

## Global Ideas – Exxon Mobil Corp (Ticker Code: XOM US)

### Investment Summary

Exxon Mobil Corp (XOM US) has not been making investors happy for a long time. Its share price is lower than it was 10 years ago. Over the past two years, Exxon Mobil has not only underperformed the S&P 500, it is also weakest performer among major integrated oil majors. Its share price is down 8.1% ytd even as crude oil prices have gained 12%.

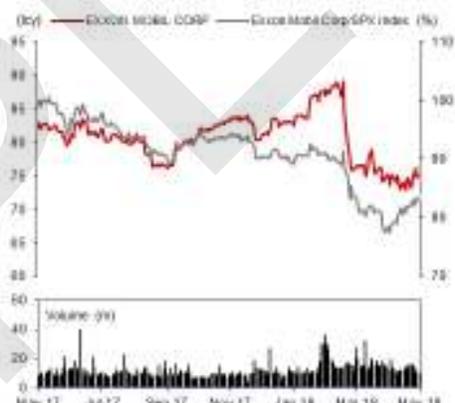
Presently, Exxon offers a 4.1% dividend yield. The company has a 35-year record of dividend growth. The higher oil prices will help boost the company's cash flow from operations by 24% this year. The company has been investing consistently in new projects and expects to triple upstream earnings over 2017-25.

**Share Price** US\$76.90  
**Target Price** US\$85.10 (WSJ consensus)

### Company Description

Exxon Mobil Corporation engages in the exploration, development, and distribution of oil, gas and petroleum products. It operates through the following segments: upstream, downstream and chemical. The upstream segment produces crude oil and natural gas. The downstream segment manufactures and trades petroleum products. The chemical segment offers petrochemicals. The company was founded by John D. Rockefeller in 1882 and is headquartered in Irving, Texas.

### Price Chart



### What you need to know

**Exxon's upstream volumes have shown no net growth since 2014.** Operations from new wells have failed to outstrip declines from existing fields. The company has been emphasising capital spending on long-term projects to give it growth, rather than return of capital through share buy-backs and dividends. A strategy of increasing capital expenditure may have displeased investors over the short term, but it has resulted in a pipeline of high-return projects.

**On its last earnings call, Exxon called its upstream pipeline "the best it's seen since the Exxon/Mobil merger."** Exxon expects to deliver 25 new major projects and increase its production of shale oil in the Permian Basin by five-fold. Combined, these should grow net production by an additional 1m barrels of oil equivalent per day.

**According to management, the company will be able to achieve an average return on capital employed of 15% by 2025 with oil remaining at around US\$60 a barrel.** Investors have a reasonable concern about the value of Exxon's upstream projects if the price of oil drops. Management estimates it can grow cash flow from operations by 50% compared to 2017 if oil prices were to remain at around US\$40 a barrel. Meanwhile, should oil prices increase, Exxon could produce some rather incredible returns over the next decade.

**Exxon continues to trade at a premium to most oil majors because it is an historically integrated oil & gas company with the highest return on equity.** Today, that premium is historically narrow due to the shares' underperformance. Its two-year forward cash to price flow (based on consensus estimates) is at a five-year low compared to that of the other big oils.

**While investors wait for the volume growth from new upstream investments, cash flow growth should come from downstream projects, refining, lubricants and petrochemical manufacturing.** Between now and 2025, the company will start up operations at 13 new chemical production facilities worldwide - seven of which should start up by end-18. Downstream projects should also help insulate some of Exxon's future cash flows from the ups and downs of oil prices.

**Exxon has a 35-year unbroken trend of dividend growth.** The average growth in dividend per share since 2009 is 0.8%. The current prospective dividend yield is the highest it has ever been in absolute terms. It is also historically high relative to the oil majors. The current prospective dividend yield of 4.2% is the highest it has ever been in absolute terms.

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Trade the range as the stock recovers from support levels...

**Last Price:** US\$76.90 (closing price as at 4 May 18)

**Resistance:** US\$72-75

**Support:** US\$85-90

**Technical Comments:** (Weekly Chart is shown below) The stock is trading in a broadening triangle formation. The stock has rebounded from the support trendline extension and could be heading back towards the resistance trendline. Odds for further upside towards US\$85-90 could be in store as long as the stock continues to trade well above US\$72-75. The Chameleon indicator could move above zero which could be taken as a buy signal. Relative strength (as compared to the general US market) has improved, but relative strength against Brent is still relatively weak.



Source: Bloomberg

### Key Financials

Year to 30 Sep (US\$m)	2015	2016	2017	2018F	2019F
Net turnover	236,810	200,628	237,162	296,663	291,307
Operating profit	12,883	936	12,074	30,558	33,327
Net profit	16,150	7,840	19,710	19,962	20,420
EPS	3.9	1.9	4.6	4.7	4.8
PE (x)	20.0	40.9	16.6	16.5	16.0
P/B (x)	1.9	1.9	1.7	1.7	1.6
Dividend yield (%)	3.7	3.9	4.0	4.2	4.4
Net margin (%)	6.8%	3.9%	8.3%	6.7%	7.0%
Net debt/(cash) to equity (%)	19.8	22.5	20.1	18.2	17.0
ROE (%)	9.4	4.6	11.1	10.4	10.5

Source: Bloomberg, UOB Kay Hian

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