



Will Exxon Mobil Corporation Buy the Imperial Oil Limited Minority Shares?

Description

Bear markets in commodities always create a great environment for companies with strong balance sheets to acquire assets at discounted prices. As the full impact of lower oil prices hits home, **Exxon Mobil Corporation** ([NYSE:XOM](#)) is one of the oil majors that will be looking to acquire assets. **Imperial Oil Limited** ([TSX:IMO](#))([NYSEMKT:IMO](#)) may be on its target list.

The background

The history of Imperial Oil in Canada dates back to its incorporation in 1880. Today, Imperial produces approximately 310,000 barrels of oil equivalent per day and runs three refineries in Canada with a total throughput capacity of 420,000 barrels per day. Imperial also manufactures chemicals and operates a fuel marketing business under the Esso and Mobil brands, including 1,700 gas stations.

Exxon is the largest shareholder in Imperial, with a 69.6% interest. The current Imperial CEO, Richard Kruger, was a previously a vice president of Exxon, and several Imperial board members are linked to Exxon. The companies are jointly involved in various large-scale Canadian energy related projects, while Imperial benefits from the operational and technological know-how shared by Exxon. It is fair to say that the companies have a close working relationship.

Will Exxon buy the Imperial minorities?

Imperial owns and operates a highly attractive asset base with considerable further expansion potential.

At year-end 2013, proved reserves stood at 3.6 billion barrels of oil equivalent, with assets at Kearl, Cold Lake, and Syncrude contributing more than 90% of the total reserves. In addition, contingent resources of 13 billion barrels of oil equivalent are available for future exploitation.

Imperial is in the process of a significant capital expenditure program with planned capital expenditures of more than \$40 billion in the current decade, \$25 billion of which has already been spent over the past five years. The company estimates that production could double between 2013 and 2020.

Exxon is currently holding nearly US\$5 billion in cash and equivalents, and these assets would be

attractive if acquired at the right price. The “right price” is largely dependent on the assumption Exxon has for the oil price over the medium to long term.

Is now a good time?

The price of Imperial in U.S dollars has already declined by 25% since the recent peak of the oil price in mid-2014.

Exxon will be looking to buy assets at discounted prices. The most appropriate method for valuing Imperial is the present value of the discounted cash flow of the operations and projects under development. This is highly dependent on the assumptions used for the key variables, including production and the oil price, but a number of reputable analysts currently estimate that the price of Imperial represents a discount to the present value of between 5% and 20%.

What will it cost?

The minority shares of Imperial currently have a market value of \$13 billion. If we assume a takeover premium of 30% to 40%, the cost will be somewhere between \$17 and \$18 billion. Given the strong Exxon balance sheet, the company should not have a problem financing such an acquisition.

What other precedents have been set?

In a very similar situation in 2006, **Royal Dutch Shell** launched an \$8.7 billion offer to acquire the 22% of publicly traded Shell Canada that it did not already own. The transaction was eventually closed in early 2007 at \$45 per share in cash, which represented a 45% premium to the price prevailing in the weeks before the transaction was announced.

Exxon is one of the global oil majors that will be in a strong position to acquire energy-related assets if the oil bear market grinds on. Given the already close working relationship between the entities, Imperial could be an attractive target at the right price.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:XOM (Exxon Mobil Corporation)
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