

## Imperial Oil

# 4Q23 earnings first look: Dividends matter - 20% div raise, E&P – d/stream beat

Reiterate Rating: BUY | PO: 88.00 CAD | Price: 76.61 CAD

## Adj EPS of \$2.38 beat and 20% dividend raise

Adjusted EPS of \$2.38 beat BofA and consensus of \$2.27 / 2.19. Versus our estimate the beat was shared equally between upstream and downstream. Cash flow of \$1.8bn, ex a working capital draw of \$500mm, and covered capex of \$469mm leaves \$1.23bn of free cash flow. In December IMO executed a \$1.5bn share repurchase, bringing FY23 to \$2.8bn and \$4.0bn of total cash returns including dividends (9.7% cash yield, as IMO paid out nearly 90% of its free cash flow). While operations were strong, highlighted by another production record at Kearl (309mbd, 100%, gross), the story continues to be the dividend – raised again, this time by 20% (60c from 50c), and the fifth hike in less than three years, which aims to address a gap versus CAD oil peers (Suncor 4.92%, CNQ 4.75%) with IMO now yielding 3.13%. We continue to view IMO's capacity for dividend growth as sector leading amongst the global integrated oils, and as a critical mechanism for market recognition of value.

## Downstream beats on light crude slate

4Q23 saw the benefit of IMO's integrated business model as the upstream earnings fell to \$770mn from \$1bn in 3Q23 partially due to a widening of the light heavy differentials when production increased in expectation of TMX. However, the same widening of differentials helped the downstream segment which printed earnings of \$595mn, is ahead of 3Q23 at \$586mn despite what was a weaker macro environment for refiners as we saw with PSX, MPC, and VLO. Note while IMO's refining system is not physically integrated with oil sands, it is predominantly a light crude refiner – thus benefiting from the discount on syncrude.

## Another record quarter for Kearl

Operationally, upstream performed well with gross production of 452 kboed compares to BofA at 423 kboed helped by another record quarter for Kearl at 308 kboed along with Syncrude (85 bpd vs BofA of 67 bpd) coming back strong after planned turnarounds in 3Q. Downstream refining utilization was 94%, slightly ahead of BofAe at 92%. Looking forward, SA-SAGD started in December which we expect to be a tailwind of 15 kbd for Cold Lake after 1Q24 although 1H24, as usual, will have planned turnarounds are Kearl and Syncrude

## FCF to cash returns differentiates, Reiterate Buy

4Q23 was a strong end to a well-executed year where the company returned \$4.9bn to shareholders via buybacks and dividends. Over the last 12 months management has increased the dividend twice, but with a dividend coverage of 3.2x (FCF) at \$70 WTI mid-cycle and few competing areas for cash we expect to see continued strength in FCF to cash returns conversion. IMO has no major project calls on capital and retains the only oil sands project in pre-payout royalty which we expect to extent through the end of the decade. We reiterate our Buy rating and PO of \$88 at long term \$70 WTI as the capacity for growth in cash returns continues to differentiate IMO's investment case vs peers.

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### Stock Data

Price (TOR / ASE)	76.61 CAD / 57.18 USD
Price Objective	88.00 CAD / 73.00 USD
Date Established	5-Jan-2024 / 27-Sep-2023
Investment Opinion	B-1-7 / C-1-7
52-Week Range	60.19 CAD - 86.34 CAD
Market Value (mn)	41,050 CAD
Free Float	30.4%
Average Daily Value	92.18 USD
Shares Outstanding (mn)	535.8 / 535.8
BofA Ticker / Exchange	YIMO / TOR
BofA Ticker / Exchange	IMO / ASE
Bloomberg / Reuters	IMO CN / IMO.TO
ROE (2023E)	21.2%
Net Dbt to Eqty (Dec-2022A)	1.8%
ESGMeter™	Medium

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Mbd – thousand barrel per day  
bpd – barrel per day  
WTI – West Texas Intermediate  
boe – barrel of oil equivalent  
CAD – Canada  
TMX – Trans mountain pipeline

## 4Q23 Earnings summary

The table compares actuals to estimates and prior yoy and qoq results

### Exhibit 1: YIMO 4Q23 Earnings Estimates (\$ in Millions, except in per share data)

Updated for 4Q23 results

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Upstream	770	725	778	-1%	1,028	-25%
Downstream	595	548	1,012	-41%	586	2%
Chemicals	17	29	54	-69%	23	-26%
Corp & Other	(17)	(46)	(21)	-19%	(36)	-53%
<b>Total Adj Earnings</b>	<b>1,365</b>	<b>1,255</b>	<b>1,823</b>	<b>-25%</b>	<b>1,601</b>	<b>-15%</b>
Special Items & FX	-	-	-	#DIV/0!	-	-
<b>Net Income (Reported)</b>	<b>1,365</b>	<b>1,255</b>	<b>1,823</b>	<b>-25%</b>	<b>1,601</b>	<b>-15%</b>
EPS (Adjusted)	2.38	2.27	3.02	-18%	2.76	-11%
EPS (Reported)	2.47	2.27	3.02	-18%	2.76	-11%
Dividend	0.60	0.59	0.44	36%	0.50	20%

Source: BofA Global Research estimates; Company data

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## Price objective basis & risk

### Imperial Oil (YIMO / IMO)

Our price objective of C\$88 / US\$66 assumes \$80 Brent and \$75 WTI long-term. We assume long-term HH natural gas of \$4.25. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 8.1%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

Risks are: (1) oil price risk, (2) tax policy in the regions in which it operates, (3) environmental risks related to higher taxes, fines, etc., (4) project implementation risk, and (5) a potential shortage of pipeline capacity that can occur in periods of high output.

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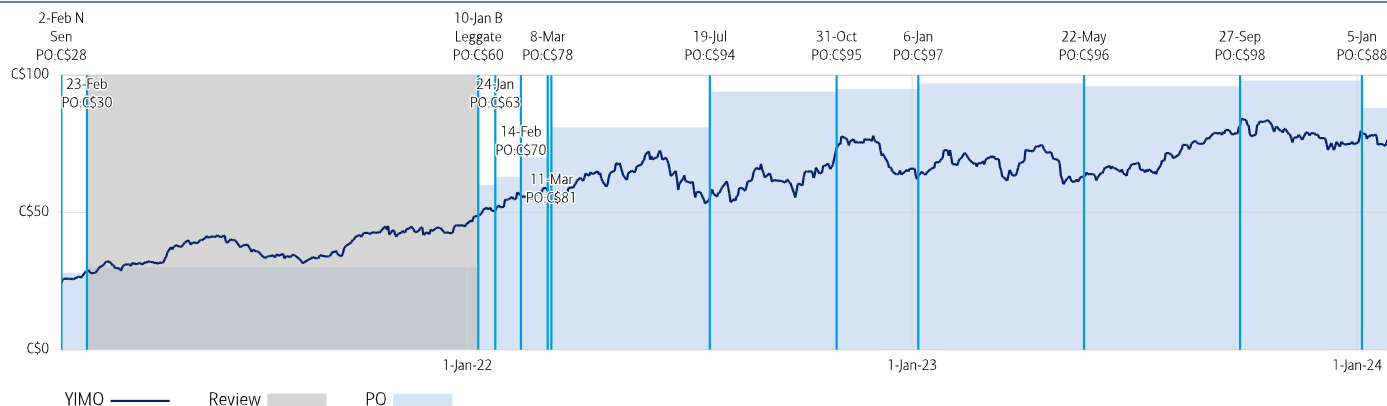
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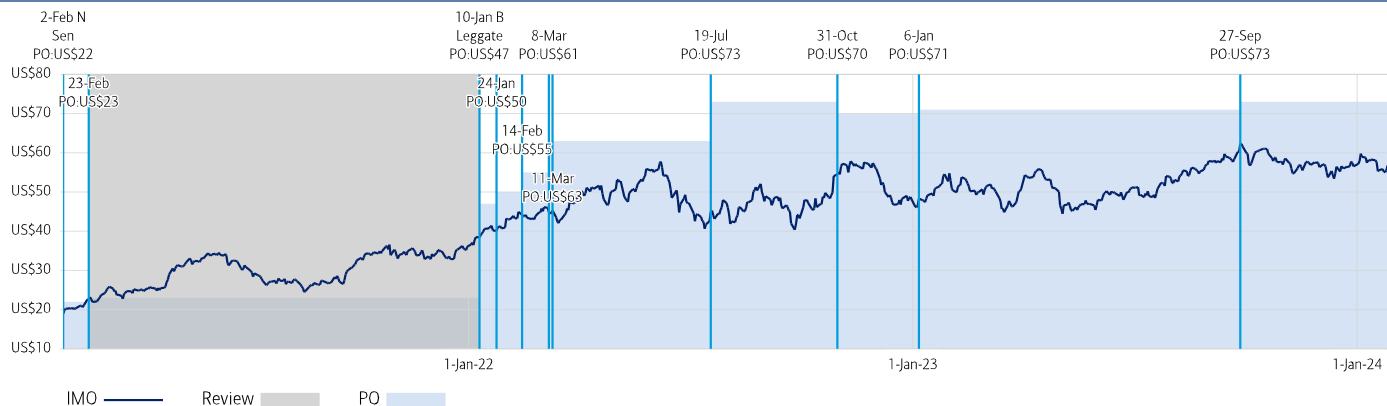
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### Imperial Oil (YIMO) Price Chart



### Imperial Oil (IMO) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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