

3 November 2014 | 8 pages

Integrated Oils  
North America | United States

# Exxon Mobil Corp (XOM)

## Results: Positioned for uncertainty (and opportunity)

- Citi's Take** — XOM 3Q14 earnings continue the theme of resilient YoY earnings across Big Oil despite a weaker YoY commodity environment. Partly this reflects an improved Downstream environment, but becoming increasingly apparent is a more favorable margin mix coming through in the Upstream business, the rewards of recent heavy investment. The result is an improving cash balance – operational cash inflows broadly match outflows – and, combined with strong gearing, position the company well into a period of more uncertain commodity prices.
- Upstream and Chemical margins improve** — Quarterly adjusted EPS of \$1.85/share was 4%-10% above Citi (\$1.78) and consensus (\$1.71) forecasts. Two factors look to have driven the results: (1) improving margin capture on Upstream, a function of the flow-through of new production from PNG and CLOV; (2) better chemical earnings, a function of strong commodity chemical margins. The stronger Upstream results come despite lower than forecasted volumes, although management continues to highlight a 4mboe/d average for 2014, indicating that 4Q14 volumes will be up significantly QoQ.
- Cash balances** — current messaging is that XOM does not expect to trim capex, in spite of the challenging oil price environment, while gearing will be used to continue to fund some level of share buybacks on top of regular dividends. On the spending front we note that capex is now running at 8.5% of invested capital, versus 10.5% during 2008-2012, similar to the rest of Global Big Oil, but with a greater focus on Downstream/Chemicals investment than at peers. Management acknowledged there might be opportunities for bolt-on M&A to deepen positions in US shale, in particular the Permian basin, which in our view would help diversify away from the high-cost LNG options that currently dominate the unsanctioned portfolio.
- Implications** — XOM's balance sheet strength and cash generation allow shareholders returns to have real growth at low crude oil prices. But at 2.1x 2017E book for an 15% ROE we think there are better-valued opportunities in the sector.

|                     | 2013A | 2014E | 2015E | 2016E | 2017E | 2018E |
|---------------------|-------|-------|-------|-------|-------|-------|
| EPS (US\$)          | 7.18  | 6.98  | 7.12  | 7.66  | 8.37  | 8.76  |
| Previous (US\$)     | 7.18  | 6.98  | 7.12  | 7.66  | 8.37  | 8.76  |
| FC Consensus (US\$) | 7.18  | 7.50  | 6.93  | 7.50  | 7.57  | 7.52  |
| P/E (x)             | 13.4  | 13.7  | 13.5  | 12.5  | 11.5  | 11.0  |
| EV/DACF (x)         | 7.8   | 8.0   | 8.1   | 7.6   | 7.1   | 6.8   |
| DPS (US\$)          | 2.5   | 2.7   | 2.8   | 2.9   | 3.0   | 3.2   |
| Net Div Yield (%)   | 2.6   | 2.8   | 2.9   | 3.0   | 3.1   | 3.3   |

Source: Citi Research

|                             |              |
|-----------------------------|--------------|
| Neutral                     | 2            |
| Price (31 Oct 14)           | US\$94.90    |
| Target price                | US\$102.00   |
| Expected share price return | 7.5%         |
| Expected dividend yield     | 2.8%         |
| Expected total return       | 10.3%        |
| Market Cap                  | US\$404,719M |

Price Performance  
(RIC: XOM.N, BB: XOM US)



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Figure 1. Click here to add title

|                                       | 3Q14         | Citi<br>3Q14e | 3Q13         | 2Q14         | YoY Chg      | QoQ Chg      |
|---------------------------------------|--------------|---------------|--------------|--------------|--------------|--------------|
| <b>Income statement:</b>              |              |               |              |              |              |              |
| Upstream                              | 6,116        | 6,076         | 6,713        | 6,281        | -9%          | -3%          |
| Downstream                            | 1,024        | 982           | 592          | 711          | 73%          | 44%          |
| Chemicals                             | 1,200        | 953           | 1,025        | 741          | 17%          | 62%          |
| Corporate items                       | (434)        | (424)         | (460)        | (653)        |              |              |
| <b>Adjusted net income</b>            | <b>7,906</b> | <b>7,586</b>  | <b>7,870</b> | <b>7,080</b> | <b>0%</b>    | <b>12%</b>   |
| EPS (US\$/share)                      | 1.85         | 1.78          | 1.79         | 1.65         | 3%           | 12%          |
| <b>Memo items:</b>                    |              |               |              |              |              |              |
| Realised liquids price (US\$/bbl)     | 95.2         | 96.3          | 105.8        | 102.6        | -10%         | -7%          |
| Realised gas price (US\$/MMBtu)       | 7.01         | 8.48          | 7.48         | 7.56         | -6%          | -7%          |
| Proxy XOM refining margin (US\$/bbl)  | 9.09         | 9.09          | 8.25         | 8.10         | 10%          | 12%          |
| E&P volumes (kboepd)                  | 3,831        | 3,940         | 4,018        | 3,840        | -5%          | 0%           |
| ROCE                                  | 10.8%        | 10.4%         | 11.5%        | 9.9%         |              |              |
| Net debt/capital employed             | 8%           | 8%            | 6%           | 7%           |              |              |
| <b>Production</b>                     |              |               |              |              |              |              |
| Liquids                               | 2,065        | 2,080         | 2,199        | 2,048        | -6.1%        | 0.8%         |
| Gas                                   | 1,766        | 1,860         | 1,819        | 1,792        | -2.9%        | -1.4%        |
| <b>Total E&amp;P volumes (kboepd)</b> | <b>3,831</b> | <b>3,940</b>  | <b>4,018</b> | <b>3,840</b> | <b>-4.7%</b> | <b>-0.2%</b> |

Source: dataCentral, Citi Research

## Exxon Mobil Corp

### Valuation

Our 12-month price target for the ExxonMobil is \$102/share, derived from DCF. Our DCF is calculated using Citi Research's commodity price outlook of: (1) Brent oil at US\$105/bbl in 2014, US\$98/bbl in 2015, US\$95/bbl in 2016 then long-term US\$90/bbl (real, 2013 money); (2) US gas at US\$4.4/MMBtu in 2014 and US\$3.7/MMBtu in 2015; and (3) ExxonMobil indicator refining margins of US\$7.0/bbl in 2014 and US\$7.3/bbl in 2015. We model our DCF using a 9-year explicit forecast period and then 2% terminal growth. We use a discount rate of 6.7%, calculated using CAPM.

### Risks

Our rating on ExxonMobil considers a number of industry and company-specific risk elements, which could cause the shares to deviate from our target price:

- **Commodity prices** – ExxonMobil's earnings are sensitive to changes in oil and natural gas prices, and refining margins, all of which can fluctuate significantly as a function of economic and geopolitical forces. We estimate a US\$1/bbl move in oil prices would affect EPS by 1.1%; a US\$0.50/MMBtu move in US gas would affect EPS by 0.6% and a US\$0.5/bbl move in global refining margins would affect EPS by 1.5%.
- **Currency** – ExxonMobil's principal earnings and costs are in US\$, although significant moves in local currencies can have some impact to local cost structures (e.g. Australia) and local revenues (e.g. timing of local fuel price changes).
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If any of these risk factors has a greater downside impact than we anticipate, XOM's share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could materially exceed our target price.

## Appendix A-1

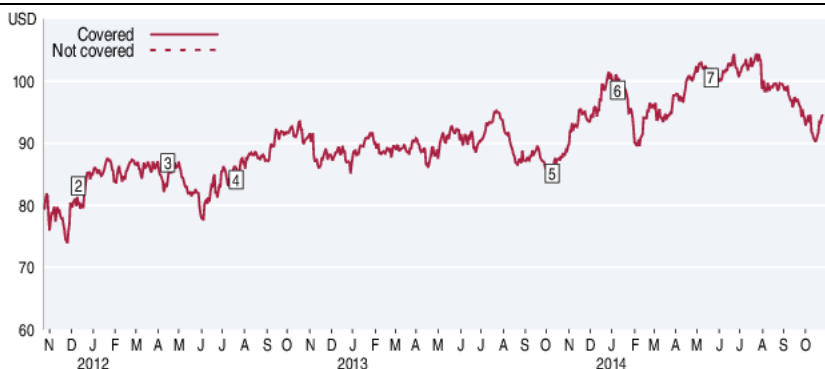
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Covered since May 21 2014



|   | Date      | Rating                      | Target Price | Closing Price |
|---|-----------|-----------------------------|--------------|---------------|
| 1 | 8-Oct-11  | Stock rating system changed |              |               |
| 2 | 12-Dec-11 | 1                           | *97.00       | 80.05         |
| 3 | 16-Apr-12 | 1                           | *100.00      | 84.01         |

\* Indicates change

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 4 | 20-Jul-12 | 1      | *97.00       | 85.95         |
| 5 | 9-Oct-13  | 1      | *99.00       | 85.16         |
| 6 | 9-Jan-14  | *2     | *108.00      | 99.76         |

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 7 | 21-May-14 | 2      | *102.00      | 102.03        |

Rating/target price changes above reflect Eastern Standard Time

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Analyst: Alastair R Syme  
Covered since May 21 2014



|   | Date     | Rating  | Target Price | Closing Price |
|---|----------|---------|--------------|---------------|
| 1 | 2-Dec-11 | *REM MP | -            | 79.79         |

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12 Month Rating

Relative Rating

**Data current as of 30 Sep 2014**

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|--|-----|------|------|-----|------|------|
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