



Exxon Mobil Corporation (XOM)

Updated February 4th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	4.6%	Market Cap:	\$342.6 B
Fair Value Price:	\$91	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	2/9/2022
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	3/10/2022
Dividend Yield:	4.4%	5 Year Price Target	\$82	Years Of Dividend Growth:	39
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	1.1%

Overview & Current Events

Exxon Mobil is a diversified energy giant with a market capitalization of \$342.6 billion. In 2021, the upstream segment generated 62% of the total earnings of Exxon while the downstream and chemical segments generated 8% and 30% of the total earnings, respectively.

In early February, Exxon reported (2/1/22) financial results for the fourth quarter of fiscal 2021. The oil giant continued to recover strongly from the pandemic. It grew its production 2% over the prior year's quarter and greatly benefited from the sustained rally of the prices of oil and gas. As a result, Exxon grew its adjusted earnings-per-share from \$0.03 in the prior year's quarter to \$2.05, the highest in more than 5 years. Even better, the price of oil has rallied to a new 8-year high this year thanks to limited supply from OPEC and Russia. In contrast to previous rallies of the oil price, producers have boosted their production conservatively, fearing that the rally will prove short-lived due to the secular shift of most countries from fossil fuels to clean energy sources. As long as producers remain cautious, the oil price is likely to remain high and Exxon will keep thriving. However, while we expect oil prices to remain strong in the upcoming quarters, we do not expect oil prices to remain at such high levels for years.

Exxon raised its dividend marginally (1%) in the fourth quarter of 2021 and thus extended its dividend growth streak to 39 consecutive years. Nevertheless, the dividend could come under pressure again whenever the next downturn of the energy sector shows up.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$9.70	\$7.37	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$2.44	-\$0.33	\$5.38	\$7.00	\$6.33
DPS	\$2.18	\$2.46	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.48	\$3.49	\$3.52	\$3.60
Shares¹	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4,269	4,272	4,275	4,265	4,250

Cyclicality is the nature of Exxon's industry. The performance in 2019 and 2020 is a stern reminder that results are driven by commodity prices and hence they are highly volatile. Until recently, Exxon expected to grow its production from about 4.0 to 5.0 million barrels per day by 2025. However, it has now withdrawn its guidance and expects flat output due to its commitment to its dividend, which will result in lower investment in growth projects. Exxon has about 10 billion barrels of oil equivalent in the Permian and expects to reach production of more than 1.0 million barrels per day in the area by 2025. Guyana, one of the most exciting growth projects in the energy sector, is the other major growth project of Exxon. The oil major recently announced some major discoveries in the area and thus it boosted its estimated reserves. Exxon has more than tripled its estimated reserves in the area, from 3.2 billion barrels in early 2018 to about 10.0 billion barrels now. Management has stated that 90% of new reserves have a production cost of \$35 per barrel and thus it views the dividend as viable at Brent prices above \$45. However, we believe that the dividend will come under pressure whenever the next downturn of the energy sector shows up. Due to the high comparison base formed this year, we expect earnings-per-share to decline -2.0% per year on average over the next five years.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.7	12.3	12.8	21.5	45.8	25.3	14.0	30.2	---	10.8	11.4	13.0
Avg. Yld.	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	7.8%	6.0%	4.4%	4.4%

During the past decade, Exxon has traded at an average price-to-earnings ratio of 20.4, but this includes “artificial” years when profits dropped dramatically while the share price held up much better. During 2009-2015, the average multiple was closer to 13 or 14 times earnings. This is a number we view as fair. Exxon is currently trading at a price-to-earnings ratio of 11.4. If it trades at a price-to-earnings ratio of 13.0 in five years, it will enjoy a 2.6% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	33%	36%	75%	159%	94%	66%	141%	---	64.9%	50.3%	56.9%

Exxon’s competitive advantage is its unparalleled scale and its enviable expertise in the energy sector. The standard technical procedures followed by most oil companies have been written by Exxon. It is also impressive that other oil companies drilled about 40 dry holes in Guyana whereas Exxon has a nearly 90% success rate in this area.

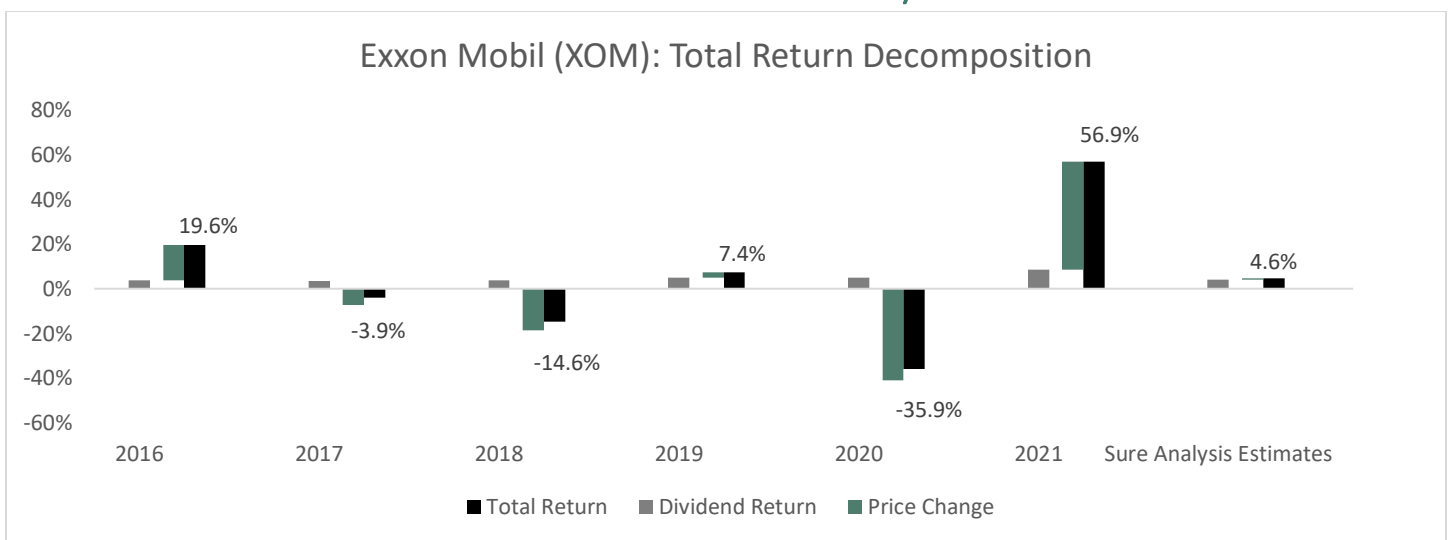
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than most oil majors during recessions and downturns of the energy sector, but it rallies less than its peers during good times. Overall, it is a defensive energy stock.

Exxon is a Dividend Aristocrat, with 39 consecutive annual dividend raises. However, the oil major paid the same dividend for ten consecutive quarters and struggled to defend its dividend during the pandemic.

Final Thoughts & Recommendation

Exxon is recovering strongly from the pandemic thanks to the cautious stance of oil producers, who have not increased their output to a great extent, despite the rally of the oil price to an 8-year high. As a result, the stock has more than doubled in about 15 months. We expect the stock to offer a 4.6% average annual return over the next five years and thus we rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	467.03	451.51	420.84	394.11	239.85	200.63	237.16	279.33	255.58	178.57
Gross Profit (\$B)	111.14	101.16	88.38	80.64	56.22	43.70	56.36	67.73	55.96	8.13
Gross Margin	23.8%	22.4%	21.0%	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%	4.6%
SG&A Exp.	14983	13877	12877	12598	11501	10443	10649	11480	11398	10168
Operating Profit	54104	49881	40301	34082	12883	2771	13819	22124	12766	-29,448
Op. Margin	11.6%	11.0%	9.6%	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%	-16.5%
Net Profit	41060	44880	32580	32520	16150	7840	19710	20840	14340	-22,440
Net Margin	8.8%	9.9%	7.7%	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%	-12.6%
Free Cash Flow	24370	21899	11245	12164	3854	5919	14664	16440	5355	-2,614
Income Tax	31051	31045	24263	18015	5415	-406	-1174	9532	5282	-5,632

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	331.05	333.80	346.81	349.49	336.76	330.31	348.69	346.20	362.60	332.75
Cash & Equivalents	12,664	9,582	4,644	4,616	3,705	3,657	3,177	3,042	3,089	4,364
Acc. Receivable	30,044	28,373	25,993	18,541	13,243	16,033	21,274	19,638	21,100	16,339
Inventories	15,024	14,542	16,135	16,678	16,245	15,080	16,992	18,958	18,528	18,850
Total Liab. (\$B)	170.31	162.14	166.31	168.43	159.95	156.48	154.19	147.67	163.66	168.62
Accounts Payable	33969	33789	30920	25286	18074	17801	21701	21063	24694	17499
Long-Term Debt	16773	11150	22324	28746	37449	41537	41009	36493	45250	65960
Total Equity (\$B)	154.40	165.86	174.00	174.40	170.81	167.33	187.69	191.79	191.65	157.15
D/E Ratio	0.11	0.07	0.13	0.16	0.22	0.25	0.22	0.19	0.24	0.42

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.0%	13.5%	9.6%	9.3%	4.7%	2.4%	5.8%	6.0%	4.0%	-6.5%
Return on Equity	27.3%	28.0%	19.2%	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%	-12.9%
ROIC	23.8%	24.9%	16.9%	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%	-9.5%
Shares Out.	4,734	4,502	4,335	4,201	4,156	4,148	4,239	4,270	4269	4272
Revenue/Share	95.77	97.56	95.23	92.04	57.16	48.03	55.72	65.42	59.86	41.81
FCF/Share	5.00	4.73	2.54	2.84	0.92	1.42	3.45	3.85	1.25	-0.61

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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