



Independent Stock Idea

February 3, 2010

rating: contrarian buy
s&p 500: 1095

Imperial Oil (IMO) Horn River Shale Gas Explorer

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$m)</i>	3,600
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	36.63	<i>Natural Gas and Oil Production/Ebitda (%)</i>	77
<i>Pricing Date</i>	2/3/10	<i>Adjusted Reserves/Production NTM</i>	19.2
<i>Shares (mm)</i>	854	<i>EV/Ebitda</i>	9.5
<i>Market Capitalization (US\$m)</i>	31,300	<i>PV/Ebitda</i>	12.2
<i>Debt (US\$m)</i>	2,800	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$m)</i>	34,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.20
<i>Present Value (PV) (US\$m)</i>	43,800	<i>Present Value Proven Reserves(US\$/boe)</i>	14.46
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.41
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.98
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	18
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.38
Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical research on Imperial Oil since 2004 see http://www.mcdep.com/2imo.htm			

Summary and Recommendation

Contrarian Buy-recommended **Imperial Oil (IMO)** offers unlevered appreciation potential of 28% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$48 a share. Fourth quarter results released on February 2, disclosed unlevered cash flow (Ebitda) exceeding our expectations of three months ago in the upstream business while falling short in the downstream (see table [Next Twelve Months Operating and Financial Estimates](#) and [Oil Production and Revenue](#)). NPV appears supported by cash flow and reserve life in an industry context (see table [Functional Cash Flow and Present Value](#)). In a new resource effort, the second winter drilling season is underway in the Horn River area of northeast British Columbia. Imperial and Exxon have a 50/50 joint venture which holds the largest land position in the emerging shale gas play (see graphic from May 2009 presentation on page 4). The partners increased their acreage position 50% to 309,000 net acres from 192,000 shown in the graphic. Meanwhile the trend for oil, 79% of the value in Imperial, continues up with futures prices for the next six years for oil above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). While IMO stock trades below its 200-day average of \$38 a share, we characterize our Buy rating as Contrarian Buy.

Kurt H. Wulff, CFA



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Imperial Oil Limited									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/10</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>12/31/10</i>
Volume									
Natural Gas (mmcf)	239	295	264	274	264	264	264	264	264
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	224	208	204	210	214	222	223	204	216
Total gas & oil (bcf)	146	142	137	561	139	145	148	137	569
Total gas & oil (mbd))	264	257	248	256	258	266	267	248	260
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.53	5.45	5.64	6.12	5.69
Currency (US\$/C\$)	0.83	0.91	0.94	0.88	0.94	0.94	0.94	0.94	0.94
Henry Hub (C\$/mmbtu)	8.40	3.72	4.41	4.53	5.86	5.78	5.98	6.48	6.03
Canada (C\$/mcf)	7.31	2.90	4.23	4.02	5.61	5.54	5.73	6.22	5.78
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
WTI Cushing (C\$/bbl)	70.62	74.83	80.64	69.57	80.44	80.30	82.01	83.35	81.53
Worldwide	54.22	66.16	71.15	60.85	66.37	66.17	67.89	69.62	67.49
Total gas & oil (\$/mcf)	8.78	9.47	10.51	9.03	10.13	10.12	10.40	10.65	10.32
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	6.92	9.63	8.41	4.65	7.40
Revenue (\$mm)									
Natural Gas	161	79	103	394	133	133	139	151	557
Oil	1,117	1,266	1,337	4,674	1,279	1,339	1,396	1,306	5,320
Other	4,664	4,216	4,121	16,027	4,121	4,121	4,121	4,121	16,485
Total	5,942	5,561	5,561	21,095	5,534	5,593	5,656	5,579	22,362
Expense	1,677	1,529	1,597	5,749	1,017	765	1,036	997	7,870
Ebitda (\$mm)									
Exploration and Production	596	790	879	2,521	706	736	768	729	2,938
Other	399	184	157	681	310	29	268	268	876
Total Ebitda	995	974	1,036	3,202	1,017	765	1,036	997	3,814
Exploration	41	21	27	153	70	70	70	70	280
Deprec., Deplet., & Amort.	178	194	194	778	194	194	194	194	776
Other non cash				-					-
Ebit	776	759	815	2,271	753	501	772	733	2,758
Interest	2	-	-	3	-				-
Ebt	774	759	815	2,268	753	501	772	733	2,758
Income Tax	111	212	285	695	263	175	270	256	965
Net Income (\$mm)									
Exploration and Production	336	439	491	1,324					
Other	285	81	68	324					
Unallocated	42	27	(30)	(75)					
Total	663	547	529	1,573	489	326	502	476	1,793
Shares (millions)	872	855	854	855	854	854	854	854	854
Earnings per share (\$)	0.76	0.64	0.62	1.84	0.57	0.38	0.59	0.56	2.10
Ebitda Margin (E&P)	47%	59%	61%	50%	50%	50%	50%	50%	50%
Tax Rate	14%	28%	35%	31%	35%	35%	35%	35%	35%



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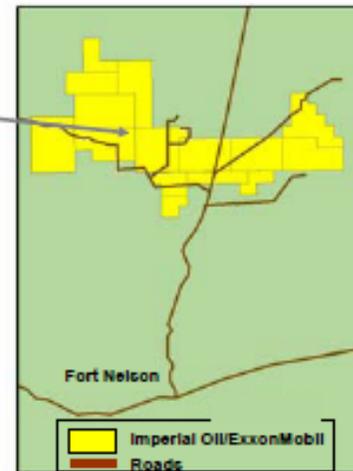
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Imperial Oil Limited									
Oil Production and Revenue									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>Months</i>
									<i>12/31/10</i>
Volume									
Days	92	92	92	365	90	91	92	92	365
Oil (mmb)									
Conventional	1.8	1.7	1.7	7	1.6	1.6	1.7	1.7	7
Cold Lake	11.9	10.7	9.8	44	11.1	11.8	11.6	9.8	44
Syncrude	6.3	6.2	6.7	24	6.0	6.3	6.7	6.7	26
Natural Gas Liquids	0.6	0.6	0.6	2	0.5	0.5	0.6	0.6	2
Total Oil	20.6	19.1	18.8	77	19.3	20.2	20.6	18.8	79
Oil (mbd)									
Conventional	20	19	18	20	18	18	18	18	18
Cold Lake	129	116	107	120	123	130	127	107	121
Syncrude	68	67	73	65	67	69	73	73	70
Natural Gas Liquids	7	6	6	6	6	6	6	6	6
Total Oil	224	208	204	210	214	222	223	204	216
Price									
Currency (US\$/C\$)	0.83	0.91	0.94	0.88	0.94	0.94	0.94	0.94	0.94
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
Light, Sweet (C\$/bbl)	70.62	74.83	80.64	69.57	80.44	80.30	82.01	83.35	81.53
Conventional	56.75	65.29	68.92	59.51	68.74	68.63	70.09	71.24	69.68
Cold Lake (W. Canada Select)	48.95	63.74	67.68	58.38	60.33	60.23	61.51	62.51	61.10
Syncrude	64.55	73.27	78.64	67.73	78.44	78.31	79.97	81.28	79.55
Natural Gas Liquids	43.61	36.24	48.15	40.18	48.03	47.95	48.96	49.77	48.68
Total Oil	54.22	66.16	71.15	60.85	66.37	66.17	67.89	69.62	67.49
Ratio: Cold Lake/Light Swt	0.69	0.85	0.84	0.84	0.75	0.75	0.75	0.75	0.75
Revenue (C\$m)									
Conventional	104	114	114	429	111	112	116	118	458
Cold Lake	581	680	666	2,555	668	710	716	615	2,709
Syncrude	404	452	530	1,603	474	490	537	545	2,046
Natural Gas Liquids	28	20	27	88	26	26	27	27	107
Total Oil	1,117	1,266	1,337	4,674	1,279	1,339	1,396	1,306	5,320

Imperial Oil Limited					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	202	5.7	9.9	2,000	5%
Syncrude and Kearn	913	28.5	25.6	23,400	53%
Oil - Conventional and Cold Lake	1,657	11.1	6.9	11,400	26%
Downstream	827		8.5	7,000	16%
	3,599	19.2	12.2	43,800	100%
Debt (US\$mm)					2,800
Net Present Value (US\$mm)					41,000
Shares (mm)					854
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					50

unconventional shale gas

exploring Horn River area, British Columbia



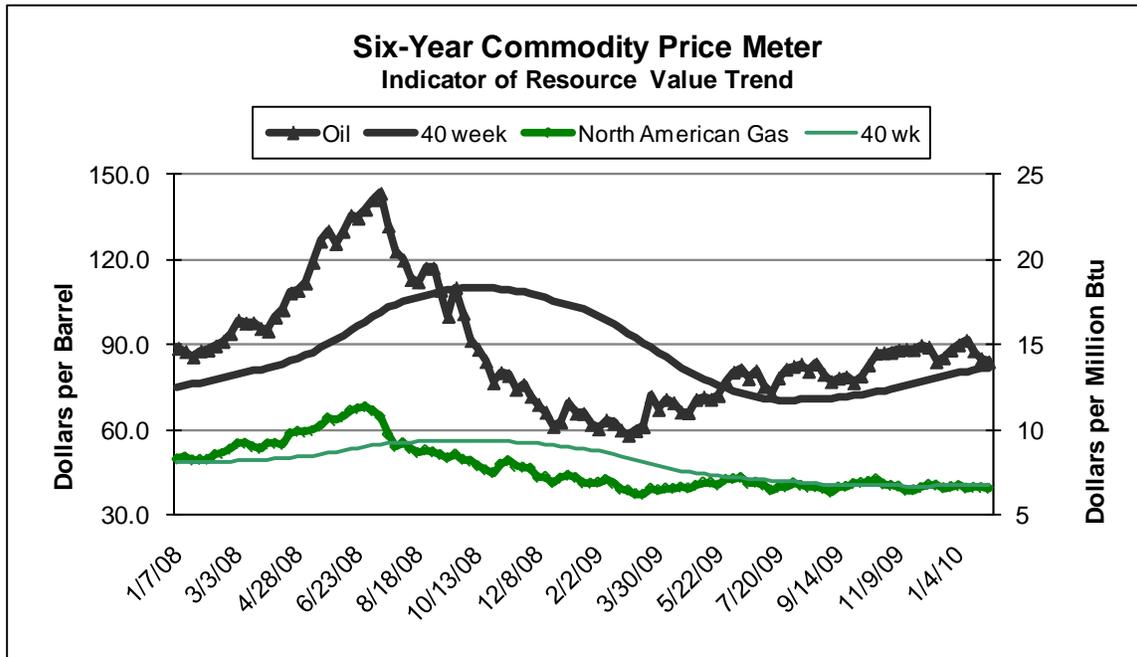
- Imperial Oil & ExxonMobil have increased exploration acreage in Horn River since 2007 to 192 000 net acres
- promising industry results
- four delineation wells drilled '08/'09
- additional delineation wells planned '09/'10
- production pilot planned

future additions to the resource base



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