

Equity Research

WELLS
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Price Target Change — October 29, 2021

Integrated Oil & Gas

Exxon Mobil Corporation (XOM)

XOM: Post Q3'21 Results and Adjs.—Raising Price Target

Our Call

Key Takeaway. We maintain our Overweight rating and raise our price target to \$75 (6.5x 2023E EV/EBITDA) from \$71. Through the combination of reflating commodity prices, substantial opex reductions and significantly restrained capex, XOM has thoroughly reversed the near-catastrophe that was 2020. This time last year, investors were seriously questioning XOM's ability to sustain its dividend. On today's (10/29) earnings call, XOM was able to illustrate how it can return net debt to pre-COVID status by year-end 2021, modestly raise its dividend and reinstate a \$10bn share repurchase program. Following the inline Q3'21 results and update to our Q4'21 and 2022 forecasts, we raise our 2021 and 2022 EPS estimates. Our new/old EPS estimates for 2021 and 2022 are \$4.95/\$4.56 and \$5.39/\$4.48.

We remain in the minority with less than a third of the analysts rating XOM the equivalent of "buy." We believe the lack of enthusiasm stemmed from concerns about XOM's balance sheet and liquidity, ability to sustain its dividend and recent history of aggressive investment/poor returns. In our view, recent results, BoD and senior management changes and the ability to restart a share repurchase program are quite supportive of our more positive views.

Modeling Adjustments. Adjustments reflect Q3 2021 actuals, our updated crude decks and minor tweaks to production, throughputs and opex assumptions. We estimate production of 3,635 mboed, or up 20 mboed versus Q3 2021. We lift our Q4 2021 downstream and chemicals margins on better cracks and an improved demand environment. We expect XOM to repurchase roughly \$7bn in shares through 2023 while reducing debt. Given our more conservative oil price forecast, we do not expect XOM to repurchase the full \$10bn over the next two years. We expect capex will be towards the lower-end of the \$20-25bn range in 2022 and move closer to the mid-point in 2023.

Q4 2021 Outlook. XOM expects upstream volumes to increase on lower curtailments and seasonal gas demand partially offset by higher planned maintenance. Within Downstream and Chemicals, higher planned turnarounds and maintenance should reduce volumes. XOM expects the UK North Sea sale (upstream) and Santoprene™ (chemicals) business to close by year-end.

Buybacks to Resume and Dividend Bump. XOM announced a \$10bn share repurchase program starting in 2022 over 12-24 mos and a \$0.01 per share quarterly dividend increase to \$0.88.

Capex Outlook. XOM announced annual capex range of \$20-25bn going forward (fully consistent with our forecast), including a 4x increase in low-carbon spending. This includes cumulative low-carbon investments of ~\$15bn from 2022-2027. The company is on track to achieve 2025 emissions intensity reduction plans by end of 2021 and plans to announce accelerated Scope 1 and 2 reduction plans later in the year.

Q3 2021 Results & Review. EPS of \$1.57 was in between our estimate of \$1.58 and consensus of \$1.56. CFFO of \$11.4bn excluding w/c adjustments (\$12.1bn including w/c adjustments) was short of our forecast of \$12.4bn. Capex of \$3.9bn was below our forecast of \$4.1bn. Versus our forecast, better Downstream performance was offset by weaker US Upstream and Chemicals performance.

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Rating	Overweight
Ticker	XOM
Price Target/Prior:	\$75.00/\$71.00
Upside/(Downside) to Target	16.6%
Price (10/28/2021)	\$64.31
52 Week Range	\$31.11 - 65.94
Shares Outstanding	4,233,562,917
Market Cap (MM)	\$272,260
Enterprise Value (MM)	\$332,068
Average Daily Volume	20,590,170
Average Daily Value (MM)	\$1,324
Dividend (NTM)	\$3.52
Dividend Yield	5.5%
Net Debt (MM) - last reported	\$59,807
ROIC - Current year est.	2%
3 Yr EPS CAGR from current year (unless otherwise noted)	NM

\$	2020A	2021E	2021E	2022E	2022E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	(0.14) A	0.64 A	NC	1.51 E	1.10 E
Q2 (Jun)	(0.70) A	1.10 A	NC	1.31 E	1.14 E
Q3 (Sep)	(0.16) A	1.57 A	1.58 E	1.41 E	1.21 E
Q4 (Dec)	0.03 A	1.65 E	1.24 E	1.17 E	1.13 E
FY	(0.98) A	4.95 E	4.56 E	5.39 E	4.58 E
P/E	NM	13.0x		11.9x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Exhibit 1 - XOM: Quarterly Variance Analysis

\$mm, unless indicated	Q3'20A	Q2'21A	Our Est.	Q3'21A	Var. (\$mm)	Var. (%)	Var. (y/y)	Var. (q/q)
Segment Earnings								
U.S. Upstream	(681)	663	1,171	869	(302)	-26%	-228%	31%
Int'l Upstream	298	2,522	3,097	3,082	(15)	0%	934%	22%
Upstream	(383)	3,185	4,268	3,951	(317)	-7%	-1132%	24%
Downstream	(231)	(227)	896	1,255	359	40%	-643%	-653%
Chemicals	661	2,320	2,199	2,140	(59)	-3%	224%	-8%
Corporate & Financing	(727)	(588)	(600)	(596)	4	-1%	-18%	1%
Net Income	(680)	4,690	6,763	6,750	(13)	0%	-1093%	44%
Diluted EPS	(\$0.16)	\$1.10	\$1.58	\$1.57	(\$0.01)	-1%	-1085%	43%
CFFO	4,389	9,650	12,391	12,091	(300)	-2%	175%	25%
CFFO excluding w/c adj.	3,526	10,030	12,141	11,432	(709)	-6%	224%	14%
Capex	4,133	3,803	4,143	3,851	(292)	-7%	-7%	1%
Segment Info								
Upstream								
Production								
U.S.	1,127	1,154	1,148	1,208	60	5%	7%	5%
International	2,545	2,428	2,426	2,407	(20)	-1%	-5%	-1%
Total Production	3,672	3,582	3,574	3,615	41	1%	-2%	1%
Realizations								
U.S.								
Crude	\$36.80	\$63.29	\$66.33	\$67.62	\$1.29	2%	\$0.84	\$0.07
Natural Gas	\$1.62	\$2.78	\$4.03	\$3.33	(\$0.70)	-17%	\$1.06	\$0.20
International								
Crude	\$38.30	\$60.52	\$63.74	\$64.89	\$1.15	2%	\$0.69	\$0.07
Natural Gas	\$3.41	\$6.76	\$7.17	\$9.03	\$1.86	26%	\$1.65	\$0.34
Downstream								
Refinery Throughput (Mboed)	3,759	3,858	4,054	4,051	(3)	0%	8%	5%
Chemicals								
Product Sales (kt)	6,624	6,513	6,752	6,672	(80)	-1%	1%	2%

Source: Company reports and Wells Fargo Securities, LLC estimates

Financials

Exhibit 2 - XOM: Updated Financial Model

Income Statement	FY20	1Q21	2Q21	3Q21	4Q21E	FY21E	1Q22E	2Q22E	3Q22E	4Q22E	FY22E	FY23E
Global Production												
Crude Oil (Mboe/d)	2,349	2,258	2,200	2,313	2,329	2,275	2,395	2,368	2,468	2,478	2,427	2,451
Natural Gas (MMcfe/d)	8,472	9,173	8,294	7,810	7,839	8,279	8,789	7,890	7,873	7,536	8,022	7,791
Total Production (Mboe/d)	3,761	3,787	3,582	3,615	3,635	3,655	3,860	3,683	3,780	3,734	3,764	3,750
% Change (yr/yr)	-4.8%	-6%	-2%	-2%	-1%	-2.8%	2%	3%	5%	3%	3.0%	-0.4%
% Oil	62%	60%	61%	64%	64%	62%	62%	64%	65%	66%	64%	65%
Total Revenue	181,502	59,147	67,742	73,786	73,429	271,243	71,654	69,099	69,680	68,673	279,106	301,035
Total Costs & Other Deductions	210,385	55,555	61,435	64,180	66,164	247,334	64,985	62,809	63,361	62,324	253,479	272,546
Pre-Tax Income	(28,883)	3,592	6,307	9,606	10,278	29,783	9,405	8,175	8,747	7,232	33,558	32,048
Income Taxes	(5,632)	796	1,526	2,664	2,850	7,836	2,633	2,289	2,449	2,025	9,396	8,973
Tax Rate (%)	19.5%	22.2%	24.2%	27.7%	27.7%	26.3%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Income	(4,993)	2,796	4,781	6,942	7,233	21,752	6,594	5,731	6,133	5,070	23,528	22,470
Minority Interest	(811)	66	91	192	195	544	177	154	165	136	633	605
% of Income	16.2%	2.4%	1.9%	2.8%	2.8%	2.5%	2.8%	2.8%	2.8%	2.8%	2.7%	2.7%
Net Income Attributable to XOM	(4,182)	2,730	4,690	6,750	7,039	21,209	6,416	5,577	5,968	4,934	22,895	21,865
Segment Earnings												
U.S. Upstream	(2,653)	363	663	869	1,602	3,497	1,529	1,142	934	992	4,597	3,194
International Upstream	1,687	2,191	2,522	3,082	3,938	11,733	3,898	3,094	3,374	2,909	13,275	12,693
R&M	(2,151)	(390)	(227)	1,255	1,131	1,769	928	1,229	1,522	881	4,560	4,878
Chemicals	1,870	1,415	2,320	2,140	1,168	7,043	836	887	913	927	3,563	3,900
Corporate & Financing	(2,935)	(849)	(588)	(596)	(800)	(2,833)	(775)	(775)	(775)	(775)	(3,100)	(2,800)
Net Income	(4,182)	2,730	4,690	6,750	7,039	21,209	6,416	5,577	5,968	4,934	22,895	21,865
EPS - Diluted (recurring)	(\$0.98)	\$0.64	\$1.10	\$1.57	\$1.65	\$4.95	\$1.51	\$1.31	\$1.41	\$1.17	\$5.39	\$5.22
% Change (yr/yr)	-143.5%	-547.3%	-256.0%	-1085.2%	6292.7%	-605.6%	135.7%	19.7%	-10.2%	-29.1%	9.0%	-3.2%
Shares Out-Diluted	4,271.0	4,272.0	4,276.0	4,276.0	4,276.0	4,275.0	4,260.6	4,249.1	4,237.5	4,226.0	4,243.3	4,187.5
Cash Flow Statement	FY20	1Q21	2Q21	3Q21	4Q21E	FY21E	1Q22E	2Q22E	3Q22E	4Q22E	FY22E	FY23E
After Tax Cash Flow	14,668	9,264	9,650	12,091	12,620	43,625	11,689	10,787	11,246	9,991	43,713	40,934
ATCF/Share	\$3.43	\$2.17	\$2.26	\$2.83	\$2.95	\$10.20	\$2.74	\$2.54	\$2.65	\$2.36	\$10.30	\$9.77
Total Capital Expenditures	21,383	3,133	3,803	3,851	4,212	14,999	4,756	5,006	5,056	5,406	20,224	23,010
Exploration Expense	1,285	164	176	190	317	847	352	335	349	342	1,377	2,042
NTB	2,816	569	880	880	880	3,209	880	880	880	880	3,520	3,520
Additions to PP&E	(17,282)	(2,400)	(2,747)	(2,781)	(3,015)	(10,943)	(3,524)	(3,791)	(3,827)	(4,184)	(15,327)	(17,448)
Proceeds from asset sales	999	307	250	18	1,000	1,575	1,000	1,000	1,000	1,000	4,000	4,000
Additional investments and advances	(4,857)	(349)	(264)	(264)	(264)	(1,141)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(4,000)
Other	2,681	87	45	250	250	632	275	275	275	275	1,100	1,200
Net cash used in investment activities	(18,459)	(2,355)	(2,716)	(2,777)	(2,029)	(9,877)	(3,249)	(3,516)	(3,552)	(3,909)	(14,227)	(16,248)
Free Cash Flow	(3,791)	6,909	6,934	9,314	10,591	33,748	8,440	7,271	7,694	6,082	29,486	24,686
FCF/Share	(\$0.89)	\$1.62	\$1.62	\$2.18	\$2.48	\$7.89	\$1.98	\$1.71	\$1.82	\$1.44	\$6.95	\$5.89
Net additions (reductions) in debt	20,120	(4,065)	(2,981)	(1,000)	(1,000)	(8,046)	(1,000)	(1,000)	(1,000)	(1,000)	(2,000)	(2,000)
Cash dividends to XOM shareholders	(14,865)	(3,720)	(3,721)	(3,720)	(3,806)	(14,967)	(3,792)	(3,782)	(3,771)	(3,803)	(15,148)	(15,117)
Cash dividends to NCI	(188)	(52)	(60)	(60)	(60)	(232)	(60)	(60)	(60)	(60)	(240)	(240)
Changes in NCI	623	53	(260)	50	50	(107)	50	50	50	50	200	200
Share (repurchase) issuance	(405)	(1)				(1)	(1,000)	(750)	(750)	(750)	(3,250)	(4,000)
Net cash used in financing activities	5,285	(7,785)	(7,022)	(3,730)	(4,816)	(23,353)	(4,802)	(5,542)	(4,531)	(5,563)	(20,438)	(21,157)
Net FCF	1,494	(876)	(88)	5,584	5,776	10,395	3,638	1,729	3,162	519	9,048	3,529
Net FCF (\$/share)	\$0.35	(\$0.21)	(\$0.02)	\$1.31	\$1.35	\$2.43	\$0.85	\$0.41	\$0.75	\$0.12	\$2.13	\$0.84
Exchange rate impact	(219)	27	38									
Increase (decrease) in cash and cash equivalents	1,275	(849)	(50)	5,584	5,776	10,460	3,638	1,729	3,162	519	9,048	3,529
Cash at beginning of period	3,089	4,364	3,515	3,465	9,049	4,327	14,824	18,462	20,191	23,354	14,824	23,872
Cash at end of period	4,327	3,515	3,465	9,049	14,824	14,824	18,462	20,191	23,354	23,872	23,872	27,401
EBITDA	37,480	8,788	11,422	14,658	14,977	49,845	14,393	13,164	13,773	12,117	53,447	52,251
EBITDA/Share	\$4.61	\$2.06	\$2.67	\$3.43	\$3.50	\$11.66	\$3.38	\$3.10	\$3.25	\$2.87	\$12.59	\$12.48
Financials	FY20	1Q21	2Q21	3Q21	4Q21E	FY21E	1Q22E	2Q22E	3Q22E	4Q22E	FY22E	FY23E
D/E	41.2%	38.6%	36.6%	35.9%	34.5%	34.5%	34.1%	33.3%	33.0%	32.4%	32.4%	32.1%
Net D/E	38.6%	36.4%	34.5%	30.5%	25.9%	25.9%	23.6%	21.8%	19.9%	19.0%	19.0%	16.7%
Debt-to-Cap (Net)	27.8%	26.7%	25.7%	23.4%	20.6%	20.6%	19.1%	17.9%	16.6%	15.9%	15.9%	14.3%
Debt-to-capital	29.2%	27.8%	26.8%	26.4%	25.6%	25.6%	25.4%	25.0%	24.8%	24.5%	24.5%	24.3%
Debt-to-CF	3.2x	2.6x	1.7x	1.3x	1.0x	1.0x	1.0x	0.9x	0.9x	1.0x	1.0x	1.0x
Debt-to-EBITDA	3.4x	2.8x	2.0x	1.5x	1.2x	1.2x	1.1x	1.0x	1.0x	1.1x	1.1x	1.1x
ROE	-2.8%	-0.8%	3.8%	8.5%	13.0%	13.0%	15.0%	15.3%	14.7%	13.3%	13.3%	12.6%
ROACE	-9.0%	-7.9%	-5.4%	-2.0%	10.8%	10.8%	12.7%	13.2%	12.8%	11.7%	11.7%	11.2%
ROIC	-6.9%	-5.7%	-2.9%	-0.2%	2.2%	2.2%	3.5%	3.8%	3.5%	2.7%	2.7%	2.4%
Valuation												
Mkt Cap	176,051	238,506	269,730	275,567	275,567	275,502	274,575	273,832	273,088	272,345	273,460	269,866
P/E	NM	NM	39.3x	19.3x	13.0x	13.0x	11.1x	10.7x	11.0x	11.9x	11.9x	12.3x
EV/EBITDA	12.2x	13.3x	10.9x	8.3x	6.4x	6.4x	5.7x	5.5x	5.5x	5.7x	5.7x	5.7x
P/DACF	10.5x	12.1x	9.2x	7.5x	6.1x	6.1x	5.8x	5.6x	5.7x	6.0x	6.0x	6.2x
EV/DACF	14.3x	15.2x	11.2x	8.9x	7.1x	7.1x	6.6x	6.4x	6.4x	6.7x	6.7x	6.9x
P/CF	12.0x	13.5x	9.9x	7.9x	6.3x	6.3x	6.0x	5.8x	5.9x	6.2x	6.3x	6.6x
P/Book	1.1x	1.5x	1.6x	1.6x	1.6x	1.6x	1.6x	1.6x	1.5x	1.5x	1.5x	1.5x
Production boed/Share	0.88x	0.89x	0.84x	0.85x	0.85x	0.85x	0.91x	0.87x	0.89x	0.88x	0.89x	0.90x
Dividend	\$3.48	\$3.48	\$3.48	\$3.48	\$3.50	\$3.50	\$3.53	\$3.55	\$3.58	\$3.58	\$3.57	\$3.61
Dividend Yield	8.4%	6.2%	5.5%	5.4%	5.4%	5.4%	5.5%	5.5%	5.5%	5.6%	5.5%	5.6%
Dividend Coverage	101.3%	40.2%	39%	31%	30.2%	34.3%	32.4%	35.1%	33.5%	38.1%	34.7%	36.9%
TSR Coverage	104.1%	40.2%	39%	31%	30.2%	34.3%	41.0%	42.0%	40.2%	45.6%	42.1%	46.7%

Source: ExxonMobil, Bloomberg and Wells Fargo Securities LLC estimates

Price Target Basis and Risk

Price Target for XOM: \$75.00 from \$71.00

Our \$75 price target is based on 6.5x our 2023 EV/EBITDA forecast.

Risk for XOM

Systematic risks to our target/rating include commodity price fluctuations, political risk, environmental risk, and potential operational issues given today's regulatory environment. Company-specific risks include operational production shortfalls, California regulatory/tax hurdles, and civil strife in international locations.

Investment Thesis

XOM

We have an Overweight rating on XOM. Opex reductions combined with meaningful reversion to the mean margin performances at Chemicals and the Downstream (supported by the fundamentals) should allow XOM to generate \$47bn of EBITDA in 2023 at just \$60/bbl Brent, \$56/bbl WTI and \$2.75mmbtu natural gas. This level of EBITDA generation would be in between XOM's 2018 and 2019 performances which benefited from much higher commodity prices. We do not expect production growth and only minimal free cashflow generation, which is inclusive of disposition proceeds. However, this represents a significant change from the last several years of significant cash burns and increased leverage. In our view, this is likely enough to lift the shares a bit higher and lessen worries about dividend sustainability and allow a resumption in share repurchases in 2022.

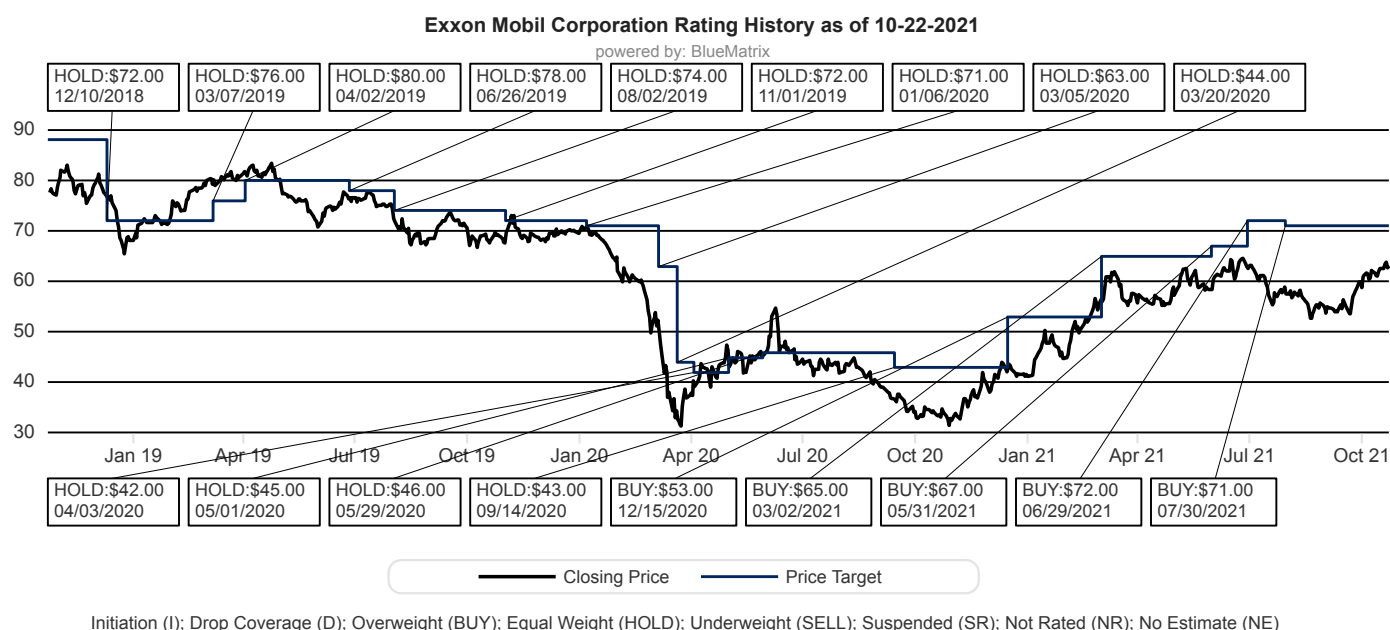
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STOCK RATING

1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of October 28, 2021

55.5% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.

34.6% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

9.9% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.

Wells Fargo Securities, LLC has provided investment banking services for 56.6% of its Equity Research Overweight-rated companies.
Wells Fargo Securities, LLC has provided investment banking services for 44.9% of its Equity Research Equal Weight-rated companies.
Wells Fargo Securities, LLC has provided investment banking services for 36.9% of its Equity Research Underweight-rated companies.

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