Will Exxon Mobil Buy This TSX Stock?

Description

Exxon Mobil Corporation (NYSE:XOM) is known as one of the best capital allocators in the industry. The company is renowned for its ability to think in terms of decades, not just the next few years.

In 1998, Exxon and Mobil executed a $74 billion merger, resulting in a new company called Exxon Mobil. In 2010, Exxon Mobil acquired XTO Energy for $36 billion, adding additional output for unconventional resources.

By connecting the dots, it's possible to predict Exxon's *next* multi-billion dollar acquisition. In fact, this is an acquisition more than 100 years in the making. In 2020, the newest buyout could be on the way, with a price tag of roughly $20 billion.

Patient investors should turn a healthy profit should Exxon move to buy-out this company.

This is the stock

In 1898, Standard Oil of New Jersey acquired a controlling stake in **Imperial Oil Ltd** (TSX:IMO)(NYSEMKT:IMO). These assets would ultimately form part of Exxon's enormous global asset base.

Today, the company owns roughly 70% of Imperial's outstanding shares. Looking ahead, it's possible that Exxon moves to acquire the entire business.

"Looking at the long term, there's an argument to be made that ExxonMobil is well positioned for success, thanks largely to its size and status, which put it in a good position to weather a short-term oil price slump," writes Fool contributor John Bromels.

That size and status allows the company to deploy capital when the industry struggles. Imperial's share price, for example, fell by nearly 30% over the last six months. But the market cap remains $18 billion, meaning few oil companies can afford to capitalize on the discounted valuation.

With a gargantuan $350 billion asset base, Exxon can make a move with very little bidding competition.

Bet on Exxon Mobil?

There's more to this story than Exxon's pre-existing 70% stake in Imperial. The companies have been tied at the hip in many other ways, including employees, strategy, and shared assets.

For example, Imperial's former CEO was a once a vice president at Exxon. Its board of directors is still stacked with current and former Exxon personnel.

The biggest overlap concerns business operations. Exxon famously runs an *integrated* strategy, which means it owns the entire value chain, from exploration and production to transportation and refining.

This vertical integration allows the company to withstand downturns with less impact, as cyclicality in one segment offsets fluctuations in another. Oil prices, for example, run counter-cyclical to refining margins.

This strategy helps both businesses maximize capital efficiency, returning billions in capital to shareholders through dividends and buybacks. Exxon Mobil and Imperial even co-own some assets, as evidenced by their joint purchase of Beaufort Sea acreage in 2007.

Should you bet on Exxon Mobil acquiring Imperial? Absolutely. But should you risk your investment dollars? That's an entirely different question.

Imperial Oil specializes in oil sands output, which is notoriously high-priced. Its true breakeven is likely US$40 per barrel or higher. That means the upstream segment generates a *loss* at today's prices. If you're not a major oil bull, stay away from both stocks.

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