Here's Why Imperial Oil Stock Is a "Strong Buy"

Description

The magnificent bull run of energy stocks in 2022 saved the TSX from falling deep into the abyss. Canada's primary stock market could have lost more than 8.66% for the year, if not for the resiliency and strength of the energy sector. For 2023, market analysts expect the red-hot streak to continue amid a possible recession.

As of this writing, energy (-0.16% year to date) is the only primary sector out of 11 that's down from year-end 2022. If you want to take advantage and or buy on weaknesses before they soar again, consider **Imperial Oil** (TSX:IMO) if you don't own shares yet. The energy stock is a "strong buy" for three compelling reasons. It trades at $65.77 per share and pays a 2.68% dividend.

Impeccable dividend-growth streak

Energy stocks lost heavily during the oil slump in 2020. The sector was the worst performer three years ago, posting a negative return of 30.8% overall. Meanwhile, Imperial Oil incurred a net loss of $1.85 billion for the year compared to the $2.2 billion net income in 2019.

Some industry players had to bite the bullet and stop or slash dividend payments to preserve cash and protect the balance sheet. Despite the 69% year-over-year drop in cash flow from operating activities to $316 million, Imperial Oil didn't consider such a move.

Its chairman, president, and chief executive officer (CEO) Brad Corson committed to maintaining expense and capital discipline and returning cash to shareholders. Imperial Oil made a turnaround in the following year due to fuel recovery demand and a favourable pricing environment. The net income in 2021 reached $2.48 billion.

In the fourth quarter (Q4) of 2021, the board of directors approved a 26% increase in the quarterly dividend. According to Corson, the year's nearly $3 billion shareholder returns (dividend payments and share buybacks) were the highest in the company's history. Imperial Oil's dividend-growth streak is now 27 consecutive years.

Growing surplus cash

Imperial Oil wasn't among the high-flying energy stocks in 2022, although the 47.77% return was mighty impressive too. The full-year results aren't out yet, but the financial condition after three quarters should give you the confidence to invest in this Dividend Aristocrat.

In the nine months that ended September 30, 2022, total revenues and net income soared 78.88% and 236.91% year over year to $45.21 billion and $5.61 billion, respectively. Corson said about the Q3 2022 results, "Imperial's business lines delivered another quarter of exceptional operating performance."

In the same quarter, cash flows from operating activities jumped 58.65% to $3 billion versus Q3 2021. Because of growing cash flow, Imperial Oil announced a 29% increase in quarterly dividends. Corson affirmed that paying a reliable and growing dividend and returning surplus cash to shareholders remain key priorities for management.

Solid support

Imperial Oil was established in 1880 by 16 refiners in southwestern Ontario. Today, it has a strong backing and is a subsidiary of **Exxon Mobil**. The American multinational oil and gas giant holds a 69.6% ownership stake in the integrated energy company from Canada.

Great income stock

Imperial Oil is smaller than sector heavyweights **Enbridge** and **Canadian Natural Resources** but is as reliable as the two income stocks. It's ideal for investors looking for decent long-term returns and rock-steady quarterly income streams.

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