



Independent Stock Idea

October 30, 2008

rating: hold
s&p 500: 949

Imperial Oil (IMO) Favorable Pricing for Heavy Oil

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	4,500
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	34.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	74
<i>Pricing Date</i>	10/30/08	<i>Adjusted Reserves/Production NTM</i>	14.4
<i>Shares (mm)</i>	884	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$m)</i>	30,300	<i>PV/Ebitda</i>	9.9
<i>Debt (US\$m)</i>	2,200	<i>Undeveloped Reserves (%)</i>	25
<i>Enterprise Value (EV) (US\$m)</i>	32,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	33.70
<i>Present Value (PV) (US\$m)</i>	44,600	<i>Present Value Proven Reserves(US\$/boe)</i>	20.34
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.39
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.82
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	1.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.33
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, \$10 a million btu.			
For historical research on Imperial Oil since 2004 see http://www.mcdep.com/2imo.htm			

Summary and Recommendation

Hold-rated **Imperial Oil (IMO)** offers unlevered appreciation potential of 37% to estimated net present value (NPV) of \$48 a share. On October 28, we reset NPV from \$65 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as IMO stock price remains below the 200-day average of \$50. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table Next Twelve Months Operating and Financial Estimates). In situ oil production at Cold Lake, Imperial's highest volume oil area, benefited from a narrow discount for heavy oil relative to Light, Sweet (see table Oil Production and Revenue). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports about 80% of NPV (see table Functional Cash Flow and Present Value). The remaining 20% recognizes future natural gas potential in the Arctic and future oil potential at Cold Lake. Stock repurchase continues at a rate higher than for the major oil average and lower than for 70% owner **ExxonMobil (XOM)** (see chart Common Shares Outstanding).

Kurt H. Wulff, CFA



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Imperial Oil Limited									
Next Twelve Months Operations									
(Canadian Dollars)									
									Next
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Twelve
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	Months
									9/30/09
Volume									
Natural Gas (mmcf)	379	251	248	248	251	248	248	248	248
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	236	200	210	234	215	236	223	222	229
Total gas & oil (bcf)	165	132	139	152	564	150	144	146	592
Total gas & oil (mbd)	299	242	251	275	257	278	265	264	270
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.73
Currency (US\$/C\$)	0.96	0.99	0.96	0.83	0.94	0.83	0.83	0.83	0.83
Henry Hub (C\$/mmbtu)	6.44	11.04	10.66	7.98	9.48	7.99	8.01	8.37	8.09
Canada (C\$/mcf)	5.73	10.35	9.20	6.89	8.56	6.89	6.91	7.23	6.98
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
WTI Cushing (C\$/bbl)	78.95	125.23	122.77	81.09	106.87	77.14	79.03	80.74	79.50
Worldwide	65.32	110.75	110.68	62.55	90.86	66.94	70.73	73.24	68.27
Total gas & oil (\$/mcf)	9.80	17.06	16.93	9.89	14.19	10.52	11.03	11.43	10.71
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.71	10.02	5.31	10.44	8.40	7.47
Revenue (\$mm)									
Natural Gas	200	236	210	157	855	154	156	165	632
Oil	1,418	2,016	2,138	1,345	7,148	1,424	1,437	1,498	5,703
Other	4,812	6,607	7,167	7,167	26,303	7,167	7,167	7,167	28,667
Total	6,430	8,859	9,515	8,669	34,306	8,744	8,760	8,829	35,002
Expense (\$mm)	2,001	2,617	2,868	1,329	8,850	1,129	1,369	1,567	17,868
Ebitda (\$mm)									
Exploration and Production	1,042	1,413	1,659	946	5,065	994	1,004	1,047	3,991
Other	383	365	520	383	1,403	135	365	520	1,403
Total Ebitda	1,425	1,779	2,179	1,329	6,468	1,129	1,369	1,567	5,394
Exploration	19	17	34	10	101	10	8	8	36
Deprec., Deplet., & Amort.	205	181	188	188	738	188	188	188	752
Other non cash					-				-
Ebit	1,201	1,581	1,957	1,131	5,629	931	1,173	1,371	4,606
Interest	10	-	1		(2)	-			-
Ebt	1,191	1,581	1,956	1,131	5,631	931	1,173	1,371	4,606
Income Tax	374	435	568	396	1,683	326	411	480	1,612
Net Income (\$mm)									
Exploration and Production	607	938	999						
Other	215	249	308						
Unallocated	(5)	(41)	81						
Total	817	1,146	1,388	735	3,948	605	762	891	2,994
Shares (millions)	928	895	884	884	891	884	884	884	884
Earnings per share (\$)	0.88	1.28	1.57	0.83	4.43	0.68	0.86	1.01	3.39
Ebitda Margin (E&P)	64%	63%	71%	63%	63%	63%	63%	63%	63%
Tax Rate	31%	28%	29%	35%	30%	35%	35%	35%	35%



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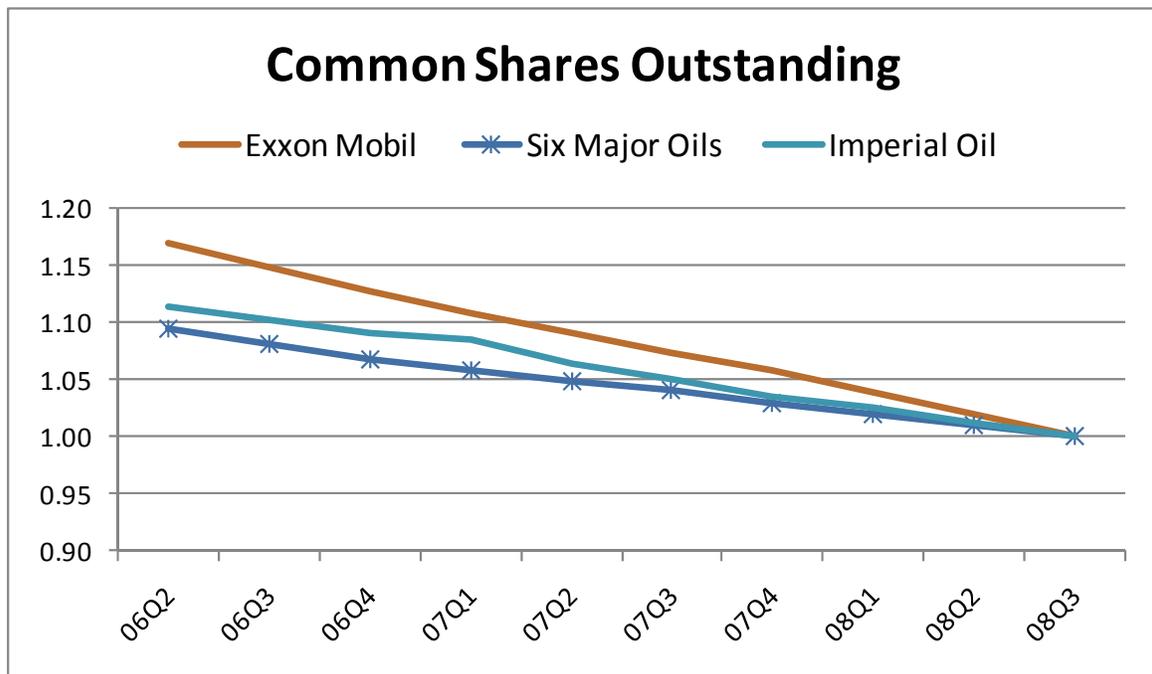
Imperial Oil Limited									
Oil Production and Revenue									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>Months</i>
									<i>9/30/09</i>
Volume									
Days	92	91	92	92	366	90	91	92	365
Oil (mmb)									
Conventional	1.9	1.7	1.8	1.8	7	1.8	1.8	1.8	7
Cold Lake	12.1	10.7	10.8	12.6	46	11.8	10.7	10.8	46
Syncrude	6.6	5.1	6.1	6.4	23	7.0	7.1	7.2	28
Natural Gas Liquids	1.0	0.6	0.6	0.6	3	0.6	0.6	0.6	3
Total Oil	21.7	18.2	19.3	21.5	79	21.3	20.3	20.5	84
Oil (mbd)									
Conventional	21	19	20	20	20	20	20	20	20
Cold Lake	132	118	117	137	126	131	118	117	126
Syncrude	72	56	66	70	62	78	78	78	76
Natural Gas Liquids	11	7	7	7	7	7	7	7	7
Total Oil	236	200	210	234	215	236	223	222	229
Price									
Currency (US\$/C\$)	0.96	0.99	0.96	0.83	0.94	0.83	0.83	0.83	0.83
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
Light, Sweet (C\$/bbl)	78.95	125.23	122.77	81.09	106.87	77.14	79.03	80.74	79.50
Conventional	75.73	118.88	114.58	75.68	100.34	71.99	73.76	75.35	74.21
Cold Lake (Hardisty)	56.17	104.15	104.90	51.62	83.07	60.87	65.73	68.98	61.37
Syncrude (Par Edmonton)	82.07	127.07	123.19	81.37	106.67	77.40	79.30	81.01	79.74
Natural Gas Liquids	45.57	69.26	78.21	51.66	64.25	49.14	50.35	51.43	50.65
Total Oil	65.32	110.75	110.68	62.55	90.86	66.94	70.73	73.24	68.27
Ratio: Cold Lake/Light Swt	0.71	0.83	0.85	0.64	0.78	0.79	0.83	0.85	0.77
Revenue (C\$m)									
Conventional	146	206	211	139	725	130	134	139	542
Cold Lake	682	1,118	1,129	651	3,824	718	706	743	2,817
Syncrude	544	648	748	522	2,428	545	565	583	2,215
Natural Gas Liquids	46	44	50	33	170	31	32	33	129
Total Oil	1,418	2,016	2,138	1,345	7,148	1,424	1,437	1,498	5,703



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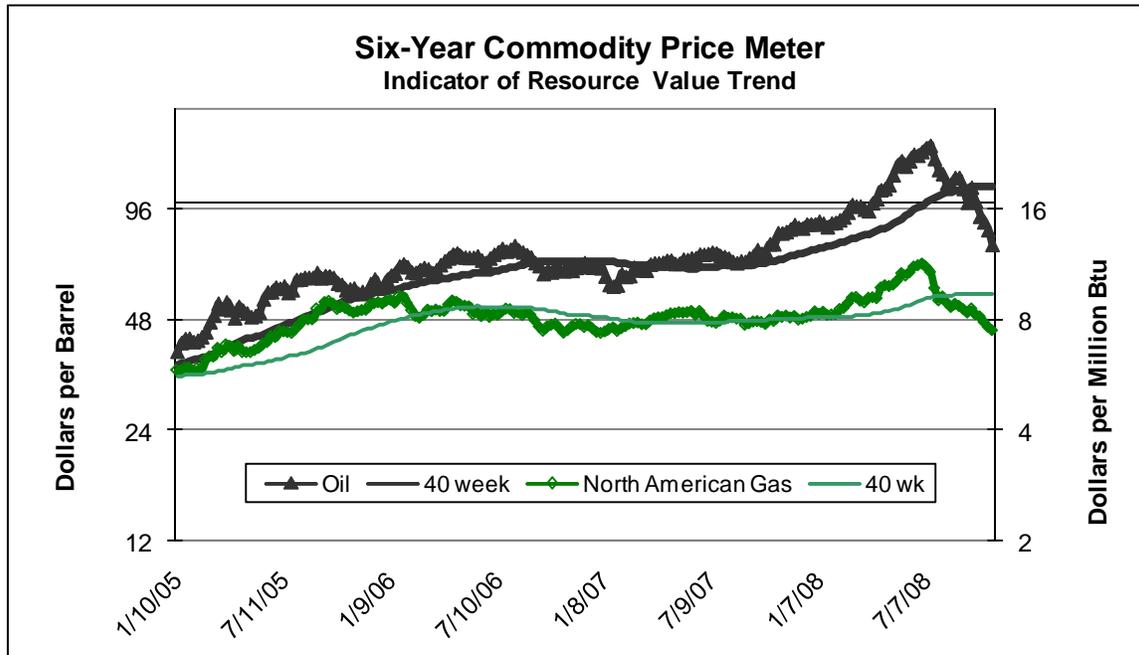
Imperial Oil Limited					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	245	6.5	8.6	2,100	5%
Syncrude	1,008	30.0	14.3	14,400	32%
Oil - Conventional and Cold Lake	2,070	12.2	10.2	21,100	47%
Downstream	1,168		6.0	7,000	16%
	4,491	14.4	9.9	44,600	100%
Debt (US\$mm)					2,200
Net Present Value (US\$mm)					42,400
Shares (mm)					884
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					38





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