



Revealed: This Canadian Dividend King Is a Screaming Buy Today

Description

One of the biggest issues that has always impacted the success of value investing is, it's really difficult to buy into a stock when it's surrounded by bad news. Yet that's exactly the time we should be buying.

The funny thing is, many value investors are great at talking the talk. They'll know that the time to buy a great company is when a temporary issue is weighing down the stock price. But they just can't pull the trigger when it actually happens.

Often, we talk ourselves out of a good purchase because of short-term issues that have virtually zero impact on the company in a year and are forgotten completely after five years. The opportunity is missed, and shares have rallied smartly from the temporary low, bid up by investors emboldened by a better short-term outlook.

I believe such an opportunity is available for Canadian investors to buy one of our best energy stocks at a bargain price. Let's take a closer look.

A quality name at a value price

The last year hasn't been a great one for **Imperial Oil** ([TSX:IMO](#))(NYSE:IMO), one of Canada's top oil producers. The stock has been weighed down by disappointing production results from key oil sands assets, unplanned issues at one of its refineries, as well as general bearishness about the energy sector. Shares are down close to 20% over the last year and just hit a brand-new 52-week low.

It's easy to see what's pushing shares lower today. The Coronavirus is decimating China, causing the world's second-largest economy to grind to a virtual halt. This has impacted the price of crude oil in a big way in North America, with the benchmark price for the commodity falling some 20% in the last month.

If you believe, like I do, that the Coronavirus will not have a lasting financial impact, then it's time to buy stocks that have been hurt by this pandemic. And Imperial Oil is one of those names.

The company's assets continue to be some of the best in the entire sector. Its upstream oil production is approximately 400,000 barrels per day today, with long-term reserves of more than six billion barrels of oil. That's enough to keep the company busy for decades without any long-term exploration risk. In fact, the company should expand daily production by about 6% in 2020.

And then there are the downstream operations, which include three refineries across Canada. These facilities produce gasoline, diesel, jet fuel, and asphalt for paving roads. What I really like about these assets is, they deliver steady results no matter what the underlying price of crude is.

2019's annual results just came out, and they showed Imperial Oil can produce significant cash flows, even in a challenging environment. It generated more than \$4.4 billion in operating cash flow in 2019, and spent \$1.8 billion on capital expenditures. That translates into free cash flow of \$2.6 billion. Remember, Imperial Oil's market cap today is just a hair over \$23 billion, putting shares at well under 10 times trailing free cash flow.

The company spent much of its free cash flow giving back to shareholders. Approximately \$2 billion went back into the pockets of its owners in 2019, with one-third going towards dividends and two-thirds in the form of share buybacks. Since 2016, the firm has repurchased some 100 million shares, or well over 10% of total shares outstanding.

And we can't forget about the dividend. Imperial Oil has paid dividends for more than 100 consecutive years, and it has raised its payout for 25 straight years. Look for another dividend increase in 2020. And thanks to the sell-off, shares now yield a robust 2.8%.

The bottom line

Even if the price of crude oil lingers in the \$50-or-\$60-per-barrel range for years, Imperial Oil could still end up being a good investment. Its current assets will generate gobs of cash, even at today's somewhat depressed oil price. If crude ever rockets higher, an investment in Imperial Oil will be a grand slam.

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