



Independent Stock Idea

November 2, 2009

rating: buy
s&p 500: 1034 intraday

Imperial Oil (IMO)

In situ Oil Production Cumulates Past a Billion Barrels

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 9/30/10 (US\$mm)</i>	3,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh)</i>	36.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	79
<i>Pricing Date</i>	11/2/09	<i>Adjusted Reserves/Production NTM</i>	18.1
<i>Shares (mm)</i>	855	<i>EV/Ebitda</i>	9.1
<i>Market Capitalization (US\$mm)</i>	31,500	<i>PV/Ebitda</i>	11.6
<i>Debt (US\$mm)</i>	2,900	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$mm)</i>	34,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.60
<i>Present Value (PV) (US\$mm)</i>	43,900	<i>Present Value Proven Reserves(US\$/boe)</i>	14.78
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.46
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.17
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	1.0	<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 http://www.mcdep.com/2imo.htm			

Summary and Recommendation

Analyzing third quarter results released October 29, we keep estimated Net Present Value (NPV) at US\$48 a share for buy-recommended **Imperial Oil (IMO)**. On that basis, IMO stock offers unlevered appreciation potential of 27% to a McDep Ratio of 1.0 where stock price would equal NPV. Latest results exceeded our expectations from three months ago in upstream profits mainly due to oil price, particularly for heavy oil, which shows little of the customary discount to the lighter benchmark (see table Next Twelve Months Operating and Financial Estimates and Oil Production and Revenue). Three major oil sands properties, Syncrude, Kearl and Cold Lake account for most of NPV in our valuation (see table Functional Cash Flow and Present Value). IMO reports that Cold Lake passed a billion barrels of cumulative production in the past quarter, the only *in situ* oil sands project to reach that rare distinction. Pointing to possible further oil gains, futures prices for the next six years trade above the 40-week average (see chart Six-Year Commodity Price Meter). IMO stock has dropped to its rising 200-day average, a point from which we expect it to advance considering the trend for every other stock in our coverage.

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>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/10</i>
	<i>9/30/08</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>9/30/10</i>	<i>9/30/10</i>
Volume									
Natural Gas (mmcf)	248	276	295	295	282	295	295	295	295
Days	92	91	92	92	365	90	91	92	365
Oil (mbd)	210	190	208	229	217	222	228	225	226
Total gas & oil (bcf)	139	129	142	154	578	146	152	152	603
Total gas & oil (mbd))	251	236	257	278	264	271	277	275	275
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.25	3.50	3.39	4.48	4.07	5.58	5.61	5.84	5.38
Currency (US\$/C\$)	0.96	0.86	0.91	0.93	0.88	0.93	0.93	0.93	0.93
Henry Hub (C\$/mmbtu)	10.66	4.08	3.72	4.82	4.64	6.00	6.03	6.28	5.78
Canada (C\$/mcf)	9.20	3.48	2.90	3.76	3.90	4.68	4.71	4.90	4.51
Oil (\$/bbl)									
WTI Cushing	117.99	59.52	68.22	77.69	62.10	80.00	81.52	82.60	80.45
WTI Cushing (C\$/bbl)	122.77	69.38	74.83	83.50	70.28	85.98	87.62	88.78	86.47
Worldwide	110.68	62.10	66.16	69.37	60.67	71.33	72.49	73.54	71.67
Total gas & oil (\$/mcf)	16.93	9.01	9.47	10.18	8.99	10.58	10.77	10.94	10.62
NY Harbor 3-2-1 (\$/bbl)	11.84	9.49	9.45	7.51	8.91	7.63	10.46	10.27	8.97
Revenue (\$mm)									
Natural Gas	210	87	79	102	393	124	126	133	485
Oil	2,138	1,074	1,266	1,463	4,800	1,424	1,506	1,525	5,917
Other	7,167	4,142	4,216	4,216	16,122	4,216	4,216	4,216	16,865
Total	9,515	5,303	5,561	5,781	21,315	5,764	5,849	5,874	23,268
Expense									
	2,868	1,191	1,535	1,050	5,209	1,085	846	1,097	8,619
Ebitda (\$mm)									
Exploration and Production	1,659	485	785	782	2,420	774	816	829	3,201
Other	520	29	190	268	798	310	29	268	876
Total Ebitda	2,179	515	975	1,050	3,218	1,085	846	1,097	4,077
Exploration	34	22	22	22	149	70	70	70	232
Deprec., Deplet., & Amort.	188	193	193	193	776	193	193	193	772
Other non cash					-				-
Ebit									
	1,957	300	760	835	2,293	822	583	834	3,073
Interest	1	1	1		4	-			-
Ebt									
	1,956	299	759	835	2,289	822	583	834	3,073
Income Tax	568	85	212	292	702	288	204	292	1,076
Net Income (\$mm)									
Exploration and Production	999	252	439		833				
Other	308	(30)	81		256				
Unallocated	81	(8)	27		(46)				
Total	1,388	214	547	543	1,586	534	379	542	1,998
Shares (millions)									
	884	855	855	855	855	855	855	855	855
Earnings per share (\$)	1.57	0.25	0.64	0.64	1.86	0.62	0.44	0.63	2.34
Ebitda Margin (E&P)	71%	42%	58%	50%	47%	50%	50%	50%	50%
Tax Rate	29%	28%	28%	35%	31%	35%	35%	35%	35%



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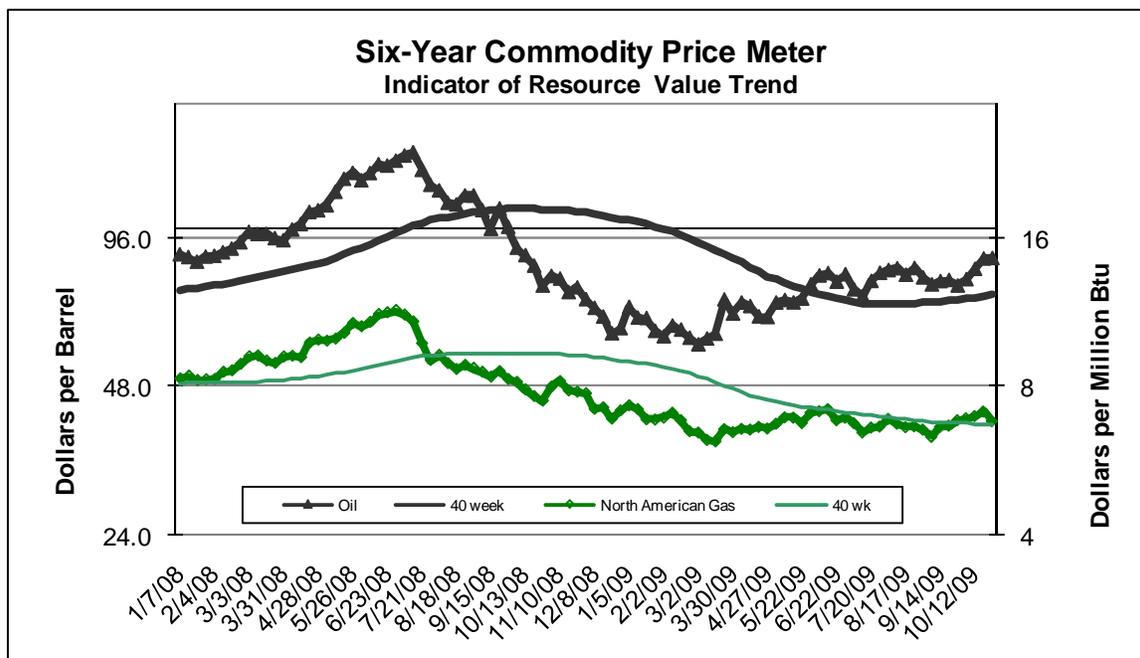
Imperial Oil Limited									
Oil Production and Revenue									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/08</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>Months</i>
									<i>9/30/10</i>
Volume									
Days	92	91	92	92	365	90	91	92	365
Oil (mmb)									
Conventional	1.8	1.7	1.7	1.7	7	1.7	1.7	1.7	7
Cold Lake	10.8	10.6	10.7	11.6	46	11.1	11.8	11.6	46
Syncrude	6.1	4.5	6.2	7.1	24	6.6	6.7	6.8	27
Natural Gas Liquids	0.6	0.5	0.6	0.6	2	0.5	0.5	0.6	2
Total Oil	19.3	17.3	19.1	21.1	79	20.0	20.8	20.7	83
Oil (mbd)									
Conventional	20	19	19	19	20	19	19	19	19
Cold Lake	117	116	116	127	125	123	130	127	126
Syncrude	66	49	67	78	66	74	74	74	75
Natural Gas Liquids	7	6	6	6	6	6	6	6	6
Total Oil	210	190	208	229	217	222	228	225	226
Price									
Currency (US\$/C\$)	0.96	0.86	0.91	0.93	0.88	0.93	0.93	0.93	0.93
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	117.99	59.52	68.22	77.69	62.10	80.00	81.52	82.60	80.45
Light, Sweet (C\$/bbl)	122.77	69.38	74.83	83.50	70.28	85.98	87.62	88.78	86.47
Conventional	114.58	60.08	65.29	72.86	60.57	75.02	76.45	77.46	75.45
Cold Lake (W. Canada Select)	104.90	61.82	63.74	62.62	57.46	64.49	65.71	66.58	64.86
Syncrude	123.19	66.87	73.27	81.76	68.83	84.19	85.79	86.93	84.63
Natural Gas Liquids	78.21	35.11	36.24	40.44	38.24	41.64	42.43	43.00	41.88
Total Oil	110.68	62.10	66.16	69.37	60.67	71.33	72.49	73.54	71.67
Ratio: Cold Lake/Light Swt	0.85	0.89	0.85	0.75	0.82	0.75	0.75	0.75	0.75
Revenue (C\$m)									
Conventional	211	104	114	127	442	128	132	135	523
Cold Lake	1,129	653	680	729	2,618	714	774	775	2,993
Syncrude	748	298	452	584	1,656	559	576	590	2,310
Natural Gas Liquids	50	19	20	22	84	22	23	24	92
Total Oil	2,138	1,074	1,266	1,463	4,800	1,424	1,506	1,525	5,917



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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	177	5.1	11.3	2,000	5%
Syncrude and Kearl	1,315	26.9	18.9	24,800	56%
Oil - Conventional and Cold Lake	1,487	10.7	6.8	10,100	23%
Downstream	815		8.6	7,000	16%
	3,794	18.1	11.6	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)					48





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