Exxon Mobil (NYSE:XOM) Thinks This Is Canada's Best Oil Stock

Description

Exxon Mobil Corporation (NYSE:XOM) is widely regarded as one of the best capital allocators in the industry. While the company's stock has struggled due to the latest oil price collapse, its long-term record of return on equity and free cash flow generation is unparalleled. Its ability to serve its 5% dividend while repurchasing billions in stock is simply impressive given current conditions.

The company hasn't been perfect since it was formed in 1999 through the merger of Exxon and Mobil, both descendants of John D. Rockefeller's Standard Oil, but its high hit-rate begs you to pay attention. When this company makes a multi-billion dollar bet, it pays to take note.

You may be surprised to learn that Canada's largest petroleum refiner is 69.6% owned by Exxon. Did I mention that this company is also one of Canada's largest crude oil and natural gas producers, as well as a key petrochemical producer?

This mini-Exxon has all of the benefits of its largest shareholder, but is completely focused on Canadian opportunities. Meet **Imperial Oil Ltd.** (TSX:IMO)(NYSEMKT:IMO).

Protecting the downside

Exxon is excited about Imperial Oil. "Imperial Oil has entered a period of unprecedented growth," Exxon claims. The company has a "remarkable history and an exciting future."

In many ways, Imperial has copied Exxon's winning strategy to perfection. While it's not as exciting as a pure-play approach, its diversified, integrated model has huge benefits, especially during times of volatility.

The last five years have been difficult for oil markets. In 2014, oil prices reached as high as US$130 per barrel. By 2016, they had fallen to under US$40 per barrel. Over the past five years, oil has averaged just US$50 per barrel.

If you are a pure-play oil producer — that is, you simply drill for oil and sell it on the open market —

times have been difficult. Getting your revenue stream cut by over 50% is difficult for any company, especially one with fixed costs. For example, since 2014, shares of **MEG Energy Corp** have sunk by around 85%. Ouch.

Imperial Oil, for comparison, has fallen by just one-third since 2014. That's still a tough pill to swallow, but certainly beats a near-complete loss of capital. Mitigating the impact of a downturn isn't an accident. For decades, Imperial Oil has modeled itself after Exxon Mobil, which has handled extreme volatility with grace.

Exxon and Imperial's secret is to control the entire value chain. Both companies not only drill for oil and natural gas, but also own the pipelines that transport the output, the refineries that process raw material into usable products, and the service brands that allow you to fill your car with gas.

This integrated approach is invaluable during a bear market. For example, when oil prices fall, refining margins often rise. If you own both, as Exxon and Imperial do, you can offset weakness in one segment with strength in another. It's this integrated model that has made both companies leaders in the industry when times are tough.

Ready for the future

Imperial Oil isn't just about protecting your downside. The company is also one of Canada's leading investors in new projects. When oil prices reverse course, Imperial Oil should be prepared to capitalize.

Imperial Oil has invested more than $2 billion over the last two decades. Those investments were guided by the best research in the world: Exxon's. Exxon is already spending $1 billion per year in research and development. Imperial Oil gets access to its benefits for free. That's an advantage no other Canadian energy producer possesses.

With low-cost projects coming online, plus the resources and tutelage of Exxon Mobil, Imperial Oil is prepared for any oil market, good or bad.

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Date
2025/08/13
Date Created
2019/11/13
Author
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