ExxonMobil Corporation (XOM)

Apr 22, 2020

$40.96 (As of 04/21/20)

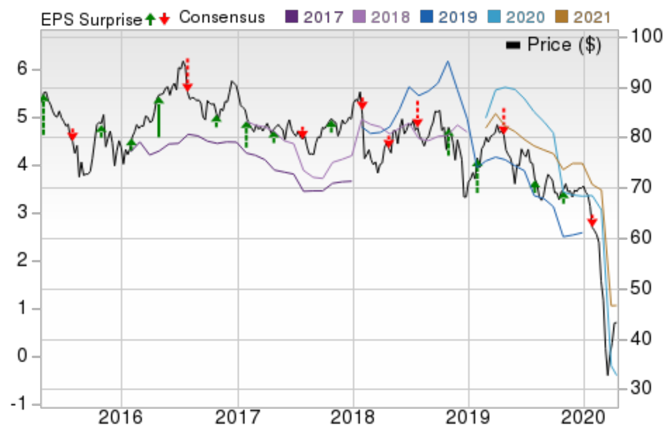
Price Target (6-12 Months): **$44.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/19/20) Prior Recommendation: Underperform	Neutral
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	3-Hold
	Zacks Style Scores:	VGM:D
	Value: C | 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. Notably, the company's plan to slash 2020 capital spending plan by 30%, owing to the coronavirus pandemic, is likely to prevent a massive shortfall in the firm's cashflows. Moreover, the company estimates gross recoverable resource of more than 8 billion oil-equivalent barrels from offshore Guyana discoveries.However, the integrated energy firm expects upstream profit to decline sequentially in Q1 due to fall in liquids prices. Additionally, the coronavirus outbreak is likely to continue to hurt the firm's refining & chemicals businesses.

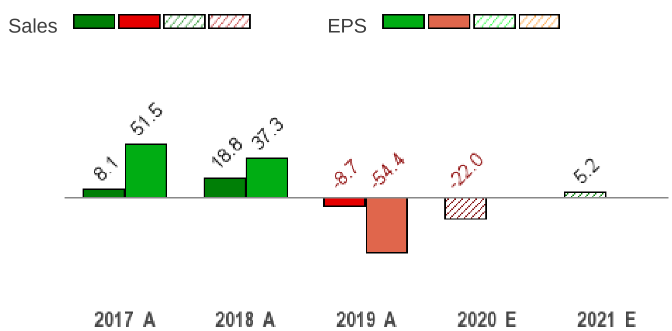
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$83.49 - $30.11
20 Day Average Volume (sh)	41,945,528
Market Cap	$174.3 B
YTD Price Change	-41.0%
Beta	1.26
Dividend / Div Yld	$3.48 / 8.5%
Industry	Oil and Gas - Integrated - International
Zacks Industry Rank	Bottom 5% (241 out of 253)
Last EPS Surprise	-6.8%
Last Sales Surprise	-2.8%
EPS F1 Est- 4 week change	-163.3%
Expected Report Date	05/01/2020
Earnings ESP	-81.2%
P/E TTM	17.4
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	54,364 E	55,795 E	58,185 E	58,799 E	217,554 E
2020	56,360 E	42,709 E	44,386 E	47,959 E	206,717 E
2019	63,625 A	69,091 A	65,049 A	67,173 A	264,938 A

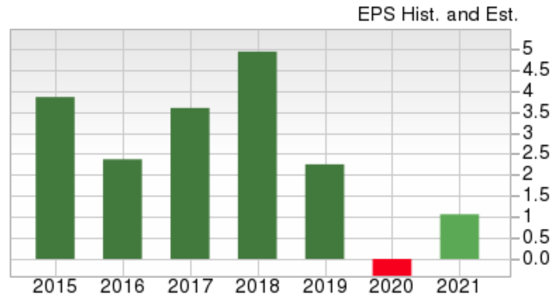
EPS Estimates

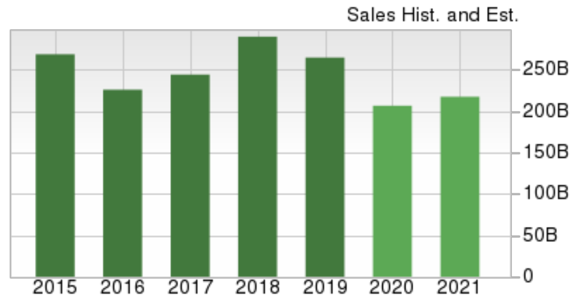
	Q1	Q2	Q3	Q4	Annual*
2021	$0.00 E	$0.14 E	$0.25 E	$0.13 E	$1.06 E
2020	$0.10 E	-$0.26 E	-$0.11 E	-$0.08 E	-$0.40 E
2019	$0.55 A	$0.73 A	$0.68 A	$0.41 A	$2.25 A

*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 04/21/2020. The reports text is as of 04/22/2020.

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:

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

- 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.

- 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.

Reasons To Sell:

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

- Upstream profits are expected to decline $1.3-$1.6 billion in the first quarter from fourth-quarter 2019 due to fall in liquids prices. It will likely bear an additional $100-$300 million brunt due to declining gas prices.

- 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. Notably, profits from the refining business in the first quarter of 2020 are expected to decline $600-$800 million from fourth quarter.

- 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 slowdown in global economy has been hurting demand for petrochemicals.

- 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.

Last Earnings Report

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

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

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.

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 2020 Capex to be Cut by 30%, Q1 Profits to Fall – Apr 7, 2020

ExxonMobilannounced that it 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 coronavirus pandemic has destroyed a huge chunk of energy demand in the global market. The latest guidance indicates a significant decrease from last year's capital spending of $31.1 billion. Notably, the overall capital budget marks the company's lowest in the past four years.

Although it did not provide details of its budget cut, Permian is expected to witness the largest share of capital spending cut, as short-cycle investments in the basin can be easily changed according to the market movements. The company spends around $6 billion per annum in the prolific region, per RBC Capital Markets. It now expects decreased activities in the region to negatively impact its drilling and well completion pace.

The company's significant spending deduction is in line with efforts from other energy majors including Chevron Corporation, BP plc and Royal Dutch Shell plc. Notably, Chevron and BP reduced their shale activities to cope up with the current market uncertainty. Importantly, the oil companies have reduced their planned project spending for the year by a total of $54 billion, per Reuters.

Expenses

The largest-publicly traded U.S. energy company intends to curb cash operating expenses by 15% to boost profit levels amid a low oil and gas pricing environment. The move is expected to be supported by lower cost of energies in operating activities and increasing efficiencies. The company's total costs and other deductions were recorded at $244.9 million in 2019, reflecting a nearly 6% year-over-year decline.

Major Projects

On a positive note, ExxonMobil expects long-term industry fundamentals to remain unchanged. As such, demand will rise as soon as the market reverts back to its normal state. Keeping the long-term aspect in mind, the company is trying to keep its major projects unaffected. Also, it expects its current offshore Guyana operations to be unaffected. The commencement of the second phase of the Liza development is scheduled for 2022. However, due to the current deferred activities, its Payara development can be delayed by six months to a year.

The company's Rovuma LNG project located in Mozambique, which was scheduled for commencement in 2020, has also been pushed back. Nonetheless, it is on track with the Coral LNG development in the region.

First-Quarter Expectations

Upstream profits are expected to decline $1.3-$1.6 billion in the first quarter from fourth-quarter 2019 due to fall in liquids prices. It will likely bear an additional $100-$300 million brunt due to declining gas prices. Profits from the refining business are expected to decline $600-$800 million from fourth quarter. However, the chemicals business is expected to witness a jump of $400-$500 million from fourth quarter's loss of $355 million. The Zacks Consensus Estimate for earnings for the quarter is pegged at 23 cents per share, indicating a 58.2% decline from the year-ago period.

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

ExxonMobilhas 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 40.2% in the year-to-date period and 47.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 39.3% and 42.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 44.6% and 47.2%, respectively.

The S&P 500 index is down 11.9% in the year-to-date period and 1.4% in the past year.

The stock is currently trading at 0.83X forward 12-month sales, which compares to 0.56X for the Zacks sub-industry, 0.62X for the Zacks sector and 3.14X 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 1.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $44 price target reflects 0.89X F12M sales.

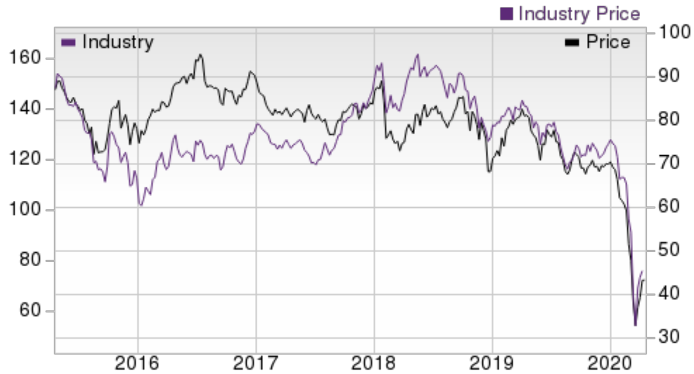
The table below shows summary valuation data for XOM.

Valuation Multiples - XOM

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.83	0.56	0.62	3.14
	5-Year High	1.7	0.88	1.45	3.44
	5-Year Low	0.61	0.56	0.58	2.54
	5-Year Median	1.2	0.76	0.99	3.01
EV/EBITDA TTM	Current	5.81	3.61	3.66	10.31
	5-Year High	14.06	9.88	10.38	12.87
	5-Year Low	4.6	2.86	3.05	8.28
	5-Year Median	9.6	6.03	6.52	10.78
P/B TTM	Current	0.88	0.71	0.69	3.74
	5-Year High	2.23	1.48	1.61	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 04/20/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (241 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BP p.l.c. **(BP)**	Neutral	5
ConocoPhillips **(COP)**	Neutral	3
Eni SpA **(E)**	Neutral	3
Occidental Petroleum Corporation **(OXY)**	Neutral	3
Phillips 66 **(PSX)**	Neutral	4
Chevron Corporation **(CVX)**	Underperform	5
Royal Dutch Shell PLC **(RDS.A)**	Underperform	5
TOTAL S.A. **(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	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	5	5	5
VGM Score	D	-	-	A	B	B
Market Cap	174.28 B	9.31 B	19.37 B	75.40 B	135.23 B	88.01 B
# of Analysts	7	2	14	6	4	5
Dividend Yield	8.45%	4.73%	2.23%	11.19%	9.55%	7.48%
Value Score	C	-	-	C	C	C
Cash/Price	0.02	0.27	0.05	0.34	0.18	0.34
EV/EBITDA	4.95	2.74	11.66	3.86	3.25	2.90
PEG Ratio	NA	4.65	2.20	27.59	7.49	11.43
Price/Book (P/B)	0.88	0.61	2.61	0.75	0.71	0.74
Price/Cash Flow (P/CF)	6.09	2.51	10.30	2.72	2.99	3.12
P/E (F1)	NA	24.71	17.85	41.39	29.96	21.46
Price/Sales (P/S)	0.66	0.38	2.04	0.27	0.38	0.44
Earnings Yield	-0.97%	2.42%	5.48%	2.42%	3.35%	4.67%
Debt/Equity	0.13	0.43	0.71	0.64	0.43	0.40
Cash Flow ($/share)	6.76	6.76	7.01	8.23	11.18	10.59
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	-3.14%	10.51%	10.92%	15.88%	9.69%	0.90%
Proj. EPS Growth (F1/F0)	-117.78%	-72.94%	-3.67%	-81.69%	-72.34%	-64.89%
Curr. Cash Flow Growth	-28.10%	2.84%	5.93%	-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	1.16	1.24	1.12	1.16	1.21
Debt/Capital	11.69%	29.93%	42.83%	39.19%	29.93%	28.59%
Net Margin	5.41%	2.00%	11.64%	1.42%	4.50%	5.62%
Return on Equity	5.11%	7.63%	16.74%	9.80%	8.45%	9.94%
Sales/Assets	0.74	0.69	0.54	0.97	0.87	0.75
Proj. Sales Growth (F1/F0)	-21.98%	-9.95%	-0.39%	-21.84%	-29.41%	-48.40%
Momentum Score	F	-	-	A	A	A
Daily Price Chg	-4.72%	-3.32%	-2.18%	-4.61%	-5.64%	-4.38%
1 Week Price Chg	0.21%	-5.00%	0.42%	-5.90%	-6.41%	-6.07%
4 Week Price Chg	30.94%	22.87%	26.24%	22.87%	24.79%	14.58%
12 Week Price Chg	-36.39%	-40.31%	-20.02%	-40.30%	-40.31%	-35.05%
52 Week Price Chg	-50.33%	-48.45%	-12.49%	-50.38%	-48.68%	-42.96%
20 Day Average Volume	41,945,528	106,982	3,036,163	21,718,732	9,925,933	3,944,494
(F1) EPS Est 1 week change	-34.62%	0.00%	-0.14%	-5.81%	0.00%	-1.91%
(F1) EPS Est 4 week change	-163.35%	-11.83%	-6.66%	-57.31%	-48.02%	-45.27%
(F1) EPS Est 12 week change	-112.34%	-83.98%	-10.02%	-81.96%	-77.99%	-70.76%
(Q1) EPS Est Mthly Chg	-433.33%	0.00%	-9.67%	-125.00%	-82.47%	-76.25%

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	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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