

ExxonMobil Corporation (XOM)

\$43.99 (As of 05/06/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry-leading returns and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play. Notably, the company estimates gross recoverable resource of more than 8 billion oil-equivalent barrels from offshore Guyana discoveries. The energy giant's first-quarter 2020 results were better than expected, thanks to growth in production from the prolific Permian & Guyana oil resources. This was partially offset by lower industry refining margin and decline in commodity prices. Also, with no near-term recovery in demand in the horizon, owing to coronavirus pandemic, the firm's refining business is not expected to improve anytime soon.

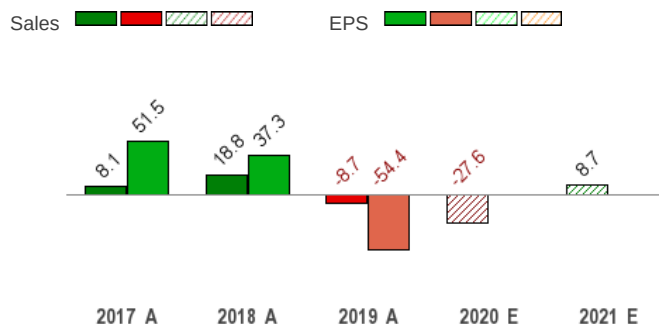
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.93 - \$30.11
20 Day Average Volume (sh)	31,819,028
Market Cap	\$186.2 B
YTD Price Change	-37.0%
Beta	1.34
Dividend / Div Yld	\$3.48 / 7.9%
Industry	Oil and Gas - Integrated - International
Zacks Industry Rank	Bottom 23% (194 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1,225.0%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	-282.9%
Expected Report Date	08/07/2020
Earnings ESP	0.0%
P/E TTM	18.7
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	49,307 E	50,263 E	52,249 E	53,056 E	208,508 E
2020	56,158 A	31,679 E	37,827 E	43,285 E	191,740 E
2019	63,625 A	69,091 A	65,049 A	67,173 A	264,938 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.16 E	-\$0.05 E	\$0.10 E	\$0.01 E	\$0.30 E
2020	\$0.53 A	-\$0.61 E	-\$0.39 E	-\$0.29 E	-\$0.82 E
2019	\$0.55 A	\$0.73 A	\$0.68 A	\$0.41 A	\$2.25 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/06/2020. The reports text is as of 05/07/2020.

Overview

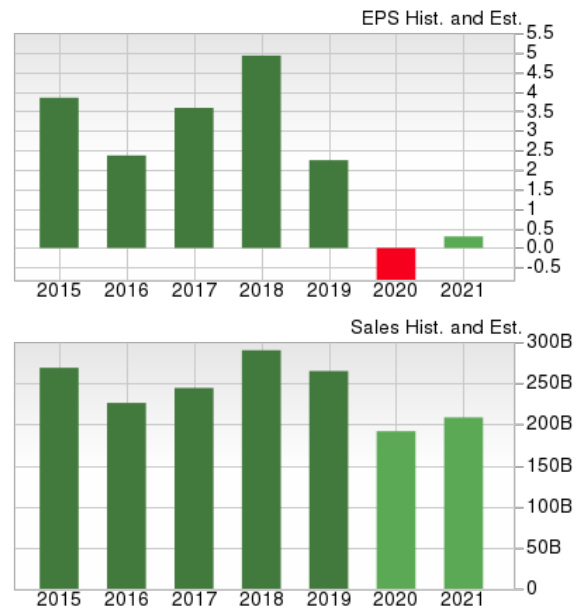
ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry-leading returns and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play.

A component of the Dow Jones Industrial Average, ExxonMobil's upstream portfolio has not generated much production growth in 2019 and the trend isn't expected to change at least in the near term. The company nevertheless owns some of the most prolific upstream assets globally. Other aspects of the company's story include the largest global refining operations, substantial chemicals assets and a dividend history and credit profile that are second to none in the space.

As compared to other energy giants, ExxonMobil's capital spending discipline is quite aggressive. The company has a plan in place to allocate significant proportion of its budget to key oil and gas projects that include offshore Guyana resources and Permian - the most prolific shale play in the United States.

Needless to say, the company's business perspective looks different from most peers since big oil rivals have pledged to lower carbon emissions to tackle climate change. The European oil majors believe that the energy space is evolving, calling for more investment in renewables such as wind and solar. On the contrary, ExxonMobil believes that renewables alone will not be enough to meet energy demand. The company thinks the world needs more oil in the next two decades since people's standard of living is improving over time.

Irving, TX-based ExxonMobil has a market cap of around \$202 billion and divides its operations into three main segments: Upstream (exploration & production), Downstream (refining) and Chemicals (manufacturing & marketing petrochemicals). In 2019, these segments generated 83%, 14% and 3%, respectively, of the company's total earnings.



Reasons To Buy:

- ▲ ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry leading returns, and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play.
- ▲ ExxonMobil recently announced plans to slash 2020 capital spending plan by 30% or \$10 billion from its original guidance to \$23 billion, as low commodity prices amid an oversupplied industry are a concern for the global energy space. The company will also slash cash operating expenses by 15% to combat the pandemic. The measures are likely to help the energy giant make up for the massive shortfall in cashflows.
- ▲ The company's growth developments include the Stabroek Block, located off the coast of Guyana. In the block, the company estimates gross recoverable resource of more than 8 billion oil-equivalent barrels. Moreover, the firm projects daily Guyana oil production volumes of more than 750,000 gross barrels by 2025. Importantly, the pandemic hasn't affected current operations offshore Guyana, the company revealed.
- ▲ At the end of first-quarter 2020, the company's total cash and cash equivalents were \$11.4 billion and debt amounted to \$59.6 billion. Notably, the integrated energy firm's debt-to-capitalization ratio of just 0.24 reflects the company's significantly lower reliance on debt capital. The energy giant also carries high investment grade rating of Aa1 from Moody's, reflecting the company's strong ability to fulfil financial commitments. Moreover, the integrated energy company has maintained its long-term business outlook. The company added that it will continue to invest in profitable projects to capitalize on long-term energy demand.

Major discoveries in the Stabroek Block have enhanced prospects for ExxonMobil's upstream businesses.

Reasons To Sell:

- ▼ Crude oil continues to trade in the bearish territory since global energy demand has been dented by coronavirus pandemic. Weak oil prices are thus affecting the company's upstream operations. Notably, first-quarter earnings of \$536 million from the company's upstream operations plunged from \$2.9 billion a year ago, primarily due to lower oil and gas price realizations.
- ▼ The company's downstream operation recorded a loss of \$611 million, wider than the year-ago loss of \$256 million. The underperformance can be attributed to lower industry refining margin from operations in America and outside. With no near-term resurgence in demand in the horizon, owing to the ongoing coronavirus pandemic, the sector's performance is not expected to improve anytime soon.
- ▼ The company's chemical business unit recorded \$144-million profit, down from \$518 million in the year-ago quarter due to the decline in margin and volumes from non U.S. operations. The Chemical business is unlikely to recover, since the slowdown in global economy has been hurting demand for petrochemicals.
- ▼ On Apr 29, ExxonMobil announced that it has maintained its quarterly dividend at 87 cents per share, likely to be paid on Jun 10, to shareholders of record as of May 13. Since the coronavirus pandemic has shocked the energy market, many leading energy firms have opted to slash dividend as a measure of preserving cashflows. Hence, the company's decision to maintain dividends is worth appreciating. However, it is expected to be difficult for the energy major to sustain a high payout rate of 148.1%, since the company's overall business is severely affected by the coronavirus pandemic.

Weakness in the firm's downstream business is a concern.

Last Earnings Report

ExxonMobil Beats Q1 Earnings & Revenue Estimates

ExxonMobil reported better-than-expected results for first-quarter 2020, thanks to growth in production volumes from the prolific Permian and Guyana oil resources. This was offset partially by lower industry refining margin and decline in commodity prices.

The integrated energy giant's earnings per share of 53 cents surpassed the Zacks Consensus Estimate of 4 cents. However, the bottom line declined marginally from the year-earlier quarter's 55 cents per share.

Total revenues of \$56,158 million beat the Zacks Consensus Estimate of \$53,800 but deteriorated from the year-earlier figure of \$63,625 million.

Maintains Dividend

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Operational Performance

Upstream

Quarterly earnings of \$536 million plunged from \$2.9 billion a year ago, primarily due to lower oil and gas price realizations. The downside was offset partially by higher liquid production volumes.

Operations in the United States recorded a loss of \$704 million against a profit of \$96 million in the March quarter of 2019. Moreover, the company reported earnings of \$1.2 billion from Non-U.S. operations, drastically down from the year-ago quarter's \$2.8 billion.

Production: Total production averaged 4.046 million barrels of oil-equivalent per day (MMBoE/D), higher than 3.981 MMBoE/D a year ago, thanks to contributions from Permian and Guyana resources.

Liquid production increased to 2.480 million barrels per day (MMBbls/D) from 2.327 MMBbls/D in the prior-year quarter. While production from the United States, Canada and Asia rose significantly, it declined in Europe and Africa. However, natural gas production was 9.396 billion cubic feet per day (Bcf/d), down from 9.924 Bcf/d a year ago, due to lower output from Europe.

Price Realization: In the United States, the company recorded crude price realization of \$42.82 per barrel, lower than the year-ago quarter's \$53.30. The same metric for non-U.S. operations declined to \$41.96 per barrel from the year-ago \$57.12. Moreover, natural gas prices in the United States were recorded at \$1.69 per thousand cubic feet (Kcf), below the year-ago quarter's \$2.93. Similarly, in the Non-U.S. section, the metric fell to \$5.60 per Kcf from \$7.18 in first-quarter 2019.

Downstream

The segment recorded a loss of \$611 million, wider than the year-ago loss of \$256 million. The underperformance can be attributed to lower industry refining margin from operations in America and outside.

Notably, ExxonMobil's refinery throughput averaged 4.1 MMBbls/D, higher than the year-earlier level of 3.9 MMBbls/D.

Chemical

This unit recorded \$144-million profit, down from \$518 million in the year-ago quarter due to the decline in margin and volumes from non U.S. operations.

Financials

During the quarter under review, ExxonMobil generated cash flow of \$7.3 billion from operations and asset divestments, up from \$6.2 billion a year ago. The company's capital and exploration spending rose 8% year over year to \$7.1 billion.

At the end of first-quarter 2020, total cash and cash equivalents were \$11.4 billion, and debt amounted to \$59.6 billion.

Guidance

The coronavirus pandemic has dented global energy demand, leading crude prices to remain in the bearish territory. In wake of this unfavorable business scenario, ExxonMobil has slashed its 2020 capital budget by 30% to roughly \$23 billion. The integrated firm has also decided to lower planned cash operating expenses for this year by 15%.

Quarter Ending 03/2020

Report Date	May 01, 2020
Sales Surprise	4.38%
EPS Surprise	1,225.00%
Quarterly EPS	0.53
Annual EPS (TTM)	2.35

Recent News

ExxonMobil Plans to Spend Aggressively on Growth Projects - Mar 5, 2020

ExxonMobil has provided a glimpse into its aggressive capital spending plans.

Capital Budget & Growth Projects

The integrated energy giant reaffirmed its plan of spending capital annually in the range of \$30 billion to \$35 billion through 2025. Notably, the company intends to spend up to \$33 billion in 2020, up from last year's \$31.2 billion. However, ExxonMobil added that this year's capital budget is subject to progress in key projects. In comparison, Chevron Corporation, another energy giant, is planning for a narrower range of \$19 to \$22 billion through 2024.

The aggressive capital budget reflects ExxonMobil's strong focus on growth projects, which the company believes will help to persistently improve value for shareholders. The growth developments include the Stabroek Block, located off the coast of Guyana. In the block, the company estimates gross recoverable resource of more than 8 billion oil-equivalent barrels. Moreover, the firm projects daily Guyana oil production volumes of more than 750,000 gross barrels by 2025.

Exploiting resources in Permian, the most prolific basin in the United States, is another growth strategy of the energy major. The company continues to increase production from the shale play and expects daily oil equivalent production volumes to surpass 1 million barrels by 2024. ExxonMobil also has an aggressive plan for exploratory activities in Brazil from 2020 to 2021.

What Concerns the Market?

Many investors raised questions on the integrated energy firm's strong focus on oil projects, as globally shareholders are urging energy companies to lower emissions that will help tackle climate change. Among the oil companies that are finding ways to lower emissions are BP plc and Royal Dutch Shell plc.

Moreover, the wide-spread coronavirus fear and slowing global economy are disrupting the market and lowering global energy demand. Also, investors are constantly pressing companies to focus more on returns rather than solely on production, leading many explorers to lower capital budget. Thus, many investors believe ExxonMobil's aggressive capital spending plan is not suitable for the prevailing business environment.

While ExxonMobil intends to invest heavily in the coming years, this might require the company to divest assets and rely more on debt funding. This could weaken ExxonMobil's balance sheet and lower the company's free cashflow that will be available for dividend payments.

But There Lies Optimism

ExxonMobil, on the contrary, believes that it has enough financial flexibility to support its massive capital spending plans and hence will be able to continue to return capital to shareholders. The firm highlighted that the costs of availability of debt capital are historically low.

Moreover, the company expects global crude demand to increase, since the standard of living of people is improving over time. This highlights the company's strong focus on oil projects. The integrated company added that its \$15-billion strategic divestment program will remain in place, helping it to upgrade portfolio.

Valuation

ExxonMobil shares are down 36.1% in the year-to-date period and 39.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 38.3% and 39.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 40.1% and 40.8%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period, but up 0.8% in the past year.

The stock is currently trading at 0.93X forward 12-month sales, which compares to 0.6X for the Zacks sub-industry, 0.68X for the Zacks sector and 3.21X for the S&P 500 index.

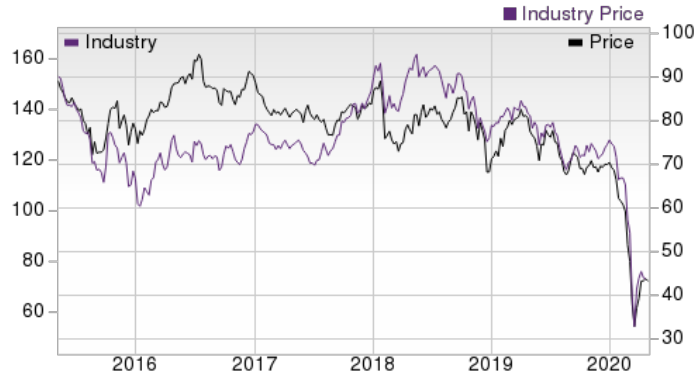
Over the past five years, the stock has traded as high as 1.70X and as low as 0.61X, with a 5-year median of 1.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 0.97X F12M sales.

The table below shows summary valuation data for XOM.

Valuation Multiples - XOM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.93	0.6	0.68	3.21
	5-Year High	1.7	0.87	1.46	3.44
	5-Year Low	0.61	0.56	0.58	2.54
	5-Year Median	1.19	0.76	0.99	3.01
EV/EBITDA TTM	Current	6.43	3.64	3.73	10.44
	5-Year High	14.06	9.89	10.4	12.86
	5-Year Low	4.6	2.85	3.02	8.28
	5-Year Median	9.59	6.03	6.52	10.77
P/B TTM	Current	0.94	0.72	0.73	3.78
	5-Year High	2.23	1.48	1.6	4.55
	5-Year Low	0.67	0.51	0.51	2.84
	5-Year Median	1.82	1.21	1.32	3.64

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BP plc (BP)	Neutral	3
ConocoPhillips (COP)	Neutral	3
Eni SpA (E)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	3
Royal Dutch Shell PLC (RDS.A)	Neutral	3
Chevron Corporation (CVX)	Underperform	3
Phillips 66 (PSX)	Underperform	5
TOTAL SA (TOT)	Underperform	5

Industry Comparison Industry: Oil And Gas - Integrated - International				Industry Peers		
	XOM	X Industry	S&P 500	BP	RDS.A	TOT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	D	A	B
Market Cap	186.17 B	10.48 B	19.11 B	79.62 B	129.49 B	89.01 B
# of Analysts	6	2	14	6	2	5
Dividend Yield	7.91%	5.08%	2.2%	10.60%	9.97%	7.21%
Value Score	C	-	-	C	B	C
Cash/Price	0.02	0.28	0.06	0.34	0.27	0.36
EV/EBITDA	5.25	2.74	11.69	3.98	2.96	2.96
PEG Ratio	NA	7.51	2.48	NA	NA	19.31
Price/Book (P/B)	0.94	0.66	2.58	0.88	0.71	0.78
Price/Cash Flow (P/CF)	6.51	2.68	10.40	2.86	2.87	3.23
P/E (F1)	NA	20.27	18.81	NA	NA	36.24
Price/Sales (P/S)	0.72	0.40	1.97	0.29	0.40	0.46
Earnings Yield	-1.86%	-0.60%	4.99%	-0.93%	-1.09%	2.75%
Debt/Equity	0.13	0.43	0.75	0.71	0.43	0.43
Cash Flow (\$/share)	6.76	6.76	7.01	8.23	11.18	10.59
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	-1.79%	13.36%	10.87%	21.77%	13.36%	0.90%
Proj. EPS Growth (F1/F0)	-136.22%	-88.15%	-9.86%	-107.34%	-108.66%	-78.45%
Curr. Cash Flow Growth	-28.10%	2.84%	5.88%	-1.45%	3.73%	0.31%
Hist. Cash Flow Growth (3-5 yrs)	-10.50%	-1.76%	8.55%	0.30%	-0.82%	-3.48%
Current Ratio	0.78	1.14	1.25	1.01	1.11	1.17
Debt/Capital	11.69%	30.19%	44.23%	41.44%	30.19%	29.94%
Net Margin	4.42%	2.86%	10.87%	-1.19%	3.00%	4.24%
Return on Equity	5.08%	7.35%	16.36%	8.53%	7.35%	9.23%
Sales/Assets	0.71	0.64	0.55	0.96	0.82	0.72
Proj. Sales Growth (F1/F0)	-27.63%	-16.07%	-2.18%	-30.67%	-28.89%	-48.79%
Momentum Score	F	-	-	F	C	B
Daily Price Chg	-1.87%	-1.83%	-1.27%	-1.21%	-3.05%	-2.29%
1 Week Price Chg	-1.35%	-0.20%	0.53%	-2.39%	-10.68%	-2.11%
4 Week Price Chg	0.32%	-2.64%	0.68%	-7.13%	-15.79%	-7.79%
12 Week Price Chg	-28.20%	-36.16%	-22.30%	-36.56%	-39.11%	-31.32%
52 Week Price Chg	-42.75%	-42.77%	-11.55%	-44.23%	-48.88%	-34.86%
20 Day Average Volume	31,819,028	87,578	2,470,143	15,131,925	8,611,472	3,884,465
(F1) EPS Est 1 week change	15.73%	0.00%	0.00%	0.00%	-854.55%	-2.88%
(F1) EPS Est 4 week change	-282.89%	-22.98%	-6.52%	-142.62%	-143.21%	-41.44%
(F1) EPS Est 12 week change	-125.69%	-97.22%	-14.84%	-107.61%	-107.21%	-82.36%
(Q1) EPS Est Mthly Chg	-201.98%	-188.89%	-12.48%	-1,140.00%	-329.41%	-468.42%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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