



Exxon Mobil Corporation (XOM)

Updated February 5th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$102	5 Year CAGR Estimate:	1.3%	Market Cap:	\$405 B
Fair Value Price:	\$109	5 Year Growth Estimate:	-4.0%	Ex-Dividend Date:	2/13/2024
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	3/11/2024
Dividend Yield:	3.7%	5 Year Price Target	\$89	Years Of Dividend Growth:	41
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

Overview & Current Events

Exxon Mobil is a diversified energy giant with a market capitalization of \$405 billion. In 2023, the upstream segment generated 61% of the total earnings of Exxon while the downstream and chemical segments generated 34% and 5% of the total earnings, respectively.

On October 11th, 2023, Exxon agreed to acquire Pioneer Natural Resources (PXD) for \$60 billion in an all-stock deal. As Pioneer is the largest oil producer in Permian, Exxon expects to more than double its Permian output, to 2.0 million barrels per day in 2027. As the stock of Exxon seems fully valued, we view the all-stock deal as attractive for Exxon.

In early February, Exxon reported (2/2/24) financial results for the fourth quarter of fiscal 2023. Thanks to a slight improvement in oil prices, which resulted from production cuts of OPEC and Russia, Exxon grew its earnings-per-share sequentially 9%, from \$2.27 to \$2.48. In contrast to previous rallies of the price of oil, producers have boosted their output 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 elevated. Oil prices are likely to remain above average in the short run thanks to the several production cuts of OPEC, but we do not expect them to remain so high for years. Moreover, Exxon repurchased \$30 billion of shares in 2022-2023. Unfortunately, as the share repurchases were executed at nearly all-time high prices and the stock is infamous for its cyclicality, we do not applaud this program. Exxon has made the same mistake in the past. We expect lower earnings-per-share this year due to our expectations for somewhat lower oil prices and thinner refining margins.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.60	\$3.85	\$1.88	\$3.24	\$4.88	\$2.44	-\$0.33	\$5.38	\$14.06	\$9.52	\$8.40	\$6.85
DPS	\$2.70	\$2.88	\$2.98	\$3.06	\$3.23	\$3.43	\$3.48	\$3.49	\$3.55	\$3.68	\$3.80	\$4.00
Shares¹	4,201	4,156	4,148	4,239	4,270	4,269	4,272	4,275	4,138	4,010	3,900	3,700

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. Exxon previously expected to grow its production from 4.0 to 5.0 million barrels per day by 2025. It then changed its guidance to a flat output due to its commitment to its dividend, which would result in lower investment in growth projects. However, it improved its guidance last year, now expecting meaningful production growth until 2025 and a much lower breakeven point thanks to the addition of exceptionally low-cost barrels. The recently announced takeover of Pioneer will be a major growth driver of Exxon, which now expects to reach production of about 2.0 million barrels per day in the Permian Basin by 2027. Guyana, one of the most exciting growth projects in the energy sector, is the other major growth project of Exxon. Exxon has more than tripled its estimated reserves in the area, from 3.2 billion barrels in early 2018 to about 11.0 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. Due to the somewhat high comparison base formed by the earnings-per-share expected this year, we expect earnings-per-share to decline -4.0% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.8	21.5	45.8	25.3	14.0	30.2	---	10.8	6.5	11.4	12.1	13.0
Avg. Yld.	2.8%	3.5%	3.5%	3.7%	4.7%	4.7%	7.8%	6.0%	3.9%	3.4%	3.7%	4.5%

During the past decade, Exxon has traded at an average price-to-earnings ratio of 19.8, 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 12.1. If it trades at a price-to-earnings ratio of 13.0 in five years, it will enjoy a 1.4% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	36%	75%	159%	94%	66%	141%	---	64.9%	25.2%	38.7%	45.2%	58.5%

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.

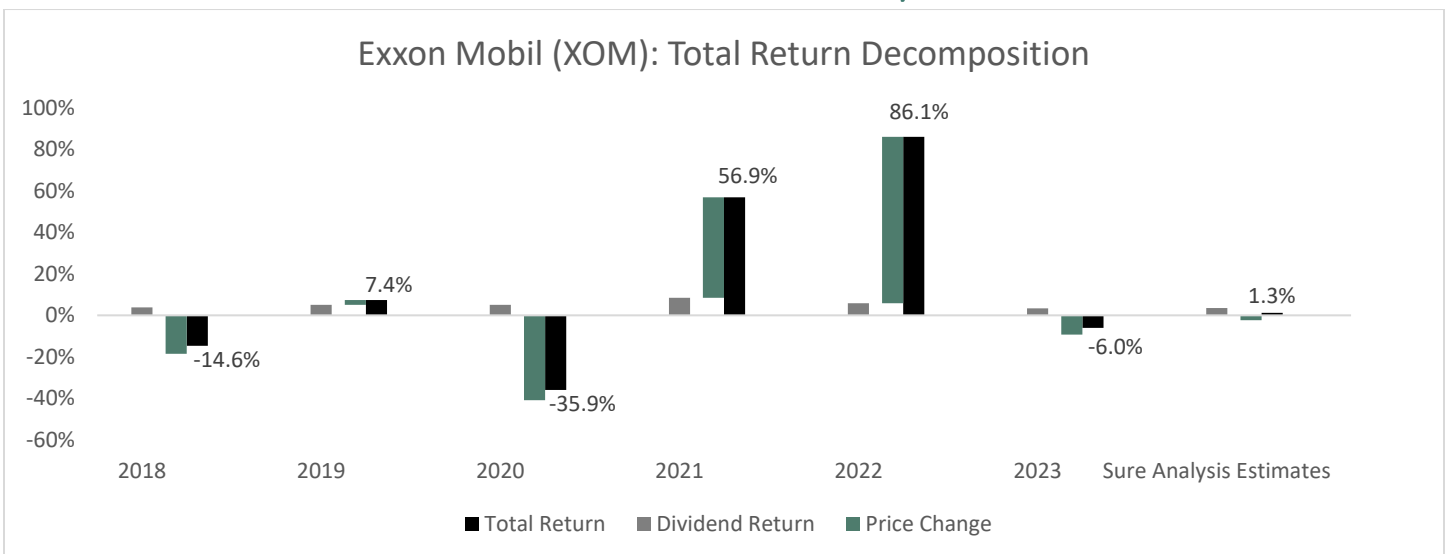
Exxon’s diversified business model has shown exceptional fortitude in good times and bad. When commodity prices are high, Exxon takes full advantage on the upstream side. When prices are low, the downstream and chemical segments usually offer a good deal of ballast. Exxon is much more defensive than 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 41 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 thriving thanks to the above average price of oil, which has resulted from the war in Ukraine and the aggressive production cuts of OPEC. However, due to the high cyclicality of Exxon, we view the stock as unattractive from a long-term perspective. Exxon could offer an average annual return of only 1.3%, as its 3.7% dividend and its 1.4% valuation tailwind could be partly offset by a -4.0% annual decline of earnings-per-share. We maintain our sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	394.11	239.85	200.63	237.16	279.33	255.58	178.57	276.69	398.68	334.70
Gross Profit (\$B)	80.64	56.22	43.70	56.36	67.73	55.96	8.13	64.89	103.07	841.42
Gross Margin	20.5%	23.4%	21.8%	23.8%	24.2%	21.9%	4.6%	23.5%	25.9%	25.1%
SG&A Exp.	12598	11501	10443	10649	11480	11398	10168	9,574	10,095	10,633
Operating Profit	34082	12883	2771	13819	22124	12766	-29,448	24,019	64,028	43,747
Op. Margin	8.6%	5.4%	1.4%	5.8%	7.9%	5.0%	-16.5%	8.7%	16.1%	13.1%
Net Profit	32520	16150	7840	19710	20840	14340	-22,440	23,040	55,740	36,010
Net Margin	8.3%	6.7%	3.9%	8.3%	7.5%	5.6%	-12.6%	8.3%	14.0%	10.8%
Free Cash Flow	12164	3854	5919	14664	16440	5355	-2,614	36,053	58,390	33,450
Income Tax	18015	5415	-406	-1174	9532	5282	-5,632	7,636	20,176	15,429

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	349.49	336.76	330.31	348.69	346.20	362.60	332.75	338.24	369.07	376.32
Cash & Equivalents	4,616	3,705	3,657	3,177	3,042	3,089	4,364	6,802	29,640	31,539
Acc. Receivable	18,541	13,243	16,033	21,274	19,638	21,100	16,339	26,883	41,749	38,015
Inventories	16,678	16,245	15,080	16,992	18,958	18,528	18,850	18,780	24,435	25,120
Total Liab. (\$B)	168.43	159.95	156.48	154.19	147.67	163.66	168.62	163.24	166.59	163.78
Accounts Payable	25286	18074	17801	21701	21063	24694	17499	26623	63197	58037
Long-Term Debt	28746	37449	41537	41009	36493	45250	65960	45943	41193	41573
Total Equity (\$B)	174.40	170.81	167.33	187.69	191.79	191.65	157.15	168.58	195.05	204.80
LTD/E Ratio	0.16	0.22	0.25	0.22	0.19	0.24	0.42	0.27	0.21	0.20

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.3%	4.7%	2.4%	5.8%	6.0%	4.0%	-6.5%	6.9%	15.7%	9.7%
Return on Equity	18.7%	9.4%	4.6%	11.1%	11.0%	7.5%	-12.9%	14.1%	30.7%	18.0%
ROIC	15.8%	7.6%	3.6%	8.7%	8.9%	6.0%	-9.5%	10.2%	24.0%	14.6%
Shares Out.	4,201	4,156	4,148	4,239	4,270	4269	4272	4275	4205	4052
Revenue/Share	92.04	57.16	48.03	55.72	65.42	59.86	41.81	64.72	94.81	82.60
FCF/Share	2.84	0.92	1.42	3.45	3.85	1.25	-0.61	8.43	13.89	8.26

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

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