dismal mood in the Canadian energy patch these days. A $2.6 billion investments is significant and will only get the green light if management is convinced the business case is strong. Do these guys see something the rest of the market is overlooking?

If you have a contrarian investing style, Imperial Oil deserves to be on your radar today.

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Date
2025/08/22
Date Created
2018/11/21
Author
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