Exxon mobil stock analysis

Stock Analysis Report

Exxon Mobil Corporation (XOM) – August 15th, 2011

Industry	Oil and Gas Operations
Sector	Energy
Recommendation	SELL Price $74. 29 (as of August 15th 2011, 4: 00pm ET)
Intrinsic Value	$52. 10 or 42. 6% overvalued
Fundamentals Grade	A
Investment Style	Large Cap Blend

Corporate Information

Location	5959 Las Colinas Boulevard Irving, TX 75039
Phone	972-4441000
Fax	972-4441348
Web Site	http://www. exxonmobil. com/

Employees	83, 000
Exchange	NYSE

Business Summary

Exxon Mobil Corporation (Exxon Mobil) through its divisions and affiliates is engaged in the exploration for, and production of, crude oil and natural gas, manufacture of petroleum products and transportation and sale of crude oil, natural gas and petroleum products.

- Exxon Mobil is the largest integrated oil company, with operations in over 200 countries. This globally diversified enterprise produces superior returns in its business segments when compared to other major oil and gas companies.
- Exxon has a strong balance sheet with a cash position of approximately $13B and 0. 7 Debt-to-equity. Exxon has the liquidity and credit to invest in high return projects around the world.
- Prices for oil and gas are expected to rise in the foreseeable future. Emerging market growth and increasing need for energy will place upward pressure on prices. Exxon will benefit as the world's largest oil and gas company (by reserves, excluding national oil companies). The average industry return is 27%, which is greater than that of S&P500 (21%).
- Exxon's all-stock purchase of XTO Energy is dilutive to shareholders and not expected to increase EPS in 2011 or 2012. Exxon's size and

breadth of operations make it difficult to find investments large enough to produce market-beating growth. We expect Exxon’s growth to slightly lag the overall economy, especially smaller exploration and production companies that have better investment opportunities relative to their size.

- Exxon’s inability to organically replace reserves means that it must acquire oil and gas assets to supply its operations with replacements for the reserves it consumes. Acquired assets will likely come at a higher price and produce a lower return. Production from Exxon’s Upstream segment (exploration and production of oil and gas) has been declining (down 30% since 2006). While the acquisition of XTO will replace some of this lost production, it is expected that the company will continue to experience declining production from its existing fields.

Key Statistics

Market Cap (intraday)5	360. 57B
Enterprise Value (Aug 17, 2011)3	363. 1B
Trailing P/E (ttm, intraday)	9. 78
Forward P/E (fye Dec 31, 2012)1	8. 21
PEG Ratio (5 yr expected)1	1. 32

Price/Sales (ttm)	0. 91
Price/Book (mrq)	2. 0
Enterprise Value/Revenue (ttm)3	0. 93
Institutional Ownership	49. 12%
Earnings Yield	9. 28%
Return on equity (RoE)	24. 69%
36 month Beta	0. 9
Dividend Yield	2. 48%
Profit Margin	8. 51%
Current Ratio	0. 97
Debt to equity ratio	0. 07

Analysis

Exxon Mobil (XOM) is the largest market capitalized oil company in the world which in 2008 obtained the highest quarterly and annual profit in United States history. The Company plans to invest $125 billion over the next five years to develop newtechnology, deliver new Upstream projects, increase refining capacity, and grow its Chemical business. Exxon Mobil’s revenue and profit have increased by 60% and 79% respectively in the last 5 years. The Company exhibits a healthy profit margin and return on equity of 8. 51% and 20. 4% respectively and maintains an above-average earnings yield of 10. 27%. Exxon Mobil has plenty of liquidity enabling the Company to pay all its long-term debt in less than three months on profit alone. Exxon Mobil is valued at $52. 1 as of August 15th, 2011. The Company is 42. 61% overvalued for the current price of $74. 29. The PB ratio is slightly above the industry average of 2. 0. Risks to Exxon Mobil include depreciating reserves, decreasing the number of new oil fields, adverse environmental impacts, government regulations, geopolitical risks, market volatility, macroeconomic difficulties, etc. Balance Sheet The balance sheet of XOM is pristine. Debt comprises only 9% of total capital, and in a business that is very capital intensive, that’s a great sign. The current ratio is low at 0. 94, slightly lower than the generally accepted “ safe” level of 1. $30 billion in earnings in 2010 is more than enough to repay the roughly $15 billion in total debt the company has in only a few years. Return on Equity The return on equity closely followed the rise of oil prices up until 2008, the fall in 2008- 2009, and the subsequent increase ever since. Right now Exxon-Mobil has a high return on equity of 20%. Given the high oil prices, I expect ROE to reach its 2008 highs this year. Rather than focus on absolute values for this indicator, I generally want to see at least a stable return on equity over time. Dividends Exxon Mobil has paid an increasing dividend for the past 27 years, and according to their website, averaged 5. 7% over that time period. The most recent increase came on April 27 of this year, when they raised the quarterly payout 6. 8% from $0. 44 to $0. 47 a share. This is an annual raise from $1. 74 to $1. 88, or 8%.

Projections	2011	2012	2013	2014	2015
Dividends Per Share	$1. 4	$2. 00	$2. 04	$2. 07	$2. 10
Dividend Growth	11. 7%	2. 7%	2. 4%	1. 3%	1. 3%

Direct Competitor Comparison

-	COP	CVX	XOM	Industry
Market Cap	91. 75B	195. 65B	360. 57B	26. 52B
Employees	29, 900	62, 000	83, 600	11. 00K
Qtrly Rev Growth (yoy)	45. 70%	30. 60%	36. 30%	8. 0%
Revenue (ttm)	210. 76B	216. 90B	392. 72B	18. 63B
Gross Margin (ttm)	23. 43%	32. 58%	31. 45%	32. 51%

EBITDA (ttm)	28. 78B	45. 90B	65. 78B	4. 19B
Operating Margin (ttm)	9. 46%	15. 07%	12. 74%	11. 65%
Net Income (ttm)	11. 3B	23. 01B	37. 93B	N/A
EPS (ttm)	7. 93	11. 45	7. 59	2. 46
P/E (ttm)	8. 43	8. 53	9. 78	12. 94
PEG (5 yr expected)	6. 21	1. 61	1. 32	1. 14
P/S (ttm)	0. 43	0. 90	0. 91	1. 39

P/E ratios are higher for firms with strong growth prospects, other things held constant, but they are lower for riskier firms. All three companies have P/E lower than the industry average. Profit margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. Here again, XOM has relatively good control of cost. As per the comparison of the ratios with the industry average, Exxon Mobil is a high performing company with higher ratios than industry standards. Current Market Price (as of 08/17/11) of the Stocks:

Company name	Current Market Price

Chevron Corp	$92. 02
ConocoPhillips	$62. 29
Exxon Mobil	$74. 29

Exxon Mobil’s Intrinsic Value

- Current US 90 days Treasury Bill – Rate of Return: 3. 5%.
- Historical return on long term Treasury Bond = 5. 8%.
- Long term risk-free rate = rRF = 5. 8% (historical return).

Return for the market or an average stock(rM): For this project, it is assumed that the historical rate of return for the S&P500 is the same as the market risk = 10. 4%. I am using the CAPM method to estimate the market risk premium and calculating the historical risk premium by comparing historical to historical rates. The historical risk premium is 10. 4 -5. 8 = 4. 6%.

Required Return on Common Stock

Required return on common stock (rS) for Exxon Mobil rS = rRF + (rM – rRF)*b = 5. 8% + (10. 4% – 5. 8%) * 0. 49 = 8. 05% Dividend Growth Model: Common stocks provide an expected future cash flow stream, and a stock’s value is found as the present value of the expected future cash flow stream. The expected final stock price includes the return of the original investment plus an expected capital gain. The expected cash flow consists of two elements:

1. The dividends expected each year.
2. The price investors expect to receive when they sell the stock.

Formula 1: P hat 0 = D1/rS – g Where P hat 0 = intrinsic value of the stock today as seen by the investor D1 = D0 (1 + g) = expected dividend in the first year. D0 = recent dividend paid g = expected dividend growth rate. rS = required rate of return.

Formula 2: r hat S = D1/P0 + g Where r hat S = expected rate of return D1/P0 = expected dividend yield P0 = actual market price of the stock today. g = expected growth rate or capital gains yield. One would buy the stock only if the expected rate of return is equal to or greater than the required rate of return. For Exxon Mobil: D0 = $1. 8; g = 5. 7 %; rS = 8. 05% P0 = 1. 38 (1+ 0. 057)/ (0. 085 – 0. 057) = 1. 457/ 0. 0280 = $52. 1 The current price is greater than intrinsic value, the Exxon Mobil stock is overvalued by $22. 20 r hat S = 1. 96% + 5. 7% = 7. 66% The expected rate of return is less than the required rate of return, which means the investor will not buy.

Conclusion

SELL Comparing the averaged value of $52. 10 and the closing price on 08/15/11 of $74. 29, XOM is the adversely overpriced price, with an approximate 42. 6% difference. At this point in time, I think Exxon Mobil’s risks outweigh the potential opportunity here. While I feel the dividend is safe (at a 25% payout ratio) and the current yield is adequate (2. 48%), the Company's ability to increase the payout and create outsized returns for investors is limited by the Company's cyclical market and weak consensus estimates.

Sources:

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