

ExxonMobil Corporation (XOM)

\$41.86 (As of 03/09/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

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. As compared to other energy giants, the company's capital spending discipline is quite aggressive. ExxonMobil has a plan in place to allocate significant proportion of its budget to key oil projects that include offshore Guyana resources. This is likely to help the company drive shareholders' value. However, the company witnessed significantly lower earnings from its downstream & chemicals businesses in 2019. With no near-term resurgence in demand in the horizon, the business segments' performances are not expected to improve anytime soon.

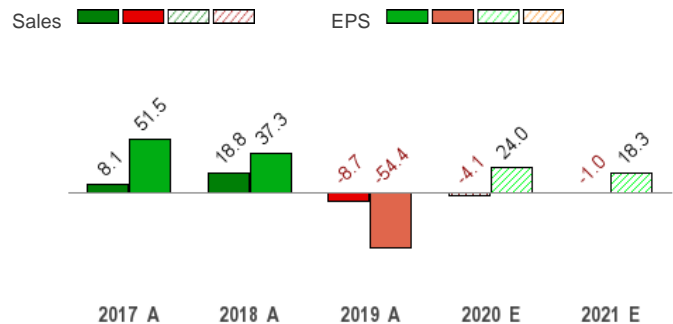
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.49 - \$40.80
20 Day Average Volume (sh)	30,924,828
Market Cap	\$177.2 B
YTD Price Change	-40.0%
Beta	1.10
Dividend / Div Yld	\$3.48 / 8.3%
Industry	Oil and Gas - Integrated - International
Zacks Industry Rank	Bottom 13% (219 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.8%
Last Sales Surprise	-2.8%
EPS F1 Est- 4 week change	-11.9%
Expected Report Date	04/24/2020
Earnings ESP	-15.3%
P/E TTM	17.7
P/E F1	15.0
PEG F1	1.2
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	65,054 E	65,252 E	66,659 E	66,130 E	251,627 E
2020	62,947 E	61,277 E	62,005 E	63,309 E	254,172 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	\$0.81 E	\$0.86 E	\$0.96 E	\$0.74 E	\$3.30 E
2020	\$0.59 E	\$0.70 E	\$0.84 E	\$0.72 E	\$2.79 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 03/09/2020. The reports text is as of 03/10/2020.

Overview

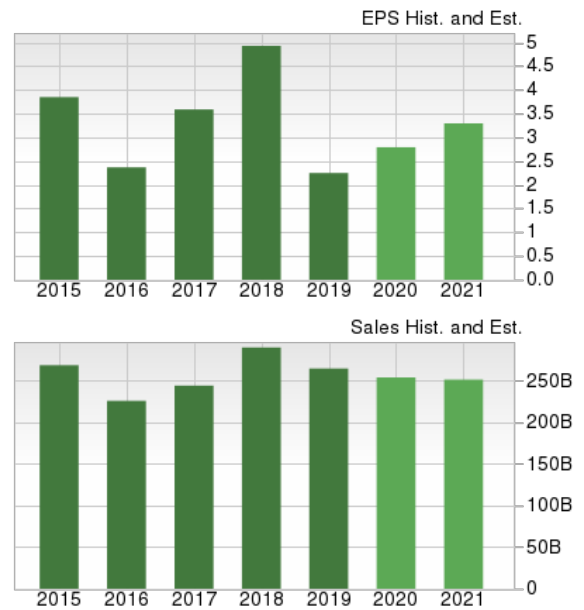
ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry-leading returns and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play.

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.
- ▲ 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 spending. 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.
- ▲ ExxonMobil is strongly committed to returning cash to stockholders. The company not only rewarded stockholders with a dividend hike for 37 successive years but has also recorded higher annual growth rate of dividend as compared to peers in the past decade.

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

Reasons To Sell:

- ▼ The company's downstream operations recorded \$3,687 million year-over-year lower profit in 2019. The underperformance can be attributed to maintenance activities and contraction in the industry's fuel margins. With no near-term resurgence in demand in the horizon, the sector's performance is not expected to improve anytime soon.
- ▼ The integrated energy player reported \$2,759 million lower year-over-year earnings from the chemical business in 2019. The underperformance resulted from soft margins, increased feed costs and decreased product sales. The Chemical business is unlikely to recover, since the company expects this operation to bear the brunt of significant scheduled maintenance activities in first-quarter 2020. Also, the slowdown in global economy has been hurting demand for petrochemicals.
- ▼ Oil prices are now in the bearish territory owing to lower global energy demand and oversupply in the commodity market. Weak crude prices, which are unlikely to recover soon, are thus affecting ExxonMobil's upstream business – contributing mostly to the company's earnings.
- ▼ Globally shareholders are urging energy companies to lower carbon emissions that will help tackle climate change. In fact, many big oil rivals have set long-term plans to comply with the goals of the Paris agreement that will help them capitalize on the growing demand for cleaner energy. In the wake of this, ExxonMobil's aggressive capital spending plans for oil projects raise concerns.

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

Last Earnings Report

ExxonMobil's Q4 Earnings & Revenues Lag Estimates, Decline Y/Y

ExxonMobil reported unimpressive fourth-quarter 2019 results due to weaker margins in the refining and chemical business. This was partially offset by higher crude price realization and strong upstream production.

The largest publicly-traded integrated U.S. energy company's earnings per share of 41 cents missed the Zacks Consensus Estimate of 44 cents. Moreover, the bottom line declined substantially from the year-earlier period's \$1.51 per share.

Total revenues of \$67,173 million missed the Zacks Consensus Estimate of \$69,104 and deteriorated from the year-earlier figure of \$71,895 million.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	-2.79%
EPS Surprise	-6.82%
Quarterly EPS	0.41
Annual EPS (TTM)	2.37

Operational Performance

Upstream

Quarterly earnings of \$6.1 billion surged from \$3.3 billion a year ago, primarily due to higher oil price realizations. While profits from the United States declined to \$68 million in the quarter from the year-ago level of \$265 million, the same from non-U.S. operations rose to \$6.1 billion from year-ago quarter's \$3 billion.

Production: Total production averaged 4.018 million barrels of oil-equivalent per day (MMBoe/d), marginally higher than 4.010 MMBoe/d a year ago.

Liquid production increased to 2.436 million barrels per day (MMBbls/d) from 2.348 MMBbls/d in the prior-year quarter, courtesy of ramped-up activities in the prolific Permian Basin. While production from the United States rose significantly, it declined in Europe and Africa. Notably, natural gas production was 9.495 billion cubic feet per day (Bcf/d), down from 9.974 Bcf/d a year ago, due to lower output from Europe, Asia, Africa and Australia.

Price Realization: In the United States, the company recorded crude price realization of \$55.61 per barrel, higher than the year-ago quarter's \$54.50. The same metric for non-U.S. operations rose to \$56.61 per barrel from the year-ago level of \$53.74. In contrast, natural gas prices in the United States were recorded at \$2.16 per thousand cubic feet (Kcf), lower than the year-ago quarter's \$3.64. Similarly, in the Non-U.S. section, the metric fell to \$5.89 per Kcf from \$8.18 in fourth-quarter 2018.

Downstream

The segment recorded a profit of \$898 million, representing a significant decline of \$1,806 million from \$2,704 million in the December quarter of 2018. The underperformance can be attributed to maintenance activities and contraction in the industry's fuel margins. ExxonMobil's refinery throughput averaged 4.1 MMBbls/d, lower than the year-earlier level of 4.3 MMBbls/d.

Chemical

This unit recorded \$355-million loss against \$737-million profit in the prior-year quarter, owing to soft margins and increased feed costs. The company's U.S. and Non-U.S. operations in the Chemical segment recorded quarterly losses against profits generated in the year-ago quarter.

Financials

During the quarter under review, ExxonMobil generated cash flow of \$9.4 billion from operations and asset divestments, boosted by \$3.1-billion Norway upstream asset sales, down from \$9.5 billion a year ago. Owing to significant investments in the prolific Permian Basin, the company's capital and exploration spending rose 8% year over year to \$8.5 billion.

At the end of fourth-quarter 2019, total cash and cash equivalents were \$3.1 billion, and debt amounted to \$46.9 billion.

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 39.1% in the year-to-date period and 44.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 37.7% and 40.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 41.1% and 43.4%, respectively.

The S&P 500 index is down 14.4% in the year-to-date period and 0.2% in the past year.

The stock is currently trading at 14.37X forward 12-month earnings, which compares to 9.64X for the Zacks sub-industry, 9.46X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.83X and as low as 13.04X, with a 5-year median of 19.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$45 price target reflects 15.46X F12M earnings.

The table below shows summary valuation data for XOM.

Valuation Multiples - XOM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.37	9.64	9.46	15.75
	5-Year High	40.83	23.38	32.41	19.34
	5-Year Low	13.04	9.64	9.46	15.18
	5-Year Median	19.3	15.14	18.41	17.42
P/S F12M	Current	0.7	0.47	0.53	2.91
	5-Year High	1.7	0.88	1.45	3.44
	5-Year Low	0.7	0.47	0.53	2.54
	5-Year Median	1.2	0.76	0.99	3
EV/EBITDA TTM	Current	6.62	4.35	4.39	11.04
	5-Year High	13.86	9.83	10.26	12.87
	5-Year Low	5.3	3.95	4.39	8.49
	5-Year Median	9.61	6.23	6.53	10.79

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (219 out of 253)



Top Peers

BP p.l.c. (BP)	Neutral
ConocoPhillips (COP)	Neutral
Chevron Corporation (CVX)	Neutral
Eni SpA (E)	Neutral
Occidental Petroleum Corporation (OXY)	Neutral
Royal Dutch Shell PLC (RDS.A)	Neutral
TOTAL S.A. (TOT)	Neutral
Phillips 66 (PSX)	Underperform

Industry Comparison Industry: Oil And Gas - Integrated - International				Industry Peers		
	XOM Neutral	X Industry	S&P 500	BP Neutral	CVX Neutral	RDS.A Neutral
VGM Score	D	-	-	A	B	A
Market Cap	177.16 B	13.14 B	19.13 B	85.84 B	151.61 B	140.07 B
# of Analysts	7	1.5	13	6	6	4
Dividend Yield	8.31%	4.98%	2.26%	9.89%	6.40%	9.22%
Value Score	B	-	-	A	B	A
Cash/Price	0.02	0.25	0.05	0.25	0.03	0.15
EV/EBITDA	5.02	3.03	11.99	3.57	4.77	3.33
PEG Ratio	1.23	1.40	1.68	0.95	2.24	1.40
Price/Book (P/B)	0.89	0.65	2.64	0.85	1.05	0.74
Price/Cash Flow (P/CF)	6.19	2.91	10.70	3.02	3.71	3.10
P/E (F1)	15.00	8.59	15.44	8.59	13.43	6.98
Price/Sales (P/S)	0.67	0.40	2.05	0.30	1.03	0.40
Earnings Yield	6.67%	10.26%	6.47%	11.63%	7.45%	14.33%
Debt/Equity	0.13	0.41	0.70	0.64	0.16	0.43
Cash Flow (\$/share)	6.76	6.76	7.01	8.36	21.74	11.18
Growth Score	D	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	-3.14%	13.19%	10.85%	15.88%	30.90%	9.69%
Proj. EPS Growth (F1/F0)	24.19%	4.69%	6.25%	-0.28%	-4.17%	22.96%
Curr. Cash Flow Growth	-28.10%	2.84%	6.09%	0.78%	16.70%	3.73%
Hist. Cash Flow Growth (3-5 yrs)	-10.50%	-1.24%	8.52%	0.75%	2.67%	-0.82%
Current Ratio	0.78	1.16	1.24	1.12	1.07	1.16
Debt/Capital	11.69%	29.93%	42.57%	39.19%	14.03%	29.93%
Net Margin	5.41%	1.70%	11.69%	1.42%	2.00%	4.50%
Return on Equity	5.11%	6.15%	16.74%	9.80%	8.29%	8.45%
Sales/Assets	0.74	0.69	0.54	0.97	0.58	0.87
Proj. Sales Growth (F1/F0)	-4.06%	-3.67%	3.76%	4.22%	-3.67%	-6.10%
Momentum Score	F	-	-	A	F	B
Daily Price Chg	-12.23%	-16.15%	-7.65%	-19.10%	-15.37%	-17.17%
1 Week Price Chg	-7.29%	-4.59%	-0.67%	-0.13%	2.12%	-4.91%
4 Week Price Chg	-30.19%	-32.11%	-19.26%	-30.15%	-26.52%	-32.52%
12 Week Price Chg	-40.20%	-36.15%	-17.26%	-32.48%	-32.42%	-40.37%
52 Week Price Chg	-47.53%	-40.28%	-6.83%	-40.28%	-34.74%	-43.36%
20 Day Average Volume	30,924,828	88,369	2,684,709	14,291,498	11,116,995	7,329,901
(F1) EPS Est 1 week change	-8.60%	0.00%	0.00%	0.00%	-7.40%	0.00%
(F1) EPS Est 4 week change	-11.93%	0.00%	-0.06%	3.34%	-15.02%	2.26%
(F1) EPS Est 12 week change	-16.65%	-14.86%	-0.46%	-0.91%	-5.68%	-2.45%
(Q1) EPS Est Mthly Chg	-10.38%	0.00%	-0.40%	4.47%	-18.07%	1.87%

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	B
Growth Score	D
Momentum Score	F
VGM Score	D

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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