Exxon Mobil Corporation (XOM)

Updated July 28th, 2018 by Ben Reynolds

Key Metrics

Current Price:	$82	**5 Year CAGR Estimate:**	9.6%	**Volatility Percentile:**	18.9%
Fair Value Price:	$72	**5 Year Growth Estimate:**	8.4%	**Momentum Percentile:**	39.6%
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Valuation Percentile:**	39.3%
Dividend Yield:	4.0%	**5 Year Price Target**	$108	**Total Return Percentile:**	64.0%

Overview & Current Events

Exxon Mobil is an oil giant with the largest market cap in its sector, currently standing at $350 billion. Before the downturn in the oil market which began almost four years ago, the company generated ~90% of its earnings from its upstream segment, i.e., the production of oil and gas. Due to lower oil prices compared to 2014, the upstream segment has been significantly hit whereas refining margins have greatly improved. As a result, in 2017, the oil major generated 57% of its earnings from its upstream segment, 24% from its downstream (mostly refining) segment and the remaining 19% from its chemicals segment.

Exxon Mobil released its 2nd quarter earnings on July 27th. The company generated earnings-per-share (EPS) of $0.92 in the quarter. EPS increased 18% versus the same quarter a year ago. The upstream segment in particular performed well due to higher oil prices, generating $3.0 billion in earnings in the quarter versus $1.2 billion in earnings the same quarter a year ago. Downstream earnings fell from $1.4 billion to $0.7 billion, and Chemical segment earnings fell from $1.0 billion to $0.9 billion. The market did not react favorably to Exxon Mobil's quarter, as the stock declined 2.75% on the day, to $81.92 which is very close to where the price was during our last update on July 2nd.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$8.66	$3.98	$6.22	$8.42	$9.70	$7.37	$7.60	$3.85	$1.88	$3.59	***$4.91***	***$7.36***
DPS	$1.55	1.66	$1.74	$1.85	$2.18	$2.46	$2.70	$2.88	$2.98	$3.06	***$3.23***	***$3.83***

During the downturn of the oil market, Exxon Mobil Proved resilient. Earning fell less than those of its peers. When the company reported its Q4 results in February, its stock plunged due to the announcement of a drastic increase in capital expenditures. While the market is concerned, the company needs a major shift in its strategy in order to achieve growth in its output. This shift in its strategy is likely to prove a game changer in the long run.

Due to the downturn in the oil market which began in 2014, 2017 earnings-per-share for Exxon Mobil were less than half their peak level in 2008. However, the price of oil has enjoyed a strong rebound since last summer. As the supply glut has disappeared and OPEC and Russia are closely monitoring the market, the oil price is likely to remain strong. As a result, we are maintaining our 2018 EPS estimate of $4.91 from our last update.

According to its recent strategic update, Exxon Mobil expects to grow its output by 25% in the next seven years, from 4.0 to 5.0 M barrels/day. In this way, the company expects to grow its EPS by 135% over this time frame if the price of oil averages $60 in 2025. On the one hand, the management has proved overly optimistic in the past. The company's output is around the same level it was over a decade ago. However, the management now does have a plan (a great boost in capital expenditures). In addition, the average assumed oil price of $60 for 2025 is quite conservative, particularly given that the supply glut has disappeared from the oil market and the price is already above $70. The company has drastically reduced its operating expenses in recent years while it has decided to invest only in highly profitable projects. It is thus reasonable to assume that Exxon Mobil will approximately double its EPS within the next seven years. Most of this growth is likely to materialize towards the end of the 7-year period. Therefore, it is reasonable to expect EPS growth of about 50% within the next five years or 8.4% per year on average.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	9.5	17.8	10.5	9.5	10.7	12.3	12.8	21.5	45.8	27.2	***16.9***	***14.7***
Avg. Yld.	1.9%	2.3%	2.7%	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	***3.9%***	***3.5%***

Exxon Mobil has traded at an average P/E ratio of 17.8 during the last decade. If we exclude the outlier year 2016, in which the depressed earnings resulted in an extreme P/E ratio, the stock has traded at an average P/E ratio of 14.7 in the last decade. At the moment the stock is trading at a somewhat higher P/E of 16.9 using expected 2018 EPS.

It is reasonable to expect the stock to revert towards its average P/E ratio within the next five years. As a result, the stock will incur P/E contraction from 16.9 to 14.7 over this time frame and hence it will lose an average annual 2.8% due to P/E contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	83.3%	42.4%	40.0%	44.1%	43.8%	35.5%	33.1%	24.8%	21.8%	23.5%	***25.0%***	***30.0%***
Debt/A	50.5%	52.6%	51.5%	53.4%	50.3%	49.8%	50.1%	49.3%	49.3%	46.2%	***46.0%***	***50.0%***
Int. Cov.	125x	64x	205x	298x	242x	6,413x	182x	72x	19x	32x	***35x***	***120x***
Payout	18%	42%	28%	22%	22%	33%	36%	75%	159%	85%	***66%***	***52%***
Std. Dev.	40%	19%	13%	19%	11%	10%	12%	17%	14%	8%	***12%***	***15%***

Exxon Mobil has one of the strongest balance sheets in its sector. In addition, Exxon Mobil proved the most resilient oil major during the downturn of the sector, as its earnings decreased the least thanks to its integrated model.

The stock is characterized by markedly low volatility and tends to outperform the market and its peers during rough periods. On the other hand, it tends to underperform during booming times. Exxon Mobil is one of only 2 Dividend Aristocrats in the energy sector (Chevron is the other) thanks to its 35 consecutive years of dividend increases.

Final Thoughts & Recommendation

Exxon Mobil's recent major shift in the strategy of the company is likely to be a game changer. Thanks to an impressive increase in its capital expenses and a strong oil price, Exxon Mobil is likely to grow its EPS at an 8.4% average annual rate in the next five years. In addition, its shareholders are being paid a generous 4.0% dividend while they wait for growth. However, valuation multiple contraction could partly offset the above returns by about 2.8% per year.

The stock is likely to offer a 9.6% average annual return in the next five years. Exxon Mobil is the strongest and safest energy sector stock on the market. It is certainly a hold, and potentially a buy, though patient investors may want to wait for the stock to trade below fair value before buying.

Total Return Breakdown by Year