



# Independent Stock Idea

July 31, 2008

rating: buy  
s&p 500: 1267

## Imperial Oil (IMO) Resources Concentrated on Fewer Shares

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$m)</i>	7,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	48.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	83
<i>Pricing Date</i>	7/31/08	<i>Adjusted Reserves/Production NTM</i>	14.2
<i>Shares (mm)</i>	895	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (US\$m)</i>	43,800	<i>PV/Ebitda</i>	8.3
<i>Debt (US\$m)</i>	3,100	<i>Undeveloped Reserves (%)</i>	26
<i>Enterprise Value (EV) (US\$m)</i>	46,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	61.80
<i>Present Value (PV) (US\$m)</i>	61,300	<i>Present Value Proven Reserves(US\$/boe)</i>	31.42
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.24
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.65
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.35
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\$100 a barrel and natural gas, \$14 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 31% to estimated net present value (NPV) of \$65 a share. On May 13 we raised NPV from \$48 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as stock price has entered a downtrend defined by current quote below the 200-day average of \$54. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price along with dampened downstream refining and marketing where higher price was not fully passed through to consumers. In situ oil production at Cold Lake, Imperial's highest volume crude oil, benefited from a narrow discount for heavy oil relative to light, sweet (see table [Oil Production and Revenue](#)). Projected volumes along with current futures prices promise a high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table [Functional Cash Flow and Present Value](#)). Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$121 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)). Aside from participating in the rising value of Imperial's long-term resource potential, continuing stockholders see ownership per share increase. Stock repurchases reduced shares outstanding by 5% in the past year.

Kurt H. Wulff, CFA



# Independent Stock Idea

July 31, 2008

Imperial Oil Limited									
Oil Production and Revenue									
(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>Q2E</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/07</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
<b>Volume</b>									
Days	91	91	91	92	92	<b>366</b>	90	91	<b>365</b>
Oil (mmb)									
Conventional	2.1	1.8	1.7	1.7	1.7	<b>7</b>	1.7	1.7	<b>7</b>
Cold Lake	11.6	11.9	10.7	12.1	12.6	<b>47</b>	11.8	10.7	<b>47</b>
Syncrude	5.2	5.2	5.1	6.0	6.8	<b>23</b>	7.0	7.1	<b>27</b>
Natural Gas Liquids	1.2	0.7	0.6	0.6	0.6	<b>3</b>	0.6	0.6	<b>3</b>
Total Oil	20.1	19.7	18.2	20.5	21.8	<b>80</b>	21.2	20.2	<b>84</b>
Oil (mbd)									
Conventional	23	20	19	19	19	<b>19</b>	19	19	<b>19</b>
Cold Lake	128	131	118	132	137	<b>130</b>	131	118	<b>130</b>
Syncrude	57	57	56	65	74	<b>63</b>	78	78	<b>74</b>
Natural Gas Liquids	13	8	7	7	7	<b>7</b>	7	7	<b>7</b>
Total Oil	221	216	200	223	237	<b>219</b>	235	222	<b>229</b>
<b>Price</b>									
Currency (US\$/C\$)	0.91	1.00	0.99	0.98	0.98	<b>0.98</b>	0.98	0.98	<b>0.98</b>
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	64.91	97.94	123.97	127.56	125.71	<b>118.80</b>	126.45	125.26	<b>126.25</b>
Light, Sweet (C\$/bbl)	71.25	98.40	125.23	130.72	128.83	<b>120.79</b>	129.59	128.36	<b>129.38</b>
Conventional	67.73	93.27	118.88	124.10	122.30	<b>114.41</b>	123.02	121.86	<b>122.82</b>
Cold Lake (Hardisty)	51.39	77.64	104.15	93.00	82.01	<b>88.74</b>	102.25	106.76	<b>95.50</b>
Syncrude (Par Edmonton)	73.71	98.58	127.07	132.65	130.73	<b>123.18</b>	131.50	130.25	<b>131.23</b>
Natural Gas Liquids	46.70	58.67	69.26	72.30	71.25	<b>67.58</b>	71.67	71.00	<b>71.56</b>
Total Oil	58.57	83.91	110.75	106.54	100.11	<b>100.20</b>	112.75	115.20	<b>108.53</b>
Ratio: Cold Lake/Light Swt	0.72	0.79	0.83	0.71	0.64	<b>0.73</b>	0.79	0.83	<b>0.74</b>
<b>Revenue (C\$mm)</b>									
Conventional	142	170	206	217	214	<b>806</b>	210	211	<b>852</b>
Cold Lake	599	926	1,118	1,129	1,034	<b>4,207</b>	1,206	1,146	<b>4,515</b>
Syncrude	382	511	648	792	888	<b>2,838</b>	927	928	<b>3,534</b>
Natural Gas Liquids	55	43	44	47	46	<b>179</b>	45	45	<b>183</b>
Total Oil	1,178	1,649	2,016	2,185	2,181	<b>8,031</b>	2,388	2,330	<b>9,084</b>



# Independent Stock Idea

July 31, 2008

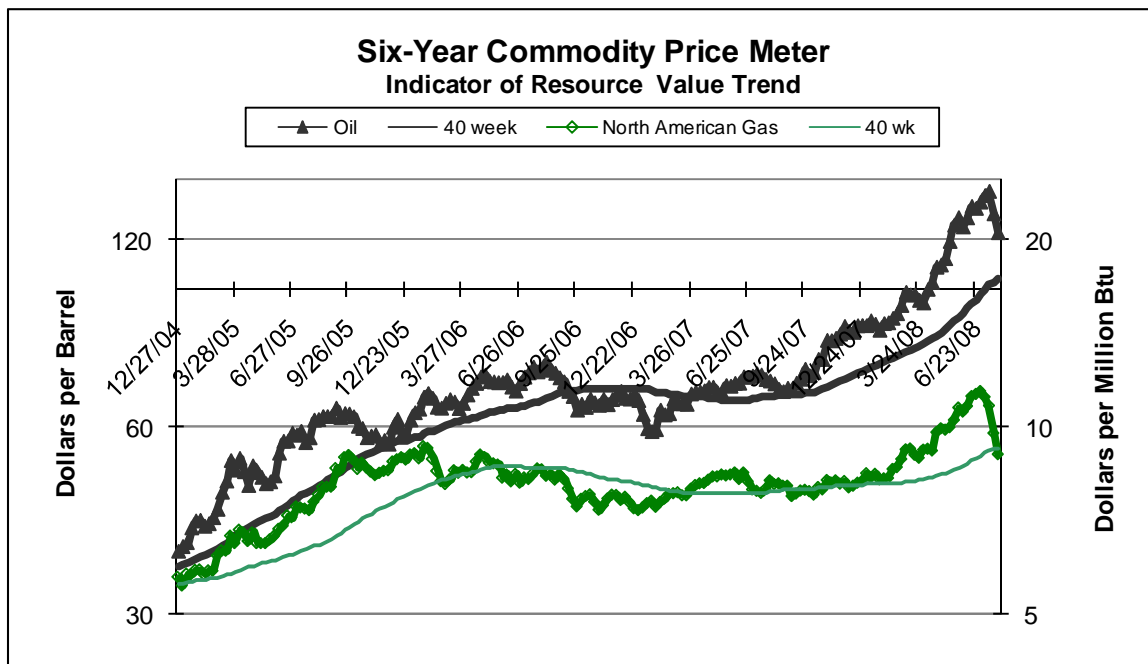
Imperial Oil Limited									
Next Twelve Months Operations									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>6/30/09</i>
<b>Volume</b>									
Natural Gas (mmcf)	434	259	251	251	251	<b>253</b>	251	251	<b>251</b>
Days	91	91	91	92	92	<b>366</b>	90	91	<b>365</b>
Oil (mbd)	221	216	200	223	237	<b>219</b>	235	222	<b>229</b>
Total gas & oil (bcf)	160	142	132	146	154	<b>573</b>	150	144	<b>594</b>
Total gas & oil (mbd)	293	259	242	265	279	<b>261</b>	277	264	<b>271</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.49	9.66	<b>9.78</b>	10.19	9.38	<b>9.93</b>
Currency (US\$/C\$)	0.91	0.98	0.98	0.98	0.98	<b>0.98</b>	0.98	0.98	<b>0.98</b>
Henry Hub (C\$/mmbtu)	8.29	8.22	11.20	10.75	9.90	<b>10.02</b>	10.44	9.61	<b>10.18</b>
Canada (C\$/mcf)	7.61	8.00	10.35	9.93	9.15	<b>9.24</b>	9.64	8.88	<b>9.40</b>
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	127.56	125.71	<b>118.80</b>	126.45	125.26	<b>126.25</b>
WTI Cushing (C\$/bbl)	71.25	100.37	127.05	130.72	128.83	<b>121.74</b>	129.59	128.36	<b>129.38</b>
Worldwide	58.57	83.91	110.75	106.54	100.11	<b>100.20</b>	112.75	115.20	<b>108.53</b>
Total gas & oil (\$/mcf)	9.23	13.43	17.06	16.52	15.55	<b>15.62</b>	17.41	17.57	<b>16.75</b>
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	12.32	9.19	<b>11.00</b>	11.65	15.15	<b>12.08</b>
<b>Revenue (\$mm)</b>									
Natural Gas	301	251	236	229	211	<b>928</b>	218	203	<b>861</b>
Oil	1,178	1,649	2,016	2,185	2,181	<b>8,031</b>	2,388	2,330	<b>9,084</b>
Other	4,861	5,362	6,607	6,607	6,607	<b>25,184</b>	6,607	6,607	<b>26,428</b>
Total	6,339	7,263	8,859	9,021	8,999	<b>34,142</b>	9,212	9,140	<b>36,373</b>
<b>Expense (\$mm)</b>	1,999	2,036	2,617	1,904	1,890	<b>8,446</b>	1,776	1,961	<b>19,384</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	754	1,046	1,413	1,521	1,507	<b>5,487</b>	1,641	1,596	<b>6,265</b>
Other	521	135	365	383	383	<b>1,266</b>	135	365	<b>1,266</b>
Total Ebitda	1,274	1,182	1,779	1,904	1,890	<b>6,753</b>	1,776	1,961	<b>7,531</b>
Exploration	43	40	17	17	10	<b>84</b>	10	8	<b>45</b>
Deprec., Deplet., & Amort.	198	181	181	181	181	<b>724</b>	181	181	<b>724</b>
Other non cash						-		200	<b>200</b>
<b>Ebit</b>	1,033	961	1,581	1,706	1,699	<b>5,945</b>	1,585	1,572	<b>6,562</b>
Interest	11	(3)	-			<b>(3)</b>	-		-
<b>Ebt</b>	1,022	964	1,581	1,706	1,699	<b>5,948</b>	1,585	1,572	<b>6,562</b>
Income Tax	308	284	435	597	595	<b>1,911</b>	555	550	<b>2,297</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	460	650	938						
Other	336	54	249						
Unallocated	(82)	(25)	(41)						
Total	714	680	1,146	1,109	1,104	<b>4,038</b>	1,031	1,022	<b>4,265</b>
<b>Shares (millions)</b>	940	906	895	895	895	<b>897</b>	895	895	<b>895</b>
Earnings per share (\$)	0.76	0.75	1.28	1.24	1.23	<b>4.50</b>	1.15	1.14	<b>4.77</b>
Ebitda Margin (E&P)	51%	55%	63%	63%	63%	<b>61%</b>	63%	63%	<b>63%</b>
Tax Rate	30%	29%	28%	35%	35%	<b>32%</b>	35%	35%	<b>35%</b>



# Independent Stock Idea

July 31, 2008

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	440	6.4	7.9	3,500	6%
Syncrude	2,132	30.0	9.1	19,500	32%
Oil - Conventional and Cold Lake	3,541	12.0	8.6	30,300	49%
Downstream	1,235		6.5	8,000	13%
	7,349	14.2	8.3	61,300	100%
Debt (US\$mm)					3,100
Net Present Value (US\$mm)					58,200
Shares (mm)					895
Net Present Value - Standard Estimate (US\$/sh)					65
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					50





# Independent Stock Idea

July 31, 2008

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.