



# Independent Stock Idea

July 30, 2009

rating: buy  
s&p 500: 991

## Imperial Oil (IMO) Downstream Hiccup

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	3,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh)</i>	39.07	<i>Natural Gas and Oil Production/Ebitda (%)</i>	73
<i>Pricing Date</i>	7/30/09	<i>Adjusted Reserves/Production NTM</i>	18.4
<i>Shares (mm)</i>	855	<i>EV/Ebitda</i>	12.0
<i>Market Capitalization (US\$mm)</i>	33,400	<i>PV/Ebitda</i>	14.5
<i>Debt (US\$mm)</i>	2,900	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	36,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.50
<i>Present Value (PV) (US\$mm)</i>	43,900	<i>Present Value Proven Reserves(US\$/boe)</i>	13.78
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.30
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.63
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	24
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.37
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 <a href="http://www.mcdep.com/2imo.htm">http://www.mcdep.com/2imo.htm</a>			

### Summary and Recommendation

Buy-recommended **Imperial Oil (IMO)** offers unlevered appreciation potential of 21% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$48 a share. Released today, second quarter results were less than our estimate for unlevered cash flow (Ebitda) from three months ago mainly because of thin margins in the downstream segment. Upstream results were more than our estimate because oil price was higher (see tables [Next Twelve Months Operating and Financial Estimates](#) and [Oil Production and Revenue](#)). Ultimately refining should be more profitable again as it is the facilitator that makes Canada's rich oil sands resources marketable in a global economy that requires growing supplies of energy. Meanwhile, the proportion of NPV concentrated on downstream is modest at 16% (see table [Functional Cash Flow and Present Value](#)). Eighty percent of NPV is sensitive mainly to crude oil price. Pointing to possible further gains, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/10</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
<b>Volume</b>									
Natural Gas (mmcf)	251	262	276	276	276	<b>273</b>	276	276	<b>276</b>
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	200	240	190	216	228	<b>218</b>	240	215	<b>225</b>
Total gas & oil (bcf)	132	153	129	145	151	<b>578</b>	154	142	<b>592</b>
Total gas & oil (mbd)	242	284	236	262	274	<b>264</b>	286	261	<b>271</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.78	4.69	<b>4.22</b>	5.65	5.61	<b>4.93</b>
Currency (US\$/C\$)	0.99	0.80	0.86	0.92	0.92	<b>0.88</b>	0.92	0.92	<b>0.92</b>
Henry Hub (C\$/mmbtu)	11.04	6.09	4.08	4.09	5.08	<b>4.80</b>	6.11	6.06	<b>5.33</b>
Canada (C\$/mcf)	10.35	5.82	3.48	3.49	4.33	<b>4.22</b>	5.21	5.18	<b>4.55</b>
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	<b>60.22</b>	73.86	75.58	<b>71.96</b>
WTI Cushing (C\$/bbl)	125.23	53.43	69.38	72.53	77.16	<b>68.12</b>	79.89	81.76	<b>77.83</b>
Worldwide	110.75	46.18	62.10	60.35	59.10	<b>56.56</b>	63.54	67.61	<b>62.60</b>
Total gas & oil (\$/mcf)	17.06	7.33	9.01	8.90	8.92	<b>8.52</b>	9.73	10.19	<b>9.43</b>
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	<b>8.32</b>	5.38	8.52	<b>7.13</b>
<b>Revenue (\$mm)</b>									
Natural Gas	236	125	87	89	110	<b>411</b>	130	130	<b>458</b>
Oil	2,016	997	1,074	1,198	1,239	<b>4,508</b>	1,372	1,322	<b>5,130</b>
Other	6,607	3,547	4,142	4,142	4,142	<b>15,973</b>	4,142	4,142	<b>16,567</b>
Total	8,859	4,670	5,303	5,429	5,490	<b>20,892</b>	5,643	5,593	<b>22,155</b>
<b>Expense (\$mm)</b>									
Ebitda (\$mm)									
Exploration and Production	1,413	367	485	553	580	<b>1,986</b>	645	624	<b>2,403</b>
Other	365	310	29	268	268	<b>876</b>	310	29	<b>876</b>
Total Ebitda	1,779	677	515	821	848	<b>2,862</b>	956	654	<b>3,279</b>
Exploration	17	83	22	22	22	<b>149</b>	70	70	<b>184</b>
Deprec., Deplet., & Amort.	181	197	193	193	193	<b>776</b>	193	193	<b>772</b>
Other non cash						-			-
<b>Ebit</b>	1,581	397	300	606	633	<b>1,937</b>	693	391	<b>2,323</b>
Interest	-	2	1			<b>3</b>	-		-
<b>Ebt</b>	1,581	395	299	606	633	<b>1,934</b>	693	391	<b>2,323</b>
Income Tax	435	113	85	212	222	<b>632</b>	243	137	<b>813</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	938	142	252			<b>394</b>			
Other	249	205	(30)			<b>175</b>			
Unallocated	(41)	(65)	(8)			<b>(73)</b>			
Total	1,146	282	214	394	412	<b>1,302</b>	450	254	<b>1,510</b>
<b>Shares (millions)</b>									
Earnings per share (\$)	1.28	0.33	0.25	0.46	0.48	<b>1.52</b>	0.53	0.30	<b>1.77</b>
Ebitda Margin (E&P)	63%	33%	42%	43%	43%	<b>40%</b>	43%	43%	<b>43%</b>
Tax Rate	28%	29%	28%	35%	35%	<b>33%</b>	35%	35%	<b>35%</b>



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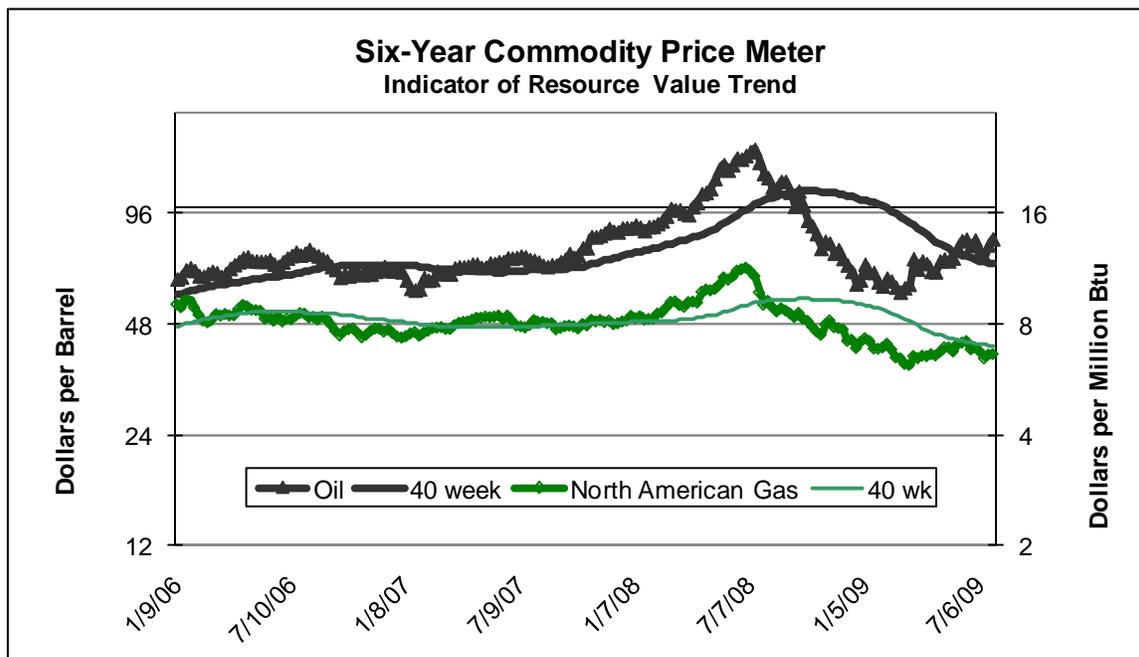
<b>Imperial Oil Limited</b>									
<b>Oil Production and Revenue</b>									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
<b>Volume</b>									
Days	91	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mmb)									
Conventional	1.7	2.1	1.7	1.7	1.7	<b>7</b>	1.7	1.7	<b>7</b>
Cold Lake	10.7	12.7	10.6	10.8	11.9	<b>46</b>	12.7	10.6	<b>46</b>
Syncrude	5.1	6.3	4.5	6.8	6.8	<b>24</b>	6.6	6.7	<b>27</b>
Natural Gas Liquids	0.6	0.5	0.5	0.6	0.6	<b>2</b>	0.5	0.5	<b>2</b>
Total Oil	18.2	21.6	17.3	19.9	21.0	<b>80</b>	21.6	19.5	<b>82</b>
Oil (mbd)									
Conventional	19	23	19	19	19	<b>20</b>	19	19	<b>19</b>
Cold Lake	118	141	116	117	129	<b>126</b>	141	116	<b>126</b>
Syncrude	56	70	49	74	74	<b>67</b>	74	74	<b>74</b>
Natural Gas Liquids	7	6	6	6	6	<b>6</b>	6	6	<b>6</b>
Total Oil	200	240	190	216	228	<b>218</b>	240	215	<b>225</b>
<b>Price</b>									
Currency (US\$/C\$)	0.99	0.80	0.86	0.92	0.92	<b>0.88</b>	0.92	0.92	<b>0.92</b>
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	123.97	42.96	59.52	67.06	71.33	<b>60.22</b>	73.86	75.58	<b>71.96</b>
Light, Sweet (C\$/bbl)	125.23	53.43	69.38	72.53	77.16	<b>68.12</b>	79.89	81.76	<b>77.83</b>
Conventional	118.88	46.61	60.08	62.81	66.82	<b>58.53</b>	69.18	70.80	<b>67.38</b>
Cold Lake (Hardisty)	104.15	43.81	61.82	55.13	50.15	<b>52.25</b>	56.72	61.32	<b>55.71</b>
Syncrude (Par Edmonton)	127.07	51.23	66.87	69.91	74.37	<b>65.76</b>	77.00	78.80	<b>75.00</b>
Natural Gas Liquids	69.26	41.20	35.11	36.71	39.05	<b>38.01</b>	40.43	41.37	<b>39.38</b>
Total Oil	110.75	46.18	62.10	60.35	59.10	<b>56.56</b>	63.54	67.61	<b>62.60</b>
Ratio: Cold Lake/Light Swt	0.83	0.82	0.89	0.76	0.65	<b>0.77</b>	0.71	0.75	<b>0.72</b>
<b>Revenue (C\$m)</b>									
Conventional	206	96	104	110	117	<b>427</b>	118	122	<b>467</b>
Cold Lake	1,118	556	653	593	595	<b>2,397</b>	720	647	<b>2,556</b>
Syncrude	648	323	298	475	505	<b>1,601</b>	512	529	<b>2,021</b>
Natural Gas Liquids	44	22	19	20	22	<b>83</b>	22	23	<b>86</b>
Total Oil	2,016	997	1,074	1,198	1,239	<b>4,508</b>	1,372	1,322	<b>5,130</b>



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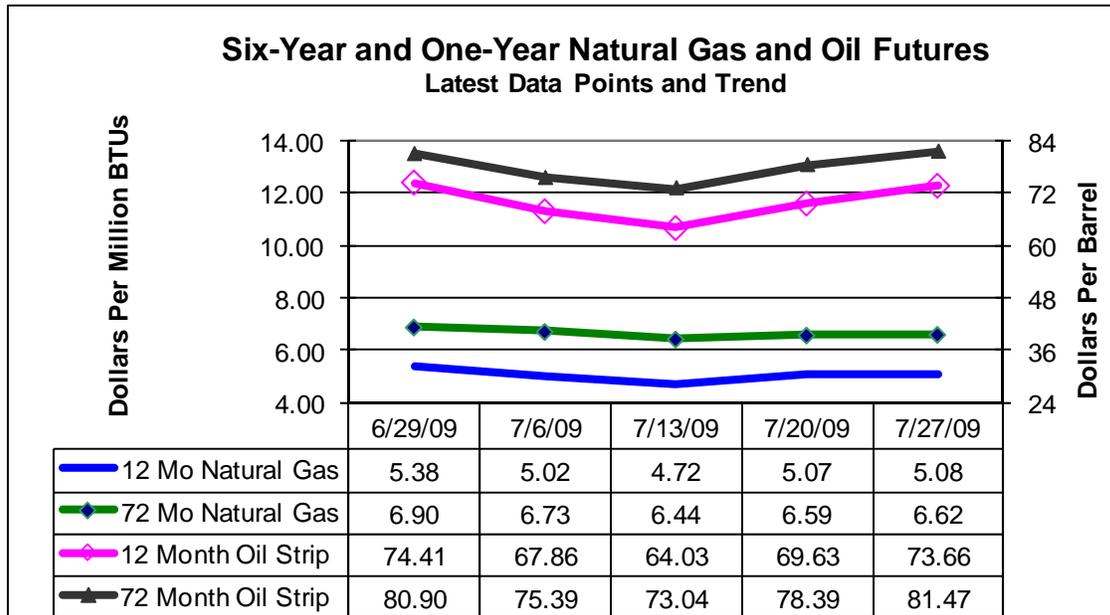
Imperial Oil Limited					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	133	5.5	15.0	2,000	5%
Syncrude and Kearn	1,063	27.2	23.4	24,900	57%
Oil - Conventional and Cold Lake	1,025	10.7	9.8	10,000	23%
Downstream	810		8.6	7,000	16%
	3,031	18.4	14.5	43,900	100%
Debt (US\$mm)					2,900
Net Present Value (US\$mm)					41,000
Shares (mm)					855
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					45





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